

**Company** : **QNB Financial Services Co. WLL**  
**Conference Title** : **Baladna (BLDN) Q2 2023 Results Conference Call**  
**Moderator** : **Phibion Makuwerere**  
**Date** : **Thursday, 10 August 2023**  
**Conference Time** : **09:00 (UTC+00:00)**

**Operator:** Ladies and gentlemen, hello, and welcome to the Baladna Quarter 2 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 from QNB to begin the conference. Phibion, over to you.

**Phibion Makuwerere:** Thank you, Bhavesh. Good afternoon. Thank you all for joining us for Baladna's Q2 2023 Earnings Conference Call. My name is Phibion from QNB Financial Services. On today's call, we have Malcolm Jordan, who is the Chief Executive Officer of Baladna, and we have Saifullah Khan, the Chief Financial Officer of Baladna. As usual, they will go over the performance and will have a Q&A session immediately after. I will now turn over the call to Malcolm to begin the conference call. Malcolm, over to you, please go ahead.

**Malcolm Jordan:** Thank you, Phibion. Good afternoon, ladies, and gentlemen. It's my pleasure to welcome all of you to the earnings call of Baladna to present the results for the second quarter of 2023. My name is Malcolm Jordan, I'm the CEO of Baladna. During this earnings conference call, we will provide you with an update on Baladna's operational and financial performance during the second quarter of 2023. For additional details, you can refer to our Investor Presentation, which was published on our website in case you are not in receipt of it.

In Q2 2023, Baladna achieved a revenue of QR 262 million and a net profit of QR 22 million. This represents a growth of 7% in revenue and 3% in net profits compared to the same period last year. I think that we have demonstrated our capability of mitigating challenging macroeconomic

environments through increasing sales volumes and capturing a greater market share across the majority of our product categories.

In terms of market share, Baladna managed to increase its overall market share to 51.4% in Q2 2023 compared to 50.3% for the same period last year. Product portfolio management remains a key strategic pillar for our growth, we did increase our SKUs to 259 in Q2, but we also deleted a few SKUs in the same period. This is a testament to our innovative product quality program, which allows us to remain well-positioned and effectively identify products that are value accretive and in line with our consumers as well as our ability to bring new products to the market in a relatively short period of time.

International expansion opportunities and partnerships are key for the long-term growth of Baladna, and we are continuously working on identifying opportunities with relevant local and foreign partners to expand our current business internationally. As a part of this strategic initiative, I'm pleased to report that Baladna now holds a substantial 15% stake in Juhayna Food Industries in Egypt-the largest dairy company in Egypt.

With this, I hope I have covered some of the key aspects of our operational performance and now I will handover to Saifullah, who will continue to take you through our financial performance.

Saifullah Khan:

Thank you, Malcolm. Good afternoon, everybody. Now, I will update you on our financial performance overview for the quarter. In Q2, Baladna achieved a revenue of QR 262 million which represents 7% growth compared to the same period of last year. This growth was achieved through increased sales volume across both HORECA and retail channels, driven by management initiatives to capitalize on the improving market dynamics.

During Q2 2023, Baladna achieved a net profit of QR 22 million, representing an increase of 11% compared to the first quarter of this year. This translates into a net profit margin of 8.5% and earnings per share of QR 0.012 for this quarter compared to earnings per share of the previous quarter of QR 0.011. If you take a look at the first six-month performance of this year, Baladna achieved revenue of QR 517 million which corresponds to revenue growth of 7% compared to the first half of last

year. At the same time, Baladna recorded a net profit of QR 42 million in the first half of this year, reduced by 11% compared to the same period of last year. This represents a net profit margin of 8% and earnings per share of QR 0.022 for the first half of this year compared to earnings per share of QR .025 of last year same period.

During the first six months of this year, the gross profit margin has improved mainly due to an increase in sales volumes coupled with the previous year received approval for price increases for selected product categories, which led to growth in gross profit of 11%, and slight improvement in the gross profit margin over the same period of last year. The decrease in the net profit in the first half of 2023 is mainly attributed to the increase in the commodity prices and the finance cost when compared to the same period of last year. Baladna is currently working towards the potential reduction in finance costs, which if we successfully completed is expected to have a positive impact on the profitability margin and net profit in the second half of this year.

Baladna continues to pursue strategic initiatives aimed at capitalizing on the improved market dynamics arising from population growth by focusing on the reduction of sales wastage, efficient overhead 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 31% in Q2 2023, leading the industry in the region in terms of EBITDA margin.

In terms of cash flows, Baladna managed to generate QR 199 million of positive operating cash flows during the first half of this year, which showed a significant improvement over the last year. This represents efficient working capital management strategy, in particular inventory management.

With the expected improvement in the market dynamics, normalization of material prices, robust cost control practices, and potential reduction in finance costs, we expect to achieve strong growth in the months ahead.

To conclude, Baladna is fully dedicated to fulfilling its role as a market leader to contribute to the National Food Security Program and self-efficiency programs in Qatar. We maintain our focus on creating shareholder value while at the same time ensuring to serve our customers to the highest standard and ensure the safety and well-being of our employees and all stakeholders.

I would like to thank all of you for your attention. Now, I will open the house for any questions you may have. We are ready to answer you.

**Operator:** Thank you. If you would like to ask a question, simply press the star followed by the number one on your telephone keypad.

**Mustafa Aamer:** Thank you, gentlemen, for the presentation. I have got two questions. Firstly, as I understand, you have recently increased the prices for fresh milk and long life, both. So, could you tell me when this was implemented? And then what kind of financial impact can we see from this increase?

