Company: **QNB Financial Services Co. WLL**

Conference Title: **Baladna (BLDN) Q2 2020 Results Conference Call**

Date: **Monday, 10th August 2020**

Conference Time: **10:00 (UTC+00:00)**

Mehmet Aksoy: Hi. Good afternoon, ladies and gentlemen. This is Mehmet Aksoy from QNB Financial Services. I want to welcome everyone to Baladna's Second Quarter 2020 Financial Results Conference Call. On this call from Baladna, we have Malcolm Jordan, who is the Chief Executive Officer, and Mr Saifullah Khan, who is the Chief Financial Officer. We will conduct this conference first with brief comments on the presentation, followed by the Q&A. I would now hand the call over to Mr Jordan to get us started. Mr Jordan, please go ahead.

Malcolm Jordan: Thank you, Mehmet. Good afternoon, ladies and gentlemen. I'd like to add my welcome to the call. I'd like to thank you very much for taking time to join the call. Going to move through the presentation that you have.

On slide two. It's the presentation flow. So the structure of the presentation today is, as you see it, short introduction from myself, the CEO, a slide on performance highlights, key investment highlights. Then we'll move onto the operational and commercial performance that we think is worth sharing. And then I'll hand over the presentation to Saifullah Khan, who is the CFO, who will take us through financial performance, shareholding trading and shareholder value slides. I'll finish off with the key takeaways. And then I think we move to Q&A.

So if you allow me, I'm moving now to slide three. And, of course, you've all seen the results I believe. I'm very proud to announce that Baladna has delivered significant growth and revenue and margin resulting in a net profit for the period of QAR84 million. It's been an extraordinary six months of which this quarter was part of with the onset of the global COVID-19 pandemic. And I'm very, very pleased to say that we – through that whole pandemic, we've been able to maintain our production and ensure supply of products to our customers throughout the time. Of course that wouldn't have been possible without the tremendous hard work and commitment and personal sacrifice of our team and our staff, would like to recognize that on the call.

I think our proximity to the market and our business agility allowed us to react very quickly to the changing scenarios that were unclear to us all as this pandemic unfolded lot before about the changes in HORECA and also the increase in retail. And we were able, I think, to be able to do that successfully and that's a reflection on the quarter two results.

During the period, we continued to launch new products. We launched 19 in quarter two following the 24 from quarter one. So that was pretty aggressive plan in the current scenario. We continue to have a very, very aggressive plan for the second half of the year that we will talk about slightly later in the presentation. But we were also very focused on driving efficiencies throughout our value chain. And you can see one of the highlights in the period is that we moved our milk yield from just under 32 liters per cow to 38 liters a cow, which obviously has a significant bearing on our efficiency and cost structure[?].

That said, we increased our revenue from 13% over quarter one and we increased our net profit at a level of 55% over quarter one giving us – but the least that what we're doing is correct and we're moving very much in the right direction. We continue to focus on delivering shareholder value by focusing heavily and delivering high-quality products to our customers and our consumers, focus on driving efficiencies throughout our entire value chain and having a very aggressive and innovation pipeline.

Can everybody hear? Okay. I'm just moving now to slide number four, which compares the period ending 30th June, so the seven months up to 30th June versus the seven months of the prior year across the same period.

You can see that our portfolio has grown very extensively. We've now reached just 210 SKUs up, up 75% year-on-year. Our revenue over the same period is up 115% to QAR442 million. Our net profit has increased further by 326% year-on-year up to the QAR84 million that I reported on the first slide. And our net profit margin is up 9%, so it's 19% net profit margin with positive free cash flow.

In terms of key investment highlights and the question why would we invest, why should you invest in this – in Baladna, in this regard, I'd like to make the following comments and observations. We are the market leader in dairy and beverages in Qatar. Our share continues to grow month-over-month. I'm going to share that with you in a few slides time. But I think that we have a very healthy positive share position and future growth potential.

Our facilities are all still new. The company is only three years old. So we have a great infrastructure that allows us to produce high-quality products in a very efficient way, where we can optimize cost. And within those facilities, we still have substantial capacity for growth. Our integrated value chain, our end-to-end approach allows us to be very agile. So in the context of what's just happened in Qatar, we were able to move very, very quickly, adapt quickly and be able to reorganize our sales with very, very fast [inaudible] capacities.

Innovation and product development, we've already mentioned. I think it's very clear to everyone who follows Baladna that innovation is one of our key pillars of our growth. We're building very high innovation capabilities within the organization. Our facilities are flexible enough to allow us to do that at speed and this is obviously a key part of our future growth story.

With regards to our financial performance, we've shared some of the highlights. Saif is going to take us through a more detailed financial presentation later on in the deck. And with regards to strategic shareholder support, we do benefit from government support in terms of particular legislation or regulations and financial support. So I think already sort of compelling reasons why Baladna is an interesting company to invest.

