

JBS

2Q23 Preview: Between the bull and the butcher

LatAm Animal Protein

Main takeaways:

(i) We expect a mixed result; (ii) JBS Beef North America and JBS USA Pork should continue with very tight margins; (iii) JBS Australia should surprise positively; (iv) JBS Brasil and Seara should have been negatively impacted by the more unfavorable USD/BRL exchange rate; (v) Chicken oversupply scenario in the global market is about to be normalized; (vi) We remain optimistic about Chinese structural demand for beef; (vii) We reiterate **BUY rating with 12M Target Price of R\$30.00**, which give shares a **upside of +54,24%**.

JBS will report its 2Q23 results on August 14th. We expect a quarter with mixed dynamics. On the **downside**, we believe there will be almost none progress for the JBS Beef North America and JBS USA Pork segments, which are expected to continue with very **tight margins**, facing only a slight improvement, but still remaining below historical levels. As for JBS Brazil and Seara, both business units should feel the effect of the **cooling in the USD/BRL exchange rate**, which will inevitably cause the results to be reported with weaker numbers.

On the **positive side**, we project a **strong performance for JBS Australia**, due to the low cost of cattle in the country, in reverse direction to the situation in the US. In addition, we see as more **favorable dynamics for 2Q23 the progress** related to the **global chicken oversupply scenario**, that had been hurting PPC and Seara margins. We consider that the worst is over on this topic. For the coming quarters, we continue to expect a gradual progress regarding the still tight progression of the US cattle cycle and the better operational delivery of the other units, which we project sequential improvements.

2Q23 Preview

For 2Q23, we project total revenue of R\$91.1bn Genial Est., down -1.2% y/y. We also project an EBITDA of R\$4.0bn Genial Est., showing a sharp decline of -60.9% y/y, equivalent to a compression of -6.8p.p. y/y in EBITDA margin, which should reach 4.4%. For net income, our model points to R\$502mn Genial Est., a decline of -87.3% y/y.

JBS Beef North America: We expect margins to remain tight. While beef prices have increased due to resilient demand in the US, cattle prices have also been on an upward trajectory, contributing to margins remaining compressed, although we may see a small expansion in EBITDA margin of +150bps q/q due to slightly better operating data. We expect the segment to continue delivering an EBITDA margin in the low single digit range over the next few quarters, slowly progressing towards an improvement. We believe that a reestablishment of margins in relation to the historical level of the business unit will only occur from 2Q24 onwards, when we should see a mid-single digit margin again.

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Company

JBSS3 BZ Equity

Buy

Price: R\$ 19.45 (07-Aug-2023)

Target Price 12M: R\$ 30.00

JBS USA Pork: Lower prices added to still high cost. With weaker pork sales prices and still heavy costs, we project an EBITDA margin of 3.2% for 2Q23, which is still far from the historical level presented by the segment (8% to 10%). We observed considerable volatility in grain prices during 2Q23, so we do not expect them to have contributed positively to margins yet.

In the meantime, for the coming quarters, we look ahead to see a sequential advance in margins due to better cutout prices, even though it is difficult for the segment to deliver anything close to historical levels this year. At the end of June, we saw selling prices at the high end starting to rise, so we believe that this would be reflected in a sign of a resumption in the US pork market. We will continue to monitor the dynamics of the U.S. and Chinese markets, which may have a significant impact on global pork dynamics.

JBS Australia: Margins projected to go up. We should see a strong margin expansion in this segment due to the very low cost of Australian cattle (given the high availability). Although we are quite optimistic with this unit for 2H23, we believe that JBS should have already been able to surf this positivity from the cattle cycle in Australia in 2Q23. We are projecting a high single digit EBITDA margin for 2Q23, and we believe it can reach, in 2024, even double digits.

JBS Brazil: Exchange rate are expected to bring almost flat revenue. The segment's revenue is expected to be negatively impacted by lower selling prices in US\$ due to a more unfavorable USD/BRL exchange rate (due to the appreciation of the R\$ in 2Q23). Still, we expect a small revenue growth vs. 1Q23, given that the restriction of exports to China in 1Q23 has affected the sequential comparative basis. For the coming quarters, we project an EBITDA margin close to mid-single digit.

Seara: Corn and soybean declines will be reflected only latter on. As in the JBS Brazil operation, the appreciation of the BRL vs. the USD in 2Q23 should have had a negative impact on the top-line for Seara. Also, we do not expect the drop in corn and soybean prices observed in 1H23 to be fully reflected already in 2Q23, due to hedging and stockpiling dynamics. However, overall, we estimate reasonable results for Seara in 2Q23. Part of the benefit from the 1H23 grain drop has been lower costs from June onwards. In addition, we believe that the global chicken oversupply scenario is in the process of normalizing. Thus, from 3Q23 onwards, we should see better margins for the segment.

PPC: recovery is on its path. Pilgrim's Pride Corporation has already reported its results, delivering numbers that are still modest, but that exceeded consensus estimates and already point to a recovery. The drop in corn and soybeans observed in 1H23 and the normalization of the chicken protein oversupply scenario, which has already started, should enable sequentially better margins in the coming quarters.

Table 1. Income Statement JBS (2Q23 Genial Est.)

