

Baladna (BLDN)

Recommendation	OUTPERFORM	Risk Rating	R-3
Share Price	QR1.379	Target Price	QR1.719
Implied Upside	24.6%	Old Target Price	QR1.767

Earnings Momentum Intact Despite 3Q2024 Miss; FY2024 Estimates Trimmed; Outperform

While we still like Baladna's earnings momentum story YTD, the 3Q2024 earnings miss has seen us revise our full-year estimates lower. Consequently, we trim our PT to QR1.719 but still maintain our Outperform rating as the earnings momentum narrative remains intact. In 3Q2024, Baladna's net income surged by 82.4% YoY, driven by increased sales volumes and operational efficiencies/cost controls. Despite revenue falling short of our estimates, it still exhibited growth YoY, fueled by new product launches and market share gains in key product categories as sales volumes in both HORECA and retail channels increased, thanks to management's marketing efforts. While the GP margin was fatter YoY, it fell sequentially and was below what we had projected. Overall, we see additional upside potential for the stock, supported by an attractive forward dividend yield estimate, growing operating cash flows, and sustained earnings momentum into 4Q. An area of concern, however, is the balance sheet leverage level, which is comparatively higher.

Highlights

- Strong Net Profit Growth:** Baladna's 3Q2024 attributable profit jumped 82.4% YoY but declined 22.2% QoQ to QR40.6mn, and behind our QR48.2mn estimate. The NP margin came in at 15.4%, lower than the 16.9% expected, from 8.7%/18.5% in 3Q2023/2Q2024. The growth in the bottom-line YoY is primarily due to the expanding GP margin and fair value gains in financial investments. Top-line growth and improving operational efficiency were also major contributing factors to the bottom-line improvement. GP margin improved to 22.4% (vs. 24.3% expected) up from 18.4% in 3Q2023, but down sequentially from 25.1%.
- Improving Operational Efficiency:** We estimate that the EBITDA margin (ex. government support) improved to 22.9% (vs. 22.5% modeled) from 18.0% 3Q2023 helped by lower SG&A expenses, which declined 1.1% YoY. However, SG&A costs increased by 2.7% QoQ, which partly explains the margin's sequential decline from 23.8%. Looking ahead, we expect to see further margin improvement at the trading & manufacturing level due to manufacturing efficiencies driven by product value engineering. Meanwhile, funding costs have started to increase again, offset by fair value gains. Funding costs were lowered a year ago (in 3Q2023), when Baladna re-negotiated terms with funders, but it looks like the base benefit has now played out.
- Mixed 3Q2024 Top Line Trends:** BLDN's revenue rose 3.3% YoY but declined 6.2% sequentially to QR264.4mn in 3Q2024, below our estimate of QR285.3mn. Dairy sales edged up 1.4% YoY but declined 5.9% sequentially to QR234.4mn, lower than QR250.9 estimated. Juice sales declined 1.9%/2.5% YoY/QoQ to QR18.3mn in line with our estimate of QR18.1mn. Other sales (dairy byproducts + detergents) jumped 88.4% YoY but fell 16.2% to QR11.7mn vs. QR16.3mn modeled.
- Good Balance Between Short- and Long-Term Value Drivers:** In the near term we see Baladna creating value from strong sales volume growth and expanding GPM (due to declining commodity prices and cost-optimization) coupled with declining SG&A expenses. In the medium term, margin expansion from product value engineering and increased capacity utilization should bolster its valuation further. Cash flows from operations should also continue to improve emanating from the recycling of working capital and capex normalization, which bodes well for distributions to shareholders. Baladna was on a heavy investment cycle since expanding local operations in 2017, but local capex requirements are beginning to subside. Furthermore, we see a gradual decline in local finance costs as the group steadily pays down its local debt.

Catalysts

- Catalysts:** (1) Market share gains (2) New product launches (3) Moderating feed costs (4) Advanced manufacturing capabilities (5) Fruition of international expansion plans, including exporting the "Baladna Model."