And if you allow me, I'll move to slide number seven and I'd like to take a minute or two just to go through the Baladna response to COVID-19. I think that's a really interesting journey. And I'd just like to share some of the sort of key highlights with you. I think it's something that's extremely topical at the moment. I think that – I think it's fair to say that we recognize our responsibility as one of the key elements of the Qatar food security program and we would – we take anything like this type of incident extremely seriously as you would expect us to.

And like most countries in the world who took a very early position on controlling the rise of COVID within their countries, I believe in Baladna we effectively did the same thing at business level. Back in February, we recognized the potential risk of COVID in Qatar to our business, to the food security program. We had our processes in place. We formed the crisis team. We appointed a COVID coordinator who is one of the general managers who work directly for me. We took actions around travel. We initiated training. PPE was purchased. We started checking our temperatures and health of our staff and we created a fairly unique pass system where different people couldn't go to different places unless they had the particular pass.

So that was way back sort of mid-February. As we progressed, it became very clear to us that the main issue or risk was around the core. And when I say the core, I'm talking about the farm and the factory. We understood, of course, that our sales people and merchandises had to be in the market, but the farm and the factory was critical in order to protect that for continued continuity. We postponed our visits. We cancelled our – we postponed our projects. Nobody went into our farms or our factories.

We moved anyone who was considered not to be critical off of the sites. At some point, we had most of our senior managers who needed to be at the farm and the factory actually living on the farm and in the factory until we understood better what we were dealing with. We trying to set our whole sales operations from our facility here near our core into Sanaya[?] in the industrial area and we went throughout series of segregation protocols between different departments to cut down on the mixing.

And we thought that we were in reasonably good shape and then for those of you who live in Qatar and who have been following this closely, you will all, I think, remember that back in around 17th March, there was a major issue in the industrial area where there was a concern around the spread of COVID and a series of restrictions that were put very heavily on the industrial area.

We made an almost instant decision that whilst we thought that at the time was able – we were able to protect the farm and the factory by doing that, we knew that in order to ensure supply that was not going to work. So we effectively had to move all of our sales operations back to our core and we had to make a whole series of changes around where they lived and how we worked.

And that was a fairly heavy one to two weeks as we reorganized the business to be able to ensure supply. At the same time, it started to be clear that the situation on global supply routes was starting to come under some strain and we executed immediately a plan to increase our stock of feed, our stock of packaging and our ingredients up to six months and in some cases on the feed side slightly more, so that we were clear till the end of this year.

And then going on from there, it was about just getting the efficiency back into the new operating model and really continuing to think very carefully about the farm and the factory and how we protected the farm and the factory for the most part. And that really sort of takes us to where we are today. Our controls are still very much in place. We still have our daily call from the crisis team that's happened seven days a week since February. We still do that today.

We are, however, resuming some outdoor projects with the level of control and we're starting to organize ourselves of how we are going to come out of lockdown as we effectively still are and at the same time with our HORECA customers starting to reopen their business as we're going through the different phases how we can actually support them as they start to get their feet back on the ground. So that's really the plan[?]. Hope you found that useful and interesting. I think that we – the team here worked extremely diligently to make sure that we were in a position everyday to supply our customers and consumers with the products that they look for on a daily basis.

But if we move on from COVID slide to a slide on products development and new products. So in addition to market share gains driven by product superiority, high-quality, availability, communication and so on, new products are key element of our innovation of our growth strategy. And we continue to work very, very hard on that. It's really split into two key areas. One in retail, where consumer insights are helping us to determine what we need to launch to meet consumers wants and needs, but we're also working closer and closer with our food service partners to build tailored solutions for their specific needs. And our portfolio that we'll talk about in the next few slides is getting ever larger to be able to supply a much larger, more comprehensive baskets one stop paid solution to these customers. And that's not just local customers and the international retail. This is also the major international food – fast food chains and so on are now very much part of our customer base.

As we said, we launched 19 new products on top of the 24 that we launched at the beginning of the year 53 up until from December from establishment. And we have an equally ambitious innovation pipeline for the next half of the year. Some products – some projects had been impacted by COVID and by the travel restrictions associated with that and we're just working through that now, probably represents about 25% of our plan in the second half. So as soon as we can get the right engineers and technicians into Qatar with the right levels of control, of course, then we will get it on that project straight away.

I think that what we're – where we're ending up at the end of the year is a very complete portfolio, particularly on the products that we've launched not in the recent past but our overall now looking at our business and the categories we're in is that we still see significant opportunities in specific categories like cheese, like cream and also in juice. And as we go through our market share in category slides, I think that would become pretty evident to you.

