

Company : **QNB Financial Services Co. WLL**
Conference Title : **Baladna (BLDN) Q4 2022 Results Conference Call**
Moderator : **Phibion Makuwerere**
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Operator: Hello, and welcome to the Baladna Quarter Four 2022 Earnings Conference Call. I would like to advise all participants that this call is being recorded. Thank you, I would now like to welcome Phibion from QNB to begin the conference. Phibion, over to you.

Phibion Makuwerere: Thank you, Gavin. Good afternoon to you all. Thank you for joining us for the Baladna's Q4 and FY 2022 Earnings Conference Call. My name is Phibion Makuwerere from QNB Financial Services. On today's call from Baladna's management team, we have Saifullah Khan, who is the Chief Financial Officer. And this is how we are going to handle today's call, Saifullah will go over the performance and then, we will have a question-and-answer segment immediately after. Then, I will close the call. I will now turn over the call to Mr. Saifullah Khan to begin the presentation. Over to you, Saifullah.

Saifullah Khan: Thank you, Phibion. Good afternoon, ladies, and gentlemen. I would like to welcome all of you to the Earnings Conference Call of Baladna to present the annual results for 2022. My name is Saifullah Khan, and I am the CFO of Baladna. During this earnings conference call, I will provide you with an update on our operational and financial performance for the year 2022. For additional details, please refer to our Investor Presentation which has already been published on our website, in case you have not already received it.

During 2022, Baladna is proud to have partnered with the FIFA 2022 World Cup, widely regarded as one of the most successful events in FIFA's history. As a leader in the dairy industry, we are pleased to have met the country's high expectations by catering to the increased demand as a result of the growth in population, as we played a key role in ensuring the food supply requirements were met during this event. This was achieved through proper planning and execution of our sales strategies, as we were one of the biggest partners of the Ministry during this FIFA World Cup's tenure.

In 2022, Baladna achieved remarkable revenue growth of 28%, reaching QR 986 million. Our revenue performance was driven by the increase in market share across all product categories. This revenue growth was supported by substantial recovery of both HORECA and retail channels, which were severely affected by the COVID-19 pandemic. In terms of revenue growth by channel, as highlighted in the presentation, HORECA channels grew considerably by 37% compared to last year by attracting strategic customers and introducing new long-term contracts. The retail channel also witnessed a solid growth of 25% over the previous year by implementing competitive promotion and discount campaigns. Net profit for the year was QR 81 million compared to QR 134 million in the previous year, which declined by 40%. Higher global commodity prices were the main challenge during this year, especially feed, raw material, and packaging material, together with an increase in finance costs, which impacted our profitability margin. Towards the end of the financial year, we observed positive indications of cost inflation normalization, which we anticipate will contribute to an improvement in our margin in the coming years.

For the fourth quarter of the year, we managed to effectively grow our top line and achieved a revenue of QR 277 million compared to QR 210 million in last year representing a growth of 32%, with a net profit of QR 25 million.

To mitigate the impact of global commodity prices on our bottom line, we focused on increasing market share through sales and marketing initiatives including new product developments and the implementation of enhanced operational efficiencies, which we

achieved through reducing sales wastages, reducing production losses, increasing operational efficiency as well as controlling operational overheads.

Due to global inflation and unprecedented disruption in the supply chain, the year 2022 remained challenging globally for the sector. Most of the regional peers increased their selling prices to offset the impact of inflation and cost increases, whereas being a consumer-centric company, Baladna did not increase its prices. However, to maintain the good financial health of the company and without significantly impacting our consumers, we are coordinating very closely with authorities for a possible solution to cater the impact of cost increases on our financials.

In terms of cashflow, we have utilized our operational cashflows to build strategic inventory levels to safeguard against any possible impact of global supply chain disturbances on our operations as well as for FIFA 2022 World Cup requirements. Furthermore, we have invested in our new EVAP factory, which will be in operation soon and is expected to bring incremental returns to the company. As previously mentioned, and as a result of factors beyond our control which negatively impacted our profitability and cashflows, and as a result of additional investment requirements, Baladna is not in a position to pay dividends to the shareholders this year, as it has done in previous years. I am sure you will acknowledge Baladna's strength, commitment, and ability to support the National Food Security Program while contributing to the health and financial well-being of the local community. Additionally, I would like to thank all of you and invite you to be bear with us in this difficult time. Baladna's Management is fully committed and targeting solid growth in revenue and profitability for the coming years.

