

Company: QNB Financial Services Co. WLL
Conference Title: Gulf Warehousing Company (GWCS) Q1 2020 Results conference call
Date: Monday, 4th May 2020
Conference Time: 11:00 (UTC+00:00)

Operator: Good day and welcome to Baladna Conference Call for the period ended March 2020.
Today's conference is being recorded. At this time, I would like to turn the conference over to Bobby Sarkar, please go ahead.

Bobby Sarkar: Hi, hello, good afternoon, good morning everyone. This is Bobby Sarkar, Head of Research at QNB Financial Services. I do hope that everyone is staying safe and healthy given the current environment. I wanted to welcome everyone to Baladna's first ever Investor's Conference Call in which the company will be discussing its financial results for the period ended March 31st, 2020.

So, on this call from Baladna, we have Malcolm Jordan, who is the CEO and Saifullah Khan who is the CFO. So, we will conduct this conference with Management, first reviewing the company's results, followed by a Q&A. I will like to turn the call over now to Malcolm. Malcolm, please go ahead.

Malcolm Jordan: Thank you, Bobby. Good afternoon, good morning everyone, thank you for joining the call. And as Bobby mentioned, my name is Malcolm Jordan, I'm the CEO of Baladna. It's my pleasure to take you through the first 10 slides of the deck, and then I'll hand you over to Saifullah Khan, who is the CFO, who will guide you through the financial performance.

So, I'm now turning to page number three on the deck, purpose, mission and vision, just a quick summary, before we move into more details – our purpose to deliver sustainable self-sufficient food security in Qatar. Our mission to ensure consumer's wellness by providing natural,

nutritious and tasty foods and beverages and our vision to be the most trusted brand in nutritional foods and healthy beverages in Qatar and then expanding to new markets.

So, quickly moving to slide number four, I believe that you are all familiar with the Baladna journey so far. We are relatively young company that was established following the blockage almost few years ago. I'm pleased to report that – at least in dairy, Qatar is self-sufficient in dairy, largely as a result of the investments and the performance of Baladna. We continue to focus – now that we have entered most of the core categories, we continue from our new product development perspective to launch into adjacent categories and we have a very ambitious innovation plans that I will take you through in a slide or two.

And as we continue to invest and as we have gone in the latest technology, we understand the importance of productivity and making sure that we have very, very solid supply chain processes and the technology and the tools, we need to actually deliver that. And we continue to invest in both our farm and our factory to ensure that we drive quality yield and productivity. We are in the process or as I say relatively young brand, we are in the process of delving the brand and associating that brand with health and wellness with active livings and lifestyle.

And taking a responsible approach as one of the main suppliers of food in Qatar, we have a responsibility to support the health of the nation. We are focusing as you could imagine on getting the basics right, we have had phenomenal growth in the last three years, but we are building a solid foundation for future growth at the same time as managing the growth. We understand that there is globally a demand for locally produced foods. I believe that that will be further endorsed by the COVID challenges that most countries are facing globally, and that will actually accelerate this trend. And as we are also probably aware, we have received strong government support and since we formed the company just under few years ago and that will continue over the coming years.

And of course, we understand the responsibility that we have as an organization with regards to risk and business continuity where we are a very in high market share company in the Food and Beverage market, we need to make sure that our company is geared to be able to deliver that product fresh on a daily basis.

I'm moving now to slide number six. There is a couple of notes there on the growth of the core categories in which we play, they are all in growth territory, which is good news, but of course that growth to some extent in some way has been disrupted over the past three months as we manage a new world with COVID and if you actually would – I think what you think that the last eight weeks graph is there, the eight weeks before that we see a significant increase in our retail business, with this we see an actual fall in our HORECA business and overall we are in positive territory. We have had some level of interruption caused by COVID on new product launches, but these at the moment are still fairly limited and not impacting on our performance to date or going forward.

Maybe a few words on COVID we are in the middle of it here. I'm pleased to report that there is hardly no interruption of supply of dairy or juice products to the local market. But there was some challenges in mid March when the industrial area in Doha had further controls placed on that. We had this ability to actually transfer our distributing facilities back to our core more or less over the space of 24 hours to continue to supply. We have increased our safety stocks and we're probably setting right now, close to four months, we are working those stocks up closer to six months and we have implemented many, many controls across the organization to minimize the risk to the business.