So the next slide, slide nine is really just a view of the products that we launched in the first quarter. You can see Awafi Cheese is there, which is the value brand that we have launched very late last year. We can see creams that are categories that we learn in our segments of categories. Up until pre-Ramadan, we were in fresh cream which was only 5%, the cream category. Whipping and cooking represented about 60% of the category and that was obviously a key category for us to move into 54 – valued at QAR54 million. Flavors on juices, a whole series of products for the food service industry.

Moving into quarter two, slightly later but again a number of key projects here moving into different flavors on juices, cheeses that we didn't have in our portfolio up until now. Interestingly, the 125 UHT milk products represented, in the past quite, significant a part of that category that is much smaller today, but we believe that we can grow this category quite substantially with this particular format.

And then on the bottom right-hand side, difficult to see from the photo, that's our entry into processed cheese in the food service industry and that will be followed now – it has been followed by our launch in retail in July with more range extensions come as we move through into September.

If we then move onto market dynamics and look at the retail channel and we look at Fresh Dairy, the way to – maybe if I can spend a second just to explain the graph the top half – the charts on the top half of the graph represent the category, not Baladna but the category. First, our volume. Second, by value. And it really compares the 12 months ending now versus the previous 12 months to that. So you can see in this scenario that total Fresh Dairy, which represents about 41% of the basket that we operate or play in today, is slightly down 2.9% and on value marginally up. So I would describe that as relatively flat.

If you then look at the bottom graphs, that's specifically our market share within Fresh Dairy. And we've taken the subcategories of Fresh Dairy. So you can see in the fresh milk category that includes flavored fresh milk as well that our share is marginally gone up by 1%, but steady in those – in the mid-80s, probably trending towards 90. But the point to note and there is that within fresh milk our flavored milk share has gone from 65% to 75% over the three months that the bars represent.

On Laban, I'm pleased to announce that we are now the market leader in total Laban even though we still have a lot of room to grow within the diluted Laban sector, but it's 6 share point gains from the February week to the June – to the May week. I think it's a very, very strong performance. We've also seen 6 share point gains in yogurt, and that's taken us into the value leadership position on yogurt I believe that we are probably one to two months away from volume leadership as we are competing in a category that where our competitors are heavily discounted.

On Labneh, we've consolidated our number one position, again with a 5% share point gain over the period. I think what's lovely to note there is that we have completely remodeled our change the recipe for the Turkish Labneh and more in line with, I think, that consumers in Qatar would want to have, that has an increased shelf life and that's also helping to drive distribution. So from a market share perspective in Fresh Dairy, I believe that that's an extremely strong performance over the period from February to May.

If we move on to the next slide that looks at Long Life Dairy & Creams, we can see that there is some growth in the category. It's up 4%. Value-wise, it's up 21%. That's a reflection of price changes in UHT, but also very strong growth in the cream sector. I think it's up 27% cream.

If you look at the bottom graphs which reflect our market share position, 75% moving to 81%. Some recovery there which still has some challenges in our flavored UHT milk range from competition. So there's some pressure on our market share in that particular category but we have now implemented a plan to recover some of that share in the coming months.

On cream, you can see that we've gone from 4% just over 10%. The 4% in February reflected a very high share position in fresh cream, I think 96%, but the category, as I mentioned, on the segment on the represented 5%. But the good news on the whipping cream and the cooking cream launched pre-Ramadan, whipping cream has a market share of 8% and cooking cream has gone to 18.5% within the space of one to two months of being on the shelf, which I think is a very strong performance and I believe that when Baladna is launching products with the Baladna brand consumers expectations that they are going to launch products that will satisfy their requirements is very, very high and they are definitely willing to give a try and then we stick with it.

I'm moving onto slide 13 that talks about cheese. Cheese, again, at a category level, strong growth in volume, strong growth in value. So it's good category. It's again highly profitable category. Cheese represents 21% of our total basket. We actually only play today in 36% or up until we launched the processed cheese a few weeks ago, we only played in 36% of the category. But even at that, we have market leadership of 18.5% which is up 6, 7 share points from the February week. As our very, very highly fragment market saw 18.5 market lead up and you can see within the natural cheese that represents 36% of the total market share. It's 42%.

Interestingly with the launches now into processed cheese, our first entry into the process cheese category is the spreadable cheese and that actually represents 35% of the 64% that is processed cheese. So we're very excited about getting into processed cheese. It's almost two times the value of natural and leaves us a very good space for growth.

If we then move to slide 14 and we look at just again very strong growth in the category, volume up 14%, value up 14.50%. It represents about 23% of the total retail basket that we operate in. Long life juice, it's still slightly larger than fresh juice, but that is unlikely to remain. When you look at the growth in fresh segment, it's up 44%. The long life is in a short – small decline at 5%.

If you then look at the bottom half of the graph and you look at our own Baladna market share, you can see that in total juice, our share has also gone up between 5 and 6 share points between the February and the May weeks, which is extremely encouraging. Our fresh juice has increased by 4 share points and we are now the market leader in fresh juice, and in long life juice our share has also gone up on just under 4 share points that we have some significant room to grow within the long life juice category as you can see.

