

Company : **QNB Financial Services Co. WLL**
Conference Title : **Baladna (BLDN) Q3 2022 Results Conference Call**
Moderator : **Phibion Makuwerere**
Date : **Thursday, 27 October 2022**
Conference Time : **12.00 noon in Qatar time**

Operator: Good morning, and welcome to the Baladna's Conference Call.
All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star followed by the number one on your telephone keypad. If you would like to withdraw your question, press the star one again. For operator assistance throughout the call, please press star zero. And finally, I would like to advise all participants that this call is being recorded. Thank you. I would now like to welcome Phibion to begin the conference. Phibion, over to you.

Phibion Makuwerere: Thank you. Good afternoon to you all. Thank you all for joining us for Baladna's Q3 2022 Conference Call. My name is Phibion Makuwerere from QNB Financial Services. On today's call, we have Baladna's Management Team. The CFO, Saifullah Khan, and Upendra Jayamaha, IR officer. They will go over the performance review first and they have a Q&A session immediately after. I will now hand over to Saifullah to go over their performance review. Please go ahead, Saifullah.

Saifullah Khan: Thank you, Phibion. Good afternoon, ladies and gentlemen. I would like to welcome all of you to the Earnings Conference Call for Baladna's Q3 2022 results. My name is Saifullah Khan, I am the CFO of Baladna. During this earnings conference call, I will provide you with an update on our operational and financial performance during this quarter. For additional details, please refer to our investor presentation, which is already published on our website, in case you have not already received it.

During the third quarter of 2022, Baladna achieved a revenue of QR 225 million and a net profit of QR 8 million. This represents a revenue growth of 23% compared to the same period of last year and a decline of 48% in terms of net profit. Baladna displays its resilience by mitigating a challenging macroeconomic environment to increase sale volumes by capturing a greater market share across all of our product categories. Baladna achieved a strong EBIDA margin of 26% in Q3 2022 despite increasing global commodity prices and inflation.

As of today, Baladna received a Ministerial approval for increasing our selling prices for part of our product lines. The increase in prices has not yet been reflected in Baladna's performance for Q3 2022, as the approval was received in the middle of September. Additionally, Baladna is waiting for the Ministerial approval to increase prices for the remaining product categories representing the majority of our core products and revenue generators.

In terms of Operation, Baladna managed to further enhance its operational efficiency, in particular, managing its herd productivity, which resulted in a higher average milk yield per cow of 37.3 liters per day for the nine-month period ended 30 September 2022 compared to 36.7 liters during the same period last year. Additionally, efficiencies in the manufacturing process, reduction in sales wastages through improved controls and systems, as well as cost controls of overhead costs contributed to maintaining a strong EBITDA margins.

Optimization of the product portfolio through the introduction of value-accretive products and de-listing lower-performing SKUs remains a key strategic pillar for Baladna's growth. During Q3 Baladna introduced 4 new products to its portfolio, which are Caramel Latte, Feta Cheese, Cream Cheese and Mozzarella String Cheese specifically for the HORECA channel as part of our initiative to continuously improve our product portfolio. Additionally,

Baladna managed to increase its total market share across all its product categories and remains the market leader in the majority of categories. For more details, please refer operational performance section of the investor presentation.

Moving on to Baladna's financial performance, while macroeconomic challenges including rising global commodity prices and inflation continued to dominate the retail sphere, Baladna achieved a revenue of QR 709 million for the nine-month period ended 30 September 2022, which represents a growth of 26% compared to the same period of last year. Net profit for the YTD September 2022 period was QR 56 million, which represents a decline of 45% compared to the same period last year. With all these challenges, Baladna managed to achieve a YTD EBITDA margin of 27.7%, which is an even greater accomplishment considering that the partial increase in selling prices has not yet been reflected in Baladna's financial performance for the period.

A similar trend continued in the third quarter compared to the first and the second quarter of the current year, as we increased our top line, but the bottom line was impacted due to higher commodity prices as well as higher finance costs due to an increase in bank lending rates. In terms of numbers, for the third quarter of the year Baladna recorded a revenue of QR 225 million, which represents a growth of 23%, and a net profit of QR 8 million, which represents a decline of 48% compared to last year.

In terms of revenue growth by channels as highlighted in the presentation, the HORECA channel grew by 39% compared to last year by attracting strategic customers and introducing long-term contracts. Both retail modern trade and traditional trade witnessed a robust growth during this period, around 22% compared to last year. Baladna continues to improve existing client relationships while targeting new customers at the same time.

