

# MARFRIG

## 2Q23 Preview: Feathers ruffled, cows stirred

LatAm Animal Protein

### Main takeaways:

(i) We expect a weak result; (ii) Negative cattle cycle should continue to pressure margins in the North America segment; (iii) South America in a scenario with an opposite trend to North America, should present a gradual expansion of margins in 2Q23 and 2H23; (iv) Leverage should rise to 4.0x Net Debt/EBITDA, a level that we consider high; (v) We reiterate a **NEUTRAL rating** with a **12M Target Price of R\$10.00**, giving the shares an **upside of +24,07%**.

Marfrig will report its 2Q23 results on August 14<sup>th</sup>. We expect a **weakened performance** from Marfrig in this quarter, mainly due to tight margins in the **North America** segment, which continues to suffer from the **unfavorable cattle cycle** and, consequently, high costs. For the **South America** segment, we see a different scenario, much more optimistic, given the **favorable cattle cycle**, mainly in Brazil but also already improving in Uruguay. Finally, for BRF, we expect a slight margin recovery, but with the result, in general, anemic.

We highlight that precisely the business units that do not have positive short-term dynamics are the ones that contribute the most to consolidated revenue. North America and BRF are responsible for ~80% combined, while South America accounts for only ~20%. In addition, we believe that Marfrig should present an even higher level of leverage in 2Q23, something that concerns us.

### 2Q23 Preview

In relation to the company's ex-BRF performance, we estimate total revenues of R\$20.3bn Genial Est., a -6.0% y/y decline. We also project an EBITDA of R\$1.2bn Genial Est., down -50.5% y/y, equivalent to a -5.5p.p. y/y compression in margin, which should reach 6.2%. For net income, we project R\$89mn Genial Est., down -81.4% y/y.

### North America: Weakened demand tries to find support, but costs remain high.

We believe that (i) a partially resilient appetite in the region's domestic market in 2Q23 should help curb further revenue loss. Conversely, Inflationary pressures in the US still add a challenge to beef consumption growth. We are projecting a -1.9% y/y decline in the business division's net revenue to R\$14.2bn Genial Est. We believe in (ii) an improvement in cutout prices and (iii) a pickup in demand from the foreign market, especially from countries that were weak points in 1Q23, such as Japan and South Korea.

### Analysts

#### Igor Guedes

+55 (11) 3206-8248  
igor.guedes@genial.com.br

#### Lucas Bonventi

+55 (11) 3206-8246  
lucas.bonventi@genial.com.br

#### Renan Rossi

+55 (11) 3206-8245  
renan.rossi@genial.com.br

### Company

#### MRFG3 BZ Equity

Neutral

Price: R\$ 8.06 (07-Aug-2023)

Target Price 12M: R\$ 10.00

Given the factors mentioned, we expect to see healthy volumes, which should contribute to a sequential improvement in net revenue. However, for cost dynamics, the cattle cycle in the region remains very tight, due to the value of the animal still being quite spare, putting pressure on the operation's margins. Thus, we project only a slight sequential margin improvement compared to 1Q23. Going forward, we project a 3Q23 performing better than 2Q23 and a weak 4Q23 (seasonally already usually the worst). In 2024, we expect the cattle cycle to remain with negative outlook in the US, which could lead to a further -50bps y/y compression in EBITDA margin.

**South America: Lower costs, slightly shrinking revenues.** In this geography, we see a reverse scenario, with: **(i)** a gradual improvement in the segment's margins (+150bps y/y expansion); **(ii)** a slightly sharper revenue drop of -14.8% y/y to R\$6.1bn Genial Est. **(iii)** Brazil being the main positive highlight of 2Q23, with a trend that should continue for 2H23, given the favorability of the cycle and the recovery of Chinese demand for exports; **(iv)** Performance in Uruguay improving, also driven by Chinese demand, and in this case, European, with the cattle cycle close to a reversal.

