

BLDN Alert – In-Line Operational Results & Better-than-Expected DPS; Accumulate

- **BLDN posted 4Q2020 net income of QR39.3mn above 3Q2020's QR29.0mn.** 4Q2020 earnings grew +35.5% QoQ but was below our estimate of QR45.7mn. The company reported a net profit of QR152.1mn for the period from December 2, 2019 (establishment date) to December 31, 2020 (approximately 13 months); EPS amounted to QR0.082 over the same period.
- **DPS at QR0.074/share was better than our estimate (QR0.063).** Excluding the interim dividends per share of QR0.021/share, Baladna's Board of Directors agreed to recommend a 5.3% final cash dividend (QR0.053/share) for the year ended December 31, 2020.
- **4Q2020 gross profit was in-line with our estimate (variation 1%). Revenue rose by 4.6% QoQ to QR190.6mn but was a tad below our estimate (variation -4.9%).** Nevertheless, with gross margins rising to 34.0% from 25.2% in 3Q2020 and 27.6% in 9M2020, Baladna's 4Q2020 gross profit surged by 40.7% QoQ to QR64.7mn (variation of 1%). As high margin products' weight in sales increases and with the increasing economies of scale benefits, Baladna recorded the highest quarterly gross margin since the IPO. It is noteworthy that Baladna's Total SKUs (Stock Keeping Units) rose by 41% in 2020 with the launch of net 78 new SKUs (the company added 96 new SKUs and delisted 18 of the prevailing ones).
- **On the negative front, G&A was up 21.4% QoQ to QR23.7mn, (variation of 10%).**
- **We maintain our estimates and TP.** Since we have changed our recommendation to Accumulate from Outperform on September 16, 2020, Baladna shares declined by 13.2% to QR1.64. *We maintain our positive view for the name and our TP of QR1.94/share now implies an 18% upside.* Baladna, a key pillar of the Qatari National Food Security program, is the undisputed leader in the Qatari dairy market. The company spent QR2.7bn (\$0.74bn) over the last three years to expand its capacity and production capabilities. Therefore, BLDN has ample capacity for growth through upcoming new and value-added products as well as exports. While we have not yet incorporated its potential impact in our forecasts and valuation, Baladna expects to collaborate with the Federal Land Consolidation and Rehabilitation Authority of Malaysia (FELCRA) to implement the "Baladna model" in Malaysia. This is an attempt to increase Malaysia's self-sufficiency in dairy products by doubling the volume of local fresh milk production with an increase of 50-55mnLt/pa. We maintain our positive outlook for the company and we believe any weakness in the share price could be considered a buying opportunity. **We maintain our Accumulate rating and our TP at QR1.94.**

Recommendations

Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price

OUTPERFORM Greater than +20%

ACCUMULATE Between +10% to +20%

MARKET PERFORM Between -10% to +10%

REDUCE Between -10% to -20%

UNDERPERFORM Lower than -20%

Risk Ratings

Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals

R-1 Significantly lower than average

R-2 Lower than average

R-3 Medium / In-line with the average

R-4 Above average

R-5 Significantly above average

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