JBS

Company Note: Twofold Treasure Trove

LatAm Animal Protein

Main takeaways:

(i) Company proposed a dual listing of its shares; **(ii)** Corporate governance should get better; **(iii)** Probable reduction in the cost of capital; **(iv)** Expansion of the investor base; **(v)** Improved visibility of the company may enable a re-rating of the shares; trading now even below EV/EBITDA historical levels (5.1x 24E vs. 5.5x) **(vi)** Cash dividends up to 10% of yield 23E; **(vii)** We reiterate our BUY recommendation.

Analysts

Igor Guedes
+55 (11) 3206-8244
igor.guedes@genial.com.vc

Lucas Bonventi
+55 (11) 3206-8244
lucas.bonventi@genial.com.vc

Renan Rossi
+55 (11) 3206-8244
renan.rossi@genial.com.vc

Company

JBSS3 BZ Equity
Buy

Price: R$ 18,80 (12-July-2023)
Target Price 12M: R$ 30,00

Listing of shares in USA

JBS, in a material fact this Wednesday morning (July 12th) communicated to the market a proposal to carry out a **dual listing of its shares in Brazil and the USA**, aiming to increase its investment capacity and expand investor access to its securities.

Main objectives. By listing abroad, JBS seeks to adapt its corporate structure to the company's global and highly diversified profile, unlock the value of its shares, and enable its growth in order to increase its competitiveness against international peers.

And how will this be done? To carry out the dual listing, they will structure an offshore investment channel called JBS N.V., a company incorporated under Dutch law, given the country's legal stability. In Brazil, JBS N.V. will be registered with CVM as a foreign issuer to list BDRs Level II on B3, backed by Class A Shares. In the U.S., JBS N.V. will be registered with the U.S. Securities Exchange Commission (SEC) as a foreign issuer to list its Class A Shares on the NYSE.

According to the proposal, current investors of the Company will have their shares converted into BDRs, which will be derived from Class A Shares that will be listed in the US. If they do not want this conversion, they will be able to migrate directly to the Class A shares listed on the NYSE. In addition, after the completion of the dual listing process, and for a limited period until the end of 2026, JBS shareholders will be able to request the conversion of up to 55% of their Class A Shares into Class B Shares, of which will have 10x greater voting power, but will not be traded on the stock exchange (i.e. will have very low ADTV).

Cash dividends? The dual listing plan needs to be approved at an Extraordinary General Meeting (EGM), which is yet to be convened. In addition to the approval of this plan, this EGM will also deliberate on a new dividend payment, subject to the approval of the dual listing plan.

Therefore, JBS may distribute to its shareholders on the date of the EGM, about R$2.2bn, equivalent to R$1.00 per share. According to the company's management, the distribution of dividends linked to the Dual Listing was approved due to **(i)** the strategic relevance of the operation and **(ii)** to function as a source of recourse for eventual taxation incurred on certain shareholders. we have updated our assumptions, including this amount that should be distributed as additional dividends. **Dividend yield 23E** would **rise to 10%** in our model if the additional amount is approved.

Our Take on JBS

No big surprises. We already expected that this movement towards listing abroad would eventually occur. Given the progress of the listing process of its bonds abroad, we expected that the listing of shares in the US would eventually also be on the agenda.

The news is positive: the company and its shareholders have a lot to gain. The process of dual listing of JBS shares is very beneficial in several impacts that can unlock its value. Among them, we list the **(i)** improvement in corporate governance, given the subordination to two regulatory bodies, CVM and SEC; **(ii)** expansion of the company's investor base, both institutional and retail, by expanding its direct access to the international stock market, with the hub in the USA; **(iii)** reduction of the cost of capital; **(iv)** greater flexibility to use equity as a source of financing and **(v)** possibility of an eventual re-rating of the company with the improvement of visibility.

It is worth noting that the mentioned re-rating refers to a possible market re-evaluation of JBS's EV/EBITDA multiple. Currently, the company is traded at a considerable discount to its international peers, and even to its subsidiary PPC (Pilgrim's Pride Corporation), in which JBS owns about 80% of the stake.

While we see Company’s shares **trading at 5.1x 24E EBITDA**, with a **reasonable low level then peers**. For instance, PPC trades at 9.3x, Tyson Foods at 11.5x and Hormel Foods at 15.8x. We believe this **existing gap relative** to the current multiple discounts **has the potential to be significantly reduced** with the US listing, and this should contribute to JBS investors value creation.

Twofold Treasure Trove. Our take is that the dual listings, paving the way for **(i)** a repricing of an already discounted Company, that is **trading below the historical average of 5.5x**, combined with **(ii)** the advantages for the capital structure by unlocking access to a much more robust stock market than the Brazilian one, make the news akin to a duplicate treasure. That coupled with our view that the company should show sequential margin improvements in a significant portion of its segments in the coming quarters, keep us very optimistic on the stock.

We reiterate our **BUY rating** with a **12M Target Price** of **R$30.00**. Given the still low multiple, the **upside is at +59,57%**, which is yet a quite elastic figure, despite the upward movement that the market priced today with the twofold treasure trove news.

