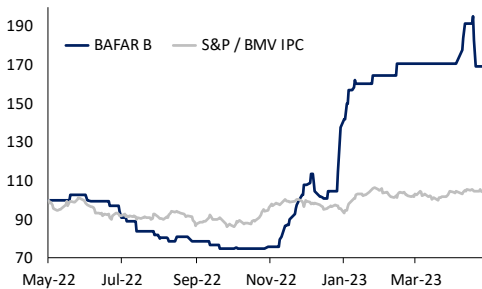


BAFAR: 1Q23 Results

Solid results with higher-than-expected profitability levels due to falling raw material prices; we raised our target price to MXN\$126.0/share

BAFAR B	BUY
Target Price (MXN\$)	\$ 126.00
Current Price (MXN\$)	\$ 97.00
Min / Max (L12M)	\$ 43.00 - 112.00
Expected Dividend (MXN\$)	\$ 0.97
Expected Return	30.9%
Market Cap (MXN\$ Mn)	30,023
Enterprise Value (MXN\$ Mn)	40,107
Outstanding Shares (Mn)	309.5
Float	20.0%
ADTV (MXN\$ Mn)	\$ 0.53



Opinion and on and recommendation

BAFAR reported outstanding 1Q23 results with revenues in line with our expectations and a much higher-than-expected profitability supported by the reduction raw material costs that benefited the food business.

We reiterate our BUY recommendation after these results and we are raising our target price to MXN\$126.0/share, from MXN\$120.0/share. We believe that BAFAR's prospects are favorable due to the solid growth we expect in the food unit as a result of growing demand and also at FNOVA due to the expansion it is carrying out in order to continue benefiting from the nearshoring trend.

Revenues

BAFAR's consolidated revenues reached MXN\$6.1 billion, up 5.4% YoY. They were mainly driven by a 5.3% rise in the food business, 10.6% in FNOVA, 129.6% in Vextor and 8.6% in real estate, which was partially offset by a 24.4% drop in agribusiness. Excluding last year's non-recurring commodity sales, the company's revenues would have increased 14.0%.

Profitability

EBITDA grew 17.8% YoY to MXN\$939.5 million, supported mainly by a higher profitability in food, deriving from lower raw material costs.

Net profits rose 81.0% YoY to nearly MXN\$1.1 billion boosted by significant FX gains thanks to the appreciation of the Mexican peso during the quarter, as well as lower interest payments.

Financial structure

BAFAR's net debt to EBITDA ratio remained stable at 3.0x in 1Q23, from 3.1x in 1Q22 due to the EBITDA growth and the FX appreciation. Worth mentioning that 90% of debt is long-term and 83% is denominated in US dollars.

Food

Revenues advanced 5.3% due to higher prices as volume remained practically stable (Mexico +4.6%, US - 67.5%). Excluding last year's non-recurring commodity sales, revenues would have increased 14.0%. We believe that profitability improved due to the appreciation of the FX rate in combination with lower raw material costs. This business launched the 2023 strategic execution plan that will include digitalization, expansion and internationalization actions. It also carried out the expansion of stores in the center of the country. It obtained SQF recertification for the sausage area of the La Piedad plant and the Chihuahua sausage plant. During the quarter, it invested MXN\$474.2 million mainly in capacity expansion.

FNOVA

FNOVA had previously reported that its revenues had risen 10.6% in local currency and 21.6% in dollars as a result of the leases of the industrial buildings to Black & Decker, Masterbrand Reynosa and the second phase of the BWI and Legget & Platt properties. FFO grew 7.5% in pesos and 18.5% in dollars. Investments amounted to MXN\$631.0 million mainly in the development of industrial properties in Ciudad Juárez and Chihuahua.

Vextor

The financial margin advanced 48% due to a placement of MXN\$952 million in the quarter in conjunction with higher interest rates. The NPL ratio improved to 2.31% at the end of 1Q23, from 3.87% in 1Q22. The capitalization index was 12.82%, above the minimum requirement of 10.5% that the CNBV established for banks.

Agroindustrial

This unit registered a 22.8% increase in walnut volume, which stood at 566 tons. The outlook remains very favorable since it expects to reach a 3 thousand tons volume during the next 5 years.

(Figures in Millions of MXN\$)	1Q23	1Q23E	Diff.	1Q22	Chg.
Revenues	6,118	6,261	-2.3%	5,807	5.4%
Operating Profit	783	646	21.3%	655	19.5%
<i>Operating Margin</i>	12.8%	10.3%		11.3%	
EBITDA	939	795	18.2%	797	17.8%
<i>EBITDA Margin</i>	15.4%	12.7%		13.7%	
Financial Gains	460	369	24.6%	123	273.1%
Financial Cost	-99	-83	19.8%	-122	-18.7%
Net Profit	1,086	746	45.6%	600	81.0%

