genial | Equity Research

JBS

1Q24 Review: The value is hidden inside the diversification

LatAm Meatpackers

Main takeaways:

(i) A strong result was reported, with sequentially higher margins, **beating our projections and the market's expectations**; **(ii)** Beef North America continued with its profitability quite pressured due to cattle low supply; **(iii)** USA Pork delivered good margins, enabled by a supply normalization and resilient demand; **(iv)** JBS Australia presented a strong year-on-year expansion of margins, but a slight sequential compression, due to weather and port setbacks affecting shipments; **(v)** In JBS Brasil, Friboi continues to perform well, but the leather segment and Swift stores still hampering the operation's profitability; **(vi)** Seara's margins were strongly benefited by the drop in grains, due to the renewal of its inventories; **(vii)** We see a sequential improvement in the consolidated profitability in the coming quarters; **(viii)** We reiterate our **BUY rating** with a **12M Target Price** of **R$30.00,** with an **upside** of **19.28%**.

JBS reported a **strong quarter**, with a result above our projections in terms of Net Revenue (+1.2% vs. Genial Est.) and an EBITDA margin (+1.5p.p. vs. Genial Est.), which were already +0.4p.p. above what the street was projecting. We attribute the margin improvement in the **Seara and USA Pork segments** as the **two biggest drivers for an above-consensus result**. In addition, we saw more favorable dynamics than in previous quarters in most of the company's segments. However, as we expected, on the **negative side**, we continue to see **very pressured margins at JBS Beef North America**, due to the challenging scenario of a strong restriction in the cattle supply.

JBS reported net revenue of R$89.1bn (+1.2% vs. Genial Est.), increasing +2.8% y/y, and EBITDA of R$6.4bn (+27.5% vs. Genial Est.), a strong advance of +197.3% y/y, equivalent to an EBITDA margin of 7.2% (+1.4p.p. vs. Genial Est.). Finally, the company posted a net income of R$1.6bn (+39.7% vs. Genial Est.), representing a net margin of 1.8% (+0.5p.p. vs. Genial Est.), reversing the loss of -R$1.4bn in 1Q23.

We also note that the **company's leverage fell** to **3.7x Net Debt/EBITDA LTM** (vs. 4.3x in 4Q23), due to the operational improvement in most of the company's former JBS Beef North America segments. In line with the seasonality of 1Qs, the company reported a cash flow burn (FCFE) but is important to notice that the burn was lower than in the same period last year (-R$3.1bn vs. -R$6.7bn in 1Q23).

Analysts

Igor Guedes
+55 (11) 3206-8248
igor.guedes@genial.com.vc

Lucas Bonventi
+55 (11) 3206-8246
lucas.bonventi@genial.com.vc

Rafael Chamadoira
+55 (11) 3206-8245
rafael.chamadoira@genial.com.vc

Company

JBSS3 BZ Equity
Buy

Price: R$ 25.15 (14-May-2024)
Target Price 12M: R$ 30.00

Valuation and rating. Looking ahead, we project a gradual and sequential expansion of margins for all the former JBS Beef North America segments. In our view, the company's geographic and protein diversification should help considerably to offset the challenging scenario facing JBS Beef North America. Therefore, we see the following favorable winds enabling greater profitability: **(i)** the normalization of global chicken supply and demand; **(ii)** the stabilization of US pork supply combined with robust demand; **(iii)** grains (soybeans and corn) in a continuous downward trend and **(iv)** a positive cattle cycle in Brazil and Australia.

We also believe, as we have already commented in some of our results, that the eventual approval of the dual listing process in the US could be an important short-term trigger for the shares. In addition, we see this process contributing to unlocking the company's value in the medium and long term. In our view, the **dual listing should take place at the end of 2H24**. Furthermore, we see the company trading at a multiple of **5.2x EV/EBITDA 24E** (vs. 5.5x historical average), and significantly below comparable American players, such as Tyson Foods, which trades at an **EV/EBITDA 24E** of **9.0x**. We therefore reiterate our **BUY rating** with a **12M Target Price** of **R$30.00,** with an **upside** of **19.28%**.

1Q24 Review

Table 1. Income Statement JBS (1Q24 vs. Genial Est.)

(R$ millions)	1Q24 Reported	1Q24E Genial Est.	% R/E	4Q23 Reported	% q/q	1Q23 Reported	% y/y
Net Revenue	**89.147**	**88.094**	**1,2%**	**96.341**	**-7,5%**	**86.684**	**2,8%**
COGS	(77.467)	(77.519)	-0,1%	(85.246)	-9,1%	(79.070)	-2,0%
Gross Profit	**11.681**	**10.575**	**10,5%**	**11.095**	**5,3%**	**7.614**	**53,4%**
Gross Margin (%)	13,1%	12,0%	1,1p.p	11,5%	1,59p.p	8,8%	4,32p.p
EBITDA	**6.429**	**5.042**	**27,5%**	**5.104**	**26,0%**	**2.162**	**197,3%**
EBITDA Margin (%)	7,2%	5,7%	1,49p.p	5,3%	1,91p.p	2,5%	4,72p.p
Net Income	**1.646**	**1.178**	**39,7%**	**83**	**1883,1%**	**(1.430)**	**-215,1%**
Net Margin (%)	1,8%	1,3%	0,51p.p	0,1%	1,76p.p	-1,6%	3,5p.p

