

Company : **QNB Financial Services Co. WLL**
Conference Title : **Baladna (BLDN) Q3 2024 Results Conference Call**
Moderator : **Phibion Makuwerere**
Date : **Tuesday, 29 October 2024**
Conference Time : **09:00 (UTC+00:00)**

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

I'd now like to hand it over to our moderator for today, Phibion, you may now begin.

Phibion Makuwerere: Thank you, Ellie. Good afternoon to you all and welcome to the Baladna Conference Call for the Third Quarter and Nine Months 2024. From Baladna's management team, we have Saifullah Khan, the CFO. He will go over the presentation first and then we'll have a Q&A session afterwards.

Let me turn over the call to Saifullah to begin. Go ahead, Sir, please.

Saifullah Khan: Thank you, Phibion. Good afternoon, ladies and gentlemen. Welcome to Baladna's Third Quarter 2024 Earnings Call.

My name is Saifullah Khan, I'm the CFO of Baladna. I appreciate your taking time to join us today as I'll walk you through our financial and operational performance for the nine months ended 30th of September 2024. The presentation materials have already been shared in advance and will also be available on our website. I will try to keep this call short to provide more time for the question-and-answer session.

Let's begin by looking at the financial performance. I am pleased to report that Baladna has once again delivered strong results in the third quarter of 2024, reflecting our ongoing commitment to growth and operational excellence. Year-to-date, revenue reached QR 859 million, which is equivalent to an 11% increase compared to the same period of last year. This was driven by increased sales volume across our core product categories and robust performance in both retail and HORECA channel.

Net profit for nine-month period came in at QR 141 million, marking an impressive 118% year-on-year increase. Our focus on cost management and operational efficiency continues to pay off with the net profit margin improving from 8% to 16%.

Additionally, we benefited profit from our international activities, especially from investment in Juhayna food industry in Egypt and saving in finance cost through effective negotiation.

In terms of EBITDA, we saw 24% increase year-on-year for nine-month period reaching QR 286 million, representing an EBITDA margin of 33%. This is a testament to our disciplined approach to cost control and operational efficiency across the value chain. In terms of EBITDA margin, Baladna continues to outpace its regional peers.

Earnings per share also saw notable increase of 118%, indicating our success in translating growth into value for our shareholders. In Q3 Along, revenue reached QR 264 million, reflecting a 3% increase year-on-year. Net profit grew 82% showing the continued benefit of disciplined financial management and cost control. EBITDA saw a 24% improvement rising to QR 90 million supported by the same cost saving measures we have discussed earlier.

The key driver for Q3 results mirrored of our YTD performance such as strong market share growth and operational efficiency. As expected, quarter-on-quarter performance saw some softness with revenue down by 6% and net profit down by 22%, primarily due to seasonality, a recurring theme across the business cycle.

In terms of cash flow generation, Baladna continues to emphasize effective working capital management and has implemented stringent control over capital expenditures through various investment analysis and robust business viability assessments. For the nine-month period, the company generated free cash flow of QR 232 million which has enabled us to finance dividend payments through internally generated cash flows.

Now, let's turn to some of strategic developments we made this quarter to strengthen our business.

We secured QR 100 million government contracts for production and supply of evaporated milk for 2025, a clear demonstration of our pivotal role in supporting Qatar's long-term food security efforts.

Talking about Algeria projects, we are making excellent progress. We commenced preliminary works in our integrated dairy farming project and signed a shareholder agreement with Algerian National Investment Fund, securing a 51% stake in the company that will establish and execute the project. These two developments together mark a significant milestone in our regional expansion and open the door for future growth in Algeria. We are also pushing forward with plans to establish an infant milk production project in Algeria, strategic move that complements our existing milk powder production initiatives and will enhance our product portfolio.

Finally, we continue to expand our daily and juice portfolio with a focus on innovation. This quarter's portfolio expansion reinforces our leadership in the market and drive home our commitment to delivering superior products to our consumers.

