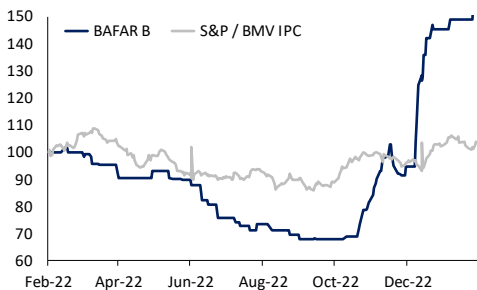


# BAFAR: 4Q22 Results

Favorable results supported by higher prices in the food business and an expansion of the portfolio and new customers in FNova; we reiterated BUY

BAFAR B	BUY
Target Price (MXN\$)	\$ 120.00
Current Price (MXN\$)	\$ 98.00
Min / Max (L12M)	\$ 43.00 - 98.00
Expected Dividend (MXN\$)	\$ 0.68
Expected Return	23.1%
Market Cap (MXN\$ Mn)	30,402
Enterprise Value (MXN\$ Mn)	34,266
Outstanding Shares (Mn)	310.2
Float	20.0%
ADTV (MXN\$ Mn)	\$ 0.55



## Opinion and on and recommendation

BAFAR reported favorable 4Q22 results that were in line with our revenue projections, but exceeded our EBITDA and net profit estimates.

After having updated our forecasting model, we are raising our price target to MXN\$120.0/share from MXN\$110.0/share and reiterating our BUY recommendation.

## Revenues

BAFAR's revenues were up 6% YoY to MXN\$6,665 million. This performance was mainly due to the food business, which benefited from higher prices, and FNova, which continued to expand its portfolio and signed new contracts. Vextor also contributed with a high loan growth and the real estate business with a solid performance.

## Profitability

Consolidated EBITDA grew 10% YoY to MXN\$962 million, mainly as a result of higher profitability in the food business, due to the aforementioned price adjustments and the stabilization of raw materials costs, and in FNova due to the construction revenues it obtained in the period. BAFAR's EBITDA margin improved 50 bps to 14.4%.

Net income was MXN\$1,426 million, up 189% YoY, due to FX gains and taxes in favor, in addition to the solid operating results.

## Financial structure

BAFAR's net debt to EBITDA ratio closed the quarter at 3.4x, unchanged from the previous year. Higher leverage in the food (2.20x vs. 1.38x) and FNova (LTV of 46% vs. 39%) businesses was offset by a reduction in the other divisions.

### Food

Revenues from the food business amounted to MXN\$6,442 million in 4Q22, representing a 5% YoY increase. Such growth took place mainly through price adjustments as total volume declined 1%. The slight volume increase in Mexico was offset by a 64% reduction in the U.S. due to an unfavorable basis of comparison as the company made extraordinary pork sales in the previous year. EBITDA margin improved to 6.8%, from 6.6%, due to stabilization in raw material costs. This division has continued to enhance its digitalization and automation strategy in several of its processes to improve its competencies.

### FNova

FNova had previously reported that its portfolio grew 11% YoY, reaching 550,182 M2 and 1,653 hectares of agro-industrial land. It also closed new contracts with Black & Decker, Tecma, Masterbrand Reynosa and completed the second phase of the BWI and Legget & Platt properties. These factors boosted revenues by 14% and EBITDA by 21%. The Fibra invested MXN\$2.13 billion during the year.

### Vextor Activo

Vextor Activo's revenues advanced 83%, driven by a 15% increase in placements and higher interest rates. In the conference call, BAFAR management mentioned that 90% of the portfolio has a fixed rate and the rest has a variable rate. Despite this strong portfolio growth, the NPL ration decreased to 2.05% due to a stronger segmentation of contracts, while the capitalization rate was 12.35%.

### Agribusiness

The agro-industrial business began selling walnuts in 4Q22 and expects to place the rest of its production during 1Q23. However, revenues decreased 50% and the EBITDA margin was negative. It still expects to reach a production of 3 thousand tons of pecan nut during the next 5 years.

(Figures in Millions of MXN\$)	4Q22	4Q22E	Diff.	4Q21	Chg.
Revenues	6,665	6,620	0.7%	6,307	5.7%
Operating Profit	770	575	33.9%	741	3.8%
Operating Margin	11.5%	8.7%		11.8%	
EBITDA	962	725	32.6%	877	9.7%
EBITDA Margin	14.4%	11.0%		13.9%	
Financial Gains	3	8	-67.7%	26	-89.6%
Financial Cost	239	-429	n.a.	-210	n.a.
Net Profit	1,426	701	103.5%	493	189.3%

## Discounted Cash Flow Model

Figures in MXN\$ Mn)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	3,500	4,060	4,705	5,453	6,290	6,553
Tax Rate	21%	23%	26%	30%	30%	30%
Tax Shield	-735	-934	-1,223	-1,636	-1,887	-1,966
NOPLAT	2,765	3,127	3,481	3,817	4,403	4,587
Depreciation	693	728	764	803	843	878
Working Capital Changes	-482	-475	-423	-686	672	700
CAPEX	-2,604	-2,734	-2,871	-3,014	-3,165	-3,297
FCFF	372	645	952	919	2,752	2,867
Perpetuity Growth Rate						4.2%
PV of Explicit Period (2024 - 2028E)						4,200
Perpetuity Value						74,515
PV of Perpetuity Value						46,900
Enterprise Value						51,100
Net Debt						13,875
Market Value						37,225
Outstanding Shares						310
Target Price						P\$ 120.00
Current Market Price						P\$ 98.00
Potential Return Incl. Dividends						23.1%
Forward EV/EBITDA						12.6x
Forward P/E						20.2x
Average Cost of Debt						4.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						2.8%
Cost of Equity						14.1%
Market Risk Premium						6.0%
Risk-Free Rate						9.4%
Beta						0.79
% Total Debt						54.0%
% Capital						46.0%
WACC						8.0%

