

BAFAR

We raised our target price to MXN\$110.00/share and reiterate our BUY recommendation due to solid fundamentals and attractive valuation

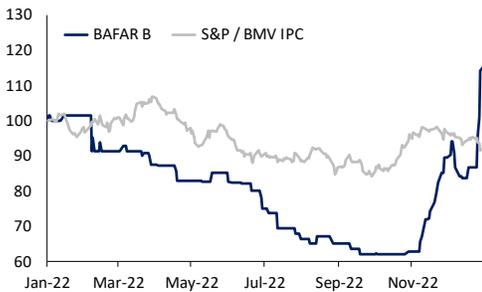
BAFAR B	BUY
Target Price (MXN\$)	\$ 110.00
Current Price (MXN\$)	\$ 86.00
Min / Max (L12M)	\$ 43.00 - 80.06
Expected Dividend (MXN\$)	\$ 0.68
Expected Return	28.7%
Market Cap (MXN\$ Mn)	26,679
Enterprise Value (MXN\$ Mn)	37,211
Outstanding Shares (Mn)	310.2
Float	20.0%
ADTV (MXN\$ Mn)	\$ 1.22

Opinion and recommendation

We are increasing our target price for BAFAR's shares to MXN\$110.0, from MXN\$68.0. This is mainly due to the reduction in interest rates, which has a positive effect on our discounted cash flow model. The potential return is 28.7% against current levels.

The valuation of BAFAR's shares continues to be attractive as they trade at a forward EV/EBITDA of 12.4x and a projected P/E of 18.3x, which are at a discount to their international counterparts.

BAFAR's fundamentals remain very solid as they include a high growth potential (we expect revenues, EBITDA and net profits to rise at an average annual rate of 15%, 17% and 18%, respectively, during the 2023-2028 period), the company's leadership position in various segments of the food business, its well-known brands, broad distribution, vertical integration, and renowned management. In addition, the company owns 74.7% of FNOVA, which has an attractive real estate portfolio, registers high margins, and distributes dividends. The main risk that BAFAR faces at the moment is a macroeconomic slowdown.



Discounted Cash Flow Model

Figures in MXN\$ Mn)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	3,668	4,332	5,078	5,939	6,810	7,191
Tax Rate	21%	23%	26%	30%	30%	30%
Tax Shield	-770	-996	-1,320	-1,782	-2,043	-2,157
NOPLAT	2,898	3,336	3,758	4,157	4,767	5,034
Depreciation	648	680	714	750	788	832
Working Capital Changes	-646	-627	-696	-966	930	982
CAPEX	-2,640	-2,987	-3,631	-4,413	-5,364	-5,664
FCFF	260	402	145	-472	1,120	1,183
Perpetuity Growth Rate						5.6%
PV of Explicit Period (2024 - 2028E)						1,143
Perpetuity Value						71,553
PV of Perpetuity Value						47,006
Enterprise Value						48,149
Net Debt						14,025
Market Value						34,123
Outstanding Shares						310
Target Price						P\$ 110.00
Current Market Price						P\$ 86.00
Potential Return Incl. Dividends						28.7%
Forward EV/EBITDA						11.6x
Forward P/E						17.0x
Average Cost of Debt						4.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						2.8%
Cost of Equity						12.9%
Market Risk Premium						6.0%
Risk-Free Rate						8.9%
Beta						0.67
% Total Debt						56.0%
% Capital						44.0%
WACC						7.3%

Sensitivity Analysis Table, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	3,885	4,100	4,316	4,532	4,748
Target EV/EBITDA					
10.1x	75.12	82.12	89.13	96.13	103.13
10.6x	81.38	88.73	96.08	103.43	110.78
11.1x	87.65	95.34	103.04	110.74	118.43
11.6x	93.91	101.95	110.00	118.04	126.09
12.1x	100.17	108.56	116.95	125.35	133.74
12.6x	106.43	115.17	123.91	132.65	141.39

Sensitivity Analysis Table, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	1,811	1,912	2,012	2,113	2,214
Target P/E					
14.0x	81.48	86.01	90.54	95.06	99.59
15.0x	87.32	92.17	97.02	101.87	106.73
16.0x	93.16	98.33	103.51	108.69	113.86
17.0x	99.00	104.50	110.00	115.50	121.00
18.0x	104.84	110.66	116.48	122.31	128.13
19.0x	110.67	116.82	122.97	129.12	135.27

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