

## Baladna Company (BLDN)

Recommendation	ACCUMULATE	Risk Rating	R-4
Share Price	QR1.856	Current Target Price	QR1.940
Implied Upside	4.5%	Old Target Price	QR1.569

### Raising Our Target Price to QR1.94, Changing our Recommendation to Accumulate

Following better-than-expected 2Q2020 results, coupled with adjustments to our DCF model for lower risk free rate, lower beta and higher growth prospects, we increase our target price for Baladna to QR1.94. 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. Baladna recorded a 115.4% top-line growth in 2019, which should be followed by an expected 95.2% in 2020 and 16.8% in 2021, as BLDN plans to increase the number of Stock Keeping Units (SKUs) from c.167 at the end of 2019 to c.261 by the end of 2020. 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/ha. Since our **OUTPERFORM** recommendation dated May 31, 2020 at QR1.2/share price, BLDN shares have significantly outperformed the QE Index, rising by 54.7% vs. QE Index's 11.7%. Strong 1Q & 2Q results, announcement of interim dividends of QR0.021/share in April and MSCI EM Small Cap Index inclusion in May were the major catalysts for the significant outperformance. Yesterday (Sep. 15), after market close, the Qatar Stock Exchange also announced that BLDN will be included in its QE, QE Al Rayan Islamic and QE All Share Indices, effective October 1<sup>st</sup>. Following its strong share performance, we change our recommendation from Outperform to Accumulate. We maintain our positive outlook on BLDN and believe any weakness in its share price represents a buying opportunity.

#### Highlights

- **BLDN posted 2Q2020 net income/EPS of QR44.2mn/QR0.023, ahead of our estimate of QR39.2mn.** While revenue (variation: +0.4%), gross profits (-0.6%) and other income (-1.3%) were in-line with our expectations, lower-than-expected SG&A (-17.5%) led Baladna to record better-than-expected results. As of 1H2020, Baladna recorded QR84mn in net profits with a 326% increase YoY.
- **1H2020 revenue rose by 115% YoY to QR442mn driven by new products and increase in market share (especially in 2Q2020):** Total SKUs rose by 75% YoY in 1H2020 to 210 with 19 new SKUs initiated in 2Q2020 and 53 from Dec'19 to Jun'20. Moreover, Baladna managed to increase its market share in fresh milk from 85.6% in 1Q2020 to 86.6% in 2Q2020, in UHT milk from 74.8% to 81.2%, in laban from 40.0% to 46.1%, in yogurt from 32.6% to 39.2%, in labneh from 45.9% to 51.9%, in cheese from 11.9% to 18.5% and in juice from 13.5% to 19.2%.
- **Gross profit was supported by margin increase thanks to increasing economies of scale benefits, while EBITDA was further boosted by lower-than-expected G&A.** Baladna recorded QR62mn in gross profit during 2Q2020, while the company posted 30.3% in gross margin during 2Q2020, up from 27% during Dec'19-Mar'20 period. Besides the revenue growth, which fuels economies of scale, Baladna's average milk yield /cow rose to 37.9 liters per day by 22% YoY. Meanwhile, Baladna recorded an SG&A of QR44.8mn in 2Q2020, which is lower than Dec'19-Mar'20 period's QR76.2mn (adjusted for calendar days), primarily due to lower professional charges and depreciation costs. As a result, Baladna's EBITDA rose 44% YoY to QR178mn in 1H2020.
- **Going forward, we are of the view that disruptions in international flights could support Baladna's top- & bottom-lines in 3Q2020** as Qatar's seasonal population contraction during summer months seems to be much less in 2020 vs. 2018 & 2019. Typically, Qatar's population contracts by 10% in July vs. May (10.3% in 2018 and 9.7% in 2019) due to increased outbound tourism activity, coupled with expats visiting their home countries. However, in 2020, July-May population contraction remained at 2.1%, resulting in an 11.1% population growth YoY for Qatar in July and 2.6% YoY in August.

#### Catalysts

- 1) New Products 2) Exports opportunities 3) the Malaysia Project.

#### Recommendation, Valuation and Risks

- **We rate BLDN as Accumulate and our 12-month target price of QR1.94 implies a 4.5% upside potential.** BLDN's 2020e/2021e P/E multiples imply 7%/4% discounts to the international peer group, respectively, whereas its EV/EBITDA multiples are in line with its peers. BLDN's 2020 and 2021e dividend yields of 2.8% and 4.1%, respectively, are notably above the international peer group average of 2.3% for 2020e and 2.6% for 2021e as well as the Qatari stocks' averages of 3.1% and 3.8%, respectively.

**Risks:** 1) Coronavirus disruptions 2) BFI's non-compliance with conditions necessary to receive support from the State of Qatar 3) Unexpected decline in BFI's herd size due to disease outbreak.

#### Key Financial Data and Estimates

	2019	2020e	2021e	2022e
EPS (QR)	0.032	0.098	0.110	0.116
P/E (x) (*)	58.2	18.9	16.9	16.0
EV/EBITDA (x) (*)	21.5	11.9	10.8	10.4
DPS (QR)	0.02	0.05	0.08	0.08
DY (%)	1.1%	2.8%	4.1%	4.3%

(\*) For 2020, market multiples are calculated for the 12 months ending as of December 31, 2020.