(R\$ millions)	2Q23E Genial Est.	1Q23 Reported	% q/q	2Q22 Reported	% y/y
Net Revenue	91.114	86.684	5,1%	92.191	-1,2%
COGS	(81.766)	(79.070)	3,4%	(76.003)	7,6%
Gross Profit	9.348	7.614	22,8%	16.189	-42,3%
Gross Margin (%)	10,3%	8,8%	1,48p.p	17,6%	-7,3p.p
EBITDA	4.047	2.162	87,2%	10.363	-60,9%
EBITDA Margin (%)	4,4%	2,5%	1,95p.p	11,2%	-6,8p.p
Net income	502	-1.453	-134,6%	3.952	-87,3%
Net margin (%)	0,6%	-1,7%	2,23p.p	4,3%	-3,74p.p

Source: JBS, Genial Investimentos

Our Take on JBS

Demand in the US: Resilient, despite inflation. The demand for beef in the US remains resilient, and due to the low availability of cattle in the country, we believe that the US will start importing a higher volume from countries where the cost is lower, such as Brazil (in the case of commodity meat, for processed) and Australia (in the case of premium cuts).

It is worth noting that Mexico has recently opened for beef imports from Brazil. We believe that this reopening of Mexico to Brazil, at a time of very low availability of cattle in the US, may have been a strategic move by the US, given that they have free trade with Mexico. With this, a plausible hypothesis that could materialize is that Mexico imports meat from Brazil and the US imports Mexican meat. We are monitoring this possible move.

Fish segment. Huon (the aquaculture company that JBS acquired in 2021 in Australia) represents around 10% of JBS Australia's current revenue and runs at a high EBITDA margin (~20%). We believe further acquisition opportunities in the aquaculture business could be in JBS's M&A pipeline, given the high profitability of the seafood business.

Chinese demand: slow-paced improvement. We remain optimistic on Chinese structural demand in the long term, especially given the westernization of Chinese consumption trends. Looking further ahead, even though we are optimistic about Chinese beef demand, we believe it should be reflected in higher volumes, but not in higher prices. It is also worth noting that, seasonally, 3Qs are usually stronger in terms of Chinese demand, due to the supply of inventories for the Lunar New Year festivities. In Q4s, demand is usually stronger in October and November, and weaker in December.

Dual listing: Coming on the way. Regarding the dual listing of shares in Brazil and the US, we expect the process to be finalized by the end of the year, and we see December as a feasible month for the completion of the dual listing. However, we emphasize that the completion of this procedure still needs to be approved at a shareholders' meeting

Demand for beef in the Brazilian domestic market without much upside. The demand for beef in the Brazilian domestic market has remained flat compared to 2022, and we expect it to remain at this pace, without much upside. With the oversupply of chicken, we have seen a drop in prices, which has contributed to higher demand for chicken. We believe that this oversupply scenario should normalize in the coming months, given the shorter timeframe of the chicken cycle. We therefore remain optimistic about Seara's processed line.

Between the bull and the butcher. We believe that, as observed over the past few years, JBS's geographic diversification should help maintain its margin stability, even in the face of a still unfavorable cattle cycle in the US. In addition, we expect all of the company's ex-JBS Beef North America segments to eventually show sequential improvement in the coming quarters. We also see the company trading at **5.1x EV/EBITDA 24E, below the historical average of 5.5x**, and continue to see a high upside from the current share prices. Therefore, we reiterate our **BUY rating** with **12M Target Price of R\$30.00**.

Appendix: JBS

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

Income Statement	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	382.923	396.157	415.713	436.296	457.965	480.782
(-) COGS	(334.374)	(335.780)	(352.220)	(367.873)	(381.392)	(398.507)
Gross Profit	48.549	60.376	63.493	68.423	76.573	82.274
(-) Expenses	(24.479)	(31.555)	(35.740)	(39.168)	(45.674)	(48.112)
Adjusted EBITDA	24.071	28.822	27.752	29.256	30.899	34.163
(-) D&A	(10.404)	(9.867)	(7.894)	(6.660)	(2.467)	(2.467)
EBIT	13.666	18.955	19.859	22.595	28.432	31.696
(+/-) Financial Result	(6.666)	(5.028)	(9.891)	(12.715)	(11.577)	(10.114)
(-) Taxes	(2.392)	(4.735)	(3.389)	(3.359)	(5.731)	(7.338)
Net income	4.609	9.192	6.578	6.521	11.124	14.244
Profitability						
Net margin (%)	1,20%	2,32%	1,58%	1,49%	2,43%	2,96%

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

Cash Flow (FCFF)	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	382.923	396.157	415.713	436.296	457.965	480.782
(-) COGS	(334.374)	(335.780)	(352.220)	(367.873)	(381.392)	(398.507)
Adjusted EBITDA	24.071	28.822	27.752	29.256	30.899	34.163
EBIT	13.666	18.955	19.859	22.595	28.432	31.696
(-) Taxes	(2.392)	(4.735)	(3.389)	(3.359)	(5.731)	(7.338)
(+) D&A	10.404	9.867	7.894	6.660	2.467	2.467
(+/-) Δ WK	(834)	(755)	(1.556)	(1.023)	(1.110)	(1.145)
(-) Capex	(9.376)	(9.867)	(7.894)	(6.660)	(2.467)	(2.467)
FCFF	11.469	13.464	14.914	18.213	21.592	23.213

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under Review	Under review	5%

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