

BRASIL AGRO

2Q24FY Review: Many challenges on the horizon

LatAm Agribusiness

Main takeaways:

(i) We saw weakened revenues, with a year-on-year retraction, and a very significant squeeze on margins; (ii) The downward trend in agricultural commodities (soybeans and corn) should continue to strongly undermine the company's performance; (iii) Agricultural land prices have already fallen, but we still see room for land sales; (iv) We estimate a dividend yield in the ~5% range for 2024AF; (v) We reiterate our **Neutral rating** with a **12M Target Price** of **R\$27.50**, giving the stock an **upside** of **+11.65%**.

BrasilAgro delivered a **weak quarter** on February 7th. Even though the revenue was above our expectations (+16.0% vs. Genial Est.), the company's performance was **quite disappointing in terms of margins**, with a negative EBITDA margin, and consequently well below our projections (-11.4p.p. vs. Genial Est.). Although above estimates, there was a sharp drop in revenue on a quarterly and annual basis (-44.1% q/q; -15.6% y/y), with a top line that we consider weak, triggered by **lower land productivity**, and a strong EBITDA margin compression (-17.0p.p. q/q; -8.6p.p. y/y), due to considerably downward trend for prices on agricultural commodities, especially soybeans.

As **we don't see any bullish catalysts** for commodities in the short term, since the **reduction in the area planted** by producers in Brazil **doesn't seem to be moving up** corn and soybean **prices** on the global market, which is still dependent on overproduction in Argentina and the US. We reiterate our **Neutral rating**, with a **12M Target Price** of **R\$27.50**, giving the stock an **upside** of **+11.65%**.

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Company

AGRO3 BZ Equity

Neutral

Price: R\$ 24.15 (07-Feb-2023)

Target Price 12M: R\$ 27.50

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

(R\$ millions)	2Q24FY			1Q24FY		2Q23FY	
	Reported	Genial Est.	% R/E	Reported	% q/q	Reported	% y/y
Net Revenue	152	131	16,0%	180	-15,6%	272	-44,1%
COGS	(155)	(125)	23,6%	(157)	-1,4%	(247)	-37,3%
Gross Profit	(3)	6	-150,3%	23	-112,5%	25	-111,5%
Gross Margin (%)	-1,9%	4,4%	-6,24p.p	12,8%	-14,66p.p	9,2%	-11,08p.p
EBITDA	(13)	4	-407,3%	0,6	-	24	-152,9%
EBITDA Margin (%)	-8,3%	3,1%	-11,42p.p	0,3%	-8,62p.p	8,8%	-17,04p.p
Net Income	(6)	(25)	76,8%	(13)	55,7%	14	-142,0%
Net Margin (%)	-3,8%	-19,1%	15,27p.p	-7,3%	3,46p.p	5,1%	-8,89p.p

Source: BrasilAgro, Genial Investimentos

2Q24FY Review: Straight to the point!

Damage results. BrasilAgro reported net revenue of R\$152mn (+16.0% vs. Genial Est), narrowing down -15.6% y/y. Despite coming in with revenue above the estimate, costs were more impactful than our projections, resulting in and negative EBITDA of -R\$12.6mn. As a consequence, the company achieved an EBITDA margin of -8.3% (-11.4p.p. vs. Genial Est.), dropping -8.6p.p. y/y, reflecting lower agricultural commodity prices. On bottom line, a loss of -R\$5.8mn was reported, although negative, it was better than expected, but still falling down -55.7% y/y.

Results impacted by strong headwinds. The company's performance was hampered by a series of unfavorable conditions, such as **(i)** a reduction in productivity in some regions, especially in Mato Grosso (MT); **(ii)** a significant and continuous drop in the prices of soy and corn commodities and **(iii)** the reduction in fuel taxes at the end of 2022 and beginning of 2023, which resulted in a negative impact on the ethanol price curve, and consequently hurt margins in the sugarcane segment.

Land prices have already fallen, but we still see little room for new sales. In the agricultural real estate market, we no longer see farmland reaching the high prices seen in previous years. However, we still expect a small potential for the company to make new property sales, especially in Bahia and Paraguay. We estimate that BrasilAgro should sell ~R\$200mn of land in the 23/24 harvest, which should contribute to a dividend yield of ~5% (maximum 6% 24E). It's also worth noting that we expect good opportunities to buy land in the coming quarters, as prices continue to fall.

Falling agricultural commodities should continue to negatively impact the company. We maintain a pessimistic bias towards agricultural commodities, and as long as they continue to fall, we expect BrasilAgro's margins to remain heavily pressured. It is worth noting that although we may see a slight increase in soybean prices by the end of the year, due to the delayed response to the reduction in planted area in Brazil, we believe that the improvement in pricing conditions still depends on the harvests in the US and Argentina.

Our Take on BrasilAgro

It's time to reverse the trend from seller to buyer. We believe that the company may be waiting for smaller-scale producers to choke on the low prices. BrasilAgro, with greater access to the capital market, could increase the placement of CRAs (specific bonds for agribusiness), especially with the restriction on CRIs and other incentivized bonds recently promoted by the Central Bank of Brazil, which should attract investors to raise funds at more attractive rates for real agribusinesses.

Potential follow-on or increased funding via debt. We expect see some moves by BrasilAgro to intensify land acquisitions, due to the more favorable conditions for exercising its real estate side of the business. We have to consider that many investors see land sales as a considerable source of revenue for BrasilAgro's investment thesis, but... to sell well you first have to buy at attractive prices, taking advantage of more favorable land valuations. In addition, the pressure on smaller producers, combined with the lack of succession in the family business, can end up leading to good deals on leases, keeping in line with the trend towards a more asset-light business model, which has been adopted by companies in the sector (in this case, especially SLC). With these dynamics taking place, we could see leverage rise, or a possible follow-on could be brought forward, even if market conditions are tighter because commodity prices are affecting stock performance.

Many challenges on the horizon... This unfavorable scenario, of agricultural commodities and declining land productivity, should also affect the sale prices of farmland, damaging the performance of the company's real estate segment. However, as mentioned earlier, this could result in promising opportunities for acquiring at attractive prices. With both the company's operating and real estate segments facing strong headwinds, we maintain a conservative stance on BrasilAgro's shares and reiterate our **Neutral rating** with a **12M Target Price** of **R\$27.50**, setting up an **upside** of **+11.65%**.

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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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