

Bachoco®



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Business Summary

Sector	Industry	Full Time Employees	Market Share
Consumer Defensive	Farm Products	34,829	Mexico: 34% (Chicken), : 5% (eggs) USA : 1.7% (Chicken)

Bachoco Industries is leader in the poultry industry in Mexico and one of the ten largest poultry companies in the world. Founded in 1952, with headquarters in Celaya, Gto., Bachoco is vertically integrated; its main lines of business are chicken, eggs, balanced feed, pork, and value-added turkey and beef products. It has more than 1,000 facilities and operations in Mexico and the United States. Their vision is to be the most important multi-protein food company in Mexico and internationally

Recent Developments Relating to Our Business

- **March 17, 2023** Industrias Bachoco S.A.B. de C.V. was informed that a vehicle involving shareholders of the Robinson Bours Family acquired 1.2% of Bachoco's capital stock on the Bolsa Mexicana de Valores, S.A.B. de C.V.
- **March 28, 2023:** Bachoco's Board of Directors, considering various factors, including the results of a tender offer by Edificio del Noroeste, S.A. de C.V. (controlled by the Robinson Bours Family), which now holds over 97% of Bachoco's outstanding shares, decided to initiate the delisting of its ADRs from the NYSE and terminate the ADR program. This move is based on the low trading volume in the United States and the cost-benefit analysis of maintaining the ADR program. Bachoco also intends to deregister and terminate its obligations under the Exchange Act, but this won't affect the listing of Bachoco's shares on the Bolsa Mexicana de Valores or their registration with the Mexican Securities Commission.
- **April 13, 2023:** Bachoco initiated the delisting process by filing Form 25 with the U.S. SEC.
- **Bachoco invested \$4,666.2** in property, plant, and equipment, primarily for organic growth and productivity projects and the integration of RYC alimentos.

Risk Factors

- [International trade policies](#)

International trade policies, including sanctions, import quotas, tariffs, and other measures, can impact product demand, competitiveness, and our ability to sell in certain countries. The adoption of protectionist policies, like increased inspections, higher tariffs, or market entry barriers, in our operating countries could harm our business, financial results, and position. Trade disputes, such as those between the U.S. and Mexico, may also affect our product demand and market competitiveness.

- [Risks Related to Bachoco and the Poultry Industry](#)

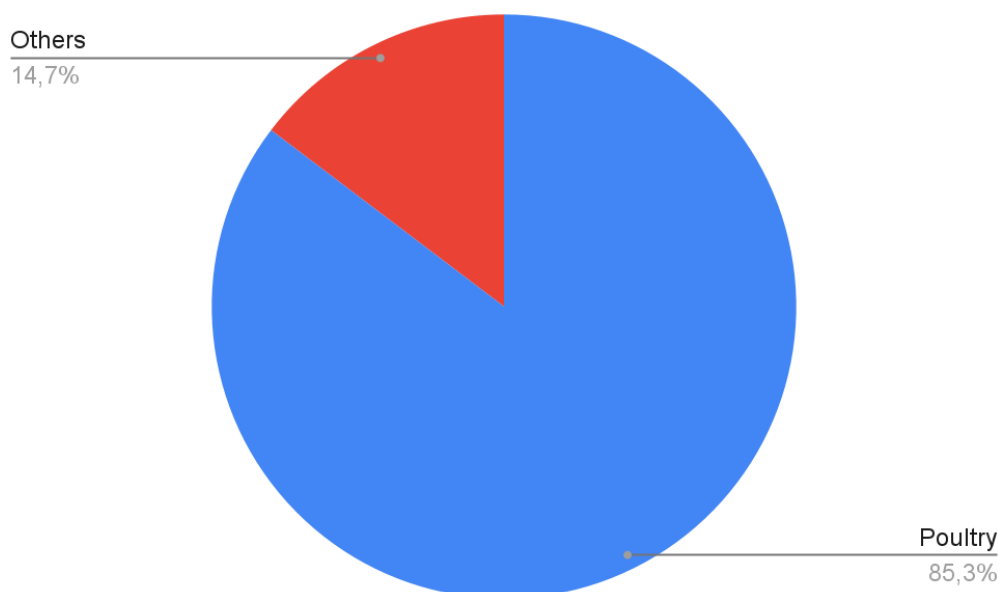
The poultry industry, both in Mexico, the U.S., and other countries, experiences cyclicalities with periods of higher prices and profitability followed by overproduction, resulting in lower prices and profitability. This volatility in supply and raw material prices directly impacts our product pricing. There is no guarantee that future cycles, supply excesses, rising raw material costs, or price downturns won't negatively impact our financial results. Our most significant cost component is grain costs for feed, which includes sorghum, corn, soybean meal, and other ingredients.

- [Risks Related to Investors of the Company](#)

The Robinson Bours Family and their affiliates currently hold over 97% of our outstanding shares, giving them significant control over the election of board members and certain shareholder actions, including dividends. The company is taking steps to end the listing of its ADRs on the NYSE and terminate reporting obligations under U.S. securities laws, which is not expected to affect its listing on the Mexican Stock Exchange.

