

# MINERVA

## 2Q23 Review: Riding financial cattle cycles

LatAm Animal Protein

### Main takeaways:

(i) Revenue growth on a quarterly basis given better volumes and prices (+14% y/y), clocking in at R\$7.3bn (-3,7% vs. Genial Est.); (ii) Brazil and Paraguay were the main positive highlights; (iii) Colombia the biggest negative highlight; (iv) Strong EBITDA margin and above what we expected (+0.7p.p. vs. Genial Est.); (v) We believe the company should surf opportunities coming from the current scenario of the US marked by a very negative cycle.; (v) We are optimistic about Chinese structural demand for beef in the coming years; (vi); We continue to list Minerva as our **top pick** in **Animal Protein**, and reiterate our **BUY rating** with **12M Target Price of R\$17.00**, giving the shares a **+36,76% upside**.

Minerva delivered a good quarter results, with top line slightly below our expectations, but with **EBITDA margin above our projections**, which in turn were already above what the market expected. On a quarterly basis, there was a **small volume growth** (+12.1% q/q in the foreign market and +4.1% y/y in the domestic market), and **better prices in the foreign market** (+12.2% q/q). Margins also expanded, both y/y and q/q, favored by the **positive cattle cycle in Brazil and Paraguay**.

Following this quarter's strong performance, we remain optimistic on the company's shares due to (i) growing Chinese demand; (ii) positive cattle cycle in Brazil and Paraguay; (iii) Uruguay cycle already showing signs of improvement and (iv) the opportunity for Minerva to benefit from the negative cycle in the US by exporting a larger volume to the country. Therefore, we continue with our **BUY rating** for the company's shares, and we continue to list Minerva as our top pick in the meatpacking sector.

### 2Q23 Review

Minerva net revenue clocked in at R\$7.3bn (-14.1% y/y and -3.7% vs. Genial Est.), with EBITDA of R\$711mn (-8.7% y/y and +3.2% vs. Genial Est.). Thus, the company achieved an EBITDA margin of 9.8% (+0.6p.p. y/y and +0.7p.p. vs. Genial Est.), reflecting lower costs mainly due to the positive cattle cycles in Brazil and Paraguay. Net income amounted to R\$121mn (-77.6% y/y and -44.4% vs. Genial Est.), impacted by the negative result of R\$146mn from the currency hedge.

**Positive points.** The main positive highlights of 2Q23 were (i) the resumption of Chinese demand, after the end of restrictions imposed in 1Q23 due to the atypical case of mad cow disease detected in Brazil, enabled better volumes (+12.1% q/q in the foreign market); (ii) positive cattle cycle in Brazil and Paraguay, favored EBITDA margin expansion (+1.4% q/q and +0.6% y/y); (iii) Uruguay with reasonable performance, but already pointing to an improvement given the approach of a cycle inflection point (currently negative), with costs heading for a turnaround (which we expect to occur at the end of 1H24).

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### Company

#### BEEF3 BZ Equity

Buy

Price: R\$ 10.75 (09-Aug-2023)

Target Price 12M: R\$ 17.00

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**Negative points.** On the negative side, we saw **(i)** volumes remaining weak in Argentina, due to the country's economic and political volatility and **(ii)** weak results from operations in Colombia, where the market is still incipient, dependent on Russian demand (impacted by the conflict with Ukraine), and whose government is volatile.

**Cash dividends.** The company approved the payment of R\$114mn in dividends, or R\$0.19 per share, equivalent to a dividend yield of 1.7%. The payment of the proceeds will be made on August 23, 2023, and the shares will be traded "ex-dividend" from August 15, 2023, inclusive. Our **23E dividend yield** projection is **9,2%**.

**Chinese structural demand.** We are optimistic about Chinese demand for beef in the coming years, guided by factors such as **(i)** the westernization of protein demand in China; **(ii)** the expansion of the Chinese middle class and **(iii)** per capita beef consumption in China is still well below the world average (ample room for growth).

Although we do not expect the Chinese government to stimulate the meatpacking sector in any specific way, our assessment is that interest rate cuts in 2H23 will help to stimulate the Chinese economy as a whole, because inflation data in China are still at low levels.

**Bearish scenario in the US may benefit the company.** We also believe that Minerva can benefit from the current US scenario, currently guided by a **(i)** negative cattle cycle and **(ii)** resilient beef demand. Given these factors, we believe that the US should import an increasing volume of beef from countries where costs are lower, such as Brazil.

Thus, the company should benefit from **(i)** exporting a higher volume of commodity (processed) beef from Brazil to the US and **(ii)** exporting premium cuts from Uruguay to the US market. We see a relevant upside in case of Paraguay gets the authorization to export to the US. The only step missing is an approval in public consultation in the US, given that Paraguay has already been approved for exports from a sanitary point of view. We see this approval with reasonable chances of being fulfilled in 2H23. We also see that this could be positive news for Colombia, as the country could start serving clients in Chile that would no longer be served by Paraguayan production.