**Sensitivity Analysis Table, EV/EBITDA vs. EBITDA**

	-10%	-5%	<i>Original</i>	+5%	+10%
<b>Projected EBITDA</b>	<b>3,774</b>	<b>3,984</b>	<b>4,193</b>	<b>4,403</b>	<b>4,612</b>
<b>Target EV/EBITDA</b>					
11.1x	84.76	92.24	99.72	107.20	114.69
11.6x	90.84	98.66	106.48	114.30	122.12
12.1x	96.92	105.08	113.24	121.40	129.55
<b>12.6x</b>	<b>103.01</b>	<b>111.50</b>	<b>120.00</b>	<b>128.49</b>	<b>136.99</b>
13.1x	109.09	117.92	126.76	135.59	144.42
13.6x	115.17	124.34	133.52	142.69	151.86

**Sensitivity Analysis Table, P/E vs. Net Profit**

	-10%	-5%	<i>Original</i>	+5%	+10%
<b>Projected Net Profit</b>	<b>1,661</b>	<b>1,753</b>	<b>1,845</b>	<b>1,937</b>	<b>2,030</b>
<b>Target P/E</b>					
17.2x	91.94	97.05	102.16	107.26	112.37
18.2x	97.29	102.70	108.10	113.51	118.91
19.2x	102.65	108.35	114.05	119.75	125.46
<b>20.2x</b>	<b>108.00</b>	<b>114.00</b>	<b>120.00</b>	<b>126.00</b>	<b>132.00</b>
21.2x	113.35	119.65	125.95	132.24	138.54
22.2x	118.70	125.30	131.89	138.49	145.08

(Figures in Millions of MXN\$)

<b>INCOME STATEMENT</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
Revenues	24,824	27,899	31,706	35,894	40,642	46,025	52,130
Cost of Sales	-18,566	-20,846	-23,657	-26,746	-30,243	-34,204	-38,688
Gross Profit	6,258	7,053	8,049	9,148	10,398	11,822	13,442
<i>Gross Margin</i>	25.2%	25.3%	25.4%	25.5%	25.6%	25.7%	25.8%
General Expenses	-4,065	-4,752	-5,162	-5,701	-6,307	-6,982	-7,765
Operating Profit	2,600	2,915	3,500	4,060	4,705	5,453	6,290
<i>Operating Margin</i>	10.5%	10.4%	11.0%	11.3%	11.6%	11.8%	12.1%
Depreciation and Amortization	-629	-660	-693	-728	-764	-803	-843
EBITDA	3,229	3,575	4,193	4,788	5,469	6,255	7,133
<i>EBITDA Margin</i>	13.0%	12.8%	13.2%	13.3%	13.5%	13.6%	13.7%
Financial Gains	17	10	11	12	14	16	18
Financial Cost	-228	-758	-870	-937	-1,011	-1,070	-1,133
Pre-Tax Profit	2,389	2,166	2,641	3,136	3,708	4,399	5,175
Income Tax & Profit Sharing	221	-433	-555	-721	-964	-1,320	-1,553
Net Profit	2,610	1,733	2,086	2,415	2,744	3,079	3,623
<b>BALANCE SHEET</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
TOTAL ASSETS	26,261	30,102	33,634	37,346	41,205	45,541	50,147
Current Assets	5,801	6,486	7,277	8,106	8,930	10,070	11,257
LT Assets	20,459	23,617	26,356	29,240	32,275	35,471	38,890
TOTAL LIABILITIES	15,060	17,694	19,613	21,434	23,121	25,002	26,684
ST Liabilities	4,313	3,947	3,866	5,536	5,224	7,104	7,287
LT Liabilities	10,747	13,747	15,747	15,897	17,897	17,897	19,397
Total Debt	11,505	14,672	16,386	17,972	19,394	20,974	22,315
Net Debt	10,816	13,875	15,484	16,951	18,238	19,664	20,831
TOTAL CAPITAL	11,200	12,523	14,147	16,051	18,234	20,702	23,638
Stockholder's Equity	9,291	10,388	11,736	13,315	15,126	17,173	19,608
<b>CASH FLOW STATEMENT</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
Net profit	2,610	2,166	2,641	3,136	3,708	4,399	5,175
Inv. Related Activities	81	874	925	978	1,036	1,098	1,165
Pre-Tax Cash Flow	2,691	1,781	2,213	2,543	2,868	3,196	3,650
Working Capital Changes	-355	-361	-482	-475	-423	-686	-672
Operating Cash Flow	2,336	1,420	1,731	2,067	2,445	2,510	2,978
Investment Cash Flow	-3,333	-3,390	-2,593	-2,722	-2,857	-2,999	-3,147
Financing Cash Flow	672	2,072	959	767	540	635	336
Net Incr. (Decr.) in Cash & Temp. Inv.	-319	102	97	112	128	146	167
Beg. of Period Cash and Temp. Inv.	1,008	689	797	902	1,021	1,157	1,310
End of Period Cash and Temp. Inv.	689	797	902	1,021	1,157	1,310	1,484

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