Selling segments

Sells are divided mainly in two main categories: Poultry (chicken and eggs), and others



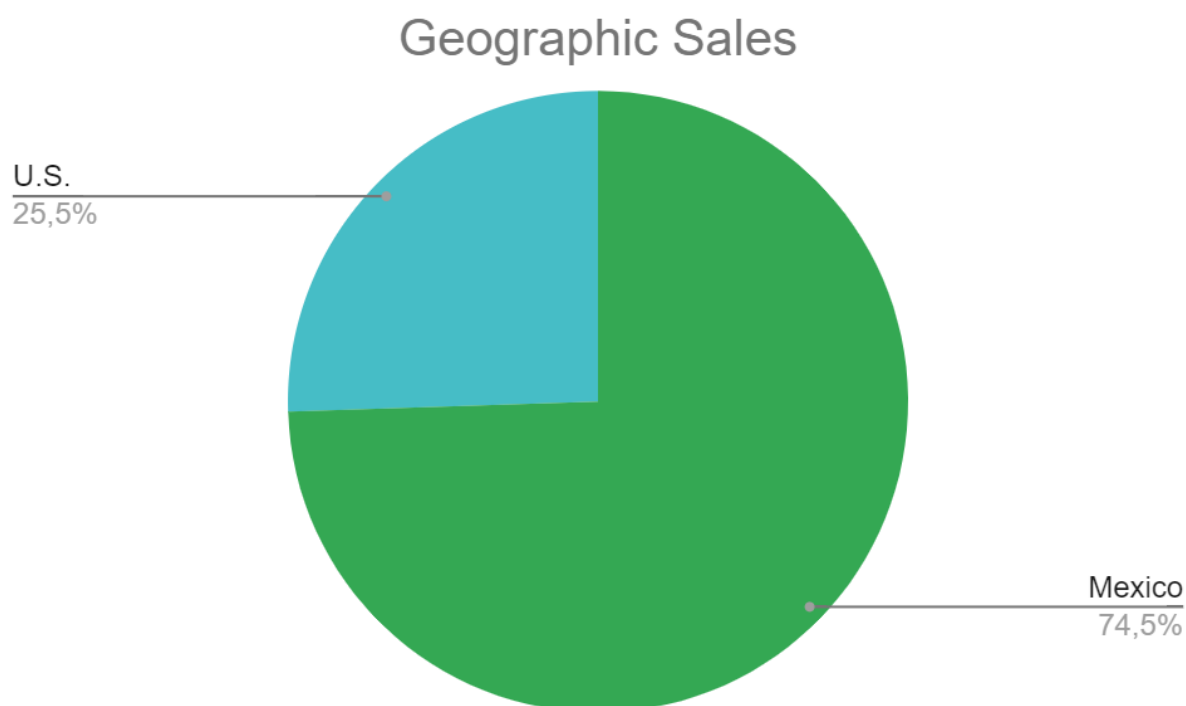
Poultry

Our poultry operating segment is our largest product line in terms of revenue. Within our poultry operating segment, our main product lines are chicken and table eggs. We are the leader in the Mexican poultry industry, and, according to WATTPoultry, one of the largest poultry producers globally. Our production of chicken processes starts with the purchasing of one-day birds called “grandparent” birds. These birds are raised to maturity in our farms where fertile eggs are produced to continue through our production processes.

Others

Revenue including, among others, balanced feed, pet food, pork, beef and value-added products, one day old breeders and chicks, as well as a laboratory that produces vaccines for the poultry industry and other similar industries (which we mainly use for internal purposes, but we also sell some vaccines to third parties).

Geographic segments



U.S

Operations in US are made by OK Foods. This company has operations across the River Valley area in Arkansas and Oklahoma. It supplies grocery retailers, food service distributors and commodity customers throughout the U.S., as well as foreign markets. Our U.S. subsidiary, Bachoco USA, is the holding company of OK Foods

Mexico

Operations are made under the name of Industrias Bachoco.

Stats Summary

Valuation

	TTM	Average 10y
PE	7,15X	10,94X
PB	0,83X	1,25X
PS	0,44X	0,73X
EV/S	0,29X	
EV/EBITDA	2,71X	4,54X
EV/EBIT	3,30X	5,48X
EV/FCF	24,00X	

Growth

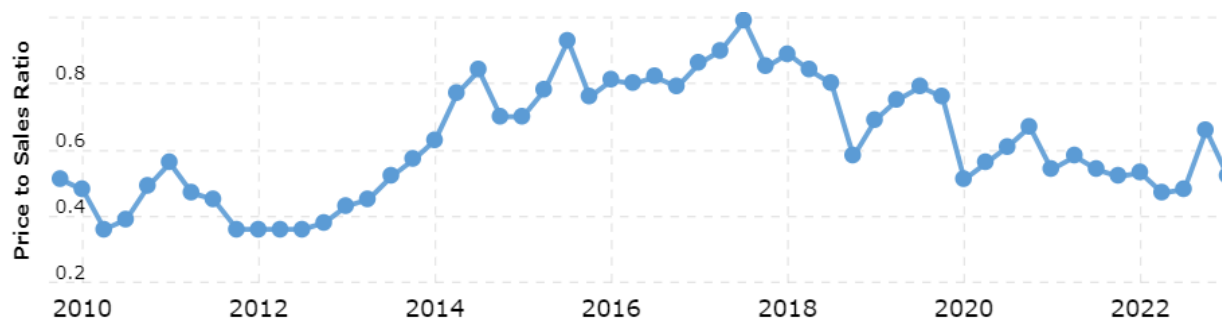
	Growth 10y
Total Revenue	9,65%
Net Income	11,67%
Op Cash fLow	9,94%
Free Cash Flow	0,35%
ROIC	4,34%
Assets	13,10%
Liabilities	15,08%

