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**Moderator** : **Phibion Makuwerere**  
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**Operator:** Ladies and gentlemen, hello, and welcome to the Baladna Quarter 3 2023 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 Makuwerere from QNB to begin the conference. Phibion, over to you.

**Phibion Makuwerere:** Thank you, Gavin. Good afternoon. I welcome you all to Baladna's Q3 and Nine Months 2023 Earnings Conference Call. My name is Phibion Makuwerere, Senior Research Analyst at QNB Financial Services. On today's call, we have from Baladna's management team, Malcolm Jordan, who is the chief executive officer. We also have Saifullah Khan, the chief financial officer. As usual, management will first go over the performance, and we have a Q&A session immediately after. I will now turn over the call to Malcolm to begin. Malcolm, please go ahead.

**Malcolm Jordan:** Thank you, Phibion. Good afternoon, ladies, and gentlemen. I would like to welcome you all to the earnings conference call of Baladna to present our results for the third quarter of 2023. During this earnings conference call, we will provide you with an update of our operational and financial performance during the third quarter and for the nine months period ended 30<sup>th</sup> September 2023, for additional details you can please refer to our Investor Presentation, which is published already on our website.

In Q3 2023, Baladna achieved a revenue of QR 256 million and a net profit of QR 22 million. This represents a growth of 14% in revenue and 178% in net profit compared to the same period last year. This growth was mainly attributed to higher sales volumes due to population increase, an increase in selling prices, stringent cost control measures, and normalization of some of our raw material

prices. Further, as indicated in our last call, I am pleased to mention that we have received a finance rate reduction for our existing banking facilities, and this of course will further improve our profitability going forward. Along with ongoing continuous improvement projects, we have successfully restructured our internal management team recently, aiming to optimize our operations through quicker decision-making processes.

With regards to our Qatar operation, in line with our previous announcement of the manufacturing agreement that we entered with Bel, the global cheese and snack giant, I am delighted to announce the start of the production of the spreadable cheese under their brand. And that product is now manufactured and will be making its way to the market in the coming days.

In the context of our international expansion initiatives, we are pleased to announce the latest progress made in relation to signing a memorandum of cooperation with Suez Canal Authority in Egypt. The focus of this project is to establish a dairy farm with an initial capacity around 20,000 cows that would deliver somewhere around 250 million liters of raw milk, and critically, cultivating a very large area of land around 280,000 acres in the New Valley Governorate that would help to develop our agri-business in terms of crops. The expected investment is around \$1.5 billion, and this project strengthens our strategic alliance in Egypt, where we already have a stake in Juhayna exceeding 15%. Furthermore, we are delighted to report positive advancement in the Algerian project in partnership with the Algerian Investment Fund, also targeting a very large domestic project, practically integrated dairy operation. Algeria is the second-largest importer of milk powder globally. This project is designed to deliver about 200,000 tons of milk powder to the Algerian government, representing just over 50% of their requirement.

On that note, I will hand over the call to Saif to continue the financial performance. Thank you.

Saifullah Khan:

Thank you, Malcolm, and good afternoon, everybody. I will now provide you with the update on Baladna's financial performance for the third quarter.

As Malcolm mentioned, Baladna achieved revenue of QR 256 million in Q3, which represents a growth of 14% compared to same period of last year. This growth was achieved through increase in

sales volume across both channel HORECA and retail, driven by management initiatives to capitalize on the improving market dynamic. Recently received selling prices increase also contributed to this achievement. During Q3 2023, Baladna achieved a net profit of QR 22 million, representing an increase of 178% compared to the third quarter of last year. This translates into a net profit margin of 8.7% and earnings per share QR. 0.012 for this quarter, compared to earnings per share of QR 0.004 for the same period of last year.

If you look at our nine-month performance of this year, Baladna achieved a revenue of QR 773 million, which correspond to a revenue growth of 9% compared to the same period of last year. At the same time, Baladna recorded a net profit of QR 65 million, with a 16% growth compared to the same period of last year. This represents a net profit margin of 8.4% and earnings per share QR 0.034 compared to earnings per share of QR 0.029 for the same period of last year. This increase in net profit is mainly attributed to an increase in sales volumes due to an increase in population and an increase in the selling price. The other positive impacts include the normalization of commodity prices as well as the ongoing savings in the finance cost.

Baladna continues to pursue strategic initiatives at capitalizing on the improved market dynamics arising from the population growth by focusing on reduced sale wastage, efficient overheads, cost control practices, and the development and introduction of innovative products to optimize our product portfolio. This resulted in Baladna achieving a strong EBITDA margin of 30% during the first nine months of this year, leading the industry in the region in terms of EBITDA margins.

