

BAFAR: 3Q22 Results

High sales, EBITDA and net profit growth continued; we expect a margin recovery during the next few quarters

BAFAR B	BUY
Target Price (MXN\$)	\$ 68.00
Current Price (MXN\$)	\$ 43.00
Min / Max (L12M)	\$ 43.00 - 71.20
Expected Dividend (MXN\$)	\$ 0.64
Expected Return	59.6%
Market Cap (MXN\$ Mn)	13,340
Enterprise Value (MXN\$ Mn)	23,871
Outstanding Shares (Mn)	310.2
Float	20.0%
ADTV (MXN\$ Mn)	\$ 0.63

Opinion and on and recommendation

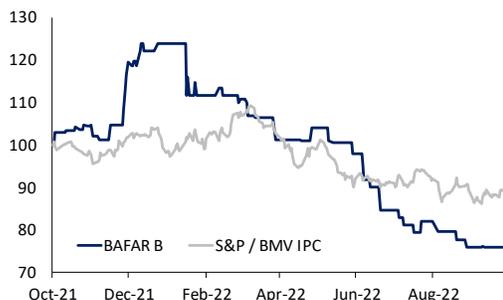
BAFAR reported positive 3Q22 results with a high 22% increase in revenues, mainly driven by a favorable performance in the food business, which benefited from higher volumes and rising prices. Consolidated EBITDA grew 16% despite the impact of raw materials. Net profit rose 61%.

BAFAR mentioned in its conference call that it expects its profitability to improve during the rest of the year and throughout 2023 due to lower raw material costs, which is in line with our expectations. In addition, the company put into operation a natural gas plant in La Piedad that will supply through a gas pipeline.

After having updated our forecast model, we are reiterating our BUY recommendation. We are slightly adjusting our target price to MXN\$68.00/share, from MXN\$71.0/share, due to the impact of higher interest rates on our discounted cash flow model. The valuation of BAFAR's shares seems attractive to us with a forward EV/EBITDA of 8.3x and an estimated P/E of 9.2x.

Revenues

Total revenues increased 22% to MXN\$6.1 billion mainly driven by a favorable performance of the food business, which is the largest, and whose sales rose 22%. It benefited from a combination of higher volume (+14%) and rising prices. Fibra Nova also contributed with a 63% sales growth due to the expansion of its property portfolio, Vextor with 60% due to loan growth and real estate companies with 27%.



Profitability

The cost of sales rose 23% as a consequence of higher raw material costs, which affected the profitability of the food business. Gross margin was 25.9% in 3Q22, down from 26.6% in 3Q21. Consolidated EBITDA grew 16% to MXN\$717 million. The EBITDA margin contracted to 11.7%, from 12.3%, also due to the impact of raw materials. Vextor's financial margin was also lower due to higher interest rates.

Net profit of MXN\$251 million was up 61%, supported by lower FX losses and a favorable operating performance.

Financial structure

The net debt to EBITDA ratio rose marginally to 3.3x in the current quarter, from 3.2x a year earlier, as a result of higher leverage at Fibra Nova (LTV increased to 44%, from 36%) given investments in expanding the portfolio, and in the food business (net debt to EBITDA of 1.72x, vs. 1.07x).

ESG

During 3Q22, BAFAR published its 2021 ESG report, which was prepared under the GRI standards. For its part, the Bafar Foundation supported the Socio-Sports Schools Program, continued to deliver pantries, invested in the development of 5 new community kitchens, donated 6 thousand trees and held golf and dominoes tournament.

(Figures in Millions of MXN\$)	3Q22	3Q22E	Diff.	3Q21	Chg.
Revenues	6,122	6,393	-4.2%	5,027	21.8%
Operating Profit	566	597	-5.2%	490	15.6%
<i>Operating Margin</i>	9.2%	9.3%		9.7%	
EBITDA	717	754	-4.9%	619	15.9%
<i>EBITDA Margin</i>	11.7%	11.6%		12.3%	
Financial Gains	-22	3	n.a.	3	n.a.
Financial Cost	-220	-206	6.8%	-293	n.a.
Net Profit	251	281	-10.7%	155	61.2%

Discounted Cash Flow Model

Figures in MXN\$ Mn)	2023E	2024E	2025E	2026E	2027E	Perp.
OPERATING PROFIT	2,665	3,668	4,332	5,078	5,939	6,239
Tax Rate	20%	21%	23%	26%	30%	30%
Tax Shield	-533	-770	-996	-1,320	-1,782	-1,872
NOPLAT	2,132	2,898	3,336	3,758	4,157	4,367
Depreciation	617	648	680	714	750	788
Working Capital Changes	-488	-646	-627	-696	966	1,015
CAPEX	-2,400	-2,640	-2,987	-3,631	-4,413	-4,636
FCFF	-139	260	402	145	1,460	1,534
Perpetuity Growth Rate						5.1%
PV of Explicit Period (2023 - 2027E)						1,508
Perpetuity Value						50,585
PV of Perpetuity Value						31,709
Enterprise Value						33,218
Net Debt						12,122
Market Value						21,095
Outstanding Shares						310
Target Price						P\$ 68.00
Current Market Price						P\$ 43.00
Potential Return Incl. Dividends						59.2%
Forward EV/EBITDA						10.7x
Forward P/E						14.5x
Average Cost of Debt						4.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						2.8%
Cost of Equity						14.0%
Market Risk Premium						6.0%
Risk-Free Rate						10.0%
Beta						0.67
% Total Debt						52.7%
% Capital						47.3%
WACC						8.1%