Financial Strength

	Year
Total Ratio	3,76X
Current Ratio	3,78X
Cash to Debt	4,78X
Debt to Equity	0,08X
F-Score	6/9
Z-Score	4,74
M-Score	-1,85

Profitability

	Percentage
Gross Margin	17,04%
Net Margin	6,12%
FCF Margin	1,17%
ROE	11,34%
ROA	8,34%
ROIC	15,92%
ROIC vs WACC	6,11%



- Valuation

Bachoco is trading at a very low valuation compared to the growth their business have. Everyone of its valuation ratios are trading lower than their 10 years average. Not only bachoco has low ratios compared to their growth, but they are also trading at a lower valuation than the average 10 year valuation that they had.

- Growth

Very organic growth with Operating Cash Flow growing at the same ratio than Total Revenue. Unfortunately Free cash flow does not experience the same growth. This must be due to their increase in PP&E spendings with growth at a higher rate than their operating income.

- Financial Strength

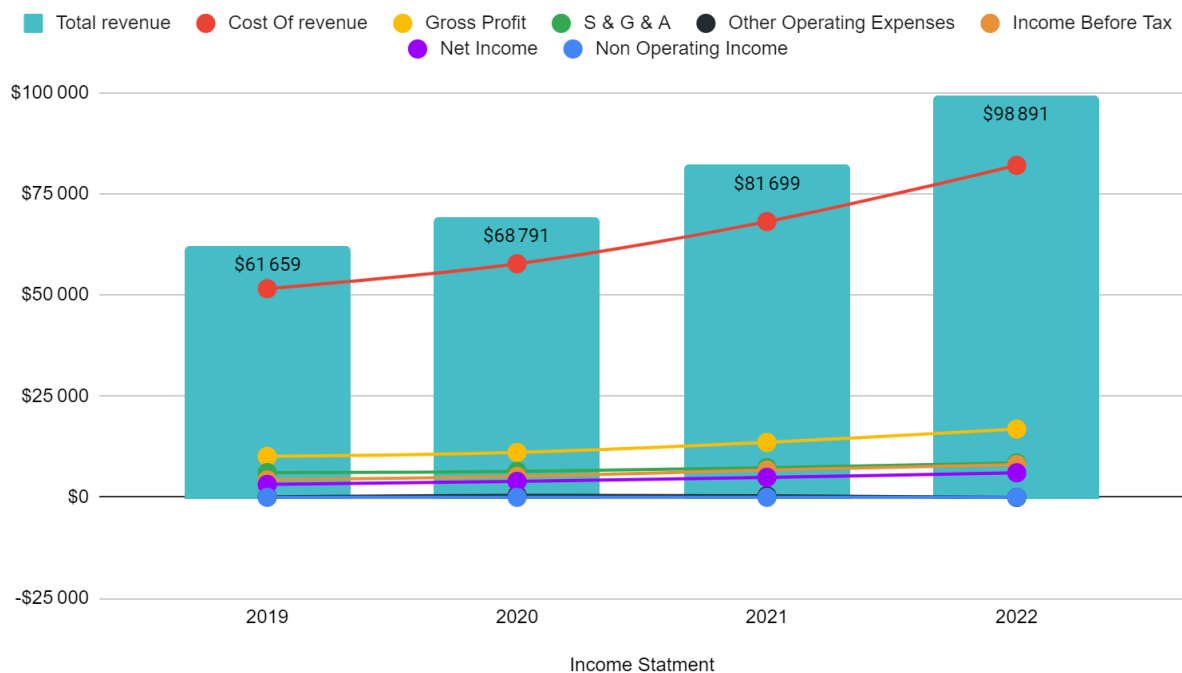
Bachoco has remarkable strong financial strength. Having more cash than total debt, and 3.7+ times total assets than total liabilities, and current assets than current liabilities. This can explain the very high z-score showing a very low probability to go bankrupt based on their financial strength. An Altman Z score indicates a low probability of earnings manipulation.

- Profitability

The margins are low, but this is normal for the industry, the majority of the costs is the food to feed the animals which is subject to volatility. In the other hand Bachoco has shown very good returns in equity, assets, and ROIC. With an impressive ROIC of 15.92% and a WACC of 6.11%, Bachoco has a real ROIC of 9.81% which is very impressive and a strong indication that managers are focused on the future growth of the company.