And in February, we stopped actually the travel in and out – we've have segregated the different elements of our business, we've created red lines where parts of the business can cross from each other. Our leadership team is actually moved – on location on the factory 24/7, and we have restricted visitors, we have stopped projects and we don't – nobody comes on to our farms

or to our processing facilities in order to bring possible risks whether – so, that's all been shut down and we so far are pleased to report our managing wealth with the COVID constraint that we have to manage on a daily basis.

As I mentioned, we have seen improved performance in retail over the period of time. However, I would add that we have in the same timeframe launched new products. We have made some operational changes to our business which would also have helped our retail business regardless of the COVID changes. We have definitely seen softer sales in HORECA as most people have due to the closure of restaurants, cafés and so on. And we run the process of strengthening our capability in the e-commerce channel, working directly with major retailers, working with distribution companies and soon we will have an extension where we will also be into that directly.

From our portfolio perspective, moving on to slide eight, that just really gives you an overview of the main categories that we offer it within – fresh dairy, long life dairy and now creams that I will talk about in and shortly we were in fresh juice or chilled juice, the end of 2019 we entered into the long-life juice category. We continued to expand our cheese range and all of those ranges and all of those categories, we have launched a new brand called Awafi which I would say is more of a value brand targeting different consumers from the Baladna brand that was established when the company was formed.

Moving on now to slide number nine. And had the new products still in growth. It's fair to say that we had a very expensive new product development pipeline. We have managed to launch exactly four new SKUs during the period of four months from December to March. That increases our SKUs up to 191 – 24 of them this year alone and it's critical for us as [inaudible] strategy to continue to launch new products. We believe we have many more exciting opportunities for product launches and we look forward to maintaining the sort of pace that we have – already had over the coming quarter – two quarters of 2020, and we are on track to hold

the pace. And obviously at the same time, we will continue to look at products that have been launched and where we feel that they are not performing, they are only adding some sort of proliferation to the – and not adding any value, then we will consider delisting[?] those products.

Moving on to slide number 10. These are the products that we have in fact launched since December last year. You will note innovation across all categories, all brands and in fact all channels. And we received very good success across the number of these launches. Example the mango – in terms of the mango product, mango is the second largest fruit in both fresh and long life. So, we are now stepped into that category, a full range of long life products.

We've moved into creams, I will talk about that again in coming slides, an extension into two liter which we see from our market insights as a growing size within the category. And we've launched many different products across the targeted towards the HORECA Channel. And then you see the last product there Awafi pizza cheese, which is really again in line with Awafi focusing on affordability.

And moving onto slide 11, gives you a little bit of a snapshot of our market share possession in each of these categories. You can see going from the left to the right, fresh milk we have a very dominant market share of around 85%. We have a 46% in Labneh which also is the market leading possession there. In Laban, we have also 40%, that [inaudible] with 61% and fresh 17% in the diluted Laban segment. In cheese, interestingly we only have a 11.9%; that's 36% in the natural cheese segment. We do not today yet play in the process cheese arena, but we will get there. In cream, you can also see a very low market share of 4.2% because up until then we will only end fresh cream. Within the fresh cream segment itself, our market share is 73%, again another very special category for us to move into – and you can see in the previous slide that we've launched our range of cooking and whipping creams that correspond to the 60% of the cream category. And UHT milk again a very dominant share of 75%.

Relatively low share in juice 13.5% and 27.5% in the fresh juice category, 22.5% in long life as we have only just entered that category in the last couple of months to a substantial growth opportunities there; and then with yoghurt starting – well, 32% and we would expect to challenge for leadership in the coming periods ahead.

So, just to maybe to summarize that, you can see some fairly high market share possessions that there are also many, many other opportunities for growth within new categories and new segments including processed cheese, creams, long life juice, flavored yogurt, and Ayran where we will consider the retail market to be close to QAR 400 million, probably double that if you include HORECA because some of these are very HORECA focus type categories, and you can see that we have on top of that four category growth, we have substantial growth within these new categories which was exciting for us, and our innovation pipeline is geared up to benefit from these areas where we are not in to date.

So, on that note, I would like to hand over to Saifullah. He will take us through what that means in terms of the finance for the last four Qs, thank you.

