

BAFAR: 2Q22 Results

Significant increases in sales and EBITDA despite higher raw material costs; we reiterate BUY

BAFAR B	BUY
Target Price (MXN\$)	\$ 71.00
Current Price (MXN\$)	\$ 48.00
Min / Max (L12M)	\$ 37.11 - 71.20
Expected Dividend (MXN\$)	\$ 0.65
Expected Return	49.3%
Market Cap (MXN\$ Mn)	14,695
Enterprise Value (MXN\$ Mn)	24,719
Outstanding Shares (Mn)	306.1
Float	20.0%
ADTV (MXN\$ Mn)	\$ 0.70

Opinion and on and recommendation

BAFAR reported positive 2Q22 results. The company recorded a significant 26.2% increase in revenues that included strong growth across all business units. Profitability declined due to higher raw material costs, which was compensated by strict cost control. This translated into a substantial 16.0% EBITDA growth. However, net profits fell 30.3% due to FX losses. We reiterate our BUY recommendation after these quarterly results.

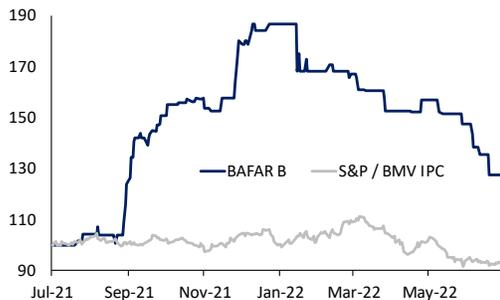
2Q22 Results

BAFAR's revenues were up 26.2% to MXN\$6.23 billion (practically in line with our projections) as a result of a significant growth of 26.0% in food, 59.1% in Fibra Nova, 44.6% in Vextor and 23.2% in real estate.

Cost of sales rose 31.6% due to higher raw material prices. Gross profit advanced 12.9% and gross margin contracted 300 bps to 25.7%. Expenses were 11.1% higher, so the expenses to sales ratio improved to 15.9%, from 18.1% the previous year. EBITDA thus grew 16.0% to MXN\$753 million (vs. MXN\$802 million E). The EBITDA margin declined 100 bps to 12.1% in the current quarter. By business unit, food EBITDA rose +4.4%, FNOVA +67.2%, Agroindustrial -74.0%, Vextor +10.2% and Real Estate +27.7%.

Financial expenses were up 14.6% due to a higher level of bank debt. However, the margin was similar to that of the previous year due to the reduction in the cost of debt and refinancing. The company recorded a MXN\$91 million FX loss in the period, from a MXN\$105 million FX gain in 2Q21.

Net profits fell 30.3% to MXN\$333 million (vs. MXN\$379 million E) due to the FX impact and a higher fiscal reserve that offset the substantial operating growth.



July 26th, 2022

Regina González
+5255-1391-3180
Regina.Gonzalez@miranda-gr.com

Martin Lara
+5255-6413-8563
martin.lara@miranda-gr.com

BAFAR's consolidated net debt rose 24.2%, which translated into a net debt to EBITDA ratio of 3.3x, from last year's 3.0x. The higher leverage was mainly at Fibra Nova (LTV of 42% vs. 30%) and in the food business (net debt to EBITDA ratio of 1.61x, vs. 1.01x). Worth mentioning that the company carried out a US\$150 million private debt placement that helped it to strengthen its financial structure, generate more cash flow, set a competitive interest rate, reduce its short-term debt in a significant way and extend its maturity profile. It will use these resources for debt refinancing and expansion of the food business.

On the other hand, BAFAR invested MXN\$1.7 billion. The real estate division acquired land for the construction of three industrial buildings in Ciudad Juárez, and a distribution center in Puebla. The food business remodeled distribution centers and stores, opened of points of sale and renewed its fleets.

Foods

Sales of the food business grew 26.0% (Mexico +23.5%, US +76.2%) supported by a combination of higher prices and an 18.3% increase in volume (Mexico +17.0% and the United States +60.5%). However, EBITDA rose 4.4% due to the impact of raw materials. During the quarter this business acquired the Barron's Superette supermarket in El Paso Texas, with an area of 1,500 M2, opened 5 new stores and remodeled 18 CarneMart stores, opened 33 routes in the Pacific area for the "Bafar" and "Burr" brands, expanded the product offer of the "Campestre", "Burr" and "Parma" brands, integrated the Direction of Digitalization and Projects to support the digitalization process and signed a lease contract lease for a distribution center with Fibra Nova for a period of 10 years.