Appendix: JBS

Figure 1. JBS – Income Statement in R$ Millions (Genial Est. 2023-2028)

Income Statement	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**382.729**	**395.870**	**415.413**	**435.983**	**457.638**	**480.439**
(-) COGS	(332.552)	(334.540)	(350.874)	(366.469)	(379.954)	(397.005)
Gross Profit	**50.176**	**61.330**	**64.539**	**69.514**	**77.683**	**83.434**
(-) Expenses	(25.892)	(31.531)	(35.748)	(39.176)	(45.682)	(48.120)
Adjusted EBITDA	**24.284**	**29.798**	**28.791**	**30.338**	**32.001**	**35.314**
(-) D&A						
EBIT	**13.880**	**19.931**	**20.898**	**23.678**	**29.534**	**32.847**
(+/-) Financial Result						
(-) Taxes	(2.307)	(5.067)	(3.742)	(3.727)	(6.105)	(7.729)
Net income	**4.444**	**9.836**	**7.264**	**7.235**	**11.851**	**15.004**
Profitability						
Net margin (%)	1,16%	2,48%	1,75%	1,66%	2,59%	3,12%

Figure 2. JBS– Cash Flow in R$ Million (Genial Est. 2023-2028)

Cash Flow (FCFF)	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**382.729**	**395.870**	**415.413**	**435.983**	**457.638**	**480.439**
(-) COGS	(332.552)	(334.540)	(350.874)	(366.469)	(379.954)	(397.005)
Adjusted EBITDA	**24.284**	**29.798**	**28.791**	**30.338**	**32.001**	**35.314**
EBIT	**13.880**	**19.931**	**20.898**	**23.678**	**29.534**	**32.847**
(-) Taxes	(2.307)	(5.067)	(3.742)	(3.727)	(6.105)	(7.729)
(+) D&A	10.404	9.867	7.894	6.660	2.467	2.467
(+/-) Δ WK	(839)	(750)	(1.556)	(1.023)	(1.110)	(1.145)
(-) Capex	(9.376)	(9.867)	(7.894)	(6.660)	(2.467)	(2.467)
FCFF	**11.763**	**14.114**	**15.600**	**18.928**	**22.319**	**23.973**

Disclaimer

This report has been produced by the research department ("Genial Institucional Research") of Genial Institucional Corretora de Câmbio, Títulos e Valores Mobiliários S.A. ("Genial Institucional CCTVM"). Genial Institucional is a brand name of Genial Institucional CCTVM.

Genial Rating

	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	**46%**
Neutral	Expected return between +10% and -10% relative to the Company's industry average	**44%**
Sell	Expected return below -10% in relation to the Company's sector average	**5%**
under Review	Under review	**5%**

This report may not be reproduced, retransmitted, displayed or re-published to any other person, in whole or in part, for any purpose, without the prior written consent of Genial Institucional CCTVM, which consent may be sought by contacting the principal analyst, who is going to be responsible for obtaining the Control Room´s approval. Genial Institucional CCTVM accepts no liability whatsoever for the actions of third parties in this respect.

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report is not tailored to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Genial Institucional CCTVM nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion contained in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Genial Institucional CCTVM may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Genial Institucional CCTVM

Investing in any of the non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. Non-US securities mentioned, recommended, offered, or sold by Genial Institucional CCTVM or its affiliates are not insured by the Federal Deposit Insurance Corporation and are subject to investment risks, including the possible loss of the entire principal amount invested. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

ANALYST(S) DISCLOSURES AND CERTIFICATION

The analysts hereby certify that the views expressed in this research report accurately reflect their personal views about the subject securities or issuers and it was prepared in an independent manner, including with respect to the person and to Genial Institucional.

The analyst's compensation is, directly or indirectly, determined by income from Genial Institucional´s business and financial operations.

In addition, the analysts certify that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The compensation of the analyst who prepared this report is determined by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may derive from the business and financial operations revenues of Genial Institucional CCTVM, its affiliates, parent companies and/ or subsidiaries as a whole, of which investment banking, sales and trading are a part. Compensation paid to analysts is the sole responsibility of Genial Institucional CCTVM.

The analysts **Igor Guedes, Lucas Bonventi and Renan Rossi** are the responsible for the content of this report and for meeting the requirements of Securities and Exchange Commission of Brazil (CVM) Instruction 598/2018.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Genial Institucional CCTVM, a company authorized to engage in securities activities in Brazil. Genial Institucional CCTVM is not a registered broker-dealer in the United States (U.S.) and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act.) Genial Institucional CCTVM distributes such reports in the U.S. pursuant to Rule 15a-6 and in this context the chaperoning party (Brasil Plural Securities LLC) and in certain instances such distribution is part (or viewed) as part of a soft dollar arrangement established and maintained by Brasil Plural Securities LLC. Genial Institucional CCTVM does not provide this report (or any research) to U.S. persons pursuant to any express or implied understanding that those U.S. persons will direct commission income to Genial Institucional CCTVM.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Brasil Plural Securities LLC, a registered broker dealer in the United States with an office at 545 Madison Ave., New York, NY 10022, (212) 388-5600. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments directly through Genial Institucional CCTVM.

Brasil Plural Securities LLC accepts responsibility for the content of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Brasil Plural Securities LLC and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

The disclosures contained in research reports produced by Genial Institucional CCTVM and distributed by Brasil Plural Securities LLC in the U.S. shall be governed by and construed in accordance with U.S. law. Additional information relative to the financial instruments discussed in this report is available upon request.