Saifullah Khan: Thank you, Malcolm. Good afternoon, good morning everyone. This is Saifullah Khan, I'm the CFO of Baladna. Okay, I will take you through our financial performance highlights. So, right now, I'm on the slide number 13, which showing you financial highlights and operational highlights of the business during this period from 2nd December '19 to 31st March '20. So, if you see our revenue we achieved QAR 237 million, EBITDA we achieved QAR 99 million, EBIT QAR 49 million, net profit QAR 40 million, operating cash flows positive QAR 258 million.

And if you see our operational highlights, what company have achieved year-to-date, total SKUs 191 SKU company have at this stage, these all SKUs are active SKUs. And the new SKUs which we added during this period is 34 SKUs during these four months and total roots which companies currently handling in Qatar 106 is covering all retail business, traditional trade,

HORECA. So, almost 100% coverage of Qatar. At farm level the total level head of cows 20,846, total number of cows including mature number 11,200, young cows 9,600. So, total 20,846. And the more important thing in the farm, what we have our average milk per cow, per day 37.2-liter average over this period. So, it's a handsome achievement this – the overall life of the company is less than years and we achieve this number within this short span. Okay.

So, I will take you the next slide, slide number 14, its – overall P&L, you can see my revenue, my gross profits QAR 60.8 million and breakdown of other expenses selling G&A net QAR 39.7. The basic diluted earnings per share is QAR 0.063 per share.

So, I will take you next slide which give you the key highlights of the performance, slide number 15. We have gross profit QAR 64 million which is equivalent to 37%, EBITDA 42% is QAR 99 million, and EBIT QAR 49 million equivalent to 21%, net profit 17% equivalent to QAR 40 million. All these performance as a management we think this is in a very right direction company, it just finished two and a half years live and achieving tremendous results, increasing market share. Growth in the revenue, we will see in the next slide is tremendous in all categories.

Revenue breakdown, first we will discuss here the revenue breakdown, so next slide 16 number slide. Out of total product portfolio, if you will see our fresh milk is 34% equivalent to QAR 81 million, UHT milk 29% equivalent to QAR 69 million, yeast 14% equivalent to QAR 32.6 million, yogurt QAR 15.5 million equivalent to 8%, Laban 5%, juices 5%, Labneh and cream 3% equivalent to 6.4 and other, we have QAR 9.1 million.

So all – the rest others include livestock, compost and plastic, if you see livestock we have QAR 4.7 million, compost QAR 2.5 million, plastic QAR 1.7 million. So, I will take you next slide, which will give you the growth overall and the revenue terms, 147% growth, we have witness of this period is compared to last year 2019. So you can see revenue was QAR 96 million and all the

product portfolio, you can see; and in this year, March 2020, we have 300 – QAR 237 million revenue, which you can see the composition of all the product so it's increasing gradually.

Because our – initially product launching, now we are increasing our product and it is gradually overall revenue is increasing. So, giving you the flavor of the revenue, how it's increasing from last year to this year. So major growth is coming in the even – fresh milk, there is a growth, QAR 66 million was last year, this year is QAR 80 million. UHT, it was just launched in last year, it was QAR 6 million, now its QAR 69 million. The cheeses it – later part of this year we launched is only QAR 32 million in this year, so last year there was no major part of the cheeses, only QAR 1 million we have. So, yogurt you can see, these are consistently increasing, Laban is increasing, juices is increasing, Labneh and cream, these are all new products, it was not there last year.

Okay, I will take you next slide number 18, which would show you financial position as of 31st March, 2020. So you can see our total asset QAR 3.4 billion, and the major part is 76% property plant and equipment and 11% other asset, trade and receivable 8%, biological assets having value of 5%.

So on the other right side, we can see our total liability in equity, so 2 – QAR 3.4 billion is equivalent QAR 2.1 billion is our equity in the business. QAR 1 billion is your borrowing, this is long-term borrowing, we will discuss in the next slide exactly what is the status of borrowing. So, trade and other payables, 5%, 3% other liabilities. So this is the overall financial position, we can see our balance sheet position.