Sensitivity Analysis Table, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	2,954	3,118	3,282	3,447	3,611
Target EV/EBITDA					
9.2x	42.44	47.29	52.13	56.97	61.82
9.7x	47.20	52.31	57.42	62.53	67.63
10.2x	51.97	57.34	62.71	68.08	73.45
10.7x	56.73	62.36	68.00	73.64	79.27
11.2x	61.49	67.39	73.29	79.19	85.09
11.7x	66.25	72.42	78.58	84.75	90.91

Sensitivity Analysis Table, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	1,309	1,381	1,454	1,527	1,599
Target P/E					
11.5x	48.55	51.24	53.94	56.64	59.33
12.5x	52.76	55.70	58.63	61.56	64.49
13.5x	56.98	60.15	63.31	66.48	69.65
14.5x	61.20	64.60	68.00	71.40	74.80
15.5x	65.42	69.05	72.69	76.32	79.96
16.5x	69.64	73.51	77.37	81.24	85.11

(Figures in Millions of MXN\$)

INCOME STATEMENT	2021	2022E	2023E	2024E	2025E	2026E	2027E
Revenues	20,697	24,779	28,698	33,058	38,115	43,915	50,592
Cost of Sales	-15,108	-18,340	-21,212	-24,401	-28,096	-32,327	-37,192
Gross Profit	5,589	6,440	7,487	8,657	10,020	11,588	13,401
<i>Gross Margin</i>	<i>27.0%</i>	<i>26.0%</i>	<i>26.1%</i>	<i>26.2%</i>	<i>26.3%</i>	<i>26.4%</i>	<i>26.5%</i>
General Expenses	-3,588	-4,361	-5,109	-5,277	-5,975	-6,798	-7,750
Operating Profit	2,346	2,405	2,665	3,668	4,332	5,078	5,939
<i>Operating Margin</i>	<i>11.3%</i>	<i>9.7%</i>	<i>9.3%</i>	<i>11.1%</i>	<i>11.4%</i>	<i>11.6%</i>	<i>11.7%</i>
Depreciation and Amortization	-509	-588	-617	-648	-680	-714	-750
EBITDA	2,855	2,992	3,282	4,316	5,013	5,793	6,689
<i>EBITDA Margin</i>	<i>13.8%</i>	<i>12.1%</i>	<i>11.4%</i>	<i>13.1%</i>	<i>13.2%</i>	<i>13.2%</i>	<i>13.2%</i>
Financial Gains	35	22	38	44	51	59	68
Financial Cost	-722	-533	-310	-357	-406	-466	-544
Pre-Tax Profit	1,659	1,894	2,394	3,356	3,977	4,671	5,463
Income Tax & Profit Sharing	-201	-297	-479	-705	-915	-1,214	-1,639
<i>Tax & Profit Sharing Rate</i>	<i>12.1%</i>	<i>15.7%</i>	<i>20.0%</i>	<i>21.0%</i>	<i>23.0%</i>	<i>26.0%</i>	<i>30.0%</i>
Net Profit	1,458	1,597	1,915	2,651	3,063	3,457	3,824
BALANCE SHEET	2021	2022E	2023E	2024E	2025E	2026E	2027E
TOTAL ASSETS	23,781	26,393	29,833	33,718	38,008	43,093	49,327
Current Assets	5,960	6,052	6,846	7,832	8,853	10,001	11,487
LT Assets	17,821	20,341	22,987	25,885	29,154	33,091	37,841
TOTAL LIABILITIES	14,243	15,769	17,978	20,085	22,296	25,014	28,615
ST Liabilities	4,609	4,760	4,970	5,077	5,287	6,005	6,606
LT Liabilities	9,635	11,008	13,008	15,008	17,008	19,008	22,008
Total Debt	10,646	13,182	15,253	17,206	19,239	21,753	25,120
Net Debt	9,639	12,122	14,025	15,793	17,609	19,876	22,957
TOTAL CAPITAL	9,538	10,727	11,969	13,759	15,850	18,229	20,875
Stockholder's Equity	7,672	8,705	9,713	11,165	12,862	14,793	16,939
CASH FLOW STATEMENT	2021	2022E	2023E	2024E	2025E	2026E	2027E
PRE-TAX PROFIT	1,458	1,700	2,394	3,356	3,977	4,671	5,463
Inv. Related Activities	1,062	1,095	1,354	1,461	1,581	1,717	1,869
Pre-Tax Cash Flow	2,520	2,196	1,705	2,320	2,678	3,035	3,389
Working Capital Changes	-738	-579	-488	-646	-627	-696	-966
Operating Cash Flow	1,783	1,617	1,217	1,673	2,051	2,338	2,423
Investment Cash Flow	-3,491	-3,191	-2,337	-2,572	-2,912	-3,548	-4,321
Financing Cash Flow	1,900	1,621	1,282	1,078	1,071	1,451	2,177
Net Incr. (Decr.) in Cash & Temp. Inv.	197	50	162	180	210	242	279
Beg. of Period Cash and Temp. Inv.	811	1,008	1,059	1,227	1,414	1,630	1,878
End of Period Cash and Temp. Inv.	1,008	1,059	1,227	1,414	1,630	1,878	2,163

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.
