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Moderator : **Phibion Makuwerere**
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Operator: Hello, everyone, and welcome to the Baladna Conference Call. Please note that this call is being recorded.

Phibion Makuwerere: Thank you, Ellie. Good afternoon to you all and thank you for joining us for Baladna's Q2 and H1 2024 Earnings Conference Call. My name is Phibion, I'm an analyst with QNB Financial Services. On today's call from Baladna's management team, we have Saifullah Khan, the chief financial officer. And as usual, they go over the performance and the presentation and we have questions immediately afterward. I will now turn over the call to Saifullah. Over to you, Sir. Please go ahead.

Saifullah Khan: Thank you, Phibion. Good afternoon, ladies and gentlemen. I would like to welcome you to the earnings conference call of Baladna to present the results for the first half of 2024.

My name is Saifullah Khan, I'm the CFO of Baladna. During this earnings conference call, I will provide you with an update on Baladna's financial and operational performance during the six-month period ended 30th June 2024. For additional details, please refer to our investor presentation which is published on our website in case you haven't already received yet.

In the first half of the year, Baladna achieved revenue of QR 595 million and net profit of QR 100 million, this represents a 15% increase in revenue and a remarkable 137% rise in net profit compared to the same period of last year. Notably, this is the first time in Baladna's history that we have reached the milestone of QR 100 million in net profit within the first six months of a financial year. The revenue growth was primarily driven by increased sales volume across all channels and product categories, favorable market conditions, and continued gains in market share. Earnings per share for the period was QR 0.053.

The significant increase in net profit was primarily driven by the enhanced gross profit margins achieved through operational efficiencies in the entire value chain, coupled with strategic and efficient cost control measures. The gross profit margin for the first half of the year improved to 24% from 20% in the same period of the previous year. In addition to these margins improvements, reduced finance costs and stringent control over General and Administrative expenses contributed significantly to strengthening the bottom line.

Regarding the EBITDA margin, as illustrated in our presentation, Baladna leads its industry peers with a margin of 33%.

In terms of cash flow generation, Baladna continues to emphasize effective working capital management and has implemented stringent control over capital expenditures through rigorous investment analysis and robust business viability assessments. For the six-month period, the company generated a free cash flow of QR 198 million, which has enabled us to finance dividend payment of last year through internally generated cash flows.

In the second quarter of the year, Baladna recorded a revenue of QR 282 million, reflecting a 7% increase compared to the same period of last year. Baladna reported a net profit of QR 52 million for this quarter, demonstrating a substantial increase of 134% compared to the previous period. Earnings per share for this quarter amounted to QR 0.027. This quarter, Baladna has achieved a historic milestone by surpassing QR 50 million in net profit for the first time. This exceptional performance underscores our continued growth trajectory and reflects our strategic focus on delivering value and operational excellence.

As illustrated in the presentation, market share in the fresh milk category has surpassed 95% with UHT also exceeding 90% mark. Our ongoing focus remain steadfast on expanding market share in other product categories that offer substantial growth opportunities, ensuring sustainable growth for Baladna's future.

Baladna remains committed to enriching its product portfolio through continuous innovation and the introduction of new offerings. In the first half of the year, we have made notable advancements, including our entry into the high protein milk market and successful expansion of Greek Yogurt portfolio. Additionally, we have relaunched our juice line with a refreshed

design and new flavors to enhance the consumer experience. The Awafi product range has also been revitalized with the distinct brand proposition of 'Everyday Value, Everyday Quality,' featuring a new packaging identity across the entire portfolio. These strategic initiatives underscore Baladna's dedication to delivering superior products, adapting to evolving consumer preferences, and contributing significantly to the country's food security.

This exceptional performance is attributable to our relentless focus on driving continuous improvement and operational efficiency in our farming, manufacturing, and sales operations. On a daily basis, our farms consistently supply fresh milk while our manufacturing facilities diligently produces high-quality nutritious products while maintaining an impeccable record with zero quality complaints. Our sales team is equally committed to ensuring the timely delivery of fresh products that meet the evolving demands of our consumers.

Regarding the latest development on our Algeria project, I'm pleased to report that the project is progressing as scheduled. Groundbreaking activities are anticipated to begin within the next few months. Currently, we are finalizing the necessary legal documents with relevant stakeholders. We will continue to provide regular updates on the project's progress to our shareholders.

Following our robust financial performance in the first half of 2024, Baladna projects a positive outlook for the remainder of the year. We are committed to maintaining this momentum by expanding our market share in existing product line and launching new offerings. Coupled with favorable revenue growth indicators, stabilization of material prices, and the annualized benefits of reduced finance costs, our continuous focus on operational efficiencies and excellence is expected to derive strong bottom-line performance throughout 2024.