**Table 1. Income Statement Minerva (2Q23 vs. Genial Est.)**

(R\$ millions)	2Q23			1Q23		2Q22	
	Reported	Genial Est.	% R/E	Reported	% q/q	Reported	% y/y
<b>Net Revenue</b>	<b>7.277</b>	<b>7.556</b>	<b>-3,7%</b>	<b>6.381</b>	<b>14,0%</b>	<b>8.472</b>	<b>-14,1%</b>
COGS	(5.764)	(6.110)	-5,7%	(5.227)	10,3%	(6.954)	-17,1%
<b>Gross Profit</b>	<b>1.512</b>	<b>1.446</b>	<b>4,6%</b>	<b>1.154</b>	<b>31,1%</b>	<b>1.518</b>	<b>-0,4%</b>
Gross Margin (%)	20,8%	19,1%	1,65p.p	18,1%	2,7p.p	17,9%	2,87p.p
<b>EBITDA</b>	<b>711</b>	<b>689</b>	<b>3,2%</b>	<b>532</b>	<b>33,6%</b>	<b>778</b>	<b>-8,6%</b>
EBITDA Margin (%)	9,8%	9,1%	0,65p.p	8,3%	1,43p.p	9,2%	0,59p.p
<b>EBIT</b>	<b>571</b>	<b>590</b>	<b>-3,2%</b>	<b>401</b>	<b>42,4%</b>	<b>704</b>	<b>-18,9%</b>
EBIT Margin (%)	7,8%	7,8%	0,04p.p	6,3%	1,57p.p	8,3%	-0,46p.p
D&A	140	99	41,2%	131	6,7%	74	88,9%
<b>Net Income</b>	<b>121</b>	<b>217</b>	<b>-44,4%</b>	<b>114</b>	<b>5,9%</b>	<b>538</b>	<b>-77,6%</b>
Net Margin (%)	1,7%	2,9%	-1,21p.p	1,8%	-0,13p.p	6,4%	-4,69p.p

Source: Minerva, Genial Investimentos

## Our Take on Minerva

**Looking ahead.** Going forward, we project revenue growth to come mainly from better volumes. This is because we expect Chinese demand over the coming quarters to imply stronger volumes, but not necessarily higher prices. We also assume a payout of at least 50%, which should reflect a **dividend yield of 9.8% for 2024**, according to our projections. The company's main positive highlights should continue to come from Brazil and Paraguay. But we have also been eyeing the Uruguayan operation as the country's cattle cycle approaches an inflection point.

**Riding Financial Cattle Cycles.** Minerva's operations should be positively impacted in the coming years with the **(i)** positive cattle cycle in Brazil and Paraguay; **(ii)** cattle cycle approaching an inflection point in Uruguay; **(iii)** a growing Chinese structural demand and **(iv)** a higher volume of exports to the US market. Due to the points listed, we remain bullish about the company's shares and reiterate our **BUY rating** with a **12M Target Price of R\$17.00**. In addition, we continue to rate the company as our **top pick** for **Animal Protein**.

## Appendix: Minerva

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

Income Statement	2023E	2024E	2025E	2026E	2027E	2028E
<b>Net Revenue</b>	<b>30.462</b>	<b>32.850</b>	<b>35.466</b>	<b>33.603</b>	<b>35.630</b>	<b>38.484</b>
(-) COGS	(24.717)	(26.201)	(28.572)	(27.751)	(29.250)	(31.019)
<b>Gross Profit</b>	<b>5.745</b>	<b>6.649</b>	<b>6.894</b>	<b>5.852</b>	<b>6.380</b>	<b>7.465</b>
(-) Expenses	(2.956)	(3.358)	(3.633)	(3.270)	(3.491)	(3.809)
<b>Adjusted EBITDA</b>	<b>2.788</b>	<b>3.291</b>	<b>3.261</b>	<b>2.582</b>	<b>2.889</b>	<b>3.656</b>
(-) D&A	(434)	(432)	(459)	(472)	(477)	(477)
<b>EBIT</b>	<b>2.354</b>	<b>2.859</b>	<b>2.802</b>	<b>2.109</b>	<b>2.412</b>	<b>3.179</b>
(+/-) Financial Result	(1.140)	(1.083)	(1.042)	(1.039)	(1.035)	(1.031)
(-) Taxes	(376)	(604)	(598)	(364)	(468)	(730)
<b>Net income</b>	<b>839</b>	<b>1.172</b>	<b>1.161</b>	<b>707</b>	<b>909</b>	<b>1.418</b>
<b>Profitability</b>						
Net margin (%)	2,75%	3,57%	3,27%	2,10%	2,55%	3,68%

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

Cash Flow (FCFF)	2023E	2024E	2025E	2026E	2027E	2028E
<b>Net Revenue</b>	<b>30.462</b>	<b>32.850</b>	<b>35.466</b>	<b>33.603</b>	<b>35.630</b>	<b>38.484</b>
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(-) Taxes	(376)	(604)	(598)	(364)	(468)	(730)
(+) D&A	434	432	459	472	477	477
(+/-) Δ WK	(136)	(108)	(46)	123	(57)	(119)
(-) Capex	(978)	(863)	(688)	(567)	(477)	(477)
<b>FCFF</b>	<b>1.299</b>	<b>1.716</b>	<b>1.929</b>	<b>1.774</b>	<b>1.886</b>	<b>2.330</b>

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	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	49%
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under Review	Under review	5%

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