genial | Equity Research

JBS

2Q24 Review: So good that even the chicken flew

LatAm Meatpackers

Main takeaways:

(i) Net revenue of R$100.6bn (+2.5% vs. Genial Est.), up +12.9% q/q and +12.6% y/y; **(ii) consolidated EBITDA with strong expansion**, reaching R$9.9bn (+23.3% vs. Genial Est.), up +53.7% q/q and +121.1% y/y; **(iii)** Net income of R$2.0bn (-9.4% vs. Genial Est.), up +11.9% q/q; **(iv) Beef North America** still **impacted but less than expected**; **(v)** Better operational execution helps figures at Beef North America, although the seasonality of the **barbecue season** was less effective given the economic slowdown in the US; **(vi) USA Pork** division EBITDA up 2x y/y and 3x y/y; **(vii) PPC breaking records**, with the highest quarterly EBITDA in history; **(viii) JBS Australia** almost doubling EBITDA q/q with volume increase; **(ix) Seara** also leading the company's consolidated growth, reaching an EBITDA of R$2.0bn (+42% vs. Genial Est.), **a massive increase of +69.4% q/q** and **+380.8% y/y**, **(x)** Conclusion of the **dual listing expected** the end of the year, but **conference with analysts** may reveal surprises; **(xi) August USDA**: Protein **trade down** intensifies; **(xii)** Risk of cycle mismatch (Brazil vs. USA) on 26/27; **(xiii)**. Since we know that the meatpacking sector is commodities related, and that investors linked to essentially **cyclical theses** generally look much more at the short term, we see a **very favorable scenario for JBS**, due to the **more diversified case we have under coverage**, whether by **geographic region or by different proteins**. Therefore, trading at an **EV/EBITDA 25E** of **5.7x** (vs. historical of 6.2x), we reiterate our **BUY rating**, with a **12M Target-Price** of **R$40.00**, reflecting an **upside** of **+14.61%**.

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Company

JBSS3 BZ Equity
Buy

Price: R$ 34.90 (13-Aug-2024)
Target Price 12M: R$ 40.00

JBS reported its **2Q24 results yesterday, August 13**, after the market. JBS posted **results above expectations**, which were already optimistic, with net revenue of R$100.6bn (+2.5% vs. Genial Est.), comprising an increase of +12.9% q/q and +12.6% y/y. Lower costs at Friboi and in the chicken divisions (PPC and Seara) also helped **EBITDA expansion**, which reached R$9.9bn (+23.3% vs. Genial Est.), up +53.7% q/q and +121.1% y/y, resulting in a **margin of 9.8%** (+1.6p.p vs. Genial Est.), with **a greater increase than our projections**. Net income was R$2.0bn (-9.4% vs. Genial Est.), growing +11.9% q/q, and reversing the previous year's loss. These results reflect **solid operational execution** in the face of geographic and protein diversification, overcoming specific challenges in some units, such as Beef North America.

Valuation and rating. Beef North America still faces a challenging scenario, but results came in better than expected, with EBITDA of R$151mn (vs. R$45mn Genial Est.). The margin of 0.5% (+3p.p vs. Genial Est.) was driven by operational improvements but remains pressured due to the **unfavorable cattle cycle** and **weakened demand in the US**. However, JBS's geographic and **protein diversification** offers a competitive advantage, with segments such as **JBS USA Pork** and **PPC** benefiting from the protein trade down, which favored the growth of their margins.

The **August USDA report** highlights an intensification in the **protein trade down**, **benefiting segments** such as **PPC, USA Pork and Seara**, while **Beef North America may face greater competitive pressure** in the coming quarters. In addition, there is a risk of a **mismatch in cattle cycles** between the US and Brazil in 2026/2027, which could impact JBS's strategies.

Along these lines, as this mismatch is expected to occur later, JBS is still able to take advantage of the **current scenario** by consolidating **good operating results**. Since we know that the meatpacking sector is commodities related, and that investors linked to essentially **cyclical theses** generally look much more at the short term, we see a **very favorable scenario for JBS**, due to the **more diversified case we have under coverage**, whether by **geographic region or by different proteins**. Therefore, trading at an **EV/EBITDA 25E** of **5.7x** (vs. historical of 6.2x), we reiterate our **BUY rating**, with a **12M Target-Price** of **R$40.00**, reflecting an **upside** of **+14.61%**.