But that pretty much wraps it up for the part of the presentation that I was going to share with you. I'm sure and hope there's some questions at the end. And I'll get back to you then. But for the moment, I'd like to hand you over to Saifullah, who will take us through the financial performance since this establishment. Thank you.

Saifullah Khan: Thank you, Malcolm. Good afternoon, everyone, and welcome to you in Baladna's second quarter conference call. Financial performance overview, that covers the period of seven months approximately starting from company incorporation date 2nd December to 30th June 2020.

So to start with the first slide, slide number 16, performance highlights. Overall, you can see here, overall very strong financial performance in terms of growth as compared to last year, well supported by operational performance. Revenue achieved QAR442 million, growth from last year 115%. EBITDA increased by 44%. Net profit improved more than 300%. So first seven-month period free cash flow to the firm QAR189 million and earnings per share QAR0.046.

The key operational indicator which support to top and bottom line increased significantly from last year. Total number of SKU, you can see here, reached 210 by up 75% from last year. New SKU creation up by 26 period for similar last period – last year period, which grew by aggressive NPD, new product development program, which we have right now in place.

Routes to the market, which is another element, which increased to 118 from last year 109, which covers 100% now retail market in Qatar and HORECA with assistance of wholesalers. At farm level, productivity per cow increased to almost 38 liters per day per cow from 31 liter of last year same period. Herd size increased by 13% and impact on volume production uplift by 34% compared to last year. Okay. So this is overall overview of financials. We can move to the next slide number 17.

This slide segregated into period one month of 2019 Q1 '20 and Q2 '20 to have better comparison of quarter performance. Revenue growth, you can see it on quarter-on-quarter increased by 13% is mainly due to overall increase in product portfolio and market share. The key category contribution to revenue growth are cheese, juice, yogurt and cream, which we will see in the next slide where we can – we will see a composition of the revenue.

And gross profit margin also improved as compared – as you can see, compared to Q1 to Q2 36%. This is mainly due to improve in our cow yield resulting in reduction of per liter cost of milk, but buying now we have our requirement more efficiently. They are approaching to man source and they are getting better pricing, better credit period and efficiency across all operations including our manpower utilization. These are key contributors on the margin side.

So net profit increased by 55% quarter-on-quarter due to strong control on expenses and the reduction in depreciation cost and due to change in life – useful life and interest cost. And which was measured right now, we have 3.5% for all our facility long-term and short-term, we are enjoying good rates right now.

So move to the next slide, 18 number. This slide show profit and loss statement as per our detailed reviewed financial statement that has been discussed in detail on the previous slide. This is just to show the overall financial statement.

So we will move to the next slide because these numbers we already discussed. Slide number 19, composition – revenue composition and growth compared to last year. So in this slide, you can see how our composition of revenue is changing over the period and where growth is coming. So see a strong growth 115% compared to last year. This is mainly due to increase of product portfolio from 120 to 210, which is supported by our NPD program which we have currently in place. And second element, higher milk yield and growth in herd size resulting to high production of milk, is converted into the finished goods. Sales routes increased from 109 to 118 capture full Qatar market and growth across all categories, particularly in the UHT milk, cheese and juices if we compare our similar period of last year.

So in other category is you can see QAR31 million. It's mainly comprises our cream, custard, desserts, [inaudible] QAR4 million, livestock sale QAR8 million, compost QAR5 million, plastic sales QAR2 million.

Okay. So next slide 20, which to give you revenue composition on growth quarter-on-quarter, Q1 to Q2. So you can see here how our revenue growth is happening in which categories, okay. Even Q2 everyone knows that there was a challenge of COVID-19. With this, we maintain our 13% – growth rate of 13%. Ongoing portfolio expansion with innovation process successful launching 19 SKU in Q2 and just positive Ramadan seasonal impact driving incremental household consumption.

Sales at retails channels improved and HORECA business was negatively impacted in Q2. So overall how our revenue increased, you can see the impact. This is, again, our growth story well maintained in Q2 even in the challenges of COVID.

Next slide 21, cash flow management. So overall cash flow is very healthy position. You can see this is due to our growth in revenue, margins and efficient working capital management. And CapEx, you can see overall, we have the CapEx efficiency represent business continuity and the continuous improvement in facility and infrastructure.

And we pay dividend out of QAR40 million, QAR30 million during this period, which was announced in April and further reduction of outstanding debt by QAR44 million on our free cash flow. Available unutilized our working capital facility with bank QAR219 million by end of 30th June.

