

Meatpackers

Newcastle disease: What are the risks?

LatAm Meatpackers

Main takeaways:

(i) On July 17, Brazil's Ministry of Agriculture (MAPA) confirmed a Newcastle disease outbreak on a poultry farm in Anta Gorda (RS); **(ii)** Eradication will involve culling all birds and disinfecting the site, with a 10km radius investigation planned; **(iii)** Revenue from shipments represents ~14% of Brazil's total meat export revenue (~US\$4.5bn). Comparing with 2023 data, represented 14.1% of the 2.5Mt exported; **(iv)** Preventive **export bans** (mainly in China, Japan, Europe, and Halal Market) could lead to an oversupply in Brazil, **directly affecting BRF and JBS** (through Seara); **(v)** Currently, **~25% of BRF's revenue** and **~6% of JBS's revenue** come from **chicken exports**. JBS can mitigate losses through its subsidiaries in the US and Europe, while BRF has fewer options for redirection. Looking at **Marfrig**, the company would face negative impacts due to its **stake in BRF**; **(vi)** We also assess that domestic oversupply could put **negative pressure on beef prices if chicken exports are halted**, since it would increase the choice of consumers looking for a cheaper source of protein (greater viability of trade down), with the domestic market oversupplied with chicken meat. In this case, it also affects **JBS** and **Minerva**, within their beef segments.

On Wednesday, July 17, the Brazilian Ministry of Agriculture (MAPA) confirmed an **outbreak of Newcastle disease (NCD)** on a **poultry farm in Anta Gorda, Rio Grande do Sul (RS)**. The eradication procedures, described in the Contingency Plan for Avian Influenza and Newcastle Disease, will include **slaughtering all the birds and disinfecting the site**. A complementary investigation will extend to a 10km radius around the outbreak area.

What is Newcastle disease? Newcastle disease (NCD) is a highly contagious viral infection in birds, which causes respiratory symptoms and later problems in the birds' central nervous system, diarrhea, and bloating. There is a risk of human contagion, but the symptoms are mild and can cause conjunctivitis, usually without major health complications. São Paulo's Agricultural Defense and the Ministry of Agriculture (MAPA) in Brazil are implementing eradication measures, including slaughtering birds and disinfecting the area, with investigations within a 10km radius. Brazil last recorded NCD in 2006.

The disease, caused by the Paramyxoviridae family, genus Avulavirus serotype 1 (APMV-1), is spread through aerosols from infected birds and contaminated materials. Following a current outbreak in Rio Grande do Sul (RS), Brazilian chicken exports may face partial embargoes, mainly from countries such as Japan and possibly China, affecting a state that exported ~355Kt of chicken (~US\$630m) in 1H24.

Analysts

Igor Guedes

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

Rafael Chamadoira

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

Iago Souza

+55 (11) 3206-8246
iago.souza@genial.com.vc

Company

BEEF3 BZ Equity

Buy

Price: R\$ 6.59 (18-Jul-2024)

Target Price 12M: R\$ 9.00

JBSS3 BZ Equity

Buy

Price: R\$ 31.45 (18-Jul-2024)

Target Price 12M: R\$ 35.00

MRFG3 BZ Equity

Neutral

Price: R\$ 11.22 (18-Jul-2024)

Target Price 12M: R\$ 10.00

BRFS3 BZ Equity

Neutral

Price: R\$ 20.81 (18-Jul-2024)

Target Price 12M: R\$ 17.00

No risk of contamination from eating chicken meat. We believe that the risk of contamination from chicken meat is basically non-existent, because **(i)** the birds affected by the virus are slaughtered to prevent the spread of the disease and **(ii)** what would cause the transmission of the disease to humans is direct contact from handling birds that have been affected by the APMV-1 virus, and therefore does not occur via the oral route when consuming the meat after cooking. As a result, the Ministry of Agriculture (MAPA) issued a statement emphasizing that all isolation measures have come into force and will extend to a radius of 10km around the area of the outbreak, in Rio Grande do Sul (RS). In addition, the ministry's statement says that the disease is not a transmissible zoonosis. Consumers can continue to eat poultry meat and eggs safely.