Baladna is continuously assessing potential value accretive opportunities for its expansion. As part of our diversification and growth strategy, Baladna's Board approved the acquisition of a 75% stake in E-life Detergent Factory, which is a newly established detergent factory in the new industrial area of Qatar and has the brand name "LORX". As previously announced, in line with our international expansion strategy the Malaysia project's feasibility study is in progress, and we are expecting that it will be completed by Q4 this year. As we already announced in last quarter's earning call, a shareholder agreement has been signed with FGV and TOUCH GROUP. As such, we are currently awaiting the feasibility to launch next step.

Additionally, I would like to give you a quick update on the evaporated milk factory, which we had announced last year. The project is in the final stages and is expected to be commissioned and operational at the start of next year.

So, in terms of financing projects, Baladna benefits from a good reputation among financial institutions that have a great appetite to offer further leverage to Baladna for financing new expansion projects, both locally and internationally.

If we look towards the last quarter of 2022, we expect the retail market to gain further momentum and management plans are in place to implement new initiatives to capitalize on the improving market dynamics. With the scheduled FIFA World Cup 2022, Baladna is expecting a robust revenue growth in Q4 2022. The World Cup will provide additional opportunities in both retail and HORECA channels and management has already put plans in place to capture the expected demand from the FIFA World Cup. We are confident that our strategic inventory levels combined with the anticipated permission to increase the selling price moderately, provides the opportunity for a successful last quarter for the year.

To conclude, Baladna is fully dedicated to fulfilling its role as a market leader to contribute to the National Food Security Program and Self-sufficiency program in Qatar. We maintain our focus on creating shareholder value, while at the same time ensuring to serve our customers to the highest standards and ensure the safety and well-being of our employees and all stakeholders.

Lastly, I would like to thank you for your attention, and I will now open the floor for any questions you may have.

Operator: At this time, I would like to remind everyone in order to ask a question, press star then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Again, if you would like to ask a question, press star then the number one. All right. We have a question now.

Okay. The question comes from the line of Zohaib Pervez. Your line is now open.

Zohaib Pervez: Thank you sir, for the presentation. So, which products did you get the partial price increase approval?

Saifullah Khan: We received the approval for the partial price increase on selected products, which represents approximately 20% to 25% of our total portfolio. These products mainly fall under the categories of juices, yogurt, and cheese. This does not represent the majority of our product portfolio.

Zohaib Pervez: So, its juices, yogurt, and cheese.

Saifullah Khan: Yes.

Zohaib Pervez: And how much increase has been approved in percentage terms?

- Saifullah Khan: The exact percentage increase varies from category to category. On average, the price increase is between 8% and 12%.
- Zohaib Pervez: 8% to 12%?
- Saifullah Khan: Yes.
- Zohaib Pervez: So, 8% to 12%. Okay. And my last question is about the new investment that you're making into this detergent company. What is the size of the investment? And how will it be financed?
- Saifullah Khan: The factory is relatively small in size compared to Baladna's existing operations. Based on the independent valuation report we received for the factory, the equity value of the company is around QR 18 million. As such, we are targeting to acquire a 75% stake in the company. The factory started operations this year and is distributing products in Qatar and exporting to KSA. This investment is mainly financed using long-term debt facilities.
- Zohaib Pervez: So, the value is QR 18 million, and you will own 75% of it. So that's an investment of QR 13.5 million.
- Saifullah Khan: The investment value will be between QR 13 million and QR 14 million.
- Zohaib Pervez: And does this company actually make any profits at the moment? I am assuming not.
- Saifullah Khan: The company is still launching its operations. As such, we are yet to establish a brand. Baladna has already identified leveraging synergies as we already have secured HORECA contacts and contracts with key customers and distributors. We believe that we can

leverage our current distribution channels and relationships with customers to increase B2B revenues. This is our initial plan, following which we will gradually grow to retail.

Zohaib Pervez: Ok. And do you have any... I mean, I am sure you have done the feasibility. When do you think this will breakeven? And what would be the terms that you're looking at on this investment?

Saifullah Khan: Based on our analysis, we are expecting this business to become profitable in the future as we believe that the company has high growth potential. Additionally, it is important to note that the company operates in a different line of business and as such, the acquisition is part of our diversification strategy. As you will appreciate, we cannot provide any guidance on the expected future financial performance.

Zohaib Pervez: Okay. Okay. Thank you.

Saifullah Khan: Thank you.

Operator: Thank you, Zohaib. All right, just a reminder for everyone. Again, if you would like to ask a question, press star then the number one on your telephone keypad. There are no further questions at this time. I turn call back to Phibion. Phibion, back to you.

Phibion Makuwerere: Thank you, Ben. If there are no further questions, this brings us to the end of our conference call. Thank you all for joining us, and for your questions. And I would also like to thank Saifullah and the rest of the Baladna Management Team for answering your questions. And let's do this again in the fourth quarter. Thank you and have a good day.

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

Operator: This concludes today's conference call. You may now disconnect.