We expect 2H23 to be considerably stronger for the South American unit than the first half of the year, both in terms of revenue and margin. However, we note that while we project an increase in the average selling price of beef in 2H23, it will still remain below that seen in 2022.

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

(R\$ millions)	2Q23E	1Q23		2Q22	
	Genial Est.	Reported	% q/q	Reported	% y/y
<b>Net Revenue</b>	<b>20.262</b>	<b>18.636</b>	<b>8,7%</b>	<b>21.547</b>	<b>-6,0%</b>
COGS	(18.279)	(16.990)	7,6%	(18.198)	0,4%
<b>Gross Profit</b>	<b>1.983</b>	<b>1.646</b>	<b>20,5%</b>	<b>3.349</b>	<b>-40,8%</b>
Gross Margin (%)	9,8%	8,8%	0,95p.p	15,5%	-5,76p.p
<b>EBITDA</b>	<b>1.250</b>	<b>935</b>	<b>33,7%</b>	<b>2.523</b>	<b>-50,5%</b>
EBITDA Margin (%)	6,2%	5,0%	1,15p.p	11,7%	-5,54p.p
<b>Net Income</b>	<b>89</b>	<b>390</b>	<b>-77,2%</b>	<b>478</b>	<b>-81,4%</b>
Net Margin (%)	0,4%	2,1%	-1,65p.p	2,2%	-1,78p.p

Source: Marfrig, Genial Investimentos

## Our Take on Marfrig

**Leverage as a point of attention.** While we believe the company will generate cash in 2Q23, EBITDA will experience a decline. Thus, we project Marfrig's leverage to end the quarter at ~4.0x Net Debt/EBITDA UDM, a level we consider worrisome and will continue to monitor with caution.

**BRF no longer a margin detractor to Marfrig.** We do not expect strong results or big positive surprises for BRF. But, according to our calculations, BRF's EBITDA margin within Marfrig's consolidated result should be close to 7.0% Genial Est. in 2Q23, which is close to the 6.2% Genial Est. margin of BRF's Ex. consolidated. This is justified more by an operational worsening in Marfrig's segments, especially in North America, than by an improvement in BRF. We also see the recent follow-on process, with a capital injection of R\$5.4bn (from Marfrig and the Arab fund Salic) as positive, given that BRF has been suffering from high leverage for some time.

Our assessment is that BRF should wait until follow-on to be completed to renegotiate the sale of its non-core assets, a procedure that is part of the company's deleveraging plan. By the end of 2023, we expect that the sale of the petfood division's assets, its main non-core, could have been completed.

**A pickup in demand in China should translate into improved results further down the road.** Although we have seen Chinese beef demand from March onwards lower than we expected, we continue to estimate a gradual improvement for the coming quarters, and we believe that with the yuan (¥) appreciating against the USD, as well as new government packages to stimulate the economy, beef demand should be boosted.

We are already seeing a normalization of average export prices to China, and we expect better dynamics in 2H23 than in 1H23, as well as a higher volume of beef exports to the Chinese market. This is important given that China remains the main driver of Marfrig's export growth (although the company has made efforts to diversify its exports to Indonesia, Malaysia, Canada and Mexico). It is worth noting that, in 2H23, due to the inventory recomposition for the Chinese New Year, Chinese structural demand is usually historically higher. In China, for cultural reasons of the structuring of oriental society, beef ends up being more consumed in celebrations and as a foodservice product (and therefore less consumed at home).

**Feathers ruffled, cows stirred.** In the coming quarters, the company should continue to face headwinds such as (i) a negative cattle cycle in North America; (ii) operational difficulties at BRF and (iii) a high level of leverage, which should remain in the range of **3.5x to 4.0x Net Debt/EBITDA UDM** over the next few quarters. This set of factors keeps us very cautious with the company's thesis, and although the upside against the current price is not low, we see almost none short-term triggers that enable the appreciation of the papers. Thus, we reiterate our **NEUTRAL Rating** with a **12M Target Price of R\$10.00**.