Moving on to Baladna's expansion plans, in terms of progress on our new evaporated milk factory, the construction is currently in its final stages, and commercial production is expected to start in April 2023.

As a part of our diversification strategy, we are continuously seeking and evaluating business opportunities locally and abroad. The recent acquisition of the E-Life Qatari detergent factory is expected to provide new revenue streams for the company this year.

With regards to international expansion opportunities, we are currently negotiating with our partners in foreign countries with whom we have signed MOUs. Out of which, the Malaysia project feasibility study is already completed, and we are currently working on determining the next steps with our partners in Malaysia.

We have already started seeking opportunities to grow our own feed, as part of our initiative to enhance profitability, support food security and self-sufficiency, certainty of the supply and consistent quality of feed. Romania has been identified as one of the potential countries where we can grow our own feed. Currently, the evaluations are ongoing for some selected opportunities at this stage and we expect to take a decision on this opportunity in the near future.

I hope I have covered all the key aspects of the financial and operational performance of Baladna during the year 2022. I would now like to open the floor for any questions you may have.

Operator: If you wish to ask a question, please press star followed by one on your telephone and wait for your name to be announced. First question comes from Zohaib Pervez from Al Rayan Investment. Your line is open.

Zohaib Pervez: Thank you for the presentation, sir. Two questions. Firstly, you mentioned something about the dividends. Could you explain further why it let you guys deciding not to declare the dividend and what must change for you to start declaring the dividend going forward? Secondly, on the commodity prices, now the fourth quarter saws good results, your gross margins, grew, year-over-year and quarter-over-quarter. Have you seen commodity prices

rationalized, are they starting to come down? Are you seeing that, or do you think it would still take some time to rationalize or normalize? Thank you.

Saifullah Khan:

Thank you for your questions. First, in terms of commodity prices, we have been noticing a slight recovery on the cost side, and more specifically freight costs, which was a big contributor in the last two years to all material prices, especially feed. As such, we are seeing some recovery signals on this front and we are hopeful that in the coming year or by end of this year, the market macroeconomic environment may recover. Similarly the other big cost impact is coming from finance costs, which we also believe should normalize in the future.

Regarding your question on dividends, we have made investments in big projects such as the evaporated milk factory, which is expected to contribute to our top line and bottom line this year and the coming years.

Another aspect is the impact of commodity prices on our margins, as we did not shift our burden to consumers. This is further seen in our top line growth which reached 28%, and given the fact that Baladna is a consumer-centric organization, this did not translate into a bottom line increase. We are in discussions with authorities to find the most suitable solution to improve our margins.

As such, we didn't declare dividends for this year. We believe that 2022 is not a representative year of our future performance. Accordingly, we are hopeful that the Board of Directors will decide to declare dividend over the coming periods. Historically, Baladna has been distributing relatively high levels of dividends. Over the past two and half years, we distributed QR 240 million as dividends to our shareholders, which is substantially higher than the market. Baladna management's priority remains to maximise and create value to its investors and stakeholders. I hope I have answered your question.

Zohaib Pervez: Yes. Thank you.

Operator: As a reminder, if you wish to ask a question, please press star followed by one on your telephone and wait for your name to be announced. There are no further questions currently. So I would like to hand over the call back to Phibion.

Phibion Makuwerere: Thank you, Gavin. If there are no further questions, I think it brings us to the end of our conference call today. Thank you for joining us. I would like to thank Saifullah for answering investors' questions. Please join us again for Q1 2023 and have a good afternoon.

Saifullah Khan: Thank you, everyone. Have a wonderful day.

Operator: That does conclude our conference for today. Thank you for participating, you may now all disconnect.