In terms of cash flow generation, Baladna managed to generate QR 252 million in operating cash flow during the first nine months of the year 2023, which shows a significant improvement over the same period of last year. This represents our efficient working capital management strategy, particularly in inventory management.

With the improvement in the market dynamics, normalization of material prices, strategic and efficient cost control, and reduction in finance costs due to finance rate reduction, we expect to achieve strong growth in the coming quarter of 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, serving our customers to the highest standards and ensuring the safety and well-being of our employees and all the stakeholders.

I would like to thank you for your attention to this call. And now, I will open the floor for the question-and-answer session. Operator, over to you.

**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. That is star one, if you wish to ask a question.

Our first question comes from the line of Zohaib Pervez of Al Rayan Investment, your line is open.

**Zohaib Pervez:** Thank you for the presentation, gentlemen. I have got two questions. Firstly, if I see your revenues from dairy sales compared to last quarter, they have lower by like QR 5 million. And our understanding is that the dairy prices have increased. So, what led to this decline quarter-over-quarter, even though the prices were increased? The second question is about the finance cost. So, the finance costs have been reduced significantly from last quarter. Could you tell us what led to this decline and is this a sustainable decline or not. Thank you.

**Saifullah Khan:** You are referring quarter-on-quarter. So, there's a seasonal impact. The third quarter is always on the lower side because there is an impact on the population, as people mostly going on holidays, from July and August. In Q2, you also have a Ramadan impact, always on the higher side. So, in Q3, you always have a seasonality impact.

**Zohaib Pervez:** So, the increase that was made in the prices were completely offset by the seasonality and lower population because of the summer impact. Is my understanding correct?

Saifullah Khan: Yes. If you compare our performance with last year same quarter, the top line growth will reflect a 14% increase compared to last year. This has a contribution from selling price increase and the volume increase as well.

Zohaib Pervez: Right. Then my second question is on the finance cost.

Saifullah Khan: With regards to finance cost, we have rate reduction to compensate when commodity prices went up, and overall business and our profitability have been impacted over the last one and half years. To compensate for this, we negotiated with all the banks, and were able to manage some rate reductions. Our business is also in different industries as food security and the strategic vision of the company in the country enables us to manage some reduction in the finance rates.

Zohaib Pervez: So, this is sustainable. We should expect this to continue, right?

Saifullah Khan: Yeah, we should expect this in the coming two to three years at least.

Zohaib Pervez: Okay. Could you give us some idea of what was your rate earlier and what is the rate now?

Saifullah Khan: Rate arrangement with the banks is different. I think we are trying to maintain lower than the 3% interest rates right now. So, there are different banks, but overall it is lower than 3%.

Zohaib Pervez: Okay. I have got more questions, but I will be in the queue and come back later. Thank you.

Operator: Once again, if you would like to ask a question, please press star followed by one on your telephone and wait for your name to be announced. That is star one if you wish to ask the question.

And our next question comes from Usman Siddiqui from SICO bank. Your line is open.

Usman Siddiqui: Hi, can you hear me?

Saifullah Khan: Yes, we can hear you.

Usman Siddiqui: Thank you for the opportunity. I just have one question regarding commodity cost. I just wanted to understand the inventory cycle that you have. How long is your inventory holding period and like how much is the lag versus the current commodity prices and it will be reflected in your financial statements. So, I just wanted to understand that cycle.

Saifullah Khan: Okay. Thank you for your question. We did mention many times that Baladna being a strategic company, we always keep our safety stock level high. We have a lot of inventory types, we have feed inventory for our animals. We have our packaging. We have our raw materials ingredients. So, all have a different criterion that we set for our safety stocks. If we say maximum, we keep our sensitive stock by 12 months and some goes to eight months or six months. We have different criteria based on the stock category and type. So, what we are seeing now, prices are having an impact, and affecting our P&L. The majority of the benefits will fall in the next year. So, we would expect next year to be better.

Usman Siddiqui: All right. Thank you. And I just wanted to understand what the subsidy arrangement is with the government. I'm sorry if you told us earlier as well.

Saifullah Khan: Yeah. Okay. I think you are on the first time on call. So, this is until the year 2027. It is a fixed amount, and the arrangement was done on a fixed amount year-on-year basis. And now, you can see the last two years 2022 and 2023, it is about the same, but gradually there will be a decline and it will end up in 2027 with QR 50 million.

Usman Siddiqui: Alright. And on the market, I have seen you have very high market shares, especially in the fresh milk segment. I just wanted to know is there any indication of any competition coming in the market? From any other GCC player?

