

BLDN Alert – Miss Due to Lower-than-Expected Margins; Maintain TP & Accumulate

- **BLDN 2Q2021 net income declines 4.2% YoY and 3.7% QoQ.** The company posted QR42.4mn in 2Q2021 earnings, which was below our estimate of QR49.3mn (variation of -14.0%). EPS amounted to QR0.045 in 6M2021 vs. QR0.046 in 6M2020 (which are not comparable, as 1H2020 numbers were for the seven-month period including Dec'19).
- **2Q2021 gross profit fell 5.5% YoY but was flat QoQ.** Baladna in-line with our QR198.2mn estimate, Baladna recorded QR193.3mn in revenue in 2Q2021, which declined by 3.3% YoY yet was up by 8.8% QoQ. Dairy sales (accounting for 89.4% of Baladna's total revenue) retreated by 4.0% in 1H2021 YoY, driving the company's revenues lower. During Jan - May'21, Qatar's average population declined by 5.2% YoY, which we think was the major reason for Baladna's revenue contraction vs. last year. Gross margin, on the other hand, retreated to 29.6% from 32.2% in 1Q2021 and 30.3% in 2Q2020. Nevertheless, it is noteworthy that 4Q2020 and 1Q2021 gross margins were exceptionally strong given FY2020's 29.1%.
- **On the positive front, G&A and marketing & sales expenses were down 8.9% and 16.5% YoY,** reaching QR20.0mn and QR19.1mn, respectively, while remaining flattish QoQ.
- **Financial expenses were at QR9.0mn in 2Q2021, down 11% YoY but up 7.0% QoQ.** Net financial debt of the company barely declined from QR1.12bn in FY2020 to QR1.1bn in 1H2021.
- **We maintain our estimates and TP.** Since we have changed our recommendation to Accumulate from Outperform on September 16, 2020, Baladna shares declined by 16.4% to QR1.651. *We maintain our positive view for the name and our TP of QR1.94/share now implies a 17.5% upside.* Baladna, a key pillar of the Qatari National Food Security program, is the undisputed leader in the Qatari dairy market. The company spent QR2.7bn (\$0.74bn) over the last three years to expand its capacity and production capabilities. Therefore, BLDN has ample capacity for growth through upcoming new and value-added products as well as exports. While we have not yet incorporated its potential impact in our forecasts and valuation, Baladna expects to collaborate with the Federal Land Consolidation and Rehabilitation Authority of Malaysia (FELCRA) to implement the "Baladna model" in Malaysia. This is an attempt to increase Malaysia's self-sufficiency in dairy products by doubling the volume of local fresh milk production with an increase of 50-55mnLt/pa. We maintain our positive outlook for the company and we believe any weakness in the share price could be considered a buying opportunity. **We maintain our Accumulate rating and our TP at QR1.94.**

Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

OUTPERFORM Greater than +20%

ACCUMULATE Between +10% to +20%

MARKET PERFORM Between -10% to +10%

REDUCE Between -10% to -20%

UNDERPERFORM Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1 Significantly lower than average

R-2 Lower than average

R-3 Medium / In-line with the average

R-4 Above average

R-5 Significantly above average

Saugata Sarkar, CFA, CAIA
Head of Research
+974 4476 6534
saugata.sarkar@qnbfs.com.qa

Shahan Keushgerian
Senior Research Analyst
+974 4476 6509
shahan.keushgerian@qnbfs.com.qa

Mehmet Aksoy, PhD
Senior Research Analyst
+974 4476 6589
mehmet.aksoy@qnbfs.com.qa

DISCLAIMER: This publication has been prepared by QNB Financial Services Co. WLL ("QNBFS") a wholly-owned subsidiary of Qatar National Bank Q.P.S.C ("QNB"). QNBFS is regulated by the Qatar Financial Markets Authority and the Qatar Exchange; QNB is regulated by the Qatar Central Bank. This publication expresses the views and opinions of QNBFS at a given time only. It is not an offer, promotion or recommendation to buy or sell securities or other investments, nor is it intended to constitute legal, tax, accounting, or financial advice. We therefore strongly advise potential investors to seek independent professional advice before making any investment decision. Although the information in this report has been obtained from sources that QNBFS believes to be reliable, we have not independently verified such information and it may not be accurate or complete. While this publication has been prepared with the utmost degree of care by our analysts, QNBFS does not make any representations or warranties as to the accuracy and completeness of the information it may contain, and declines any liability in that respect. QNBFS reserves the right to amend the views and opinions expressed in this publication at any time. It may also express viewpoints or make investment decisions that differ significantly from, or even contradict, the views and opinions included in this report.

COPYRIGHT: No part of this document may be reproduced without the explicit written permission of QNBFS.