

BAFAR: 3Q23 Results

Solid results due to the stabilization in the raw material cost; financial structure improved

BAFAR B	BUY
Target Price (MXN\$)	\$ 126.00
Current Price (MXN\$)	\$ 104.00
Min / Max (L12M)	\$ 43.00 - 116.00
Expected Dividend (MXN\$)	\$ 0.97
Expected Return	22.1%
Market Cap (MXN\$ Mn)	32,265
Enterprise Value (MXN\$ Mn)	42,569
Oustanding Shares (Mn)	310.2
Float	20.0%
ADTV (MXN\$ Mn)	\$ 0.35

Opinion and recommendation

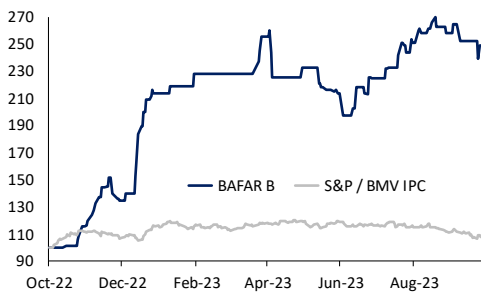
We consider that BAFAR's quarterly results were positive since the company registered solid revenue growth with higher profitability as a result of lower raw material prices.

We reiterate our BUY recommendation with a MXN\$126.0/share target price after having included these results in our model. We believe that BAFAR's prospects are attractive due to higher food demand and the expansion of FNOVA's portfolio.

3Q23 Results

BAFAR's quarterly revenues amounted to MXN\$6.2 billion, up 1.2% YoY. Excluding non-recurring exports of commodity products that the company recorded last year, total revenues would have increased 8.0%. Food revenues rose 1.0% (around 8.0% without extraordinary commodity sales) due to higher volume in Mexico, while Vextor's revenues advanced 117.5% fueled by rising interest rates. This was partially offset by the 41.4% drop in the agribusiness business. Meanwhile, FNOVA's revenue remained stable in local currency terms, but registered a significant increase in US dollars.

BAFAR's EBITDA margin expanded to 13.9% in the current quarter, from 11.7% in the same period of the previous year, supported by the stabilization in raw materials prices, which boosted the profitability of the food business in a significant way. Consolidated EBITDA grew 19.8% YoY to MXN\$859.2 million.



BAFAR's net profits fell 46.2% to MXN\$134.7 million as a consequence of higher-than-expected FX losses, thus offsetting the 5.9% reduction in net interests.

Financial structure

The net debt to EBITDA ratio was 2.5x at the end of 3Q23, compared to 3.3x in 3Q22. The food business reduced its leverage to 1.30x, from 1.72x, while FNOVA benefited from last June's subsequent public offering taking its LTV to 30%, from 44%.

Investments

BAFAR invested nearly MXN\$3 billion during the first nine months of the year, mainly in the real estate division (industrial park in Ciudad Juárez and new industrial park in Chihuahua) and in the food business (new pepperoni line in La Piedad with a capacity of 600 tons per month, openings of points of sale, and digitalization, among others). We believe such large investments will accelerate the company's growth in the future.

(Figures in Millions of MXN\$)	3Q23	3Q23E	Diff.	3Q22	Chg.
Revenues	6,198	6,358	-2.5%	6,122	1.2%
Operating Profit	718	719	-0.1%	566	26.9%
Operating Margin	11.6%	11.3%		9.2%	
EBITDA	859	877	-2.0%	717	19.8%
EBITDA Margin	13.9%	13.8%		11.7%	
Financial Gains	-374	-121	210.1%	-22	1599.2%
Financial Cost	-117	-141	-17.0%	-220	n.a.
Net Profit	135	437	-69.1%	251	-46.2%

Discounted Cash Flow Model

Figures in MXN\$ Mn)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	3,651	4,270	4,933	5,693	6,560	6,966
Tax Rate	21%	23%	26%	30%	30%	30%
Tax Shield	-767	-982	-1,283	-1,708	-1,968	-2,090
NOPLAT	2,884	3,288	3,650	3,985	4,592	4,877
Depreciation	676	710	745	782	822	872
Working Capital Changes	-367	-327	-509	-490	456	484
CAPEX	-3,404	-3,574	-3,753	-3,941	-4,138	-4,394
FCFF	-211	96	134	337	1,732	1,839
Perpetuity Growth Rate						6.2%
PV of Explicit Period (2024 - 2028E)						1,385
Perpetuity Value						78,849
PV of Perpetuity Value						48,254
Enterprise Value						49,640
Net Debt						10,549
Market Value						39,090
<i>Outstanding Shares</i>						310
Target Price						P\$ 126.00
Current Market Price						P\$ 104.00
Potential Return Incl. Dividends						22.1%
Forward EV/EBITDA						11.9x
Forward P/E						17.3x
Average Cost of Debt						4.3%
LT Tax Rate						30.0%
After-Tax Cost of Debt						3.0%
Cost of Equity						13.6%
Market Risk Premium						6.0%
Risk-Free Rate						10.0%
Beta						0.61
% Total Debt						47.9%
% Capital						52.1%
WACC						8.5%