Financials

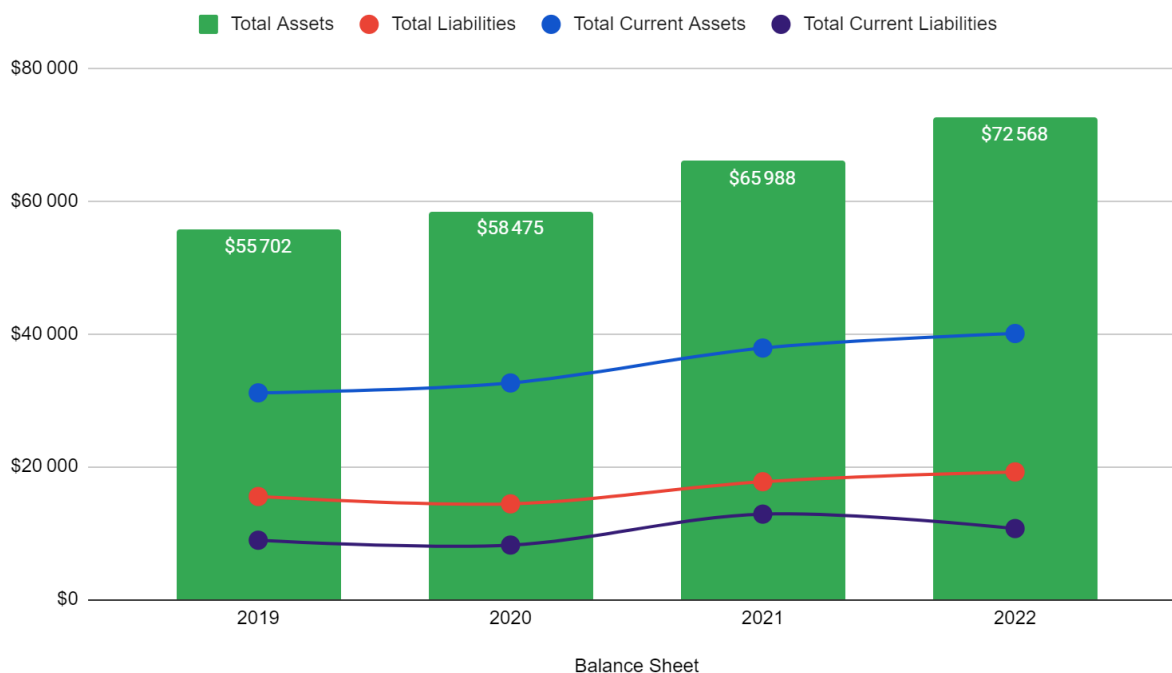
Income Statment



Overall, Bachoco has shown strong revenue growth and maintained profitability. However, they should focus on managing rising expenses, optimizing tax provisions, and achieving more stability in interest income. The company's ability to adapt during the COVID-19 pandemic is a positive sign of resilience.

Date	2019	2020	2021	2022
Total revenue	\$61 659	\$68 791	\$81 699	\$98 891
Cost Of revenue	\$51 558	\$57 712	\$68 148	\$82 038
Gross Profit	\$10 101	\$11 079	\$13 551	\$16 853
S & G & A	\$6 094	\$6 376	\$7 303	\$8 480
Other Operating Expenses	\$83	\$453	\$352	-\$39
Total Operating Expenses	\$6 177	\$6 829	\$7 655	\$8 441
Operating Income	\$3 924	\$4 250	\$5 896	\$8 412
Non Operating Income	\$0	\$0	\$0	\$0
Interest Income	\$363	\$869	\$831	\$0
Interest Expense	\$289	\$213	\$136	\$321
Other Finance Cost	\$38	\$71	\$123	\$0,00
NetInterest Income	\$112	\$727	\$818	-\$321
Other Income Expense	-\$83	-\$439	\$518	\$0
Income Before Tax	\$4 286	\$5 132	\$6 727	\$8 090
Tax Provision	\$1 124	\$1 211	\$1 807	\$2 036
Net Income	\$3 162	\$3 921	\$4 920	\$6 054