So, how does contamination occur? Direct contact with secretions, feces or contaminated birds can transmit the disease to birds that would otherwise be healthy. Entering a contaminated environment increases the likelihood that feces will be scattered, potentially leading to the transmission of the APMV-1 virus to uncontaminated poultry in different locations, which could rapidly spread out the number of birds affected by Newcastle disease (NCD). In addition, human hands with residues after handling birds with the disease can cause transient conjunctivitis, sometimes evolving into bacterial conjunctivitis that requires treatment with antibiotics. This suggests that conjunctivitis may result more from transmission between the hands and the eyes than from direct exposure to the virus through eating the meat. Therefore, once again we stress that transmission does not occur via the consumption of meat.

Our Take on Meatpackers

Domestic market vs. exports. Looking at the domestic market situation, we believe that regional trade restrictions in Brazil would probably have limited impacts, but additional difficulties could arise with exports to China and Mexico (15% of total Brazilian poultry exports), as well as Japan and marking Halal (BRF's strong buyer). Our understanding is that the health protocols should facilitate a faster recovery of exports, despite the possible spread of the disease to other states.

On the other hand, if the disease is not contained, **BRF and JBS (through Seara)** could face a domestic oversupply due to the interruption of exports redirected to local markets. This assessment is based on the 2018 scenario, in which BRF's European exports were suspended, negatively affecting international and domestic margins. A recent example is the case of avian flu in 2023, which led Japan to temporarily suspend Brazilian chicken imports, although the impact was less severe due to new authorizations. As we already quoted, in 2023 ~25% of BRF's revenue came from chicken exports, while JBS had ~6%. JBS's diversification through Pilgrim's Pride (PPC), its chicken subsidiary in the US, could help mitigate the impacts on the Brazilian market.

We also assess that domestic oversupply could put negative pressure on beef prices if chicken exports are halted, since it would increase the choice of consumers looking for a cheaper source of protein (greater viability of trade down), with the domestic market oversupplied with chicken meat. In this case, it also affects **JBS** and **Minerva**, within their **beef segments**.

What has happened in past cases? If we look at cases of contamination, the biggest risk for meatpackers companies is the restriction of shipments, especially to Asia. In December 2023, China blocked the export of chicken and eggs from various parts of the USA to ensure public health. And it's worth remembering the suspension of Brazilian meat shipments in February last year, due to the Bovine Spongiform Encephalopathy (BSE) disease, popularly known as Mad Cow. Shipments were suspended until March 23, 2023 (~30 days). In 2021, also due to an atypical case of Mad Cow, China restricted shipments for almost 4M, drastically affecting Minerva (more exposed to exports to Asia), and to a medium degree JBS and Marfrig (slightly less exposed than Minerva).

Appendix: Minerva

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	31.500	33.679	37.308	39.134	41.920
(-) COGS	(24.669)	(26.603)	(30.126)	(31.643)	(34.059)
Gross Profit	6.832	7.077	7.182	7.491	7.861
(-) Expenses	(3.674)	(3.766)	(4.107)	(3.979)	(4.589)
Adjusted EBITDA	3.157	3.310	3.075	3.512	3.271
(-) D&A	(445)	(469)	(474)	(474)	(474)
EBIT	2.712	2.841	2.601	3.038	2.798
(+/-) Financial Result	(1.305)	(1.655)	(1.203)	(1.364)	(1.251)
(-) Taxes	(478)	(403)	(475)	(569)	(526)
Net income	929	783	923	1.105	1.021
Profitability					
Net margin (%)	2,95%	2,32%	2,47%	2,82%	2,44%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
Net Revenue	31.500	33.679	37.308	39.134	41.920
(-) COGS	(24.669)	(26.603)	(30.126)	(31.643)	(34.059)
Adjusted EBITDA	3.157	3.310	3.075	3.512	3.271
EBIT	2.712	2.841	2.601	3.038	2.798
(-) Taxes	(478)	(403)	(475)	(569)	(526)
(+) D&A	445	469	474	474	474
(+/-) Δ WK	(95)	-68	(57)	(39)	(24)
(-) Capex	(890)	(563)	(474)	(474)	(474)
FCFF	1.694	2.276	2.069	2.430	2.248