Let's now move to discuss our operational and commercial performance. In terms of channel performance, we saw balance and the robust performance across key channels reflecting the strength of Baladna diversified approach. HORECA, demonstrated a robust 9.5% growth year-on-year, driven by continued demand from hotels, restaurants, and café, as market dynamics in Qatar remain favorable.

In the retail key accounts segment, we recorded an 8% growth supported by our partnership with large-scale retailers, meanwhile, the retail traditional channel delivered 8.8% growth, reflecting consistent consumer demand at local retail outlets. We have continued to build on our operational momentum with clear focus on expanding market share, introducing innovative products and deepening customer relationships. Our overall market share saw a steady increase to 54.4%, driven by strong sales volume across the majority of dairy segment reflecting the strength of our brand and consistent customer demand. We have also expanded our product portfolio and introducing 40 new SKUs through year-to-date, this includes our new lines of high-protein milk and yoghurt , greek yoghurt with new flavors, and enhanced juice portfolio

with revamped packaging. These innovations further cement Baladna's market-leading position in the dairy and juice segment.

So, looking ahead, we remain focused on driving sustainable growth and creating long-term value for our shareholders. We will continue to build on the momentum in Algeria where our strategic initiatives are on the track to deliver shareholder value. The upcoming infant milk production project is particularly exciting, complementing our existing portfolio and expanding our footprint in the region.

In product development, we remain committed to innovation with plans to introduce new products that respond to the evolving consumer preferences and continue to capture market share. We will ensure that our products quality remains second to the none.

On the market front, we are prioritizing national food security and diversification of our business. This includes making sure our products are available consistently with operational efficiency being a key area of focus to meet rising demand.

In terms of financial performance, we will continue delivering bottom-line growth by focusing on cost control and operational excellence. Expanding our channel and product categories will be pivotal in sustaining our top-line growth to quarter four and beyond.

To conclude, Baladna remains well-positioned to continue in delivering robust performance as we enter the final quarter of 2024. Our focus on innovation, operational excellence, and strategic growth initiatives will be key to sustaining this momentum. Thank you.

And with that, I will open the door for questions.

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.

As of right now, we have a question from Ariana Zarrabian from Ashmore Group. Your line is now open.

Ariana Zarrabian: Hi, thank you very much for the presentation. And I just have two questions. Firstly, what drove the market share growth of around 4% increase, and I just wondered whether this was to do with the increased capacity due to the launch of the Plant 4?

And then, my second question is, would you mind chatting a bit lighter on the decision process through when the government subsidies get renewed? Is there something also similar planned for the Algeria project going forward? Thank you.

Saifullah Khan: Thank you for your question. Okay. Your first question about the growth drivers of top line including market share. The key drivers are the overall market share growth of Baladna, which is Baladna consistently increasing the market share while driving the sales volumes. And the second thing is the price increase that we took in the month of July last year. These are the key drivers and bringing more products to the market also helping to drive our volume increase.

So, your second question about the government subsidy. It is planned for up to the year 2027. Baladna being a strategic company and helping government food security, we are expecting this in any form of support from the government in order to remain in this business and to be a sustainable, to be a competitive in this region. We cannot discuss the renewal of government subsidy at this stage, because still we have three years that committed government compensation is going to be received, as per the agreement which is already there. So, we hope once we reach to that stage, there should be a continuation of any form of the government support to the business.

Ariana Zarrabian: Okay. Thank you so much. And would you mind just giving me a bit more detail on Plant 4, is this fully operational? I understand that it is soft-launched last year.

Saifullah Khan: Yes, we initially soft launched the Evaporated Milk (EVAP), our products are available in the market. We did it for the retail market and we are now trying to approach HORECA customers. So now, we are introducing these new products to the HORECA customers and with new tender of QR 100 million which has been awarded, I think the Plant 4 will be fully operational in the month of December. So, we can say the next year, this Plant will be fully operational.

Ariana Zarrabian: Okay. Thank you very much.