2Q24 Review

In 2Q24, JBS reported **results above our expectations**, reflecting the **good operational performance** during the quarter. The company reported **net revenue** of R$100.6bn (+2.5% vs. Genial Est.), accelerating +12.9% q/q and +12.6% y/y and **EBITDA** of R$9.9bn (+23.3% vs. Genial Est.), rising +53.7% q/q and +121.1% y/y, with **margin expanding** +2.61p.p q/q and +4.82p.p y/y, **reaching 9.8%** (+1.6p.p vs. Genial Est.). Finally, the **net income** reported was R$2.0bn (-9.4% vs. Genial Est.), improving +11.9% q/q and reversing last year's loss.

Table 1. Income Statement JBS (2Q24 vs. Genial Est.)

(R$ Millions)	2Q24 Reported	2Q24E Genial Est.	% R/E	1Q24 Reported	% q/q	2Q23 Reported	% y/y
Net Revenue	**100.606**	**98.124**	**2,5%**	**89.147**	**12,9%**	**89.383**	**12,6%**
COGS	(85.094)	(84.495)	0,7%	(77.466)	9,8%	(79.495)	7,0%
Adjusted EBITDA	**9.882**	**8.017**	**23,3%**	**6.429**	**53,7%**	**4.470**	**121,1%**
EBITDA Margin (%)	9,8%	8,2%	1,65p.p	7,2%	2,61p.p	5,0%	4,82p.p
EBIT	**5.917**	**5.116**	**15,7%**	**3.548**	**66,8%**	**1.540**	**284,3%**
EBIT Margin (%)	5,9%	5,2%	0,67p.p	4,0%	1,9p.p	1,7%	4,16p.p
D&A	2.850	2.901	-1,8%	2.881	-1,1%	2.930	-2,7%
Financial Result	(3.128)	(1.731)	80,7%	(1.727)	81,1%	(1.668)	87,6%
Net Income	**2.023**	**2.234**	**-9,4%**	**1.807**	**11,9%**	**(198)**	**-**
Net Margin (%)	2,0%	2,3%	-0,27p.p	2,0%	-0,02p.p	-0,2%	2,23p.p

Source: JBS, Genial Investimentos

Beef North America still impacted, but less than expected. The Beef North America unit faced significant challenges during 2Q24, posting EBITDA of R$151mn (vs. R$45mn Genial Est.), down -65.1% q/q and reversing last quarter's operating loss. Although we can't judge the figure as a good performance, we note that it came in higher than expected, making up a margin of 0.5% (+3p.p vs. Genial Est.). Conversely, margins continued to be pressured vs. historical levels.

This is because to the unfavorable cattle cycle and weakened demand, partly as a result of the inflationary scenario in the US, as well as the pace of the economic slowdown. The price of fat cattle in the US remained at high levels, which directly impacted costs, since cattle account for ~85% of COGS. At the same time, beef sales prices remained stable, which kept profitability under pressure.

Better operational execution helps the Beef North America figures. Despite these difficulties, the unit has tried to focus on improving operational and commercial execution, with initiatives aimed at **(i)** enlightening pricing, **(ii)** optimizing the product mix (through cuts with more demand or better price profitability), **(iii)** increasing yield per carcass and **(iv)** improving plant efficiency. As we mentioned in the preview, **(v)** the unit failed to take full advantage of the barbecue season. In addition, we are witnessing the protein trade down, through a migration of demand in the US to cheaper proteins such as chicken and pork, which could further affect the Beef segment's performance in the short term. In short, the scenario continues to reflect flat numbers. On the other hand, we believe that the great competitive advantage of the JBS investment thesis is diversification, both in terms of proteins and geographies. In this way, the trade down is beneficial for the consolidated result as other business divisions such as PPC and USA Pork.