Recommendation, Valuation and Risks

- Recommendation and Valuation:** We maintain an Outperform rating on the name but trim our 12-month TP to QR1.719, implying a 24.6% upside potential. Our TP is a weighted average of various valuation models: DCF, EBITDA Exit Multiple & Relative-Valuation methodologies. Our primary thesis is that, internally, the headway for volume growth is supported by ample manufacturing capacity and low market shares in select product lines. That will be complemented by considerable scope for margin expansion. Inorganically, the scope to export its model creates PE-like payoff optionality. We also note that while Baladna's capital return ratios are relatively low, they should gradually improve as plant utilization increases and capex normalizes.
- Key risks:** (1) Price controls (2) Volatile soft commodity prices (3) Cessation of government support (4) High and sticky interest rates on elevated debt burden (5) Animal disease outbreak (6) Dairy alternatives, i.e., plant-based substitutes.

Key Financial Data and Estimates

Group	2023a	2024e	2025e	2026e	2027e	2028e
EPS (QR)	0.058	0.105	0.110	0.127	0.147	0.131
P/E (x)	23.91	13.17	12.54	10.90	9.40	10.49
EV/EBITDA (x)	16.31	13.27	11.98	10.97	9.89	10.42
DPS (QR)	0.07	0.10	0.10	0.12	0.14	0.13
DY (%)	5.0%	7.2%	7.6%	8.7%	10.1%	9.1%

Source: Company data, QNBFS Research; Note: All data based on current number of shares; These estimates may not reflect the most recent quarter

Key Data

Current Market Price	QR1.379
Dividend Yield (%)	5.0
Bloomberg Ticker	BLDN QD
ADR/GDR Ticker	N/A
Reuters Ticker	BLDN.QA
ISIN	QA000T98R9J4
Sector*	Consumer Goods
52wk High/Low (QR)	1.447/1.054
3-m Average Vol. (mn)	7.5
Mkt. Cap. (\$ bn/QR bn)	0.7/2.6
EV (\$ bn/QR bn)	1.2/4.4
Shares O/S (mn)	1,901.0
FO Limit* (%)	49.0
FO (Institutional)* (%)	3.9
1-Year Total Return (%)	36.0
Fiscal Year-End	December 31

Source: Bloomberg (as of October 28, 2024), *Qatar Exchange (as of October 28, 2024); Note: FO is foreign ownership

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Condensed Income Statement

INCOME STATEMENT	2023a	2024e	2025e	2026e	2027e
REVENUE	1,056,759,702	1,184,770,155	1,256,926,107	1,307,947,973	1,353,525,410
GROSS PROFIT	210,404,994	278,247,513	342,152,475	393,630,672	445,997,944
OTHER INCOME	117,662,204	112,516,518	91,335,402	70,958,371	55,635,185
EBITDA	292,207,903	364,391,423	401,058,360	429,698,316	464,208,057
OPERATING PROFIT	148,966,478	229,572,858	270,150,091	301,561,370	336,071,111
NET PROFIT	109,389,156	199,472,444	209,672,431	241,369,866	279,777,893