Appendix: JBS

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	364.480	384.310	443.792	451.498	468.352
(-) COGS	(316.631)	(331.783)	(381.843)	(381.399)	(385.844)
Gross Profit	47.849	52.527	61.949	70.100	82.508
(-) Expenses	(28.158)	(32.328)	(39.534)	(43.696)	(44.230)
Adjusted EBITDA	19.691	20.199	22.415	26.404	38.278
(-) D&A	(10.007)	(8.005)	(6.754)	(2.502)	(2.502)
EBIT	9.685	12.194	15.660	23.902	35.776
(+/-) Financial Result	(4.917)	(4.858)	(2.864)	(2.916)	(2.893)
(-) Taxes	(1.621)	(2.494)	(4.351)	(7.135)	(11.180)
Net income	3.147	4.842	8.445	13.851	21.703
Profitability					
Net margin (%)	0,86%	1,26%	1,90%	3,07%	4,63%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
Net Revenue	364.480	384.310	443.792	451.498	468.352
(-) COGS	(316.631)	(331.783)	(381.843)	(381.399)	(385.844)
Adjusted EBITDA	19.691	20.199	22.415	26.404	38.278
EBIT	9.685	12.194	15.660	23.902	35.776
(-) Taxes	(1.621)	(2.494)	(4.351)	(7.135)	(11.180)
(+) D&A	10.007	8.005	6.754	2.502	2.502
(+/-) Δ WK	(1)	(4.655)	(2.757)	(385)	(829)
(-) Capex	(10.007)	(8.005)	(6.754)	(2.502)	(2.502)
FCFF	8.062	5.045	8.553	16.382	23.767

Appendix: Marfrig

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	137.737	149.140	175.303	183.629	195.794
(-) COGS	(123.278)	(133.356)	(141.945)	(153.105)	(164.682)
Gross Profit	14.459	15.783	33.357	30.524	31.112
(-) Expenses	(9.739)	(10.243)	(12.316)	(12.796)	(13.685)
Adjusted EBITDA	4.720	5.541	21.042	17.728	17.427
(-) D&A	(3.577)	(3.577)	(3.577)	(3.577)	(3.577)
EBIT	1.144	1.964	17.465	14.151	13.850
(+/-) Financial Result	(10.159)	(9.384)	(8.631)	(9.903)	(9.776)
(-) Taxes	5438	4476	(5.328)	(2.562)	(2.457)
Net income	-3.578	-2.945	3.506	1.686	1.617
Profitability					
Net margin (%)	-2,60%	-1,97%	2,00%	0,92%	0,83%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
Net Revenue	137.737	149.140	175.303	183.629	195.794
(-) COGS	(123.278)	(133.356)	(141.945)	(153.105)	(164.682)
Adjusted EBITDA	4.720	5.541	21.042	17.728	17.427
EBIT	1.144	1.964	17.465	14.151	13.850
(-) Taxes	5438	4476	(5.328)	(2.562)	(2.457)
(+) D&A	3.577	3.577	3.577	3.577	3.577
(+/-) Δ WK	3022	91	(169)	328	263
(-) Capex	(3.577)	(3.577)	(3.577)	(3.577)	(3.577)
FCFF	9.603	6.531	11.968	11.916	11.656

Appendix: BRF

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	55.517	59.178	66.528	69.483	73.391
(-) COGS	(45.071)	(47.500)	(50.230)	(53.807)	(57.281)
Gross Profit	10.446	11.678	16.298	15.676	16.110
(-) Expenses	(6.527)	(7.403)	(8.377)	(8.840)	(9.452)
Adjusted EBITDA	3.919	4.275	7.921	6.836	6.658
(-) D&A	(2.337)	(2.045)	(2.045)	(2.045)	(2.045)
EBIT	1.581	2.229	5.876	4.791	4.612
(+/-) Financial Result	(2.302)	(1.209)	(1.990)	(1.542)	(1.012)
(-) Taxes	245	(347)	(1.321)	(1.105)	(1.224)
Net income	(476)	673	2.565	2.144	2.376
Profitability					
Net margin (%)	-0,86%	1,14%	3,85%	3,09%	3,24%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
Net Revenue	55.517	59.178	66.528	69.483	73.391
(-) COGS	(45.071)	(47.500)	(50.230)	(53.807)	(57.281)
Adjusted EBITDA	3.919	4.275	7.921	6.836	6.658
EBIT	1.581	2.229	5.876	4.791	4.612
(-) Taxes	245	(347)	(1.321)	(1.105)	(1.224)
(+) D&A	2.337	2.045	2.045	2.045	2.045
(+/-) Δ WK	(230)	(102)	(232)	215	123
(-) Capex	(2.337)	(2.045)	(2.045)	(2.045)	(2.045)
FCFF	1.597	1.781	4.323	3.901	3.512

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