Okay. Next slide, financial position, slide number 22. Okay. So you can see the asset composition and equity and liability composition. Total assets stand QAR3.499 billion includes current assets QAR607 million and non-current asset QAR2.8 billion. So which – on the right side shareholders and equity liability. Equity QAR2.1 billion, current liability QAR246 million, non-current liabilities QAR1 billion. Okay. So this represents our very strong asset base, mainly funded by equity and our healthy current ratios due to our efficient working capital management, though we increased our safety stock during this COVID period from three months to six months for some strategic stock due to COVID.

Okay. Our net debt stands at 32% to our equity balance. And equity – it is very important to highlight here; our equity QAR2.1 billion includes QAR201 million acquisition reserves, which we gained at the time of IPO.

Okay. So we will move to share trading and shareholding – shareholder value. Slide number 24, you can see the graph. Baladna share price movement since inception through 6th August. Okay. Management of the company has delivered to IPO investor share price uplift by 25% compared to QE Index, which was 13% negative on 30th June. In addition to dividend, we paid QAR0.021 per share in April.

Following the disclosure of H1 on 5th August, our share price uplift by 88% where you can see QE index is negative by 9%. So this is the performance what management of the company has delivered to IPO shareholder. This IPO company overall performance was attributed to a strong financial and operational results, Baladna's defensive business characteristics which significantly reduces coronavirus-related disruption risks, announcement of interim dividends in April and MSCI Small Cap Index inclusion in May.

The next slide you can see share – our key share information, 1.9 billion shareholding. We have 25% founders, 28% strategic investors, individual 33%, and corporate 14%. So strategic investor 28% representing by five companies – GRSIA, Hassad Food, Al Meera, Mwani and Widam.

Okay. Financial almost finished. I will take it through the key takeaways from this presentation, okay? Current performance, new product introductions and market share gains in all categories supporting growth – our growth story, efficiency and cost control across value chain driving our bottom line and a strong revenue margin and net profit growth witnessed in Q2.

Challenge. Key challenges and opportunities for future. HORECA sales remain challenging, expect staged growth in line with the continued lifting of restriction from 1st September. Strong innovation plans for second half of – however a few key projects delayed as a result of COVID-19. One-off exceptional COVID-19 expense will be related to COVID will be reduced in second half of the year. And a continuous focus on efficiencies and productivities which is key what we have in our – in the management focus point for the growth.

And a significant growth opportunities in number of key categories available for Baladna, which you have seen in our market share slide and the excess capacity, of course – to support our excess capacity available to support future growth, that's what we have in Baladna.

So I hope that covers everything in the presentation. Next slide is just showing you the glossary key abbreviations we have used and the disclaimers. And that's it on the financial side.

So now we can open question and answer session. Mehmet, you can take it.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We will take our first question. Please go ahead. Your line is open.

Bilal Sabbah: Yes, hi. This is Bilal Sabbah in Jadwa Investments. Thank you for the call. Few questions from my end please. First of all, I want to make sure on understanding the market trends correctly. For the Fresh Dairy markets, total volume declined by 2.9% while in UHT milk, it was up 4%. So I'm just trying to make sense of this to make sure I'm concluding correctly. Is this really a shift from the consumer towards longer life maybe due to pandemic, or is there something that is more related to population trends?

Malcolm Jordan: Yeah. Good afternoon and thank you for the question. I mean, if you look at – I think what the real answer is that you have to sort of break down the categories within the Fresh

Dairy and within Long Life. So if you look at Long Life, UHT milk is growing at 2% where the fresh – the creams are growing at 27%.

So I would say within the realms of plus/minus, there isn't a particularly significant shift, although we did see in March and April, I believe there was some pantry stocking going on as people stacked – try to understand what the situation was going to be with food supply in the coming weeks and months and things started to lockdown. So we're not seeing a very substantial shift there, but I think that you're right, there was a reflection over the period of this week where UHT was growing slightly ahead of fresh. But I don't see that as necessarily a long-term effect.

Bilal Sabbah: Right. Thank you. And, again, so looking at the market categories from a volume perspective, 10% growth in the cheese market, 13% or 14% growth in the juice markets. And I'm trying to understand this and maybe link it to population trends. This is fantastic growth in the overall market size. So I was wondering if you could give us a bit more granularity on that. Is it because maybe these products themselves weren't available in the market and now that they're coming to the market, the market size is growing, or is there some trends that I'm not aware of?

Malcolm Jordan: I think your assumption there is probably fairly correct. I think when you look at – and I think the Baladna are probably part of that helping to drive the category growth. A year ago we were only moving into juice, fresh juice if you actually look now there's a lot more competition there. The products are – there's been a healthy competition, products are being promoted. They are taking much more share off-the-shelf. And I think that's helping to fuel some of the volume growth there. And you can see that consumers are obviously changing habits as the fresh category, the long life category is in decline, it's relatively small, 5% but long-term decline. And when you want growth in the fresh segment around 44% offsetting that 5%, that's I think largely been driven by, to be fair, Baladna, but also the other local players including Dandy and Rawa and so on getting – being much more active within the category.