My second question was on the evaporated milk factory that was supposed to be started. What's the update on that part? Thank you.

**Malcolm Jordan:** Hi, good afternoon. It is Malcolm here, and I will try to answer those two points for you. The price increase effectively took place on the 10th of July. So last month, after the close of the first half, we expected that the price increase would have an impact to some extent around 5% on the top line. And obviously that then would carry to the bottom line.

In terms of the EVAP milk factory, the EVAP milk factory is effectively now commissioned. It is ready for operation. We have started to sell products from that facility, and we are engaged in a government tender for the EVAP milk contract. We have submitted all documentation for that and expect to receive some information, hopefully, positive information before the end of this month.

**Mustafa Aamer:** Thank you. You mentioned the benefit from this price increase is 5% of the total revenue.

**Saifullah Khan:** Yes. And this is on an annualized basis.

**Mustafa Aamer:** When is this evaporated milk factory started?

Malcolm Jordan: It started already. And we have produced a product and that product has been approved by MOPH for sale and is going through a soft launch as we speak. And the tender results will come back, hopefully, at the end of the month, that's our expectation. We are also planning to launch sterilized cream from that facility in due course

Mustafa Aamer: Okay. What do you mean, the tender is going to come back at the end of this month?

Malcolm Jordan: Yes. There is a government tender for evaporated milk. It is part of a national program.

Mustafa Aamer: Okay. What is the size of this tender?

Malcolm Jordan: It is of substantial size, and be disclosed in due course.

Mustafa Aamer: Perfect. Thank you, Malcolm.

Malcolm Jordan: Welcome.

Operator: Thank you. There appear to be no further questions. I would now like to have the call back to Phibion Makuwerere.

Phibion Makuwerere: All right. Thank you, Bhavesh. I think before I close, I just got one more question for management around feed costs. I see again this year you have had a bit more. Are you able to shed a bit more light on what has happened between Q1 and Q2 and perhaps what you expect to happen over the next couple of months?

Saifullah Khan: Yes, I think what we have seen so far is slightly good prices in the market, you know the commodity prices are going down, and similar impact we have seen on the ingredients as well. It does not affect directly the bottom because we have our strategic stock for more than six months. But we are expecting it will have a positive impact in the coming months on the P&L.

Phibion Makuwerere: Okay. Thank you. If there are no further questions. Let's close the call.

Operator: Excuse me, we do have one additional question.

Phibion Makuwerere: Sure.

Operator: Thank you so much. Our next question comes from the line of Shabbir Kagalwala from Al Rayan Investment. Please go ahead with your question.

Shabbir Kagalwala: Gentlemen, thank you for the call and the presentation and thank you for the update on the prices. Just have a follow up on it. So, given the price increase in the third quarter and the soft commodity price that you mentioned, are you expecting to see the full impact of this in the third quarter? And typically, how long does it take for the feedstock to translate, in terms of the inventories, to translate into prices?

Saifullah Khan: Yes, I think, selling prices will have a direct impact. When we start implementing, there is no impact on the volume so definitely we have a straightforward impact on P&L. But on the commodity side, we are seeing price correction worldwide. Because most of the items are strategically procured for six months and some are for four months, five months etc... That will definitely impact gradually, and it depends on the turnover of the different stocks in our inventory.

Shabbir Kagalwala: Right. In terms of international expansion, where are we, if you have any update on the Malaysian and the other expansions which you have announced recently? What is the progress of that and when can we see some contribution from those MOUs?

Malcolm Jordan: Hi, it is Malcolm here. Great question. The Malaysia is progressing. The business plan has been developed. There are number of rounds of discussions that we need with certain government agencies to satisfy ourselves that the market is designed in the right way for a local farming operation to be competitive and sustainable, and that is currently going on as we speak. It is in the last rounds of discussions, I would say. And we expect an answer in the next, let's say, four to six weeks, and we would then be able to give you a detailed update on that specific project.

In terms of the investment in Egypt. I think that is pretty clear to everybody and that's already in the public domain as we continue to build our shareholding position in Juhayna, and we will continue to develop that.

Shabbir Kagalwala: Right. And in terms of the Juhayna stake, what level will you be comfortable with building like in terms of the percentage of the company, where do you see your stake going by the end of this year?

Saifullah Khan: You see what we have today so far, we have 15%, and we are still looking at the company's performance. And the company's performance so far is going well, more than 24% growth on the bottom line in this second quarter, and top line also grew by 35%. I think the market share is growing, as well as the market itself is growing. So based on the company's performance we are deciding whether we should go further to increase our shareholding. This decision depends on the company's performance. If the company performance has improved and our outlook is positive there will be a positive move on our position.

Shabbir Kagalwala: Right. And in terms of funding this investment, would you be doing it through internal cash, or you would like to leverage? What is the funding mix for this investment?

Saifullah Khan: So far, we are managing funding requirements from our operational cash flows.

Shabbir Kagalwala: Right. Thank you. Thank you for all the updates, much appreciated.

Malcolm Jordan: You are welcome.

Operator: Thank you. There are no further questions at this time.

Phibion Makuwerere: Thank you, Bhavesh. If there are no further questions, let's wrap up this call. Thank you all for joining us. Thank you for the lively Q&A session. I would like to thank the management team for addressing investors' questions. Please join us again for the third quarter earnings conference call and have a good afternoon.

Saifullah Khan: Thank you everyone.

Operator: Thank you. This does conclude today's conference call. You may disconnect.