Soure: JBS, Genial Investimentos

JBS Beef North America: The scenario remains challenging. Spread gets a litter better. We saw a still very tight cattle supply in the US, significantly damaging the operation's profitability, despite a small sequential improvement in the availability of cattle, which translated, together with robust demand, into a slightly better spread sequentially. In addition, we saw the operation benefiting from a small hedge of cattle futures contracts (unlike what happened in 4Q23, when there was a negative marking of these contracts of -R$70mn). This resulted in an EBITDA margin (in USGAAP) of 0.2% (+2.5p.p. q/q; +0.6p.p. y/y). It is also worth noting that, seasonally, Q1 and Q4 usually deliver weaker figures, since the barbecue season always occurs in Q2 and Q3.

During 2024 and 2025, we believe that the cattle supply in the US will remain very tight, thus putting strong pressure on the segment's profitability, with the cycle only reversing in 2026. Given this scenario, we see the operation's EBITDA margin remaining at a low single digit, close to breakeven for the next few quarters. However, we see JBS's geographic and protein diversification helping to offset the negative impacts of JBS Beef North America on the consolidated result.

JBS USA Pork: Despite unfavorable seasonality, delivered good margins. Q1 is also marked by weaker seasonality in this business unit. Just like beef unit, demand is more resilient in the barbecue season, i.e. Q2 and Q3. However, regardless of this, we saw a solid EBITDA margin (in USGAAP) of 8.1% (-0.8p.p. q/q; +4.5p.p. y/y). This y/y margin improvement was made possible by **(i)** structurally robust demand; **(ii)** a very positive contribution from the fall in grain prices, which benefited, in particular, the verticalized part of the operation; **(iii)** a better balance of supply and demand for pork protein and **(iv)** a trade down in proteins (from more expensive cuts of beef to cheaper ones, and from these to other proteins, such as pork) on the part of the population that suffers most from inflation in the US.

For 2024, we expect the scenario of lower grain costs and normalization of pork supply to continue. In our view, we may also see an advance in the trade down in demand from beef to pork, due to inflationary impacts, a factor that should continue to benefit JBS USA Pork. We expect the EBITDA margin to remain between high single digits and low double digits over the next few quarters, remaining within the historical level (8% to 10%).

PPC: favorable scenario should continue throughout the year and enable a high level of profitability. After a strong 1Q24, we see a very favorable 2024 for PPC, with quarters marked by a high single digit EBITDA margin, and potentially low double digits. This strong profitability should be made possible by **(i)** resilient demand, driven by the trade down in beef, as we have already seen with pork; **(ii)** lower grain costs, which are on a continuous downward trend; **(iii)** good chicken sales prices in the US, due to robust demand; **(iv)** a balanced supply and **(v)** the operation in Europe stabilized at a mid-single digit EBITDA margin (vs. the low single digit we have seen in recent quarters), after adjusting its plants.

JBS Australia: Strong y/y margin expansion, but a small sequential compression. With a high availability of cattle, and thus lower costs, we saw a strong expansion of the EBITDA margin (in USGAAP), which reached 9.1% y/y (+7.8p.p. y/y). However, there was a small sequential retraction (-0.8p.p. q/q), due to factors that hindered the logistics of the operation, such as an excess of rain and some setbacks at the ports. In the coming quarters, we expect the favorable scenario on the cost side to continue, enabling an EBITDA margin of high single digits or even low double digits, if two upside risks materialize: **(i)** the selling price of beef advances in the global market and **(ii)** JBS is successful in sending qualified Brazilian labor that operates efficiently at JBS Brasil to JBS Australia (workers who can perform higher value-added cuts as soon as they start in the country).

JBS Brasil: Friboi continues to perform, but side businesses are margin detractors. The high level of cattle supply in Brazil continued to benefit Friboi. But leather segment is quite affected by a weak automobile industry. In the same guideline, Swift stores are also contributing to margin compression, which partly run at a traditional retail margin (~2%) and have not yet reached breakeven, Therefore, we saw an EBITDA margin of 4.5% (-1.3 p.p. q/q; +2.1 p.p. y/y). We believe that this mid-single digit level will persist throughout 2024, with the potential to reach high single digit, only in the face of a more vigorous Chinese demand for beef than the current one, which could benefit the operation, especially due to the qualification of 10 new plants for export to China in March.

Seara: high profitability was driven by the renewal of grain inventory at lower cost. We saw average inventories normalize with the lower prices of soybeans and corn, since the costliest portion of the segment's inventory had already been consumed in previous quarters, so that the P&L in 1Q24 already considered a larger portion of the drop in inputs. This was essential for us to see a strong expansion in Seara's EBITDA margin, which reached 11.6% (+5.1 p.p. q/q; +10.1 p.p. y/y). For the coming quarters, we project strong margins, so that the operation's EBITDA margin should evolve sequentially, driven by **(i)** the segment's seasonality; **(ii)** the downward trend in grains and **(iii)** the maturation of newly opened plants (dilution of fixed costs).