Discounted Cash Flow Model

Figures in MXN\$ Mn)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	3,998	4,652	5,389	6,239	7,175	7,481
Tax Rate	21%	23%	26%	30%	30%	30%
Tax Shield	-840	-1,070	-1,401	-1,872	-2,153	-2,244
NOPLAT	3,158	3,582	3,988	4,367	5,023	5,237
Depreciation	701	736	773	811	852	888
Working Capital Changes	-301	-385	-473	-415	538	561
CAPEX	-3,404	-3,574	-3,753	-3,941	-4,138	-4,314
FCFF	154	359	535	822	2,275	2,372
Perpetuity Growth Rate						4.3%
PV of Explicit Period (2024 - 2028E)						3,095
Perpetuity Value						75,202
PV of Perpetuity Value						48,969
Enterprise Value						52,063
Net Debt						13,066
Market Value						38,998
Outstanding Shares						310
Target Price						P\$ 126.00
Current Market Price						P\$ 97.00
Potential Return Incl. Dividends						31.1%
Forward EV/EBITDA						11.3x
Forward P/E						14.7x
Average Cost of Debt						5.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						3.5%
Cost of Equity						12.3%
Market Risk Premium						6.0%
Risk-Free Rate						8.8%
Beta						0.59
% Total Debt						55.6%
% Capital						44.4%
WACC						7.4%

Sensitivity Analysis Table, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	4,229	4,464	4,698	4,933	5,168
Target EV/EBITDA					
9.8x	88.37	95.80	103.23	110.66	118.09
10.3x	95.20	103.01	110.82	118.63	126.44
10.8x	102.03	110.22	118.41	126.60	134.79
11.3x	108.86	117.43	126.00	134.57	143.13
11.8x	115.69	124.64	133.59	142.54	151.48
12.3x	122.52	131.85	141.18	150.51	159.83

Sensitivity Analysis Table, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	2,382	2,515	2,647	2,779	2,912
Target P/E					
11.7x	90.31	95.32	100.34	105.36	110.37
12.7x	98.00	103.45	108.89	114.34	119.78
13.7x	105.70	111.57	117.45	123.32	129.19
14.7x	113.40	119.70	126.00	132.30	138.60
15.7x	121.09	127.82	134.55	141.28	148.00
16.7x	128.79	135.95	143.10	150.26	157.41

(Figures in Millions of MXN\$)

INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	24,824	26,888	30,596	34,650	39,225	44,402	50,272
Cost of Sales	-18,566	-19,969	-22,690	-25,662	-29,011	-32,796	-37,081
Gross Profit	6,258	6,919	7,906	8,988	10,214	11,606	13,190
<i>Gross Margin</i>	25.2%	25.7%	25.8%	25.9%	26.0%	26.1%	26.2%
General Expenses	-4,065	-4,157	-4,428	-4,856	-5,345	-5,888	-6,535
Operating Profit	2,600	3,282	3,998	4,652	5,389	6,239	7,175
<i>Operating Margin</i>	10.5%	12.2%	13.1%	13.4%	13.7%	14.1%	14.3%
Depreciation and Amortization	-629	-667	-701	-736	-773	-811	-852
EBITDA	3,229	3,949	4,698	5,388	6,162	7,050	8,027
<i>EBITDA Margin</i>	13.0%	14.7%	15.4%	15.5%	15.7%	15.9%	16.0%
Financial Gains	17	505	68	76	87	98	111
Financial Cost	-228	-580	-715	-755	-839	-905	-979
Pre-Tax Profit	2,389	3,207	3,351	3,974	4,637	5,432	6,308
Income Tax & Profit Sharing	221	-470	-704	-914	-1,206	-1,630	-1,892
Net Profit	2,610	2,737	2,647	3,060	3,431	3,802	4,415
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
TOTAL ASSETS	26,261	29,934	33,204	37,794	42,723	47,866	53,478
Current Assets	5,801	6,776	7,501	8,366	9,381	10,410	11,643
LT Assets	20,459	23,158	25,704	29,428	33,342	37,457	41,835
TOTAL LIABILITIES	15,060	18,286	19,687	22,081	24,523	26,888	29,231
ST Liabilities	4,313	5,813	5,214	7,458	7,900	10,265	11,108
LT Liabilities	10,747	12,473	14,473	14,623	16,623	16,623	18,123
Total Debt	11,505	14,685	15,877	18,035	20,209	22,272	24,273
Net Debt	10,816	13,066	14,043	15,957	17,856	19,608	21,256
TOTAL CAPITAL	11,200	11,750	13,631	15,839	18,339	21,129	24,409
Stockholder's Equity	9,291	9,754	11,316	13,149	15,224	17,540	20,263
CASH FLOW STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Net profit	2,610	3,150	3,351	3,974	4,637	5,432	6,308
Inv. Related Activities	81	-847	-612	-460	-292	-105	104
Pre-Tax Cash Flow	2,691	2,584	3,174	2,540	2,896	3,247	3,741
Working Capital Changes	-355	200	-301	-385	-473	-415	-538
Operating Cash Flow	2,336	2,784	2,873	2,155	2,423	2,831	3,202
Investment Cash Flow	-3,333	-4,396	-3,030	-3,192	-3,360	-3,536	-3,721
Financing Cash Flow	672	2,539	368	1,276	1,209	1,013	867
Net Incr. (Decr.) in Cash & Temp. Inv.	-319	927	211	239	271	307	349
Beg. of Period Cash and Temp. Inv.	1,008	689	1,620	1,835	2,078	2,353	2,664
End of Period Cash and Temp. Inv.	689	1,620	1,835	2,078	2,353	2,664	3,018

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