

BRASIL AGRO

2Q24FY Preview: A discouraging scenario...

LatAm Agribusiness

Main takeaways:

(i) We expect a weak top-line, with a significant year-on-year decline, and a very compressed EBITDA margin; (ii) Over supply in grains should continue to hurt the company figures; (iii) There is still room to sell agricultural land, but prices have already fallen; (iv) We project a **dividend yield** at **~5% up to 6% at max** for 2024FY; (v) We reiterate our **NEUTRAL** rating, with a cut in the **12M Target Price** to **R\$27.50** (vs. R\$28.00 in our previous recommendation), in line with our **downgrade** last quarter.

BrasilAgro will report its **2Q24FY results on February 7th**, after the market closes. In this report, we will present our expectations for the company's figures. We believe that BrasilAgro will report a **weaker quarter**, with **revenues down year-on-year**, reflecting a **drop in planted area** and **lower land productivity**. Following this dynamic of decelerating results, we expect a significant **compression in the EBITDA margin** due to the **lower prices** of agricultural commodities, such as **soybeans and corn**.

Valuation and rating. With **no bullish catalysts in the short term**, we reiterate our **NEUTRAL** rating with a cut in the **12M Target Price** to **R\$27.50** (vs. R\$28.00 in our previous recommendation), after updating our model with the lower outlook for cash generation, through the still weak prospects for corn and soybeans, considering that the **price recovery process** observed at the end of 2023 **was not long-lived**. In 2Q24FY, we expect total revenue of R\$131mn, a sharp decline of -51.8% y/y. We project EBITDA of R\$4.1mn, down -82.8% y/y. This should represent a significant compression of -5.6 p.p. in the EBITDA margin, which should reach 3.1%. We also estimate a loss of -R\$25mn in the bottom line.

Table 1. Income Statement BrasilAgro (2Q24FY Genial Est.)

(R\$ millions)	2Q24E	1Q24		2Q23	
	Genial Est.	Reported	% q/q	Reported	% y/y
Net Revenue	131	180	-27,2%	272	-51,8%
COGS	(125)	(157)	-20,2%	(247)	-49,3%
Gross Profit	5,7	23,0	-75,2%	25,0	-77,2%
Gross Margin (%)	4,4%	12,8%	-8,43p.p	9,2%	-4,84p.p
EBITDA	4,1	0,6	583,3%	23,8	-82,8%
EBITDA Margin (%)	3,1%	0,3%	2,8p.p	8,8%	-5,62p.p
Net Income	(25)	(13)	-90,8%	14	-281,2%
Net Margin (%)	-19,1%	-7,3%	-11,81p.p	5,1%	-24,16p.p

Source: BrasilAgro, Genial Investimentos

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Company

AGRO3 BZ Equity

Neutral

Price: R\$ 24.15 (05-Feb-2023)

Target Price 12M: R\$ 27.50

2Q24FY Preview: Straight to the point!

Unfavorable winds hurting results. A series of unfavorable winds must have hurt the quarter, such as **(i)** regions with affected yields, especially Mato Grosso (MT); **(ii)** prices of soybean and corn commodities in a continuous downward trend; **(iii)** fuel exoneration at the end of 2022 and beginning of 2023, which negatively impacted the ethanol price curve and made it impossible to achieve better margins in the sugar cane segment.

Lower hedge position than last year. BrasilAgro is currently less hedged than last year. In the same period last crop year, the company had a hedge of ~65% on soybeans, ~23% on corn and ~60% on cotton. Currently, the company has hedged ~48% of its soybeans, ~10% of its corn and ~43% of its cotton. It should also be noted that BrasilAgro is only at this level of hedging because it took advantage of the end of the 2023 to apply the locks, precisely during the period when prices increased. There are still opportunities to sell in advance, but prices have already fallen.

land sales will continue, just at a slower pace. We see room for new BrasilAgro farm sales, especially in Bahia and Paraguay, but the farmland real estate market is no longer trading at prices as high as in recent years. We believe that the company should sell between R\$150-200mn of land in the 23/24 harvest year, which should translate into a **dividend yield of ~5% up to 6% at max.** On the positive side, we expect interesting opportunities to arise for BrasilAgro. In the coming quarters, we expect the company to intensify its purchase of agricultural land, considering more attractive prices and better leasing conditions, respecting the trend towards a more asset-light model adopted by companies in the sector.

Our Take on BrasilAgro

The downward trend in commodities is likely to prevent better figures ahead. For the next few quarters, we remain bearish, considering that even the reduction in planted area being carried out by BrasilAgro along with other producers, they are not having a significant effect on raising prices, contrary to our perception at the end of last year. Although we may see a small rebound in soybean prices on 2S24, as a delay effect on this situation in relation to the reduction in planted area in Brazil, we believe that better pricing conditions are still dependent on what happens with the US and Argentine harvests. As long as commodities remain on a downward trend, we expect BrasilAgro's margins to remain tight.

A discouraging scenario... In our view, lower commodity prices should contribute to a reduction in the sale price of farms, also hurting the performance of the company's real estate segment. It's worth noting, however, as previously mentioned, that this could bring new opportunities to buy farmland. We remain conservative on BrasilAgro's stock and reiterate our **Neutral rating** with a **12M Target Price** of **R\$27.50** (vs. R\$28.00 in our previous recommendation), which represents an **upside** of **+13.78%**.

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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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