## Appendix: Marfrig

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

Income Statement	2023E	2024E	2025E	2026E	2027E	2028E
<b>Net Revenue</b>	<b>142.751</b>	<b>151.353</b>	<b>163.058</b>	<b>175.688</b>	<b>189.318</b>	<b>204.028</b>
(-) COGS	(125.217)	(130.321)	(140.351)	(149.062)	(159.933)	(171.621)
<b>Gross Profit</b>	<b>17.534</b>	<b>21.032</b>	<b>22.707</b>	<b>26.626</b>	<b>29.385</b>	<b>32.407</b>
(-) Expenses	(8.095)	(8.892)	(9.380)	(9.870)	(10.453)	(11.556)
<b>Adjusted EBITDA</b>	<b>9.439</b>	<b>12.140</b>	<b>13.327</b>	<b>16.756</b>	<b>18.932</b>	<b>20.851</b>
(-) D&A	(4.742)	(3.746)	(3.746)	(3.746)	(3.746)	(3.746)
<b>EBIT</b>	<b>4.697</b>	<b>8.394</b>	<b>9.581</b>	<b>13.011</b>	<b>15.186</b>	<b>17.105</b>
(+/-) Financial Result	(7.656)	(9.809)	(9.640)	(9.640)	(9.640)	(9.640)
(-) Taxes	357	171	7	(406)	(669)	(900)
<b>Net income</b>	<b>(2.602)</b>	<b>(1.244)</b>	<b>(52)</b>	<b>2.964</b>	<b>4.877</b>	<b>6.565</b>
<b>Profitability</b>						
Net margin (%)	-1,82%	-0,82%	-0,03%	1,69%	2,58%	3,22%

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

Cash Flow (FCFF)	2023E	2024E	2025E	2026E	2027E	2028E
<b>Net Revenue</b>	<b>142.751</b>	<b>151.353</b>	<b>163.058</b>	<b>175.688</b>	<b>189.318</b>	<b>204.028</b>
(-) COGS	(125.217)	(130.321)	(140.351)	(149.062)	(159.933)	(171.621)
<b>Adjusted EBITDA</b>	<b>9.439</b>	<b>12.140</b>	<b>13.327</b>	<b>16.756</b>	<b>18.932</b>	<b>20.851</b>
<b>EBIT</b>	<b>4.697</b>	<b>8.394</b>	<b>9.581</b>	<b>13.011</b>	<b>15.186</b>	<b>17.105</b>
(-) Taxes	357	171	7	(406)	(669)	(900)
(+) D&A	4.742	3.746	3.746	3.746	3.746	3.746
(+/-) Δ WK	3.439	17	214	127	196	217
(-) Capex	(1.091)	(3.746)	(3.746)	(3.746)	(3.746)	(3.746)
<b>FCFF</b>	<b>12.144</b>	<b>8.581</b>	<b>9.802</b>	<b>12.731</b>	<b>14.714</b>	<b>16.422</b>

## Disclosure Section

### 1. GENERAL 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 INSTITUTIONAL CCTVM”). Genial Institucional is a brand name of Genial Investimentos CCTVM.

#### Genial Rating

	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	49%
Neutral	Expected return between +10% and -10% relative to the Company's industry average	41%
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 or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of GENIAL INSTITUTIONAL CCTVM. GENIAL INSTITUTIONAL 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 has no regard 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 INSTITUTIONAL 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 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 INSTITUTIONAL 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 INSTITUTIONAL CCTVM.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. 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.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by GENIAL INSTITUTIONAL CCTVM with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

The locally listed shares of Brazilian companies may only be purchased by investors outside of Brazil who are “eligible investors” within the meaning of applicable laws and regulations.