Source: Company data, QNBFS Research estimates; Note: All data based on current number of shares

#### Key Data

Bloomberg Ticker	BLDN QD
ADR/GDR Ticker	N/A
Reuters Ticker	BLDN.QA
ISIN	QA000T98R9J4
Sector	Consumer
52wk High/52wk Low (QR)	1.97/ 0.899
3-m Avg. Volume (000)	10,213
Mkt. Cap. (\$ bn/QR bn)	1.0/3.5
EV (\$ bn/QR bn)	1.3/4.6
FO Limit* (%)	49.0
Current FO* (%)	3.1
Shares Outstanding (mn)	1,901.0
1-Year Total Return (%)	85.8%
Fiscal Year End	December 31

Source: Bloomberg (as of September 15, 2020), \*Qatar Exchange (as of September 15, 2020); Note: FO is foreign ownership

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## Detailed Financial Statements

### Income Statement (Based on BFI's Statements, QR000)

	2017	2018	2019	2020e	2021e	2022e
<b>Revenue</b>	<b>88,506</b>	<b>216,455</b>	<b>466,226</b>	<b>910,191</b>	<b>1,063,094</b>	<b>1,126,880</b>
COGS	96,701	243,315	367,194	511,341	591,225	621,342
Depreciation	15,846	72,335	94,379	142,089	155,172	157,597
<b>Gross Profit</b>	<b>(24,041)</b>	<b>(99,195)</b>	<b>4,654</b>	<b>256,761</b>	<b>316,697</b>	<b>347,941</b>
SG&A	27,631	95,328	139,546	151,466	167,969	178,047
Depreciation and Amortization	3,196	4,065	7,213	9,564	9,868	9,943
<b>Other Operating Income</b>	<b>13,944</b>	<b>237,406</b>	<b>253,935</b>	<b>144,933</b>	<b>122,425</b>	<b>110,883</b>
Government Compensation	-	233,661	248,744	143,715	122,425	110,883
By-Product Sales	815	1,158	1,185	-	-	-
Other Income	13,129	2,587	4,006	1,218	-	-
<b>Operating Income</b>	<b>(40,924)</b>	<b>38,818</b>	<b>111,830</b>	<b>240,664</b>	<b>261,285</b>	<b>270,834</b>
EBITDA	(21,882)	115,218	213,421	392,317	426,325	438,374
EBITDA Margin %	-24.7%	53.2%	45.8%	43.1%	40.1%	38.9%
<b>Other Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Financial Expenses	1,656	37,544	51,154	54,109	52,329	51,000
Other Expenses	-	-	-	-	-	-
<b>Net Profit before Discontinued Operations</b>	<b>(42,580)</b>	<b>1,274</b>	<b>60,676</b>	<b>186,555</b>	<b>208,956</b>	<b>219,834</b>
Discontinued Operations	-	-	-	-	-	-
Non-Controlling Interests	-	-	-	-	-	-
<b>Net Income</b>	<b>(42,580)</b>	<b>1,274</b>	<b>60,676</b>	<b>186,555</b>	<b>208,956</b>	<b>219,834</b>
Net Profit Margin	-48.1%	0.6%	13.0%	20.5%	19.7%	19.5%
Share Outstanding (mn)			1,901	1,901	1,901	1,901
<b>EPS</b>			<b>0.032</b>	<b>0.098</b>	<b>0.110</b>	<b>0.116</b>
<b>DPS</b>			<b>0.021</b>	<b>0.053</b>	<b>0.076</b>	<b>0.079</b>

(\*) For 2020, our estimates are adjusted for the 12 months ending as of December 31, 2020