I will take you next slide is the cash flow management 19 number slide. We started year with the negative cash, it was having working capital facility from bank QAR 75 million, so net operational cash flow QAR 257 million we had generated during this period and this we use for CapEx QAR 76 million, biological asset QAR 6.6 million we buy and the net move in the financing facility we

repay our financing facility, which was only for working capital and the positive end up with the cash QAR 45 million net of. So, this cash and equivalent is working capital net of cash.

Okay, next slide, 20 number slide, you can see here, our total net debt and equity position, the total capital employed in the business QAR 3.1 billion, equity is QAR 2.1 billion, QAR 983 million is net debt. So, this net debt is a net of all our cash and of the – our long-term facilities. So, in terms of percentages, equity is 69% and net debt is 31% out of total capital employed.

So this, I will show you here, total debt in the business, in the long-term QAR 1 billion after IPO proceed, we set off our partial debt with QNB and this is the remaining debt QAR 1 billion in the business and we have rescheduled this over the 16 year payback period and this is known as Murabaha Islamic with QNB. And we have a grace period for repayment 18 month. So our instalment will start in the mid of 2021. So currently we are having 4% interest rate from QNB on this loan, now in April – mid of April they recently reduced 3.5%.

Okay. I will take you next slide number 21, our key share performance during last period since company incorporated, you can see our share performance is better than the QE index. And the right side, this is the shareholder structure, so we have 28% strategic investors, founders 25%, individual 34% and cooperate 30%. So, these strategic investors include mainly 5 – company GRSIA having 15%, Widam 2%, Mwani 2%, Almeera 4%, Hassad Food 5%. My voice is clear?
Hello?

Bobby Sarkar: Yes, hi, yeah, we can hear you.

Saifullah Khan: Yeah, okay.

Bobby Sarkar: Yes, so – okay, so I guess we are done with the –

Saifullah Khan: So I almost completed my part, yeah.

Bobby Sarkar: Okay, sure. Hi, this is Bobby Sarkar again. This was the end of the management presentation. Before we start the Q&A, I wanted to thank everyone, Malcolm and Saif for a very insightful and detailed presentation. Maybe I can just get started with a question of my own. Can you please talk about – talk a little about what you see in terms of expansion opportunities in the medium to long term and also maybe speak a little bit to your – the opportunity you see in Malaysia, thank you.

Saifullah Khan: Okay, thank you, Bobby. So you are seeing on slide number 11, the current market share position of Baladna. So most of the category there is still a huge potential for Baladna to increase the market share, especially cheese, juices, cream, Labneh, okay. As we have seen our performance, our growth rate, our increasing SKU is very aggressive, we have a very dedicated department for – R&D which is only working for new product development, okay.

So, which is a key for us right now to increase our product portfolio and gain our market share maximum locally in the Qatar. So we are seeing – there is a huge potential. So if you see juices which Malcolm has mentioned, the long life is mostly dominated by imports; and similar in the cheeses. So there is a huge potential for us which we are working on this. And you can see our market increasing share from the last year and this quarter is in line with our ambition.

So, second thing I would emphasize here, Baladna have excess capacity, okay, currently which is a base for us, which we can utilize our excess capacity for export opportunities. In this case, we have dual benefits, plus stop line it will increase for us and its increasing by bottom-line because our marginal cost will be reduced. These excess capacity we are right now in a planning and we are targeting different countries where we can export our product, okay.

So this is another area where our capacity and especially in the manufacturing side with our currently one UHT line is in the commissioning stage, once it's there, so we can clearly dominate in the regional market where we can increase our revenues. The third thing in the slide number six you have seen, there is very clear study growth in the three categories which we further enhance our market share and we can enhance our overall revenue. So, these are areas where Baladna have a huge potential where we can increase our revenue which currently management is working on this. And regarding your last question Malaysia –

Bobby Sarkar: Yes.

Saifullah Khan: – Malaysia, yeah, we are working on that, this project is still under progress, since government change in Malaysia. So it bit delayed things which was happening before. So we are still on top of this, so we are expecting very soon some output from this. So, this will be initially an arrangement with the government level and then there will be a detailed project study to start this – to start kickoff this project.

Bobby Sarkar: Okay, great, thank you. Operator, we can open the line up for more questions please.