Operator: Our next question comes from the line of Aashish Agarwal with The First Investor. Please go ahead.

Aashish Agarwal: Yes. Hi, Saifullah. Hope you're doing good and congratulations on your results. Can you offer what is the EBITDA margins that is likely to be secured on this government contract? That's my first question.

And are you in a position to... like, throw some light to the market about the funding plans like the Capex outlook? And how do you plan to fund for the Algerian project? That's my second question. Thank you.

Saifullah Khan: Okay. Thank you. Regarding EBITDA margin, you asked about specifically for the EVAP. EVAP is basically a long-life product, in long-life products normally margins are less compared to fresh products, and we are expecting from this at least 20% EBITDA margin. Because market is very competitive as there are players who are sitting in the market like the Rainbow. Year-on-year, we need to capture our market share. So, we are entering with a lower margin on this product and gradually we have a plan, how we will grow in the market, increase our market share.

Aashish Agarwal: Before we move to next question, just one quick follow-up. So, this 20% EBITDA margins, is it a bit on a discount for the government or like assuming if this was not a government client? Could this have been a bit higher?

Saifullah Khan: Retail yes, if I compare with the retail margin, I think it's a bit higher because this tender is a bit competitive one, this tender is going on year-on-year.

Aashish Agarwal: So, what could be the difference?

Saifullah Khan: I think the difference between at least 10% to 20%. I don't have exact number right now but as a market we can compare with the market and the tender is very competitive, and we won from the competitive offerings. So, that's why the margin is not very high, but it's helping overall the top-line growth and also the operations, of course, we don't have any fixed overheads of the operational side except the raw materials.

- Aashish Agarwal: The first question is answered, that's helpful. Thanks a lot for that.
- Saifullah Khan: And the second question you are asking about, Capex?
- Aashish Agarwal: Yes, like when do you plan to start infusing capital and I mean I understand possibly you may still not want to disclose it, but I'll leave it up to you.
- Saifullah Khan: I think things moving very fast track way in the Algeria. Team is sitting there; they are working with the relevant ministry and testing of the soil is going on the ground. We have eight wells already planned on the soil to ensure the soil quality and water availability in the underground and the consulting teams are working on the ground right now because once land is confirmed and execution will start immediately and other one or two agreements like definite agreements is already under discussion. Shareholder agreement, we already signed, and we got alignment about how this project is managed. The management of the project will be done by Baladna. So, we have a 51% majority in the Board.
- We will incorporate new company and to assist in that discussion the article of association and other few agreements are on the table. The project itself have a 51% funding locally from the bank which is coming from the government of Algeria side. So, we have to inject only the equity from Qatar. So, we do have a plan how we will secure our debt-to-equity structure in the long-term because project is in the long term. So, initially we will inject because we have a surplus cash from the business, but we will not disturb our operation in Qatar at all, because we need to make sure our shareholders are happy.
- Aashish Agarwal: True. sorry to interrupt. So, given that, I understand it's a huge project and there is obviously every chance of a small delay here and there. Could I look at it from this way like the middle of 2025, could that be a good starting point to assume cash outflow from Qatar for this project?
- Saifullah Khan: No, for this project we are planning end of this year. So, our plan is end of this year. It can only go to the first quarter of next year maximum. So that's where we are.
- Aashish Agarwal: Understood. That's very helpful. Thanks, Saif.

Operator: If you'd like to ask a question, please press star one on your telephone keypad. That's star one on your telephone keypad. We will pause for a brief moment to wait for the questions to come in.

As of right now, we don't have any pending questions. I'd now like to hand back over to Phibion for further remarks.

Phibion Makuwerere: Thank you, Ellie, and thank you all for joining us this afternoon for Baladna's 3Q nine months conference call. Please join us for future calls, and I also like to thank Saifullah the CFO for taking his time to update the market and respond to questions. It brings us to the end of the call. Have a good day.

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

Operator: Thank you for attending today's call. Have a wonderful day. You may now disconnect.