Baladna's strategic expansion beyond Qatar remains pivotal to our sustainable growth objectives. While our primary focus is on advancing the Algeria project, we are also dedicated to broadening our diversification strategy by actively evaluating new opportunities within Qatar or outside Qatar.

To conclude, Baladna remains steadfast in its commitment to serving as a market leader and contributing to Qatar's National Food Security and self-sufficiency goals. We are dedicated to delivering shareholder value while upholding the highest standards of service for our customers and ensuring the safety and well-being of our employees and stakeholders.

I would like to thank you for your attention, and we are now open to answer any questions if you have, please.

Operator: We are now opening the floor for the question-and-answer session. If you'd like to ask a question, please press star one. Again, please press star one.

Our first question comes from Zohaib Pervez from Al Rayan Investments. Your line is now open.

Zohaib Pervez: Thank you, Saifullah, for the presentation. I've got two questions. Firstly, on your gross margins. They have expanded very strongly on a year-on-year basis and on a quarter-on-quarter basis. So, what led to this increase, and is this a sustainable increase in your margins?

My second question is on the General & Administrative expenses. You mentioned that you are controlling costs etc. It seems that you have declined this quite significantly. Is it because there was a higher cost base last year, or what is leading factor to this decrease in G&A for the quarter? Thank you.

Saifullah Khan: Thank you for your question. I think you touched a very important question. How can we be more sustainable in our margins? This year compared to the past two years, I would say, the recovery year, especially on the bottom line and the top line as I mentioned, because of the positive market sentiments, and we got market share more on that. In terms of gross profit, the key contributor is especially volume growth. This is significantly increased because of market share gain in all our product categories. And the second impact was the commodity pricing. Because in the last two years it went all-time high. Now, we are seeing the momentum is getting back to normal. The third thing you have seen is the selling price increase taken in quarter three of the last year.

The G&A is getting better, and this is one of the items. Overall our operational overheads are getting better because volumes are increasing, and we are putting stringent control measures. The G&A primarily came down due to reduction in staff cost, communication expenses and professional fees.

Zohaib Pervez: Thank you. Just a follow up on that. You said the staff cost is being reduced. Is my understanding correct?

Saifullah Khan: Yes. Staff costs. Staff cost is a significant element in the overheads in the operation side and the G&A side. The overall reduction is due to the structure changes undertaken by existing CEO during last year.

Zohaib Pervez: Sounds good. Thank you Saifullah.

Operator: Our next question comes from Sultan Al-Shaalan from Jadwa Investments. Your line is now open.

Sultan Al-Shaalan: Thank you for the opportunity. Just a few questions from my end. Just a follow up on what you mentioned the reasons for the improvement in gross margins. You mentioned higher selling prices. Just wondering, of the 15% growth in revenue for the first half achieved, can you give us a breakdown of the volume growth versus prices? And if you can give us more clarification on, how do you see the gross margins going forward probably in the second half or the next few years? Should we expect further improvement in margins going forward, especially with commodity prices still going down and volumes growing? And if you can give us also more details on the Algeria project plan, what kind of CAPEX should we expect and what type of IRR expected from that project?

Saifullah Khan: Okay. Thanks for your question. Your first question was the contribution of pricing and volumes for revenue growth. The impact of price increase is between 40 to 45%. The rest is coming from volume increase. On the Algeria project, so far, we have published the available

information in public domain. The project size is huge, and it will be one of the largest integrated dairy projects in the world, \$3.5 billion investment. At this stage, we are finalizing project feasibility reports with third-party, and we are finalizing shareholder agreement, definitive agreement and an offtake agreement. We are expecting to finalize these agreements very soon and hitting the ground works in couples of months. Regarding the return of the project, a significant return on investments from Baladna's point of view is expected. All these things will be completed very soon inshallah and we will publish our numbers to the market accordingly.

Sultan Al-Shaalan: Great. Can you give us a breakdown of the sales growth? So, first half, 15%, how much of that was driven by volumes versus prices?

Saifullah Khan: As I mentioned 40-45% of the sales growth coming from pricing and the rest is from volumes.

Sultan Al-Shaalan: Got it. And with regards to the margins of variability, do you expect these margins going forward to be as the second quarter of the first half or should we expect further improvement in margins going forward?

Saifullah Khan: We are expecting further improvement. If you compare our quarter-on-quarter performance, first quarter, we have a very significant growth in the top line and bottom line, and we maintain our net profit margin around 15%. If you look at quarter two, quarter two we have seen slightly decline in revenue versus quarter one because of seasonality. But net profit margin went to 19%. So, this is reflecting our continuous improvement on the operational side and the margin. So, inshallah, we are planning to maintain this over the coming quarters.