## 2. ANALYST(S) DISCLOSURES AND CERTIFICATION

The principal analyst, IGOR GUEDES, is responsible for the content of this report and for meeting the requirements of Securities and Exchange Commission of Brazil (CVM) Instruction 598/2018.

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 INSTITUTIONAL.

The analyst hereby certifies that he (she) has no connection with any individual who works for the issuer(s) discussed in this report.

The analyst hereby certifies that he (she), or his (her) spouse or companion, either directly or indirectly, in his or her own name or on behalf of a third party, does not hold any of the securities covered in this report.

The analyst hereby certifies that he (she), or his (her) spouse or companion, is not directly or indirectly involved in the purchase, disposal or brokering of the securities covered in this report.

The analyst hereby certifies that he (she), or the his (her) spouse or companion, has no direct or indirect financial interest in the issuer covered in this report (other than trading shares in investment funds, in which the analyst cannot control, directly or indirectly, the administration or management of the fund, or which do not concentrate investments in sectors or companies that are covered by reports produced by the analyst).

The analyst's compensation is, directly or indirectly, determined by income from GENIAL INSTITUTIONAL'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 relate to the revenues of GENIAL INSTITUTIONAL CCTVM, its affiliates 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 INSTITUTIONAL CCTVM.

The analyst hereby certifies that he (she), or his (her) spouse or companion, does not serve as an officer, director, or advisory board member of the subject company.

The principal analyst is 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.

### 3. ADDITIONAL DISCLOSURE

- (i) This document was prepared by GENIAL INSTITUTIONAL Research and is hereby supplied for the sole purpose of providing information about companies and their securities.
- (ii) The information contained herein is provided for informational purposes only and does not constitute an offer to buy or sell, and should not be construed as a solicitation to acquire, any securities in any jurisdiction. The opinions expressed herein regarding the purchase, sale or holding of securities, or with respect to the weighting of such securities in a real or hypothetical portfolio, are based on careful analysis by the analysts who prepared this report and should not be construed by current or future investors as recommendations for any particular investment decision or action. The investor's final decision should be made considering all of the risks and fees involved. This report is based on information obtained from primary or secondary public sources, or directly from companies, and is combined with estimates and calculations prepared by GENIAL INSTITUTIONAL CCTVM. This report does not purport to be a complete statement of all material facts related to any company, industry, security or market strategy mentioned. The information has been obtained from sources believed to be reliable, but GENIAL INSTITUTIONAL CCTVM does not make any express or implied representation or warranty as to the completeness, reliability or accuracy of such information. The information, opinions, estimates and projections contained in this document are based on current data and are subject to change. Prices and availability of financial instruments are indicative only and subject to change without notice. GENIAL INSTITUTIONAL CCTVM is under no obligation to update or revise this document or to advise of any changes in such data.
- (iii) The securities discussed in this report, as well as the opinions and recommendations contained herein, may not be appropriate for every type of investor. This report does not take into account the investments objectives, financial situation or particular needs of any particular investor. Investors who wish to buy, sell or invest in securities that are covered in this report should seek independent financial advice that takes individual characteristics and needs into consideration, before making any investment decision with respect to the securities in question. Each investor should make independent investment decisions after carefully analyzing the risks, fees and commissions involved. If a financial instrument is denominated in a currency other than an investor's currency, changes in exchange rates may adversely affect the price or value of, or the income derived from the financial instrument, and the reader of this report assumes all foreign exchange risks. Income from financial instruments may vary, and therefore their price or value may rise or fall, either directly or indirectly. The information, opinions and recommendations contained in this report do not constitute and should not be interpreted as a promise or guarantee of a particular return on any investment. Past performance does not necessarily indicate future results, and no representation or warranty, express or implied, is made herein regarding future performance. Therefore, GENIAL INSTITUTIONAL CCTVM, its affiliated companies, and the analysts involved in this report take no responsibility for any direct, indirect or consequential loss resulting from the use of the information contained in this report, and anyone using this report undertakes to irrevocably indemnify GENIAL INSTITUTIONAL CCTVM and its affiliates from any claims and demands.
- (iv) Prices in this report are believed to be reliable as of the date on which this report was issued and are derived from one or more of the following: (i) sources as expressly specified alongside the relevant data; (ii) the quoted price on the main regulated market for the security in question; (iii) other public sources believed to be reliable; or (iv) GENIAL INSTITUTIONAL CCTVM's proprietary data or data available to GENIAL INSTITUTIONAL CCTVM.