In cheese, I think – sorry, yeah, go on.

Bilal Sabbah: Yeah. Go ahead, please.

Malcolm Jordan: I was going to say in cheese, I think, it's probably as much about choice as anything else. I think there's more and more choice available within the cheese category over time of locally produced products but also imported products. It's actually quite stable. The processed cheese category is not – and the natural cheese ratio, they're actually fairly stable and they have been for the last two to three years. It's not necessarily that natural is somehow growing and processed is not. But I think there's definitely more choice.

Bilal Sabbah: So in terms of looking at the growth outlook, in many of the categories you've already have very healthy market share percentage. How should we think of the project categories where you believe that you still have a lot of room for growth in terms of adding market share and adding distribution capabilities? And which kind of categories are the ones that you really want to be targeting?

Malcolm Jordan: Okay. So if you take – you can see quite clearly that in terms of fresh milk and in UHT milk, extremely high share positions. And we will do – we will launch some products in both of those categories in the coming weeks that will help in – we take responsibility for actually growing the category. But if you take the others, Laban for instance, we have 46% share of Laban but when you split Laban down into fresh and dilutive Laban, we have in fresh Laban 70% share. So we have a relatively low share in 40% of the market called dilutive. And I think it's – if my memory serves me well, it's probably 15% or 17%. So we have a substantial growth opportunity in Laban and we have products that are assigned to move into that space to take substantial share. So I would like to be reporting growth strong – continuous strong growth in Laban.

Yogurt, we don't have value share – a volume share leadership in yogurt, so it's – that remain I think we have a substantial scope there. I'm sure you're aware that we have Baladna as a brand but we also have Awafi as a brand. And I think we need to – Awafi now is sitting at 5%. We see it's not taking share from Baladna directly. So we expect that Awafi will take share in that yogurt category substantially over time as we start to build the brand. It's only recently launched.

And then Labneh, I don't see any reason with the new type of these products and the range extensions there why that share couldn't or shouldn't be significantly higher. If you looked at creams, I mentioned that we only have 8% in whipping cream. We only have 18% share in cooking cream. We have substantial growth opportunities there within creams an extension of creams is sauces. We're not in sauces yet, but we expect also significant gains there.

In cheese, of course we have a relatively high share in natural cheese. We still have new products, substantial number of new products to launch within the natural cheese space. But interestingly, and as we mentioned during the presentation, 65% of the category is processed cheese and we're not even – we've only just started in the last two weeks to actually launch processed cheese products. So that I would expect some very substantial gains leaving with the spreadable cheese or the jar cheese and that would be referred to in the region. And that's 35% of the 65%. In fact, it's the single biggest cheese category in total cheese and there's a substantial growth I believe in cheese to come on top of the 18%.

And then on juice, when you say similar story to juice. Juice, we have in total juice 19% share. I wouldn't say that that is overly high and without growth opportunities. Even in fresh juice at 33%, I think that we still got a lot of scope for growth as we take market share based on product superiority, based on availability throughout the market in Qatar. And then, of course, long life juice, we've only just started the journey with single-digit shares and a very significant opportunity to grow there, which is just under 0.5% or 50% of the category.

And then – and that is just retail. I mean, I think that it's important that we also remember that there is a very significant HORECA channel that exists within Qatar. It could be 30% to 40% of the retail business. And we're still a relative novice in HORECA. Now HORECA, we were gaining some momentum. We were starting to focus more and more and then with the challenges in the HORECA channel as a result of the pandemic, that's not – that's been extremely soft.

But as it starts to open up – when it closed, we didn't have the Turkish Labneh that was heat stable. We didn't have the processed cheeses. We barely had long life juices. We didn't have the creams. So there's a whole suite of products that have been developed, in some cases, in most cases for retail but also with HORECA formats. And the – so I think that the growth opportunity within retail – within the categories within and within HORECA are still very, very substantial.

Bilal Sabbah: Thank you. Maybe just one more question from my end and if there's no more questions I might come back and ask some more. But I think in the presentation towards the end, there was a mention of one-off exceptional items due to COVID. I don't know if you could share that number? I didn't seem to capture it. Thank you.

Malcolm Jordan: Saif, you want to take that?

Saifullah Khan: Again, the question you are asking about the COVID cost?

Malcolm Jordan: Yeah. What was the one-off expense for COVID?

Saifullah Khan: Yeah. Okay. There was direct expense and there was impact on the expenses. So the direct impact was roughly QAR4 million we pay due to change of accommodation of the employees that was more or less related to employees, QAR4 million. The indirect impact is another QAR4 million due to some delay in the facility that impacted our expenses. So overall, impact was QAR8 million in Q2.

Bilal Sabbah: Thank you so much.

Operator: We currently have no more questions over the phone.