Operator: Thank you, Bobby. Ladies and gentlemen, if you like to ask a question please signal by pressing star one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. A voice prompt on the phone line will indicate when your line is open, please state your name before posing your questions. Once again, ladies and gentlemen please press star one to ask question. We will pause for just a moment to allow everyone an opportunity to signal for questions. We'll take our first question. Caller, please go ahead.

Speaker: Hi, thank you for taking my question. I have two questions, the first one is on the other income the QAR 60 million, the other – it gets all the government subsidy. And also can you tell us how much is the total amount of the government subsidies due this year?

The other question is on the seasonality. This Q2 we'll have Ramadan, there is some kind of signature, so how much we expect to have an increase in revenue compared to Q1?

And I have another one if I may on the utilization which you just said that you have excess capacity, so how much is the utilization rate right now? And also if you can – when do you expect the company would be profitable without government subsidies, thank you?

Saifullah Khan: Okay, thank you. I think your question have many parts. I hope I will answer your all – I will not miss anything. So, first of all, you ask subsidy how much is in this period is QAR 56 million is the subsidy if you can see in the slide number 14, QAR 60 million you can see other income is QAR 56.5 million is the government subsidy in this other income, okay.

And your second question regarding seasonality impact, again always we say, normally there is a drop in the summer time because most of the people leave the country, go for vacation, the schools are off, but this COVID situation had changed the scenario. So we are expecting not big dip in the overall sales. So it will be almost similar trend what we are expecting.

And third question regarding our capacity, currently we have almost 55% utilization. So we have 45% additional capacity, currently what we have. And with the new line of USD, it will further increase to 60%, so even – they're increasing market share as well. So this new USD line, it will be overall 50% excess capacity we are seeing 50% to 40% excess capacity which company can have, this is – again this is secure – safety, security point of view and it's for our export to enhance our revenues. I hope I answered you all the questions?

Speaker: Yeah and how much the government, the whole – for the whole year the government subsidies due this year – because I think when the company was getting the IPO, we expected the government subsidies for the whole year was – it should be around QAR 140 million and if you run at [inaudible] I don't know how this –

Saifullah Khan: Yeah, – exactly. Yeah, you are right, QAR 143 million be full year subsidy, this year. So we are recording the subsidy on monthly basis. So the number you have seen, this is only for the relevant period for December last year and what we have three months, so this year is overall QAR 143 million, yeah.

Speaker: Sorry, can you tell me the government subsidies in this quarter again? So you said QAR 56 million, right?

Saifullah Khan: Yeah, QAR 56.5 million we have recorded in this financial statement. But in this year, you are talking from Jan to December, QAR 143 million total subsidy will be recorded.

Speaker 1: Okay. And I didn't get it Saifullah. If we add this up, it should be around QAR 200 million subsidy for the whole year –

Saifullah Khan: No, because this financial statement – yeah, okay, 143, okay. So, this will be – total will be – yeah, December, this include December, so, this will be – okay. So, this will be a 20 plus 143; total will be – let me have a quick calculation, – so, will be a QAR 163 million end of year.

Speaker: Okay, okay, thank you, thank you.

Saifullah Khan: Yeah.

Operator: Thank you. We will take our next question. Caller please go ahead.

Speaker: Yes, I have two questions. My name is Torres Embody[?] from Aventicum[?] Capital Management. One is, what are your budget or expectations for the CapEx for this year? So far, in the first quarter, you have added to PPE and the tangibles and biological assets. It's been cows of around QAR 85 million. What are your expectations for the rest of the year in terms of CapEx?

Saifullah Khan: Okay. If you see the CapEX which we already incurred in this quarter, it was already budgeted in the business plan from the previous year. So, in this year, board has approved, especially that you have seen the cows we brought the cows, we airshift, because there was a demand in the market, because you have seen we are aggressively increasing our SKUs and we are target all the market demand. So, we brought – we airlifted some cows to meet our demand.

For this year, I think [Inaudible] board has approved a very minimal CapEx, where will be only comfort of the cows, because we are targeting high yield from the cows. So, we are improving our facilities. And very few CapEx in the manufacturing, where we are spending CapEx for increasing our new products, new SKUs – there's no major CapEx.

Speaker: Okay, thank you. My second question is, just for me to understand, did you close your financial year on 31st December or are you going to be bridging the two months ended 2019 with 2020?