Fibra Nova

Fibra Nova's GLA expanded 35.1% to 527,704 M2. The Fibra leased the industrial buildings of BWI, Electrolux, Tecma, Black & Decker and Lear and the engineering centers of Visteon. In addition, it incorporated the agro-industrial portfolio. This boosted its revenue by 59.0%. In addition, EBITDA and FFO grew 67.2% and 65.1%, respectively. La Fibra acquired 32 hectares of territorial reserve in Ciudad Juárez and renewed the contracts expiring in 2022 and 2023.

Vextor

Vextor's revenue rose 44.6% while financial margin increased 55%. The NPL ratio was only 3.2%. This subsidiary continues to work on a credit platform for CarneMart customers and on the digitization of payroll credit, which it expects to launch by the end of the current year.

Social Responsibility / ESG

During 2Q22, Fundación Grupo Bafar renewed the collaboration with the Socio-Sports Schools Program of the Real Madrid Foundation. It will open schools in 5 cities. The Foundation also continued to grant pantry packages (250,327 kilos, 1.25 million full meals, 49,786 pantries and 62,271 families benefited), has granted donations through CarneMart stores, signed an agreement with the "Fundación del Empresariado Chihuahuense" to provide balanced food to 100 people a day and carried out the fourteenth edition of the "Famiolimpiada". BAFAR intends to issue its first ESG report under GRI standards during the rest of the year.

(Figures in Millions of MXN\$)	2Q22	2Q22E	Diff.	2Q21	Chg.
Revenues	6,231	6,218	0.2%	4,936	26.2%
Operating Profit	609	660	-7.8%	524	16.1%
<i>Operating Margin</i>	9.8%	10.6%		10.6%	
EBITDA	753	802	-6.2%	649	16.0%
<i>EBITDA Margin</i>	12.1%	12.9%		13.1%	
Financial Gains	-87	3	n.a.	4	n.a.
Financial Cost	-125	-206	-39.6%	-2	n.a.
Net Profit	333	379	-12.3%	477	-30.3%

DISCLAIMER

The current report was prepared by Miranda Global Research ("Miranda GR"). The information is presented in summarized form and is not meant to be complete. There are no declarations or guarantees, expressed or implicit, in respect to the accuracy, impartiality or integrity of the information.

Miranda GR, in accordance to applicable legislation, has made sure that the presented personalized recommendation is reasonable to the client, as it has verified congruency between the client's profile and the profile of the financial product. Under no circumstance should it be understood that the fulfillment of the previously mentioned recommendation, guarantees the result or the success of the proposed strategies in the presented document.

The information included in this report was obtained from public and/or private sources. Projections or previsions included in this report, are a generalized recommendation and are based on subjective assumptions and estimations about events and circumstances that have not yet happened and are subjected to significant variations. Therefore, it is not possible to guarantee that any of the results included in the current report will happen in the future, in other words, it does not guarantee the result or the success of the posed strategies.

This report has been prepared solely with informational purposes. No declarations are made in respects to precision, sufficiency, veracity or accuracy of the information and opinions hereby included. Miranda GR will not answer (either because of negligence or for any other reason) for any damage or detriment derived or related to the use of this report or its content, or any connection to the report. Miranda GR is not responsible for the use or association with this report, including but not limited to, any declaration, expressed or implicit or guarantees or omissions included in this information.

This report is based on facts and/or events that have happened up to this date, consequently any future facts and/or events can impair the conclusions hereby expressed. Miranda GR does not assume any responsibility to update, review, rectify or invalidate this report based on any future occurrence.

The opinions related to this report eventually expressed by Miranda GR, should be considered only as suggestions/recommendations to better operate various topics related to the presentation.

This report and its contents are property of Miranda GR and cannot be reproduced or broadcast in part or in its entirety without the previous written consent of Miranda GR.

Miranda Global Research receives fees from Grupo Bafar, S.A.B. de C.V. for independent analyst services. Companies or Fibras under coverage will have no right or opportunity to exert any influence on opinions, projections, recommendations, and/or target prices expressed hereby by Miranda GR.
