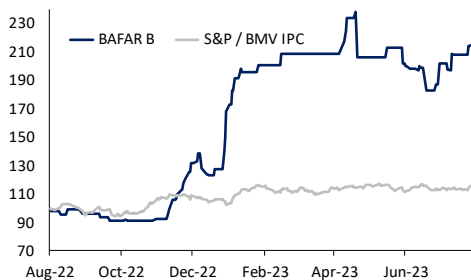


BAFAR: 2Q23 Results

Profitability continued to improve in the quarter; we reiterate BUY with MXN\$126.0/share target price

BAFAR B	BUY
Target Price (MXN\$)	\$ 126.00
Current Price (MXN\$)	\$ 100.00
Min / Max (L12M)	\$ 43.00 - 112.00
Expected Dividend (MXN\$)	\$ 0.97
Expected Return	27.0%
Market Cap (MXN\$ Mn)	31,026
Enterprise Value (MXN\$ Mn)	41,050
Outstanding Shares (Mn)	310.3
Float	20.0%
ADTV (MXN\$ Mn)	\$ 1.00



Opinion and on and recommendation

BAFAR reported positive 2Q23 results that were practically in line with our expectations in terms of revenues and EBITDA and exceeded our net profit projections (excluding the extraordinary item that the company recorded in the quarter). After having updated our model, we are reiterating our BUY recommendation with a MXN\$126.0/share target price.

Revenues

BAFAR's 2Q23 consolidated revenues increased 2.0% YoY to MXN\$6.4 billion. This performance was mainly due to a 1.6% rise in food business revenues, which faced an unfavorable comparison basis due to last year's non-recurring sale of commodity products. Excluding such item, BAFAR's consolidated revenues and those of the food business would have grown around 10.0%. On the other hand, FNOVA had already reported that its revenues rose 4.8% due to the expansion of its portfolio and the signing of new contracts. Vextor experienced a 108.8% improvement supported by the continuous growth of its loan portfolio. Revenues from the real estate division remained stable.

Profitability

Cost of sales decreased 3.3% thanks to the stabilization raw material costs, thus boosting the gross margin to 29.6% in 2Q23, from 25.7% in 2Q22. In addition, the company recognized a MXN\$400 million extraordinary gain on the revaluation of properties. For this reason, the EBITDA was up 70.5% to MXN\$1.28 billion, while the margin expanded more than eight percentage points to 20.2%.

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Excluding this non-recurring item, we estimate that EBITDA would have been MXN\$883 million, up 17.3%. The adjusted EBITDA margin would have reached 13.9%, with an expansion of 180 bps compared to the previous year. Profitability improved in food, FNOVA, and Vextor, and was slightly lower in real estate.

Consolidated net profits rose 310.3% to MXN\$1.37 billion due to the aforementioned extraordinary gain and MXN\$415 million in FX gains. Excluding this non-recurring item, we estimate that net profits would have been 190.1% higher to MXN\$966 million in the quarter.

Financial structure

BAFAR's net debt to EBITDA ratio fell to 2.6x at the end of 2Q23, compared to 3.3x in 2Q22, due to FNOVA's subsequent offering of more than MXN\$2.7 billion and lower leverage in the food business.

Investments

BAFAR invested MXN\$2.2 billion in the first half of the year, which represented 17% of revenues. The main projects included the construction of industrial parks in Ciudad Juárez and Chihuahua in the real estate division; expansion of capacity at the La Piedad plant, remodeling of distribution centers, opening of points of sale, new distribution routes in the traditional channel and renewal of fleets in the food business. Worth mentioning that the company is carrying out digital initiatives (supported by Artificial Intelligence) in the food and financial businesses, which we believe will boost its revenue growth and profitability in the future.

(Figures in Millions of MXN\$)	2Q23	2Q23E	Diff.	2Q22	Chg.
Revenues	6,359	6,638	-4.2%	6,231	2.0%
Operating Profit	1,138	769	48.1%	609	87.0%
<i>Operating Margin</i>	17.9%	12.3%		9.8%	
EBITDA	1,283	920	39.5%	753	70.5%
<i>EBITDA Margin</i>	20.2%	14.6%		12.1%	
Financial Gains	431	14	n.a.	-87	n.a.
Financial Cost	-141	169	-183.3%	-125	n.a.
Net Profit	1,366	750	82.0%	333	310.3%

Discounted Cash Flow Model

Figures in MXN\$ Mn)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	3,782	4,426	5,134	5,947	6,840	7,170
Tax Rate	21%	23%	26%	30%	30%	30%
Tax Shield	-794	-1,018	-1,335	-1,784	-2,052	-2,151
NOPLAT	2,988	3,408	3,799	4,163	4,788	5,019
Depreciation	694	729	765	804	844	885
Working Capital Changes	-385	-391	-524	-537	548	574
CAPEX	-3,404	-3,574	-3,753	-3,941	-4,138	-4,337
FCFF	-107	172	287	489	2,042	2,141
Perpetuity Growth Rate						4.8%
PV of Explicit Period (2024 - 2028E)						2,055
Perpetuity Value						75,354
PV of Perpetuity Value						48,392
Enterprise Value						50,447
Net Debt						11,356
Market Value						39,091
Outstanding Shares						310
Target Price						P\$ 126.00
Current Market Price						P\$ 100.00
Potential Return Incl. Dividends						27.3%
Forward EV/EBITDA						11.6x
Forward P/E						17.1x
Average Cost of Debt						4.2%
LT Tax Rate						30.0%
After-Tax Cost of Debt						2.9%
Cost of Equity						12.4%
Market Risk Premium						6.0%
Risk-Free Rate						8.9%
Beta						0.59
% Total Debt						50.1%
% Capital						49.9%
WACC						7.7%