Saifullah Khan: 2020, we will be having one year and one month, so, 13 months period, we will close, so this will be a longer period.

Speaker: So, just I want to understand how – I mean, your latest board meeting, you announced a dividend distribution, usually dividend income from the trade earning after closing of financial books. So, how did you announce the dividends or how did you manage to do that?

Saifullah Khan: Dividend actually, it was interim dividend; it was not a yearend dividend. So, we announced our financial on 31st March, our accumulated profit was QAR 70 million. So from this, we announced QAR 40 million dividend.

Speaker: Okay, all right, thank you.

Operator: Thank you. Ladies and gentlemen once again, if you like to ask a question, please signal by pressing star one on your telephone keypad. It appears there are no further questions at this time. Speakers, I would like to turn the conference back to you for any additional or closing remarks.

Bobby Sarkar: Hi, this is Bobby Sarkar again, we have no further questions. So, in that case, we will be ending the call now. Thank you Saif, thank you Malcolm, for taking the time for walking us through your results. And I do hope that everyone stays safe and we will all speak to you next quarter. We can end the call now, thank you.

Saifullah Khan: Thank you, thank you everyone.

Operator: Thank you. Bobby, I am sorry, we just got one question when you were giving the closing remarks. Should we take it or should I close the call?

Bobby Sarkar: Oh! Yeah please, please go ahead. Please go ahead.

Operator: Okay. We'll take this last question. Caller, please go ahead.

Akbar: Hi, this is Akbar from Al Rayan Investment. I just got a question about your brand Awafi. What's the brand for that, is that going to be differentiated from the primary brand in terms of quality or price or is it just to add another brand name for convenient to look at, thanks?

Malcolm Jordan: Okay, Saif, if you allow me, I would –

Saifullah Khan: Yeah, yeah [inaudible] Malcolm, go ahead.

Malcolm Jordan: Yeah, look it's clear to us that the Baladna brand represents something very different from Awafi[?] so, both brands will have their own very individual positioning, unique positioning from each other. They will be targeted towards different consumers, they will have them different pricing structures and so on, and they will be more or less operated as two independent brands. In fact, with less, with very less association between the two and as much as we can. It is clear that there are large parts of different categories where it would be very difficult for Baladna to take market share today. And in order to protect the positioning and the integrity of that brand, unless we have an alternative option, we wouldn't be – it wouldn't be easy for Baladna to play in that space and take a profitable market share. So, the role of Awafi is to allow us to go to places probably where Baladna would actually struggle.

Akbar: All right. And then at the moment, am I correct in thinking that both brands have the same product at the same price or is there already some differentiation?

Malcolm Jordan: Sorry, the line was difficult to hear. Could I ask you to repeat that?

Akbar: Sure, I was saying, I understand what the plans are. I just wanted to understand am I correct in thinking that at present both brands or for the same product at the same price or is there already differentiations?

Malcolm Jordan: Yeah, there is already differentiation with every product probably power one[?] that will also change. So if you take Baladna, Baladna is very much about fresh, our dairy brand is about fresh, milk produced locally and sold locally and it appears sort of dairy component. And then our juice set out 100% additional sugar added into them. And then, the Awafi brand, it doesn't actually use fresh milk from Qatar, so there is very clear differentiation in 99% of the products. And on the juice side, it would be very much strength with sugar added. So, it's by design very different. The brand will be managed in a different way and it will target completely different consumers.

Akbar: Great, thank you. One last question. What is your currency exposure? I presume you have exposure to euros; do you have any other currencies that you are exposed to?

Saifullah Khan: Currently we have –

Akbar: With Dollars?

Saifullah Khan: Yeah, okay. Dollar and Euro is the main currency what we are dealing right now, yeah.

Akbar: Thank you.

Operator: Thank you. We do not have any more questions.

Bobby Sarkar: Hi operator, do you have any other questions?

Operator: No questions, Bobby.

Bobby Sarkar: Okay. I guess, if there are no further questions, we can end the call now. Thank you, Malcolm, thank you, Saif for taking the time to speak to us and we will speak to you all next quarter, thank you.

Speaker: Thank you.

Operator: This concludes today's conference call. Thanks for your participation ladies and gentlemen. You may now disconnect your line.