

Grupo Bimbo

4Q09 Results - Even Sweeter Than Expected - ALERT

- **Bimbo reported a solid 4Q09** after the market closed on Feb 25. Top-line growth came from the US (Weston) and OLA, while Mexico increased profitability to record highs. Consolidated net Sales increased 36% (vs. 38% JPMe); EBITDA increased 56% (JPMe +38%). EPS of Ps1.50 came slightly below our Ps1.55E due to higher than expected effective tax rate and write-off of certain fixed assets. However, EPS still came in 43% higher than last year. The stock should perform well when markets open tomorrow.
- **Mexico margin expansion was a positive surprise.** Top line remains muted with no growth. Gross margins expanded by 470bps due to lower raw material costs and stable FX rate. This was partially offset by higher operating expenses, although still helping EBITDA margin reach a record high level of 23.1% for a quarter. Although a less favorable economic situation and warm weather tempered top-line growth in Mexico, we believe Bimbo has been able to protect margins via slightly higher pricing and superb execution in the marketplace.
- **US operations continue delivering.** Growth was driven by the Weston acquisition last year, and EBITDA margin in the US expanded by 650bps to 11%. Even after taking out 90bps expansion coming from a one-time amortization charge, we believe the result is remarkable.
- **Other Latin America (OLA) top line grew double digits, though margins eroded.** Net sales grew 20%, coming from higher volume growth and reflecting continued penetration of packaged bread in the region. Bimbo bread was sold in +30K new points of sale in the region, with results being particularly strong in Brazil and Colombia. However, higher selling expenses related to increased distribution caused 120bps EBITDA of margin contraction to 6% of sales.
- **Bimbo made good progress to reduce its net debt.** The company prepaid \$300mm last December and ended the quarter with a net debt/EBITDA of only 2x. With strong cash flow generation from its Mexico and US operations, a key question for management would be deployment of capital between dividends and further acquisitions going forward as well as the outlook for top-line growth in Mexico and for continued improved profitability in the US.
- **Bimbo (OW) is our top pick in the food sector,** with strong cash generation, conservative management, and a leadership position in their sector. We will revisit our model after the company's conference call tomorrow.

Overweight

BIMBOA.MX, BIMBOA MM

Price: Ps94.45

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**Grupo Bimbo
4Q09 Conference Call
February 26th @ 930am ET**
US: 1-866-923-3445
Int.: 1-973-935-8893
ID: 50979225

Price Target and Risks:

Our Ps 98 price target (Dec 2010) is based on a target EV/EBITDA multiple of 8.5x.

Key risks are 1) weaker than anticipated demand due to economic conditions, 2) Fx volatility, and 3) higher than expected rise in commodity prices

See page 3 for analyst certification and important disclosures, including non-US analyst disclosures.

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Grupo Bimbo - 4Q09 at a glance

Table 1: Grupo Bimbo - 4Q09 Results - Actual vs. JPM Estimates

In Nominal Ps millions

	4Q09A	4Q09E	Var.	4Q08A	Y-o-y	3Q09A	Q-o-q
Net Sales	30,084	30,781	-2%	22,178	36%	29,338	3%
<i>Mexico</i>	14,311	14,515	-1%	14,371	0%	13,818	4%
<i>United States</i>	12,571	13,234	-5%	5,193	142%	12,717	-1%
<i>Latin America</i>	3,842	3,692	4%	3,211	20%	3,406	13%
COGS	14,004	14,934	-6%	10,997	27%	13,566	3%
Gross Profit	16,080	15,847	1%	11,181	44%	15,772	2%
<i>Mexico</i>	8,275	7,998	3%	7,631	8%	7,778	6%
<i>United States</i>	6,252	6,270	0%	2,252	178%	6,560	-5%
<i>Latin America</i>	1,552	1,510	3%	1,297	20%	1,434	8%
Operating Expenses	12,301	12,270	0%	8,676	42%	12,424	-1%
Operating Profit (EBIT)	3,779	3,577	6%	2,504	51%	3,348	13%
<i>Mexico</i>	2,878	2,408	20%	2,384	21%	2,009	43%
<i>United States</i>	787	972	-19%	80	880%	1,301	-40%
<i>Latin America</i>	43	153	-72%	101	-58%	64	-33%
Income Before Taxes	2,791	2,771	1%	2,036	37%	2,582	8%
Income Taxes	976	879		714		819	
Net Income	1,815	1,892	-4%	1,322	37%	1,763	3%
Net Majority Income	1,759	1,824	-4%	1,274	38%	1,732	2%
Majority EPS	1.50	1.55	-4%	1.08	38%	1.47	2%
EBITDA	5,014	4,455	13%	3,222	56%	4,226	19%
<i>Mexico</i>	3,300	2,821	17%	2,804	18%	2,422	36%
<i>United States</i>	1,407	1,266	11%	244	477%	1,595	-12%
<i>Latin America</i>	236	318	-26%	235	0%	235	0%
Margins							
Gross Margin	53.5%	51.5%		50.4%		53.8%	
EBIT Margin	12.6%	11.6%		11.3%		11.4%	
EBITDA Margin	16.7%	14.5%		14.5%		14.4%	
Net Income Margin	6.0%	6.1%		6.0%		6.0%	

Source: Company reports and J.P. Morgan estimates.

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Grupo Bimbo (BIMBOA.MX) Price Chart



Date	Rating	Share Price (Ps)	Price Target (Ps)
20-Oct-09	OW	79.01	98.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Oct 20, 2009. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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