Sensitivity Analysis Table, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	4,029	4,253	4,476	4,700	4,924
Target EV/EBITDA					
10.1x	89.82	97.09	104.35	111.62	118.89
10.6x	96.31	103.94	111.57	119.19	126.82
11.1x	102.80	110.79	118.78	126.77	134.76
11.6x	109.30	117.65	126.00	134.34	142.69
12.1x	115.79	124.50	133.21	141.92	150.63
12.6x	122.28	131.35	140.42	149.49	158.56

Sensitivity Analysis Table, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	2,060	2,174	2,289	2,403	2,517
Target P/E					
14.1x	93.48	98.67	103.87	109.06	114.25
15.1x	100.12	105.68	111.24	116.80	122.37
16.1x	106.76	112.69	118.62	124.55	130.48
17.1x	113.40	119.70	126.00	132.29	138.59
18.1x	120.03	126.70	133.37	140.04	146.71
19.1x	126.67	133.71	140.75	147.79	154.82

(Figures in Millions of MXN\$)

INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	24,824	26,268	29,949	33,911	38,386	43,454	49,199
Cost of Sales	-18,566	-18,634	-21,215	-23,987	-27,115	-30,651	-34,654
Gross Profit	6,258	7,635	8,734	9,924	11,272	12,803	14,545
<i>Gross Margin</i>	25.2%	29.1%	29.2%	29.3%	29.4%	29.5%	29.6%
General Expenses	-4,065	-4,745	-5,232	-5,778	-6,418	-7,136	-7,985
Operating Profit	2,600	3,560	3,782	4,426	5,134	5,947	6,840
<i>Operating Margin</i>	10.5%	13.6%	12.6%	13.1%	13.4%	13.7%	13.9%
Depreciation and Amortization	-629	-661	-694	-729	-765	-804	-844
EBITDA	3,229	4,221	4,476	5,155	5,899	6,750	7,684
<i>EBITDA Margin</i>	13.0%	16.1%	14.9%	15.2%	15.4%	15.5%	15.6%
Financial Gains	17	880	-231	-218	-235	-217	-218
Financial Cost	-228	-539	-654	-720	-822	-924	-1,024
Pre-Tax Profit	2,389	3,901	2,897	3,487	4,077	4,806	5,597
Income Tax & Profit Sharing	221	-179	-608	-802	-1,060	-1,442	-1,679
Net Profit	2,610	3,722	2,289	2,685	3,017	3,364	3,918
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
TOTAL ASSETS	26,261	28,818	32,127	36,668	41,587	46,782	52,323
Current Assets	5,801	6,765	7,519	8,326	9,320	10,389	11,540
LT Assets	20,459	22,053	24,608	28,342	32,266	36,392	40,783
TOTAL LIABILITIES	15,060	16,247	17,975	20,620	23,383	26,149	28,819
ST Liabilities	4,313	4,300	4,028	6,523	7,286	10,052	11,222
LT Liabilities	10,747	11,947	13,947	14,097	16,097	16,097	17,597
Total Debt	11,505	12,731	14,272	16,707	19,233	21,731	24,098
Net Debt	10,816	11,356	12,715	14,944	17,237	19,471	21,538
TOTAL CAPITAL	11,200	12,673	14,266	16,174	18,342	20,783	23,667
Stockholder's Equity	9,291	9,991	11,247	12,751	14,461	16,385	18,658
CASH FLOW STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Net profit	2,610	3,780	2,897	3,487	4,077	4,806	5,597
Inv. Related Activities	81	277	925	1,059	1,209	1,375	1,560
Pre-Tax Cash Flow	2,691	4,347	2,969	2,349	2,706	3,074	3,558
Working Capital Changes	-355	38	-385	-391	-524	-537	-548
Operating Cash Flow	2,336	4,384	2,584	1,958	2,182	2,538	3,010
Investment Cash Flow	-3,333	-4,345	-3,053	-3,215	-3,385	-3,563	-3,749
Financing Cash Flow	672	641	647	1,459	1,432	1,285	1,034
Net Incr. (Decr.) in Cash & Temp. Inv.	-319	682	178	202	229	260	295
Beg. of Period Cash and Temp. Inv.	1,008	689	1,374	1,557	1,763	1,996	2,260
End of Period Cash and Temp. Inv.	689	1,374	1,557	1,763	1,996	2,260	2,560

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