Our Take on JBS

Dual listing should only be feasible by the end of 2024. We expect the process of dual listing of JBS shares to take place sometime in the final months of 2024. It is worth noting that JBS has been facing lawsuits in the US related to possible greenwashing practices. In our view, lawsuits related to greenwashing or other pressures on the company's corporate governance are more about protectionist lobbying by local companies and less about well-founded concrete reasons. Therefore, they shouldn't be harmful in the sense of preventing dual listings, but they don't make the bureaucratic process any easier either. We believe that these processes could lead to further questioning by the SEC, which could delay the listing of the shares in the US.

Cash flow burn still occurred, despite the drop in intensity y/y. The company burned free cash flow (FCFE) in the order of -R$3.1bn (-54% y/y). Although the result from the point of view of FCF generation cannot yet be considered good, we also recognize that there is an unfavorable seasonality, and that even so, the company managed to reduce FCF burn on an annual basis by half. This reduction in intensity was due to the lower level of CAPEX, which stood at R$1.4bn (-29.3% q/q; -18.1%), as well as better EBITDA y/y (+197% y/y).

Average cost of debt rises. Another important point to note is that we saw the average cost of debt expand to 5.78% (+5p.p. vs. 4Q23), although the average maturity remained basically stable at ~11 years. At first, we noted an increase in the penetration of bonds to 86% of total debt (+2p.p. vs. 4Q23), due to the company's recent issues. Although the USD bonds have a lower cost than the debt issued in BRL (5.09% vs. 10.17%), even so the US$2.5bn issues taking place in September 2023 seem to have had more weight in pushing up the average cost of debt. The company lowered leverage due to an improvement in LTM EBITDA, despite raising net debt on a sequential basis to R$79.2bn (+7% q/q; -4.9% y/y).

The value is hidden inside the diversification. Unfavorable environment faced by Beef North America, guided by a negative cattle cycle that is expected to last until 2026 and still significantly damage the operation's profitability for a while. However, we expect a sequential and gradual expansion of margins in the consolidated result over the next few quarters, made possible by the company's geographic and protein diversification, JBS's great competitive advantages over peers.

We see the company's profitability benefiting from **(i)** a more balanced global chicken supply and demand; **(ii)** a continued downward trend in grains; **(iii)** a normalization of the US pork supply, coupled with robust demand for this protein and **(iv)** a favorable cattle cycle in Brazil and Australia.

We also see the eventual approval of the dual listing process as an important short-term trigger, and the dual listing itself as a potential value unlocker for the company in the medium and long term. We also continue to see JBS trading at **5.2x EV/EBITDA 24E** (vs. 5.5x historical average). Therefore, our **BUY rating** is reinterred, with a **12M Target Price** of **R$30.00,** giving the shares an **upside** of **19.28%**.

Appendix: JBS

Figure 1. JBS – Income Statement in R$ Millions (Genial Est. 2024-2028)

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	**367.308**	**387.138**	**447.096**	**454.829**	**471.753**
(-) COGS	(316.189)	(330.627)	(383.732)	(385.444)	(387.557)
Gross Profit	**51.118**	**56.511**	**63.364**	**69.385**	**84.196**
(-) SG&A and Others	(28.439)	(32.609)	(39.860)	(44.724)	(45.615)
Adjusted EBITDA	**22.679**	**23.902**	**23.504**	**24.662**	**38.581**
(-) D&A	(10.007)	(8.005)	(6.754)	(2.502)	(2.502)
EBIT	**12.672**	**15.897**	**16.749**	**22.160**	**36.079**
(+/-) Financial Result	(2.980)	(1.225)	(1.215)	(1.212)	(1.205)
(-) Taxes	(3.295)	(761)	(547)	(1.129)	(1.316)
Net income	**6.397**	**13.910**	**14.987**	**19.819**	**33.558**
Profitability					
Net margin (%)	1,74%	3,59%	3,35%	4,36%	7,11%

Figure 2. JBS– Cash Flow in R$ Millions (Genial Est. 2024-2028)

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
Net Revenue	**367.308**	**387.138**	**447.096**	**454.829**	**471.753**
(-) COGS and SG&A	(344.629)	(363.236)	(423.592)	(430.167)	(433.172)
Adjusted EBITDA	**22.679**	**23.902**	**23.504**	**24.662**	**38.581**
EBIT	**12.672**	**15.897**	**16.749**	**22.160**	**36.079**
(-) Taxes	(3.295)	(761)	(547)	(1.129)	(1.316)
(+) D&A	10.007	8.005	6.754	2.502	2.502
(+/-) Δ WK	(7)	(4.676)	(2.733)	(347)	(867)
(-) Capex	(10.007)	(8.005)	(6.754)	(2.502)	(2.502)
FCFF	**9.370**	**10.460**	**13.469**	**20.685**	**33.896**

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under Review	Under review	**5%**

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