Balance Sheets

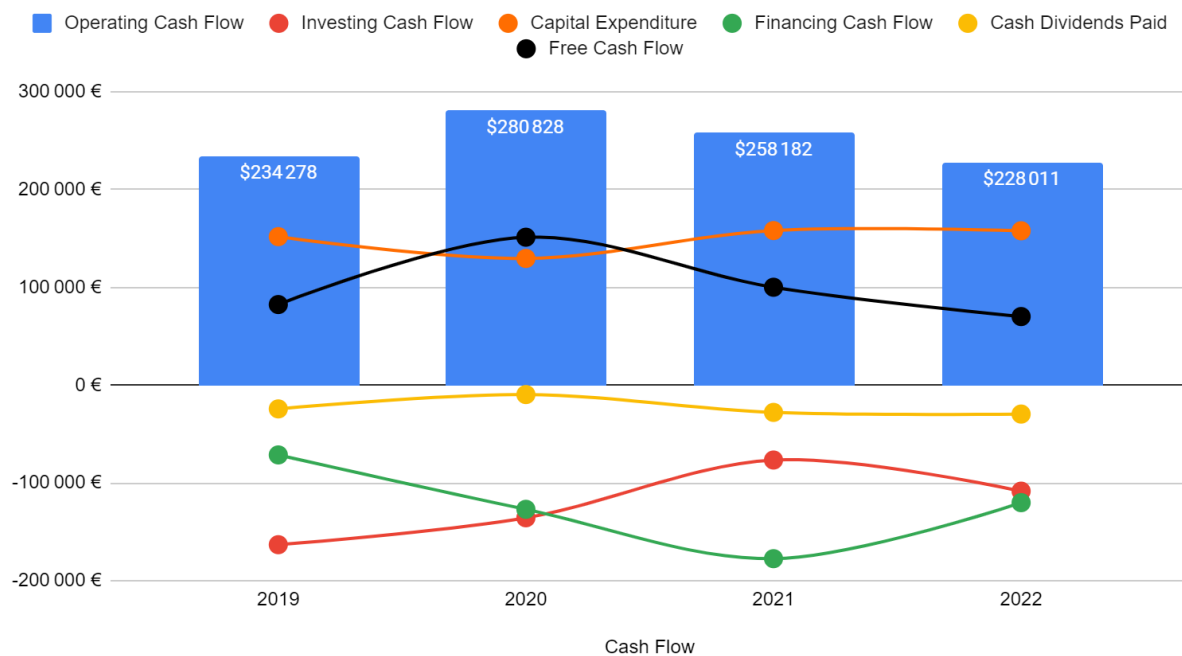


Very strong Balance sheet showing a lot of funds to pay debts and liabilities.

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Date	2019	2020	2021	2022
Total Assets	\$1 531 934	\$1 506 677	\$1 687 387	\$1 618 098
Total Cash	\$67 464	\$90 554	\$156 383	\$124 731
Total Current Assets	\$330 844	\$349 005	\$403 518	\$361 003
Total Liabilities	\$1 305 027	\$1 268 789	\$1 229 743	\$1 180 269
Total Current Liabilities	\$525 400	\$496 092	\$528 148	\$488 876
Total Equity	\$226 907	\$237 888	\$457 644	\$437 829
Net Debt	\$624 254	\$628 383	\$563 949	\$476 889
Shares Issued	\$66 005	\$66 862	\$66 639	\$63 325

Cash Flow Statment

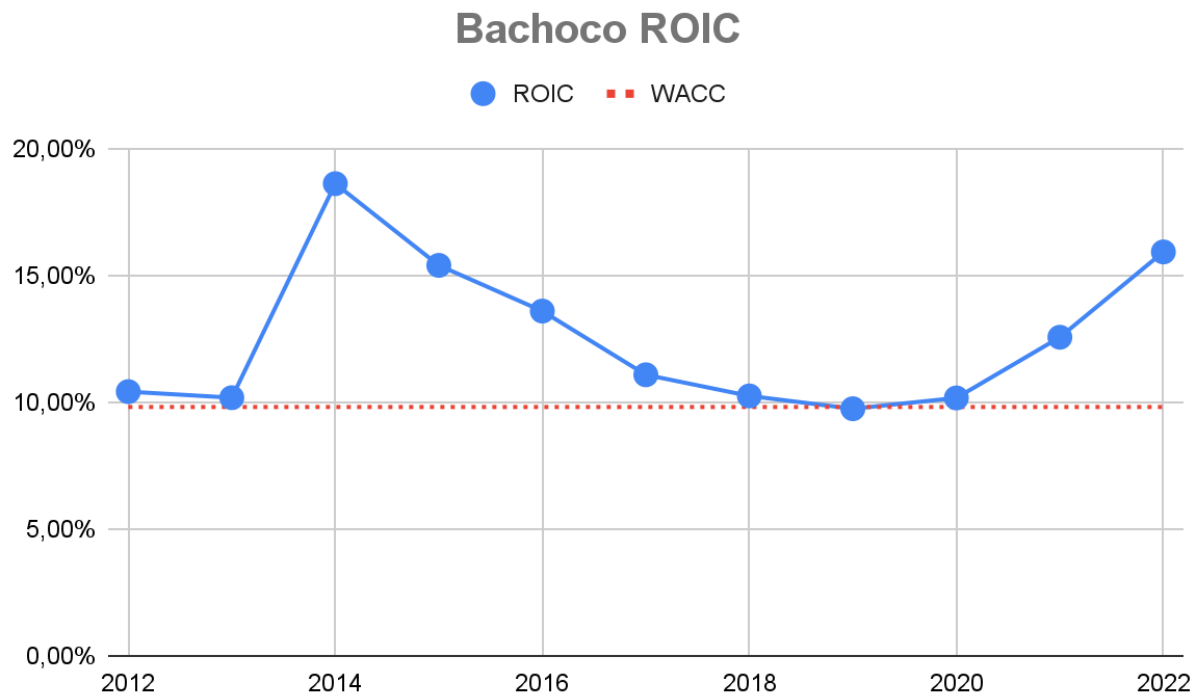


Operating Cash flow has gone down mostly because of change in working capital. Free cash flow does not grow because capital expenditure has increased faster than operating cash flow.