USA Pork division EBITDA grew 2x q/q and 3x y/y. JBS USA Pork had a strong performance in 2Q24, with an increase in domestic demand for pork, partly due to the substitution of beef for pork (trade down) in the US. As a result, the unit reported EBITDA of R$1.3bn (+22.2% vs. Genial Est.), an increase of +104.1% q/q and +224.3% y/y. This resulted in a margin of 11.1%. It's also worth mentioning that exports grew by +8% y/y, with Mexico, South Korea, Australia and Colombia standing out. The unit also benefited from lower grain costs and improvements in its operations and product portfolio, as well as the barbecue season.

PPC posts highest quarterly EBITDA in history. Pilgrim's Pride Corporation (PPC) posted the highest quarterly EBITDA in its history, having reached R$4.1bn (+64.7% q/q; +119.7% y/y) and with a strong expansion of margins to 17.2% (+5.6p.p. q/q; +8.5p.p y/y). This performance was mainly driven by improved prices for poultry cuts in the US, greater factory efficiency and lower production costs. In addition, the rest of the poultry portfolio showed above-market growth, supported by strategic partnerships with key customers and an expansion of the branded value-added product portfolio. In Europe, PPC benefited from a more favorable economic environment, with wage increases outpacing inflation, which boosted sales. In Mexico, the company recorded solid results, thanks to the balance between supply and demand for fresh products and the strengthening of partnerships with retail and foodservice customers.

JBS Australia almost doubles EBITDA q/q with volume increase. JBS Australia's EBITDA almost doubled q/q (+91.9% q/q; +65.8% y/y), reaching R$1.2bn (+39% vs. Genial Est.), driven mainly by higher volumes sold and improved operating margins. The favorable scenario in Australia, with greater availability of cattle due to the positive cycle, resulted in a lower cost of acquiring animals in the slaughter phase, a crucial factor in the expansion of the EBITDA margin, despite inflationary pressures. The company reported that, according to MLA (Meat & Livestock Australia), the cattle price in the region slowed -4% y/y.

In addition to the beef business, JBS Australia also achieved positive results in its pork and prepared foods (PRIMO) operations, where operational efficiency gains and an increase in average prices helped maintain profitability at high levels. The company remains focused on optimizing its operations to maximize returns in a competitive environment. We mentioned in our preview report that imports of US beef from Australia have increased significantly, which strengthens the operation, and that the company is investing in an initiative to transfer skilled labor from Brazil to Australia, which could increase efficiency and add value to the cuts, although this process will be gradual due to language barriers.

JBS Brasil: Strong USD/BRL with positive cattle cycle brings margin injection. Brazilian operations took advantage of the exchange rate variation and the positive cattle cycle to achieve a greater margin and EBITDA, that have clocked in at R$1.2bn (+45.6% vs. Genial Est.), with a robust increase of +83.6% q/q and +74.8% y/y, above what we expected. The unit recorded sales growth in both the domestic and export markets and posted a margin increase up to 7.6% (+3p.p q/q; +2.8p.p y/y), slightly higher than we had projected. In other words, strong domestic demand, combined with the favorable cattle cycle, resulted in a higher volume of fresh beef sold. According to data published by CEPEA-ESALQ, the average price of cattle during 2Q24 was ~R$226/arroba (-15% y/y).

In the foreign market, the company increased its sales in strategic regions such as the Middle East, the USA and the Philippines. In addition, we believe that the -15% y/y drop in the average price of cattle contributed to a significant improvement in margins. We emphasize that JBS Brasil is 80% made up of Friboi, which is 50% exposed to exports. The other 20% corresponds to the side business (leather sales and Swift stores). With the strong appreciation of the USD/BRL exchange rate during 2Q24 (R$5.22 vs. R$4.95 in 2Q23), the unit saw a significant effect on net revenue, as the currency conversion was carried out.

Seara "flapped its wings" and reached cruising height. Finally, Seara recorded EBITDA of R$2.0bn (+42% vs. Genial Est.), a massive increase of +69.4% q/q and +380.8% y/y, driven by operational and commercial improvements throughout the production chain. The unit benefited from lower grain costs (soy and corn) and the expansion of its value-added product portfolio, which resulted in a significant increase in the EBITDA margin. In the domestic market, sales grew by +11% y/y, where we would highlight the fresh poultry category, which showed significant growth in volume and price. In the foreign market, Seara also performed well, with an increase in both volumes and average prices. At the moment, we don't see the major impacts of Newcastle disease as a potential retainer of results going forward, since the restrictions on shipments should remain contained.

