Baladna (BLDN)

Recommendation	ACCUMULATE	Risk Rating	R-3
Share Price	QR1.063	Target Price	QR1.767
Implied Upside	66.3%		

Slight 3Q2023 Bottom-Line Beat On Lower Finance Costs; Maintain Accumulate

- **Baladna's 3Q2023 attributable profit jumped 177.6% YoY but was almost flat QoQ to QR22.3mn, slightly beating our estimate of QR21.3mn by 4.4%.** Significantly lower finance costs than we had forecasted account for the beat even as the top-line came in behind our estimate and margins were slimmer than anticipated.

- **The big drop in finance charges especially QoQ by 38.8% to QR13.8mn (-11.2 YoY) without a corresponding decrease in debt levels as far as we can tell made a big difference at the bottom-line**. In fact, net debt levels edged up by ~5% QoQ to QR1.83bn. It is possible that management negotiated better terms with lenders. Unlike in previous quarters, debt cost details were not provided in the footnotes for the 3Q2023 under review. We will get more color on this. We note that there was a moratorium on costs that banks can pass on to certain customers as markets interest rates continued to rise.

- **BLDN's 3Q2023 revenue rose 13.9% YoY but declined 2.4% QoQ to QR255.9mn, below our expectations of QR270.9mn by 5.5%.** Dairy sales rose 15.9% YoY to QR231.1mn (-2.4% QoQ) vs. our estimate of QR241.8mn. Juice sales increased 7.2%/4.3% YoY/QoQ to QR18.7mn vs. QR19.2mn expected. Other sales (dairy by products +detergents) declined 21.5%/18.6% YoY/QoQ to 6.2mn vs. QR6.3mn modeled.

- **The GP margin came in lower at 20.1% compared with the 21.4% we had expected,** as well as lower sequentially but significantly higher compared with 3Q2022, which printed at 17.0%. The YoY improvement in GP margin is likely due to the benefit of declining feed costs that are beginning to accrue. Other income and G&A and S&D expenses were in-line.

- **We maintain our 2023 forecasts and PT for now. This implies the stock is trading at a 2023E P/E of ~22.5x and DY of ~3.4%,** which compares favorably to its median of 33.4x and 3.2% since listing, respectively. However, it is less attractive relative to its regional peers, who are trading at a median 2023E P/E of 18.1x. A more attractive 2023E DY relative to peers' 3.1% offsets that somewhat. Also, cross asset yields are much more appealing and this could keep the stock under pressure. We note BLDN skipped paying a FY2022 dividend and we remain confident that management will declare a divided for FY2023.

- **In the medium term, we see margin expansion from increased capacity utilization, as volumes grow, coupled with the benefit of declining soft commodity prices**. In the near term, this benefit is largely offset by rising and high interest rates through high finance costs although 3Q2023 developments on this front are encouraging, if sustained. **In any case, we see a gradual decline in finance costs from FY2024 as the group gradually pays down its debt while capex normalization boosts FCF.** Increasing FCF should be used to reduce the debt burden and restart distributions to shareholders – we expect a resumption of dividends for FY2023. Baladna has been on a heavy investment cycle since it expanded operations in 2017, but we see capex requirements subsiding in the near term, which bodes well for its valuation and investor perception.

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 Accumulate rating and a 12-month TP of QR1.767, implying a 66.3% upside potential.* Our TP is a weighted average of various valuation models: DCF, EBITDA Exit Multiple and 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. Inorganically, the scope to export its model creates PE-like payoff optionality. We note that last year or FY2022 was a particularly difficult year for Baladna due to imported costs of inputs which culminated in BLDN skipping declaring a dividend. We believe, however, that Baladna's finances will shore up in FY2023, which gives it the ability to resume paying dividends. 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)** Rising interest rates on elevated debt burden **(5)** Animal disease outbreak **(6)** Dairy alternatives, i.e., plant-based substitutes.

Key Financial Data and Estimates

Group	2022a	2023e	2024e	2025e
EPS (QR)	0.042	0.047	0.093	0.111
P/E (x)	25.07	22.49	11.46	9.56
EV/EBITDA (x)	13.22	11.06	9.34	9.00
DPS (QR)	-	0.04	0.07	0.08
DY (%)	0.0%	3.4%	6.6%	7.9%

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	QR1.063
Dividend Yield (%)	0.0
Bloomberg Ticker	BLDN QD
ADR/GDR Ticker	N/A
Reuters Ticker	BLDN.QA
ISIN	QA000T98R9J4
Sector*	Consumer Goods
52wk High/Low (QR)	1.790/1.050
3-m Average Vol. (mn)	7.8
Mkt. Cap. ($ bn/QR bn)	0.6/2.0
EV ($ bn/QR bn)	1.0/3.6
Shares O/S (mn)	1,901.0
FO Limit* (%)	49.0
FO (Institutional)* (%)	3.0
1-Year Total Return (%)	-35.2
Fiscal Year-End	December 31

Source: Bloomberg (as of October 29, 2023), *Qatar Exchange (as of October 29, 2023); Note: FO is foreign ownership

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Recommendations			Risk Ratings	
Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price			Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals	
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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