Sultan Al-Shaalan: Great. Last question from my end that I'm sorry to take a lot of your time. Can you give us an update on the support received from the government and how this is going to change from one year to another?

Saifullah Khan: Yes, this compensation has been agreed for 10 years, and every year we are getting it well on time and there is no issue for this compensation. For 2023, we have received QR 110 million, and for 2024 we are expecting to receive QR 105 million. We have already received six installments so far and only four installments are remaining.

- Sultan Al-Shaalan: Will this be renewed or expected to end by 2027 or not?
- Saifullah Khan: In 2027 it will be ended, but there will be another discussion, that we will start in 2025. Because the business itself is becoming sustainable, and we believe that the company now generating reasonable profits. And then there will be a discussion with the government to maintain a reasonable return for the shareholders. So, there will be a discussion on this, but what is more important is how the shareholders will be getting a reasonable return on their investment.
- Sultan Al-Shaalan: Clear. Thank you so much.
- Operator: Our next question comes from Belal Sabbah from Jadwa Investments. Your line is now open.
- Belal Sabbah: Yes, hi. Thank you for the call and the congratulations on a strong set of results. I just want to clarify the statements you made. You mentioned something about selling prices in the third quarter of last year. Could you elaborate on when the selling prices increased in the third quarter of last year?
- Saifullah Khan: Yes. If you look at the year 2022 and 2023, all commodity prices went to an all-time high and there was a significant impact of inflation on our cost lines and the profitability of the company went terribly down. That was the case we built to transfer our cost impact to the consumer, and we got approval from the government, and they allowed us to shift partially that cost impact to the consumers. Afterwards, we increased prices for different product categories at different rates in July 2023.
- Belal Sabbah: Right. And what was the range of the increase, like 5 to 10% and to 15%?
- Saifullah Khan: It is different to categories to categories and product to product. if I give you a rough percentage, it is 10 to 12%.
- Belal Sabbah: Clear. So as we are today in terms of your manufacturing capability, at what operating rate or utilization rate are you operating?
- Saifullah Khan: Okay. As of today, we are a strategic food partner with the government. And we are providing food security, food self-sufficiency. So, we maintain reasonable backup capacity for any unforeseen circumstances that could happen, so our total capacity utilization is between 50 to 60%.

- Belal Sabbah: Sure. That's clear. Last question, if I may. You started manufacturing for third parties. I think the best thing this year is also the added capacity in creams. So, I'm just trying to get a sense on how much they're contributing in terms of the third-party sales as well as the new lines of creams that you added.
- Saifullah Khan: Actually, with strategic partnership of third parties we are trying to diversify our portfolio by bringing international players. Since we have excess capacity, we are trying to optimize it as well. The impact of the revenue from this is not significant at this moment because we only have two partners right now, one is Bel, and the other is ALBADIA brand. Both are manufactured in our facility, and we handle distribution as well.
- Belal Sabbah: Sure. Thank you so much. Just one final question, just to confirm whether 100% of the animal feed is imported or is there a portion that is irrigated locally?
- Saifullah Khan: We are buying some portion locally but very limited quantities. There are small local farms. Primarily for us the majority is still from outside.
- Belal Sabbah: Clear. Thank you so much.
- Operator: Our next question comes from Anastasios Dalgianakis from Al Faisal. Your line is now open.
- Anastasios Dalgianakis : Yes, thank you for taking my question. Could you please give us more detail on the funding of the \$3.5 billion of Algeria project? Basically, what are you envisaging, how much weight will be funded by Baladna in terms of mixed debt and equity. Thank you.
- Saifullah Khan: Thank you. With regards to Algeria project, basically, the capital structure is that, 51% of the project value will be funded from local banks in Algeria and 49% is equity, and Baladna's share in the equity is 51%, and the 49% is coming from the government of Algeria. The construction phase of the project is 9 years, and the required Capex will be spent gradually. In terms of funding Baladna's contributions to the project, we do have multiple sources for the moment such as debt financing, increasing equity or issuing Sukuk. Debt financing for the initial phase of the project is also an option, because the project itself will generate positive cash flows from the very starting stage as per the arrangements of the project. Initial construction period of two to three years is the phase which required funding and then project

will also start generating positive cash flows. So even we have multiple options now with us, we will be monitoring this to see how we can fund this project in a way that does not affect our local shareholders in Qatar. Because the performance of the company has significantly improved in terms of profitability and cash flows. So, we need to please our shareholders in Qatar as well to meet their expectations. And we understand that Qatar market is different, they need to have at hand something in the form of a dividend. We will announce the proper plan of the project once things hit on the ground. We are still in the legal stage where we are finalizing many things.

Anastasios Dalgianakis: Thank you. A quick follow up. Based on your numbers, we are looking at around QR 3 billion for Baladna itself and now the question is in what time frame do you expect to deploy this quantum?