- (v) No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning GENIAL INSTITUTIONAL CCTVM, its subsidiaries and affiliates. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this report.
- (vi) GENIAL INSTITUTIONAL CCTVM makes no representations herein that investors will obtain profits. GENIAL INSTITUTIONAL CCTVM will not share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. GENIAL INSTITUTIONAL CCTVM accepts no fiduciary duties on behalf of recipients of this report and in communicating this report is not acting in a fiduciary capacity. This report is not to be relied upon in substitution for the exercise of recipient's independent judgment. Opinions, estimates, and projections expressed herein constitute the current judgment of the analyst responsible for the substance of this report as of the date on which the report was issued and are therefore subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of GENIAL INSTITUTIONAL CCTVM as a result of using different assumptions and criteria. The information, opinions and recommendations contained in this report do not constitute and should not be interpreted as a promise or guarantee of a particular return on any investment.
- (vii) Because the personal views of analysts may differ from one another, GENIAL INSTITUTIONAL CCTVM, its subsidiaries and affiliates may have issued or may issue reports that are inconsistent with, and/or reach different conclusions from, the information presented herein. Any such opinions, estimates, and projections must not be construed as a representation that the matters referred to therein will occur. Prices and availability of financial instruments are indicative only and subject to change without notice. Income from financial instruments may vary, and therefore their price or value may rise or fall, either directly or indirectly.
- (viii) This document may not be: (a) photocopied or duplicated in any manner, in whole or in part, and/or (b) distributed without GENIAL INSTITUTIONAL CCTVM's prior written consent. GENIAL INSTITUTIONAL CCTVM accepts no liability whatsoever for the actions of third parties in this respect.
- (ix) Neither GENIAL INSTITUTIONAL CCTVM nor any of its affiliates, nor any of their respective directors, employees or agents, accepts any liability for any loss or damage arising out of the use of all or any part of this report.
- (x) GENIAL INSTITUTIONAL CCTVM (or its affiliates, officers, directors or employees) may, to the extent permitted by law, have acted upon or used the information herein contained before the publication of this report and may have a position in securities issued by the companies mentioned herein and may make a market or act as a principal in any transactions in any such securities. Genial Institucional may from time to time perform investment banking or other services to, or solicit investment banking or other business from, the companies mentioned herein.



#### 4. 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 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”) and is not being provided pursuant to a soft-dollar arrangement.

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) 897-3737. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Genial Institucional CCTVM.

Brasil Plural Securities LLC accepts responsibility for the contents 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. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of GENIAL INSTITUCIONAL CCTVM. Additional information relative to the financial instruments discussed in this report is available upon request.

#### **UK Disclaimer:**

(i) This document is STRICTLY CONFIDENTIAL to the recipient, may not be distributed to the press or other media and may not be reproduced in any form. this document is directed only at persons who are “INVESTMENT PROFESSIONALS” falling within article 19(5) of the FSMA 2000 (FINANCIAL PROMOTION) ORDER 2005, or HIGH NET WORTH BODIES falling within ARTICLE 49(2) of that order (together THE “RELEVANT PERSONS”). This document must not be acted on or relied on by persons who are not RELEVANT PERSONS.

(ii) The distribution of this document in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of any such other jurisdiction.

Copyright 2023 GENIAL GENIAL INSTITUCIONAL CCTVM