Date	2019	2020	2021	2022
Operating Cash Flow	\$234 278	\$280 828	\$258 182	\$228 011
Investing Cash Flow	-\$163 080	-\$135 557	-\$76 521	-\$108 343
Capital Expenditure	\$151 847	\$129 555	\$158 071	\$157 854
Financing Cash Flow	-\$71 305	-\$126 910	-\$177 366	-\$120 089
Cash Dividends Paid	-\$24 248	-\$9 592	-\$27 829	-\$29 534
Free Cash Flow	\$82 431	\$151 273	\$100 111	\$70 158

ROIC & Growth

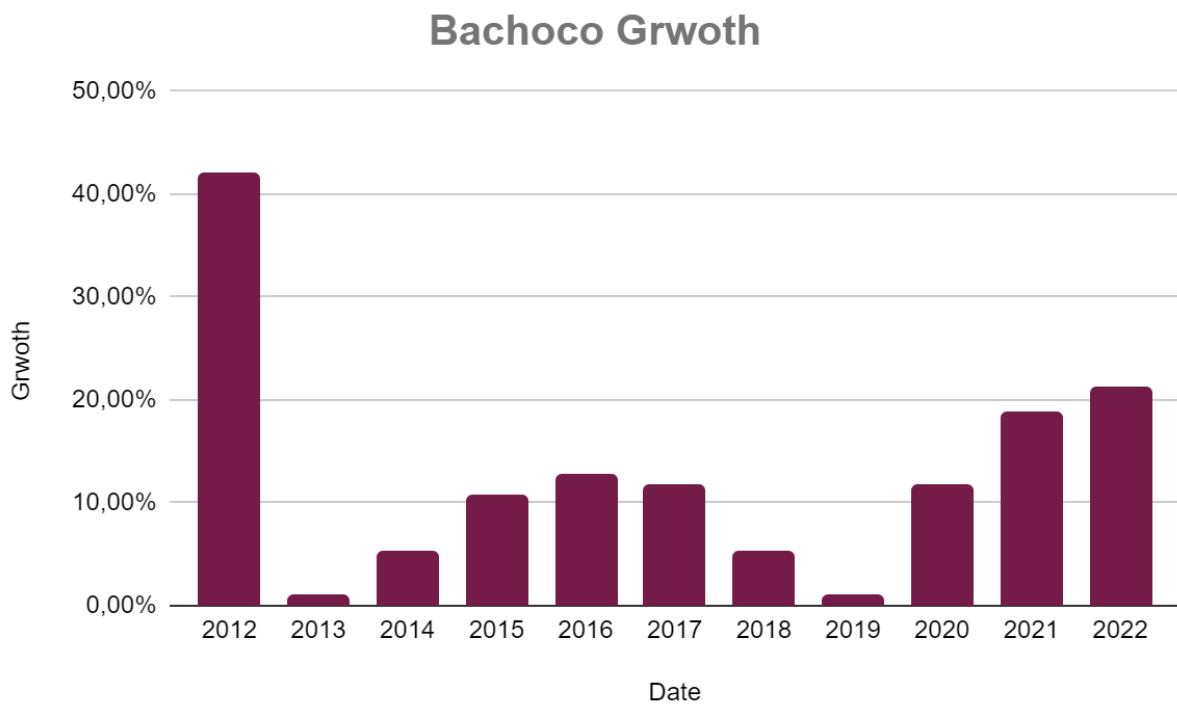
ROIC



- Very strong ROIC, showing strong commitment from the managers to maintain growth in the future. Since 2019 their ROIC has increased at an impressive rate
- ROIC has never been below the WACC, which shows a really strong return, good management of costs to get returns.

Date	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Operating Income		\$2 628	\$3 273	\$5 341	\$5 053	\$4 797	\$5 291	\$3 707	\$3 976	\$4 301	\$5 892	\$8 385
Pretax Income		\$2 793	\$3 392	\$5 588	\$5 500	\$5 594	\$6 038	\$4 516	\$4 357	\$5 183	\$6 741	\$8 084
Tax Expense		\$602	\$1 350	\$1 656	\$1 680	\$1 643	\$1 084	\$1 154	\$1 124	\$1 211	\$1 807	\$2 036
Tax Rate		21,55%	39,80%	29,63%	30,55%	29,37%	17,95%	25,55%	25,80%	23,36%	26,81%	25,19%
NOPAT		\$2 062	\$1 970	\$3 758	\$3 510	\$3 388	\$3 041	\$2 960	\$2 950	\$3 296	\$4 313	\$6 273
Total Assets	\$24 717	\$28 040	\$28 781	\$34 843	\$40 446	\$45 090	\$50 557	\$52 865	\$55 702	\$58 475	\$65 988	\$72 568
Accounts Payable & Accrued Expense	\$2 921	\$3 445	\$3 759	\$798	\$1 631	\$3 097	\$4 740	\$5 196	\$5 158	\$5 753	\$10 015	\$8 886
Cash, Cash Equi..	\$2 625	\$4 179	\$6 716	\$11 968	\$15 290	\$15 659	\$17 250	\$18 458	\$19 182	\$19 242	\$20 776	\$20 080
Current Liab	\$4 452	\$4 730	\$4 370	\$5 655	\$6 642	\$8 316	\$9 229	\$9 084	\$8 908	\$8 179	\$12 835	\$10 667
Current Assets	\$13 808	\$13 658	\$13 457	\$20 851	\$24 721	\$26 930	\$28 225	\$29 774	\$31 097	\$32 586	\$37 845	\$40 033
Invested Capital	\$19 171	\$20 416	\$18 306	\$22 077	\$23 525	\$26 334	\$28 567	\$29 211	\$31 362	\$33 480	\$35 197	\$43 602
Avr Invested Cap		\$19 794	\$19 361	\$20 192	\$22 801	\$24 930	\$27 451	\$28 889	\$30 287	\$32 421	\$34 339	\$39 400
ROIC		10,42%	10,18%	18,61%	15,39%	13,59%	11,08%	10,25%	9,74%	10,17%	12,56%	15,92%