Source: Company data, QNBFS Research

Balance Sheet

BALANCE SHEET	2023a	2024e	2025e	2026e	2027e
Non-current asset					
Property and equipment	3,188,839,696	3,214,761,572	3,218,797,349	3,192,188,566	3,134,935,223
Right of use assets	121,517,109	108,699,826	95,882,543	83,065,260	70,247,977
Intangible assets	7,491,787	4,720,464	1,949,141	1,949,141	1,949,141
FVTPL assets	371,841,124	443,781,941	443,781,941	443,781,941	443,781,941
Biological assets	196,432,194	202,449,895	208,346,940	213,732,792	218,651,765
Goodwill	6,792,635	6,792,635	6,792,635	6,792,635	6,792,635
Total non-current assets	3,892,914,545	3,981,206,333	3,975,550,548	3,941,510,334	3,876,358,682
Current assets					
Biological assets	2,278,900	2,348,714	2,417,128	2,479,612	2,536,679
Inventories	400,329,395	453,571,343	457,699,659	457,471,338	454,074,098
Accounts receivable and prepayments	408,503,392	417,269,487	403,766,065	388,934,775	378,539,260
Due from related parties	79,788,891	79,788,891	79,788,891	79,788,891	79,788,891
Cash and bank balances	59,711,283	74,492,116	95,616,553	171,702,762	284,648,132
Total current assets	950,611,861	1,027,470,551	1,039,288,297	1,100,377,378	1,199,587,061
Total assets	4,843,526,406	5,008,676,884	5,014,838,845	5,041,887,712	5,075,945,742
EQUITY AND LIABILITIES					
Equity	1,901,000,000	1,901,000,000	1,901,000,000	1,901,000,000	1,901,000,000
Legal reserve	48,120,521	68,019,235	88,920,963	112,976,056	140,855,572
Acquisition reserve	201,123,011	201,123,011	201,123,011	201,123,011	201,123,011
Retained earnings	205,519,477	247,513,729	240,905,027	252,198,277	266,842,672
Common equity	2,355,763,009	2,417,655,975	2,431,949,001	2,467,297,343	2,509,821,255
Non-controlling interest	2,361,082	2,846,380	3,501,533	4,320,474	5,303,203
Total equity	2,358,124,091	2,420,502,356	2,435,450,534	2,471,617,817	2,515,124,457
Non-current liability					
Islamic financing: Interest bearing loans and borrowings	1,720,822,007	1,807,120,464	1,807,120,464	1,807,120,464	1,807,120,464
Lease liabilities	111,943,670	99,243,758	87,645,739	77,017,099	67,235,901
Employees' end of service benefits	16,001,968	18,096,341	20,020,205	21,796,106	23,443,885
Total non-current liability	1,848,767,645	1,924,460,564	1,914,786,408	1,905,933,669	1,897,800,250
Current liability					
Lease liabilities	10,119,346	8,971,315	7,922,892	6,962,097	6,077,908
Due to related parties	5,092,556	5,092,556	5,092,556	5,092,556	5,092,556
Accounts payable and accruals	260,563,345	275,089,127	277,025,490	277,720,607	277,289,605
Islamic: Interest bearing loans and borrowings	176,309,615	185,151,464	185,151,464	185,151,464	185,151,464
Short term borrowings	96,904,033	101,763,727	101,763,727	101,763,727	101,763,727
Bank overdraft	87,645,775	87,645,775	87,645,775	87,645,775	87,645,775
Total current liability	636,634,670	663,713,964	664,601,904	664,336,225	663,021,035
Total liabilities	2,485,402,315	2,588,174,528	2,579,388,311	2,570,269,895	2,560,821,285
Total equity and liabilities	4,843,526,406	5,008,676,884	5,014,838,845	5,041,887,712	5,075,945,742

Source: Company data, QNBFS Research

Condensed Cash Flow Statement

CASH FLOW STATEMENT	2023a	2024e	2025e	2026e	2027e
Cash Flow from Operating Activities	99,062,347	165,727,383	296,663,356	329,613,547	365,016,664
Cash Flow from Investing Activities	(258,958,735)	(104,979,107)	(73,393,654)	(42,749,094)	(12,104,534)
Cash Flow from Financing Activities	183,157,267	(45,967,442)	(202,145,265)	(210,778,244)	(239,966,760)
Change in Cash	23,260,879	14,780,833	21,124,437	76,086,209	112,945,370
Cash Beginning of Period	(56,626,340)	(33,365,461)	(18,584,628)	2,539,809	78,626,018
Restricted bank balance	5,430,969	5,430,969	5,430,969	5,430,969	5,430,969
Cash End of Period	(33,365,461)	(18,584,628)	2,539,809	78,626,018	191,571,388

Source: Company data, QNBFS Research

Recommendations		Risk Ratings	
<i>Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price</i>		<i>Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals</i>	
OUTPERFORM	Greater than +20%	R-1	Significantly lower than average
ACCUMULATE	Between +10% to +20%	R-2	Lower than average
MARKET PERFORM	Between -10% to +10%	R-3	Medium / In-line with the average
REDUCE	Between -10% to -20%	R-4	Above average
UNDERPERFORM	Lower than -20%	R-5	Significantly above average

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