

BLDN Alert– Weaker-than-Expected 3Q with Lower Revenue; Maintain TP & Accumulate

- **BLDN posted 3Q2020 net income/EPS of QR29.0mn/QR0.015, which was below our estimate.** Baladna reported net profit of QR29.0mn in 3Q2020, as compared to QR44.2mn in 2Q2020 (-34.5% QoQ), which was below our estimate of QR47.6mn. EPS amounted to QR0.015 in 3Q2020 as compared to QR0.023 in 2Q2020. The company reported net profit of QR112.86mn for the period from December 2, 2019 (establishment date) to September 30, 2020 (approximately 10 months) and EPS amounted to QR0.061 per share.
- **3Q2020 revenue fell by 11.1% QoQ to QR182.3mn primarily due to lower dairy sales QoQ.** Baladna's dairy sales fell 12% QoQ to QR163.3mn (accounting for 90% of total revenue as of 3Q2020) while its juice sales were 2% down QoQ at QR13.3mn (7% of total revenue). Moreover, with gross margins falling from 30.3% in 2Q2020 and 28.5% in 1H2020 to 25.2% in 3Q2020, Baladna's 3Q2020 gross profit declined by 25.9% QoQ to QR46.0mn. The gross margin decline is attributable to a 25.5% QoQ increase in depreciation and amortization expenses, coupled with a 13.6% QoQ decline in net fair value gain on milk produced to QR77.3mn and a 23.9% decline in net fair value gain on biological assets to QR6.4mn. **Nevertheless, we anticipate the QoQ revenue decline to be temporary as the company continues to increase its product range rapidly.** It is noteworthy that Baladna's Total SKUs (Stock Keeping Units) rose by 75% YoY in 1H2020 to 210 with 19 new SKUs initiated in 2Q2020 and 53 new SKUs added from Dec'19 to Jun'20.
- **On the positive front, G&A was 10.8% down QoQ to QR19.5mn,** as a result of a 13.9% decline in staff costs to QR5.4mn and a 19.1% decline in depreciation of right-of-use assets to QR3.3mn.
- **We maintain our estimates and TP.** 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/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

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