Our Take on JBS

Conclusion of the dual listing year-end. We anticipate that the dual listing of JBS shares will only be finalized by the end of the year, probably at 4Q24. Although the company is facing lawsuits in the US related to allegations of greenwashing, which we see more as noise than a substantial problem, these cases could generate additional questions from the Securities Exchange Commission (SEC), possibly delaying the listing of the shares in the US. On the other hand, in conversations we've had with the company, their version of the facts is that the process is quite bureaucratic and is a process of replication/translation in the submissions of documentation to the SEC, until there are no additional comments. Recently, the company issued a 20-F report, as well as an F-4, which can be seen as progress towards the goal of SEC authorization for the primary listing of the shares on the NYSE.

Possible anticipation of the dual listing could become a bullish trigger. We may have an update on this topic at the earnings conference call with analysts. We will keep the market informed if management reveals anything new regarding the progress. If the process becomes viable during 3Q24, we believe that the stock could gain even more momentum, beyond the strong result it has now reported in 2Q24, since it is not included in our base scenario.

August USDA: Protein trade down intensifies. The USDA report released yesterday, August 12, points to trends that may impact JBS's operations in a mixed way in the coming quarters. The continued decline in grain costs should **benefit the margins** of **PPC, JBS USA Pork, and Seara exports** (with reduced risk of Newcastle disease), maintaining the competitiveness of these segments throughout the year. However, the forecast of an increase in beef production in the U.S. suggests that the domestic market may become even more competitive, putting **pressure on JBS USA Beef margins**, which will have to face this challenge with operational efficiency to preserve profitability.

On the other hand, the strong projected demand for the chicken market, both domestically and in exports, indicates that **Seara will continue to be in an advantageous position**, taking lead position in the poultry market momentum. These factors should be reflected in continued solid results for Seara and JBS USA Pork, while JBS USA Beef may face a more challenging environment, requiring strategic adjustments to mitigate the impacts of increased supply in the American market.

Risk of cycle misalignment in 26/27. The current market perspective indicates a possible extension of the negative cattle cycle in the U.S. until 2026, potentially extending until early 2027. If this forecast materializes, the chances of a misalignment in the cycle shift between the U.S. and Brazil increase, which could harm the strategies of companies like JBS (to a greater extent) and Minerva (to a lesser extent). There is a strong possibility that the time windows of the cycles will misalign, resulting in both countries facing negative cycles simultaneously. If this occurs, global beef spreads could come under pressure due to a reduction in cattle supply, especially females, which impacts reproduction and future calf supply.

Dividends and strong FCF generation. JBS announced the distribution of interim dividends totaling R$4.4bn, corresponding to **R$2.00/share**, with payment on October 7th and the ex-dividend date on August 20th. Given the **strong FCF generation**, which reached **R$5.3bn** (vs. a burn of -R$3.1bn in 1Q24), driven by efficient working capital management and the better EBITDA performance in almost all business units, we understand that there was room for a **higher dividend payment than we expected**, making up a **Dividend Yield** of **5.7%**.

So good that even the chicken flew. However, as this mismatch is expected to occur later in the short term, JBS is still able to enjoy the current scenario by consolidating good operating results. Since we know that the meatpacking sector is covered by commodities, and that investors linked to essentially cyclical theses generally look much more at the short term, we see a very favorable scenario for JBS, due to the **more diversified case we have under coverage**, either by **geographic region** or by **different proteins**. Among these, we highlight the **positive momentum for chicken** (PPC and Seara), with **(i)** normalization of supply helping to pass on prices to the consumer, **(ii)** increased demand driven by the protein trade down and **(iii)** costs down due to the slowdown in grain prices. Therefore, trading at an **EV/EBITDA 25E of 5.7x** (vs. historical of 6.2x), we reiterate our **BUY rating**, with a **12M Target-Price** of **R$40.00**, reflecting an **upside** of **+14.61**%.

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**

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