Grwoth

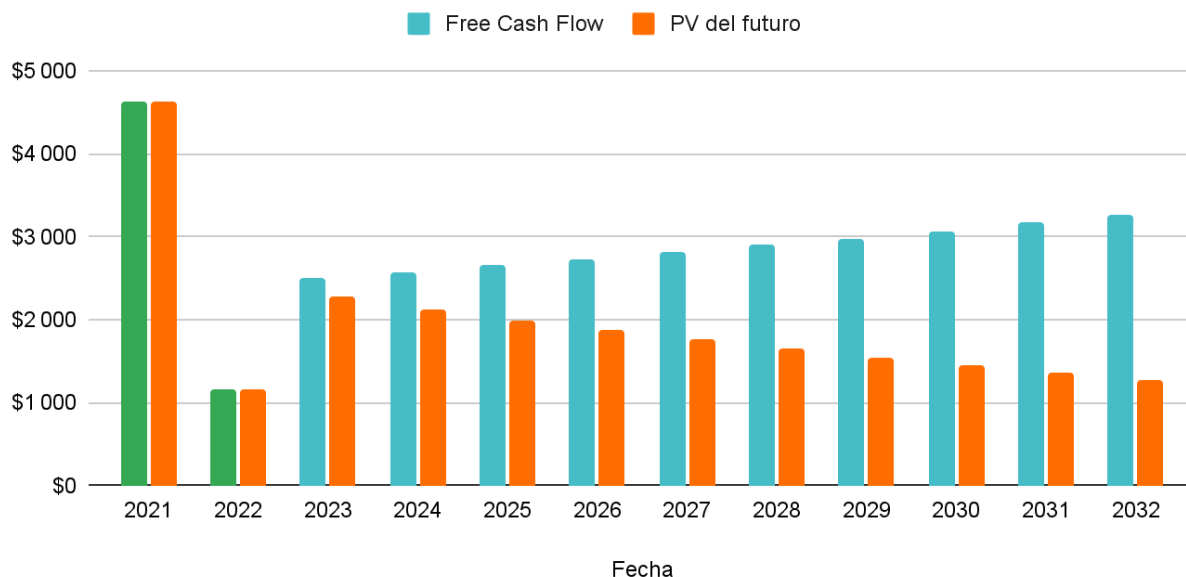


- Since the increase in ROIC, bachoco has shown impresiv organic growth of doble digits since 2020.
- This growth is natural and it is not a manipulation of earnings to seem as a growing company because of their b score, and the strong ROIC that backs up this growth.

Date	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Revenue	\$27 734	\$39 367	\$39 710	\$41 779	\$46 229	\$52 020	\$58 050	\$61 052	\$61 655	\$68 791	\$81 699	\$98 890
Grwoth		41,94%	0,87%	5,21%	10,65%	12,53%	11,59%	5,17%	0,99%	11,57%	18,76%	21,04%

Valuation

DCF



Fecha	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Terimnal V
Free Cash Flow	\$4 626	\$1 158	\$2 500	\$2 575	\$2 652	\$2 732	\$2 814	\$2 898	\$2 985	\$3 075	\$3 167	\$3 262	\$45 170
Factor de descuent	1,0000	1,0000	1,0990	1,2078	1,3274	1,4589	1,6033	1,7621	1,9366	2,1284	2,3391	2,5707	2,8253
PV del futuro	\$4 626	\$1 158	\$2 275	\$2 132	\$1 998	\$1 873	\$1 755	\$1 645	\$1 541	\$1 445	\$1 354	\$1 269	\$15 988
Grwoth Estimated	3,00%												
Perpetual Growth	2,50%												
Required return	9,90%												
Valor Presente	\$33 273												
Acciones	600												
Valor intrinseco P/A	\$52,68												
Valor Actual P/A	\$72,90												
Cambio	-27,73%												

Beta	0,2	Most Recent FC	\$1 158
10 years treas	10,28%	10 y ago FCF	\$1 336
Expected retur	12,00%	FCF CAGR	-1,42%

WACC	9,18%	CAPM	10,62%
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Margen de seguridad:	5%
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Stock currently fair valued based on a projected FCF with 5% growth over 10 years considering that in the past 10 years Bachoco has had an increase with their FCF of 0.35% per year, but Analyst estimate a revenue growth of 3% for the next 5 years. Cash Flows are discounted at a required rate of return of 9.9% an average of the WACC and the CAPM and a 5% margin of safety. Intrinsic value of: **71,62\$** wich would represent a **-27,73%** yield.