Sensitivity Analysis Table, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	3,894	4,111	4,327	4,543	4,760
Target EV/EBITDA					
10.4x	90.60	97.84	105.08	112.32	119.56
10.9x	96.88	104.47	112.05	119.64	127.23
11.4x	103.16	111.09	119.03	126.96	134.90
11.9x	109.43	117.72	126.00	134.28	142.57
12.4x	115.71	124.34	132.97	141.61	150.24
12.9x	121.98	130.97	139.95	148.93	157.91

Sensitivity Analysis Table, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	2,029	2,142	2,254	2,367	2,480
Target P/E					
14.3x	93.78	98.99	104.20	109.41	114.62
15.3x	100.32	105.89	111.47	117.04	122.61
16.3x	106.86	112.80	118.73	124.67	130.61
17.3x	113.40	119.70	126.00	132.30	138.60
18.3x	119.94	126.60	133.27	139.93	146.59
19.3x	126.48	133.51	140.53	147.56	154.59

(Figures in Millions of MXN\$)

INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	24,824	25,128	27,331	30,931	35,004	39,624	44,861
Cost of Sales	-18,566	-17,685	-19,205	-21,704	-24,527	-27,724	-31,343
Gross Profit	6,258	7,443	8,126	9,227	10,478	11,900	13,518
<i>Gross Margin</i>	25.2%	29.6%	29.7%	29.8%	29.9%	30.0%	30.1%
General Expenses	-4,065	-4,718	-4,764	-5,246	-5,833	-6,496	-7,246
Operating Profit	2,600	3,399	3,651	4,270	4,933	5,693	6,560
<i>Operating Margin</i>	10.5%	13.5%	13.4%	13.8%	14.1%	14.4%	14.6%
Depreciation and Amortization	-629	-644	-676	-710	-745	-782	-822
EBITDA	3,229	4,042	4,327	4,980	5,678	6,475	7,382
<i>EBITDA Margin</i>	13.0%	16.1%	15.8%	16.1%	16.2%	16.3%	16.5%
Financial Gains	17	122	-276	-296	-322	-347	-370
Financial Cost	-228	-478	-522	-602	-688	-780	-880
Pre-Tax Profit	2,389	3,043	2,854	3,372	3,923	4,565	5,310
Income Tax & Profit Sharing	221	-263	-599	-776	-1,020	-1,370	-1,593
Net Profit	2,610	2,780	2,254	2,596	2,903	3,196	3,717
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
TOTAL ASSETS	26,261	28,182	29,780	31,392	33,267	35,211	37,272
Current Assets	5,801	5,822	6,478	7,116	7,976	8,865	9,772
LT Assets	20,459	22,360	23,302	24,277	25,291	26,347	27,499
TOTAL LIABILITIES	15,060	15,925	17,987	20,093	22,489	24,986	27,638
ST Liabilities	4,313	3,837	4,399	5,005	5,401	5,899	6,550
LT Liabilities	10,747	12,088	13,588	15,088	17,088	19,088	21,088
Total Debt	11,305	11,358	13,231	15,136	17,306	19,549	21,913
Net Debt	10,617	10,549	12,310	14,093	16,126	18,213	20,401
TOTAL CAPITAL	11,200	12,359	11,907	11,426	10,916	10,375	9,796
Stockholder's Equity	9,291	9,714	9,359	8,981	8,580	8,155	7,700
CASH FLOW STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Net profit	2,610	2,830	2,854	3,372	3,923	4,565	5,310
Inv. Related Activities	81	796	1,228	1,310	1,398	1,496	1,604
Pre-Tax Cash Flow	2,691	3,730	2,661	2,864	3,076	3,300	3,477
Working Capital Changes	-355	396	-367	-327	-509	-490	-456
Operating Cash Flow	2,336	4,126	2,294	2,537	2,567	2,810	3,021
Investment Cash Flow	-3,333	-4,035	-3,154	-3,320	-3,495	-3,678	-3,870
Financing Cash Flow	672	26	974	905	1,066	1,025	1,026
Net Incr. (Decr.) in Cash & Temp. Inv.	-319	119	114	122	138	157	178
Beg. of Period Cash and Temp. Inv.	1,008	689	809	921	1,043	1,180	1,336
End of Period Cash and Temp. Inv.	689	809	921	1,043	1,180	1,336	1,513

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