Malcolm Jordan: I don't expect the market in dairy to change anytime in the near future. We have seen this in the juice category, the retail and the HORECA channels have taken small share to this point, and we expect we will see much more of that coming months ahead.

Usman Siddiqui: All right. Thank you so much.

Operator: Our next question comes from the line of Zohaib Pervez of Al Rayan Investments. Your line is open.

Zohaib Pervez: Thank you. Sorry, I was muted. Thank you again for giving me the opportunity. Malcolm, you mentioned that there are two investments that you are looking at. One is the Egypt investment and the other is Algeria. So, Egypt is a total investment of \$1.5 billion, by when do you think this \$1.5 billion will be required and how will you be planning on financing that? Algeria, if you could just repeat as to how much was the total annual requirements that will be provided by Baladna and will there be any investment done for this powder milk plant or not? Thank you.

Malcolm Jordan: Thanks for the question. Let me try and step you through that if you allow me. I will start with Algeria, just to give you some context, Saifullah might jump in on the question around funding, but Algeria is a project that is designed to replace the importation of powder milk currently bought by the Algerian government around 360,000 tons per annum. We are working with them to look at how we can do a percentage of that in the country that takes some pressure off their foreign exchange requirements, improves their balance of payments, creates local jobs, and local economies around that. And, to some extent protects them or at least to a level of global dairy inflation that we expect to see over the coming 10 years as largely driven by population demand will outstrip supply and we will see a level of inflation there. So, the way that the project is being looked at today is that we would create a very large farming operation that would produce the crops to feed a very large dairy herd and the milk from that dairy herd would be converted into powder, and that would then replace the imported powder. So that is kind of I guess what the project looks like on the ground. We would attempt to do that in three clusters, but we are working very closely with the Algerian government on creating a framework agreement that would help us to roll this project out in the right way. The investment is around \$3 billion to \$3.5 billion, and we expect that it would take us somewhere between 10-12 years to reach the full extent of the capacity. So, it is very significant, extremely ambitious, but I think that we are moving very much in a positive direction and that we hope from

a timing point of view, I am expecting within next two or three months we have this signed off and we can move to the next phase. Saifullah, If you want to comment on the funding.

**Saifullah Khan:** As Malcolm mentioned, this project is still in the framework stage, and we are formalizing our high-level condition with the government of Algeria. So, the plan is that projects should have a direct funding locally in Algeria by minimum 65% and the rest will be equity share based on our shareholding with the Algerian government and Baladna. We are expecting the total project investment around \$ 3.5 billion over the period of 10 to 12 years. But in terms of year-on-year, it depends on the cash flow of the business plan and it looks at what the business will generate after third or fourth years of positive cash flow, and this will depend on year-on-year requirement of CAPEX. Initially, for CAPEX we will be needing more cash flow from equity contribution. But gradually, when the business will generate positive operating cash flow, it will meet its own requirements.

**Malcolm Jordan:** Okay. Thanks, Saifullah. And just in terms of Egypt. Egypt project is little bit behind Algeria in terms of where we are from a project perspective, but that project has a very similar amount of land of 113,000 Hectares more or less, and I would say a modest dairy operation where we would look to sell the milk into the Egyptian market, or maybe to our partners already there. It is smaller in scale at this stage. We have a team currently there on the ground working through the details of this project and they will come back and report next week. In this case, we will create more crops than our daily herd would need. And then, that would move us in more into an Agri business play in Egypt.

**Saifullah Khan:** So, this would be the same model we have because this is at a very initial stage, we will be trying the same model in Egypt as well. So, what we will see later on is what exactly the numbers are and how much we can arrange locally there and how much equity contribution will be from the latter. I think Zohaib your question is answered.

**Zohaib Pervez:** Yes. Thank you, both my questions answered. Just to follow up on that, how long will be the timeline like till we see some filtration in these projects 2 years, 3 years any idea on that?



Malcolm Jordan: Yeah. I would say from when we sign the deal and get it approved by our Board, then we are probably looking at somewhere 2 to 3 years before we are actually in what I would consider to be an operating phase rather than pre-operating by the time that we prepare the land, produce the crops, build the dairy farms, import the cows, hit the cows to the point where they are milking and they have feed and so on. I would expect that to 24 months plus, before we see something in an operating phase.

Zohaib Pervez: Sounds good. Thank you.

Operator: There are no further questions at this time, so I would like to hand it back to Phibion.

Phibion Makuwerere: Thank you, Gavin. If we do not have more questions, I think it brings us to the end of our call today. Thank you for joining us. I would also like to thank the management team for engaging in with investors. Please join us again for future Baladna's earnings conference calls. Have a good afternoon.

Saifullah Khan: Thank you, everyone.

Malcolm Jordan: Thank you.

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