Note: EPS based on current number of shares

### Balance Sheet (QR000)

	2017	2018	2019	2020e	2021e	2022e
Cash & Cash Equivalents	102,446	50,397	19,325	15,000	20,000	20,000
S/T Deposits	-	-	-	-	9,412	9,411
Accounts Receivables & Prepayments	214,834	393,688	413,701	338,666	380,559	403,393
Due from Related Parties	5,996	14,654	14,019	-	-	-
Biological assets / Agricultural produce	6,037	-	-	-	-	-
Inventories	25,077	122,974	200,846	161,790	188,969	200,307
<b>Total Current Assets</b>	<b>354,390</b>	<b>581,713</b>	<b>647,891</b>	<b>515,456</b>	<b>598,940</b>	<b>633,111</b>
Right-of-use Assets	-	-	81,349	64,240	47,700	31,161
Biological Assets	93,422	158,217	164,931	187,992	202,992	227,992
Intangible Assets	125	1,517	2,849	5,997	4,997	3,997
Property, plant & Equipment	1,524,121	2,371,353	2,636,134	2,779,377	2,732,877	2,683,877
<b>Non-Current Assets</b>	<b>1,617,668</b>	<b>2,531,087</b>	<b>2,885,263</b>	<b>3,037,606</b>	<b>2,988,566</b>	<b>2,947,027</b>
<b>Total Assets</b>	<b>1,972,058</b>	<b>3,112,800</b>	<b>3,533,154</b>	<b>3,553,062</b>	<b>3,587,506</b>	<b>3,580,138</b>
Short-Term Debt	43,524	196,521	105,177	127,393	115,255	94,851
Accounts Payables & Accruals	37,587	273,922	163,664	97,398	121,573	132,825
Due to Related Parties	87,425	34,991	11,525	-	-	-
Finance Lease Liability	-	-	15,467	16,520	17,250	18,012
<b>Current Liabilities</b>	<b>168,536</b>	<b>505,434</b>	<b>295,833</b>	<b>241,311</b>	<b>254,078</b>	<b>245,688</b>
Interest Bearing Loans and Borrowings	1,182,933	1,978,546	1,021,328	1,021,328	995,328	943,328
Finance Lease Liability	-	-	66,588	51,819	33,462	15,846
Employees' End-of-service Benefits	1,439	2,805	5,363	8,007	8,808	9,689
<b>Non-Current Liabilities</b>	<b>1,184,372</b>	<b>1,981,351</b>	<b>1,093,279</b>	<b>1,081,154</b>	<b>1,037,598</b>	<b>968,863</b>
<b>Total Liabilities</b>	<b>1,352,908</b>	<b>2,486,785</b>	<b>1,389,112</b>	<b>1,322,465</b>	<b>1,291,676</b>	<b>1,214,551</b>
<b>Total Shareholder's Equity</b>	<b>619,150</b>	<b>626,015</b>	<b>2,144,042</b>	<b>2,230,597</b>	<b>2,295,830</b>	<b>2,365,587</b>
Minority Interest	-	-	-	-	-	-
<b>Liabilities and Share Holders Equity</b>	<b>1,972,058</b>	<b>3,112,800</b>	<b>3,533,154</b>	<b>3,553,062</b>	<b>3,587,506</b>	<b>3,580,138</b>

Source: Company data, QNB FS Research

## Ratio Analysis

### Key Metrics

Particulars	2018	2019	2020e (*)	2021e	2022e
<b>Growth Rates</b>					
Revenue	144.6%	115.4%	95.2%	16.8%	6.0%
Gross Profit	312.6%	N/M	N/M	23.3%	9.9%
EBITDA	N/M	85.2%	83.8%	8.7%	2.8%
EBIT	N/M	188.1%	115.2%	8.6%	3.7%
PAT/EPS	N/M	N/M	207.5%	12.0%	5.2%
DPS	N/M	N/M	150.0%	43.7%	4.4%
<b>Operating Ratios</b>					
Gross Margin	-45.8%	1.0%	28.2%	29.8%	30.9%
Gross Margin, Excluding Depreciation & Amortization	-12.4%	21.2%	43.8%	44.4%	44.9%
EBITDA Margin	53.2%	45.8%	43.1%	40.1%	38.9%
EBIT Margin	17.9%	24.0%	26.4%	24.6%	24.0%
Net Margin	0.6%	13.0%	20.5%	19.7%	19.5%
<b>Finance Ratios</b>					
Debt-Equity Ratio	347%	53%	51%	48%	44%
Net Debt -Equity Ratio	339%	52%	51%	48%	43%
Net Debt -to-Capital	N/M	58%	60%	57%	54%
Net Debt -to-EBITDA	18.4	5.2	2.9	2.6	2.3
Interest Coverage	1.0	2.2	4.4	5.0	5.3
<b>Return Ratios</b>					
ROIC	1.7%	3.7%	7.2%	7.7%	8.0%
ROE	0.2%	4.4%	8.5%	9.2%	9.4%
ROA	0.1%	1.8%	5.3%	5.9%	6.1%
<b>Liquidity Ratios</b>					
Current Ratio	1.2	2.2	2.1	2.4	2.6
Quick Ratio	0.9	1.5	1.5	1.6	1.8
<b>Valuation</b>					
EV/Sales	29.3	9.9	5.1	4.3	4.0
EV/EBITDA	55.0	21.7	11.9	10.8	10.4
EV/EBIT	163.3	41.5	19.4	17.7	16.8
P/E	N/M	58.1	18.9	16.9	16.0
P/BV	N/M	1.6	1.6	1.5	1.5
Dividend Yield	N/M	1.1%	2.8%	4.1%	4.3%

(\*) For 2020, key metrics are calculated based on our estimates for the 12 months ending as of December 31, 2020.

Source: Company data, QNB FS Research

### Recommendations

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

<b>OUTPERFORM</b>	Greater than +20%
<b>ACCUMULATE</b>	Between +10% to +20%
<b>MARKET PERFORM</b>	Between -10% to +10%
<b>REDUCE</b>	Between -10% to -20%
<b>UNDERPERFORM</b>	Lower than -20%

### Risk Ratings

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

<b>R-1</b>	Significantly lower than average
<b>R-2</b>	Lower than average
<b>R-3</b>	Medium / In-line with the average
<b>R-4</b>	Above average
<b>R-5</b>	Significantly above average

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