Relative Valuation

Multiplo	Industrias Bachoco, S.A.B. de C.V.	JBS S.A.	Archer-Daniels-Midland
PER	7,15X	9,19X	9,88X
PSR	0,44X	0,12X	0,41X
PBR	0,83X	1,01X	1,59X
EV/EBITDA	2,71X	1,21X	
EV/SALES	0,29X	0,07X	

Multiplo	Target Price
PER	\$97,22
PSR	\$43,91
PBR	\$114,18
EV/EBITDA	\$16,27
EV/SALES	\$8,80

Margin Of Safety	5%
Valor intrinseco P/A	\$53,27
Valor Actual P/A	\$72,90
Cambio	-26,93%

We used JBS and Archer Daniels for the relative valuation, we consider them directly competitors. The target value comparing them is **53,27\$** with a margin of safety of 5%, which will represent a yield of **-26,93%**. We did not put the EB/EBITDA and EV/SALES of Archer-Daniels-Midland because it was too high which would lead to false estimations.

Ben Graham Formula

Norm EPS ROE	
Average ROE	9,57%
Equity	\$53 375
Norm NI	\$5 108
Shares Out	600
Nomr EPS	\$8,51

Trailing Net Margin	
NI Margin	6,12%
Total Revenue	\$98 891
Norm NI	\$6 052
Shares Out	600
Nomr EPS	\$10,09

Norm EPS ROIC	
Average ROIC	12,54%
Invested Capital	\$43 602
Norm NI	\$5 468
Shares Out	600
Nomr EPS	\$9,11

Norm EPS Net Margin	
Average NI Margin	5,74%
Invested Capital	\$98 891
Norm NI	\$5 676
Shares Out	600
Nomr EPS	\$9,46

Margin Of Safety	5%
30y AAA Corp Bond Y	5,13%
Average EPS	\$9,29
Growth EPS	3%
Valor intrinseco P/A	\$75,72
Valor Actual P/A	\$72,90
Cambio	3,87%

Benjamin Graham insisted a lot normalized EPS, that is why we

BACHOCO EPS following the average ROE, ROIC and Net Income Margin. Following Ben Graham formula published in the value investor, BACHOCOB is trading at a fair valuation, with a 10% margin of safety. With an intrinsic value of **75,72\$**, which will represent a yield of **+3,87%**.

in the importance of are going to normalize

Summary

Business Summary: Bachoco is a leading poultry company in Mexico and globally, specializing in chicken, eggs, feed, pork, turkey, and beef products. Its vision is to become a significant multi-protein food company in Mexico and worldwide.

Selling Segments: Bachoco generates revenue primarily from Poultry (chicken and eggs) and Others, which includes balanced feed, pet food, vaccines, and more.

Geographic Segments: The company operates in the United States and Mexico, serving various markets.

Risk Factors: Bachoco faces potential risks from international trade policies, cyclical nature of the poultry industry, and significant ownership by the Robinson Bours Family.

Stats Summary: Bachoco trades at a low valuation compared to its growth, showcasing strong financial strength with ample cash reserves. While it has industry-typical low margins, it delivers impressive returns in equity, assets, and ROIC.

Profitability: Despite low margins, Bachoco consistently demonstrates strong returns on equity, assets, and ROIC, indicating efficient cost management and a focus on future growth.

Financials: The company boasts strong financials, with stable total revenue and operating income. Bachoco maintains a robust balance sheet with ample funds to cover debts and liabilities. However, limited free cash flow due to increased capital expenditure is observed.

Valuation: A DCF analysis suggests an intrinsic value of \$71.62 per share, indicating a potential yield of -27.73%. Relative valuation recommends a target price of \$53.27 with a margin of safety of 5%. Applying the Ben Graham Formula to normalize EPS results in a fair valuation of \$15.60 with a 10% margin of safety. The average target price is \$14.11, while the stock is currently trading at \$15.16. Investors should consider industry cyclicity and outlined risks when evaluating Bachoco.

Conclusion:

Bachoco, a leading player in Mexico's poultry industry, exhibits both strengths and potential challenges. The company boasts solid financials, a robust balance sheet, and remarkable financial strength. It consistently delivers returns on equity and assets, with an impressive ROIC that exceeds its cost of capital. However, Bachoco faces risks related to international trade policies, the cyclical nature of the poultry industry, and concentrated ownership. The recent delisting from the NYSE introduces uncertainties in international market accessibility. It could be a worthwhile investment, but it may be a good idea to wait to the calculated intrinsic values range from \$53.27 to \$75.72, suggesting a potential yield between -26.93% and +3.87%.