Saifullah Khan: As I said, the construction phase of the project is nine years. From year three onwards the project will be operational and generate revenues and cash flows. And then gradually we will be constructing at the same time we will be putting animals, and we will be growing organically. This is how the project is structured and this money what we are referring is the debt equity structure, doesn't mean that we need all money one time from Qatar.

Anastasios Dalgianakis: Yes, correct. So, the bulk of it will be by 2028? It looks like.

Saifullah Khan: It will be over the period. Since the project itself generating cash flows, then we can see how we can differently structure this.

Anastasios Dalgianakis : Okay. Thank you very much.

Operator: Our next question comes from Alessandra David from Ashmore Group. Your line is now open.

Alessandra David: Hi. I just have two questions. One of them is about the market share growth. Just give me a little bit idea about industry dynamics you're facing, particularly how you can maintain this? My next question is about your trajectory profile and the trajectory for your leverage reduction. Is there sort of like a healthy target you're looking at in the long term? Obviously, being aware of the Algeria projects and the associated funding costs.

Saifullah Khan: Your first question, how we will maintain our growth, what we are seeing in the business. We are seeing positive momentum in the market and our market share growth itself is delivering this. And what I mentioned during my speech is that Baladna is not limiting what we have today in term of SKUs. We are bringing new flavor to the consumer where we are increasing our revenue, like successful launch of high protein milk and Greek yogurt. And one of the new businesses, which we added last year, E-life detergent, that's also helping us to improve. And we have plant 4 which built last year. These are the areas that we expect major growth coming from in near future in Qatar.

So I think on the Algeria front, I answered previously what you asked, if you have any other questions, please let me know.

Alessandra David: Sure. And it was more to do with the leverage targets for the company, like what is a healthy level that you're targeting sort of in the mid-term when you have these projects in the longer term? Before you answer that, sorry, just on your comment about the diversification of your SKUs, would you be able to just give a little bit more color on what you're doing with that, like what kind of programs you're running to sort of understand your consumer better as you say roll out these products successfully? Thank you.

Saifullah Khan: Okay. regarding leverage of Algeria project, I mentioned that we will very soon announce to the public once we start the project. Based on the latest performance that Baladna delivered, the picture is completely shifting what you have in the past. The generated positive cash flows will give us completely different pictures from the leveraging side, and we will see what should be the short-term and the long-term leverage structure. The leverage plan needs to be discussed with our Board of Directors and based on their guidelines; we will reflect same to the market in term of strategies that we are going to implement for the long-term future.

Regarding the SKU rationalization program, as I mentioned, Baladna always tries to introduce innovative products to its consumers. At the same time, we are analyzing our portfolio and delisting lower performing SKUs to optimize it.

Alessandra David: Now that's very clear. Thank you.

- Operator: Our next question comes from Zohaib Pervez from Al Rayan Investments. Your line is now open.
- Zohaib Pervez: Thank you again, Saifullah. Just a question on your evaporated milk. So last quarter you had mentioned in your presentation some figures on it, but this quarter I don't see them. So how is that going on in evaporated milk? I suppose you were also expecting some contracts in that segment. Where do we stand on that? Thank you.
- Saifullah Khan: Yeah, we started our aggressive campaign for this evaporated milk in the HORECA category. This is our first target. We are planning as a second option how we can aggressively hit the retail market. What we mentioned always that this project developed for Qatar's self-sufficiency. There is a big tender that the government offers every year. We have already participated in this tender. And this is under review right now. And we are expecting some good news on this.
- Zohaib Pervez: Thank you. So, you started with HORECA. And when do you expect to go into the retail segment?
- Saifullah Khan: There was a soft opening in retail and there will be an aggressive campaign on the retail market.
- There are renowned players already in this market and therefore there is high competition. Currently the sales and marketing teams are working on this, on how to target this market.
- Zohaib Pervez: And you are expecting that the government contract should be finalized during this quarter inshallah?
- Saifullah Khan: Inshallah. Since the government supports local produces and they are giving high consideration to the In Country Value (ICV), this time we are expecting that we should get it.
- Zohaib Pervez: Makes sense. Thank you.
- Operator: As of now, we don't have any pending questions. I'd now like to hand over to the management for the final remarks.

Phibion Makuwerere: Thank you, Ellie. If we don't have any more questions, I think it brings us to the end of our call. Thank you all for joining us today and for the lively Q&A session. I want to thank Saifullah for handling investors' questions. Please join us again for future Baladna calls. Have a good afternoon. Thank you.

Saifullah Khan: Thank you very much, everyone.

Operator: Thank you everyone for attending today's call. We hope you have a wonderful day. Stay safe. You may disconnect now.