Mehmet Aksoy: Hi. This is Mehmet again. I would have two questions. My first question would be, can you give us some color regarding Baladna's export opportunities? How does Baladna plan to expand its exports going forward?

And my second question is, can you please share with us is there any developments on the Malaysian projects or not? Thank you.

Saifullah Khan: Thank you, Mehmet. Okay, your first question regarding export opportunity or –

Mehmet Aksoy: Yes. Export opportunities.

Saifullah Khan: Okay. And second regarding Malaysia project, okay.

Mehmet Aksoy: Exactly.

Saifullah Khan: So Malaysia project what we have noticed[?], the joint venture between Baladna and Felcra. So I will give you a little bit brief about the projects where we are as of today. Since November '19, we are visiting the sites in different sites in Malaysia with Felcra senior management to identify the suitable sites to build the large scale dairy and forge farms to produce roughly 100 million liters of milk annually. To do so that, we need 10,000 milking herds and approximately 4,000 hectares of land to accommodate that dairy processing plant and the forge for the farm. Okay. So update on that from the work which we have done to-date, we identified the land in the different parts of Malaysia and right now Felcra is working on to getting approval from the ministry.

So second important part is regulatory support. We already suggested to Felcra to government, so they need to ensure there is regulation in the country to support locally produced products. So they are competing with imported powder products from Australia. So they need to change regulations and work is going on with the some, I think, ministry of institute of economics and research and Felcra is working with them.

And whilst these two things will sorted out, we will start technical feasibility, Baladna team will visit there and then they will find out the supply all the – whatever technical part they will finalize. And we will engage properly third parties to have a detailed feasibility studies. Initial we have already from PwC. But what after all we think we've done, we would need a feasible – feasibility study to give us to both proper official go at to start the project and then JV will be signed with Felcra. That's it. So the work – overall, I would say the work is under progress.

And your second question about export opportunities. So export opportunities, there are three important elements, okay? First, we should have capacity to produce. Second, the specific products to be developed as per demand of the each country. The third thing business development team to approach the different markets to evaluate the opportunity of export from products and cost benefit analysis point of view.

So we believe that Baladna right now is there. We have enough capacity to produce. And we have highly experienced team to explore the different market and products on country to country specific requirements with rightful structure. So currently Baladna more focused on to meet the Qatar consumers demand, okay, had we have in the markets section. There is still room to gain more market share. So in parallel our export team is working to explore opportunities in different countries. I hope I answered your question.

Mehmet Aksoy: Thank you very much. Operator, do we have any other questions?

Operator: Yes. We do have more questions. Our next question comes now. Please go ahead. Your line is open.

Nikhil Arora: Yeah. Hi Malcolm. Hi Saif. This is Nikhil from Franklin Templeton Investments. Couple of questions, if I may. So thank you earlier for elaborating on your future plans with respect to various product categories and how you're going to take them forward. But say if you were to tie all of that, let's say, into a two or three-year target, what kind of sales or turnover number should we be expecting from Baladna, say by 2022? The reason that I asked this question also is that when we look at your, let's say, regional peers, so for example the Sadafco and the Almarai, they are generating approximately 70% in asset turnover, but whereas Baladna is contributing less than 30%. So what's your business plan, let's say two, three years down the line?

And the next question that I have is with this expected mix in products going forward, how should we be thinking about the margins?

Saifullah Khan: Malcolm?

Malcolm Jordan: Yeah, Saif. Let me attempt to answer that. In terms of just chunking it down and jump in if I'm not specifically answering all the different parts. Look, I believe that we will be capable of, within Qatar, strong double-digit growth going forward over the next two to three years even within the categories that we're in today. But we're working quite hard at the moment to understand as well what particularly – I mean, I think '21 in many respects is relatively straightforward. We will continue – we will launch many new products at the end of last year.

We won't get the full annualized benefit of that this year and the products that we launch this year of course, we won't get the annualized volume this year either. And most of those will roll into '21. And in '21 we also expect some very strong growth in the HORECA channel as well as retail.

And I think that that is relatively straightforward. In fact, we are working very hard to kick off our '21 detailed annual planning so we've got some visibility of that, which would having another look at 2022 of course and depending on what happens with COVID and FIFA, we believe that there's estimates at the moment where there's going to be another 1.7 million people coming into Qatar between four and six weeks and what happens to all of that and how do we manage that, that's all under sort of detailed review right now.

But in terms of what we have from a business planning perspective, we would see strong double-digit growth across the coming two to three years in Qatar. And that's excluding export of course. And Saif talked a little bit about that.

The – in terms of – you mentioned margins. I'm not quite sure exactly where you were going with that. But I believe that just from a margin – an overall margin or margin perspective, I think that we've still got scope on procurement as we become more mature and our systems and our supplier base settles. I mean, we're still relatively young organization. I think we've got definitely got scope there.

And as our volumes increase, hopefully, so does our purchasing power. So from a recipe point of view, we've invested a significant amount of money in building the capabilities in our formulation teams. We have more people arriving or will arrive post COVID and I think that there's a way to improve the quality of our products even further and probably reduce cost as well. We take a very, very clear view now on not only on the milk we received from the farm, but we value the composition, the fat components and the protein components in a particular way that will also help us to formulate and drive margin.

So we're working on the liters per cow, which is – has a significant bearing on margin. And we're working on LIP, which is loss in process, so how do we make our plans more and more efficient. And, of course, as you get bigger bag[?] sizes because your volumes go up, then your fixed line losses actually go down and there are technologies to allow you to manage all of that in the next sort of major margin component is the wastage from the market returns. And we have a lot of investment in people and in systems that will allow us to get the returns down to be below somewhere around 2%, which will also have a bearing.

So I think that margin-wise, we'll be in reasonably good shape. You're aware that we have – we've had some price increases but we've also had probably more reductions in price as we – over the past year on desserts, on yogurts and then some juice products as we've been able to organize ourselves and cut the cost structure of the products in place. The market I think from – Does that – I'm not sure is that what you were trying to find out or was there something else?

Saifullah Khan: Yeah. I can summarize Malcolm actually. Nick, your question regarding to compare with the Sadafco and Almarai, we are relatively new company. And our asset base, because our asset – their assets already depreciated over a long period and we are relatively new company. Our asset base is high. And we are in a still in a phase where we are growing very fast.

So okay. Once we reach through the point because they reach to their maximum growth. Now they are in organic. So we are still capturing our capacities. There is a big room for further growth. So overall, the margin once we increase our volumes, so definitely it have a direct impact on your overall margins.

Nikhil Arora: Okay. Thank you so much guys for the detailed explanation. One question on the Malaysian project. What's your exact role in this project? Are you like one of the equity investors or will you just run the plant that the money will be put by the Malaysian entity and so you just kind of, let's say, maintenance fee?

Saifullah Khan: Yeah. It will be a joint venture and we will do our equity investment over there and we will be running full operation.

Nikhil Arora: And how much ownership are you looking for roughly?

Saifullah Khan: It's again – this is a last point in what I discussed. Once all things will be formalized, then it will be – JV will be signed – official JV between Felcra and Baladna. At that point of time, we will decide what should be the equity ownership to Baladna and Felcra.

Nikhil Arora: Okay. And if I may ask that what's the kind of probability of this project going through? I mean, because it seems to be something which was still kind of in a steady phase? Is there a possibility there this might not happen again?

Saifullah Khan: In this world, you cannot say 100% confirm, but what the progress is happening on the ground with ministry of different ministries, we are not involved with the only one ministry there. And there's a different promises and the ministries involved and there the good progress is going on. So we cannot say anything that is having an issue right now.

Nikhil Arora: All right. One last thing from my side is on the depreciation policy, which I think you have changed in the second quarter. So what's the kind of run rate should we expect on an annualized basis, let's say, or on a quarterly basis going forward?

Saifullah Khan: See, depreciation – the useful life, it was based on the pattern of our current assets and preventive maintenance in place, okay? And we compare with our peer group companies – similar peer group company assets and their useful life and we decided that our useful life was underestimated. So we try to put it in line. And there is a positive impact on a bottom line.

Nikhil Arora: Okay. Thank you so much.

Saifullah Khan: Welcome. Thank you.

Operator: We'll now take our next question. Please go ahead. Your line is open.

Bilal Sabbah: Yes. Hi. Thank you for taking more questions. Again, this is Bilal Sabbah from Jadwa Investments. Just two questions from my end. They're relatively straightforward. First of all, is there an effort foreign ownership limits on the stock?

Saifullah Khan: If you see our slide, we show this is, I think, 49% as per the law, the foreign shareholding. I saw in that slide number 25. That's the limit as per the law, Qatar law, is applicable on the listed company.

Bilal Sabbah: Okay. Thank you. And last question from end, please, is, what's the CapEx plan for 2020 and 2021?

Saifullah Khan: CapEx I discussed during my – when I show the accounts, we already spend QAR100 million CapEx during this seven-month period and these are the CapEx, it's mainly related to our continue improvement in our facilities and infrastructure some regulation requirements. So it's not any specific. Right now what we've said that most of the CapEx been spent. This is due to normal requirement of the business, or is there any improvement in facilities that's how it's happening right now. So we don't have any specific budget for next year right now in our.

Bilal Sabbah: Okay. Thank you very much.

Operator: We currently have no more questions over the phone.

Mehmet Aksoy: Hi. This is Mehmet Aksoy again. If there are no further questions, then we can wind up the call for today. I would like to thank Baladna for participating in the call. Please do reach out to team at QNBFS or Baladna if you have any further questions. Thank you.

Saifullah Khan: Thank you very much for having us.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.