

BRF

2Q24 Review: Birds flying high, you know how I feel

LatAm Meatpackers

Main takeaways:

(i) Total **net revenue** of **R\$14.9bn** (+5.1% vs. Genial Est.), up **+11.6% q/q** and **+22.3% y/y**; (ii) **EBITDA** clocking in at **R\$2.6bn** (+8.9% vs. Genial Est.), **above our already bullish bias** and **comprising growth** of **+23.8% q/q** and **+160.5% y/y**; (iii) Falling **grain prices** continue to **reduce COGS**, although at a **slightly milder intensity** than in the previous quarter. Even so, the company showed even **more efficiency by diluting fixed costs with increased volume**; (iv) **Net income** reached **R\$1.1bn** (+37% vs. Genial Est.), up sharply by +84.3% q/q, reversing the loss seen in 2Q23 and indicating an **operational recovery**; (v) The appreciation of the **USD/BRL exchange rate** contributed to an improvement in the competitiveness of **exports**; (vi) The **Brazil segment** made **greater progress** in reducing the **cost of grains** passing through the P&L, while the **international market** saw **softer cost reductions**; (vii) We believe that **Newcastle disease** will only have a **limited impact**; (viii) **Trade down** in proteins was an important factor driving the **increase in demand for chicken** in basically all the regions where BRF has export penetration; (ix) Based on these results and the **prospect of continued operational and cost improvements**, we maintain our **recent upgraded BUY rating**, with a **12M Target Price** of **R\$27.50**, which represents a potential **upside** of **+22.49%**.

BRF reported its **2Q24 results yesterday**, August 14, after the market closed. The company posted total **net revenue** of **R\$14.9bn** (+5.1% vs. Genial Est.), up +11.6% q/q and +22.3% y/y. The appreciation of the **USD/BRL exchange rate** contributed to improved export competitiveness, which in turn boosted revenue. Reported **EBITDA** was **R\$2.6bn** (+8.9% vs. Genial Est.), **above our already bullish projections** and comprising growth of **+23.8% q/q** and **+160.5% y/y**. This ended up reflecting an **expansion in margins to 17.6%** (+15.8p.p q/q; +9.3p.p y/y), sustained by the **fall in grain prices** (as reduced COGS) and the **implementation of operational improvements** (BRF+ 2.0). **Net income** reached **R\$1.1bn** (+37.1% vs. Genial Est.), with a strong increase of +84.3% y/y, reversing the loss of -R\$1.3bn seen in 2Q23 and indicating an operational recovery.

2Q24 Review

FX rate and new plants qualifications boost the international market. In the international market, BRF recorded an increase in net revenue of +16.8% y/y, slightly above of what we expected. This growth was considerably driven by the appreciation of prices in strategic markets, the expansion of exports and the gaining of new licenses, which totaled 57 during the 1H24, strengthening the company's presence in markets such as the UK, USA and Southeast Asian countries.

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Company

BRFS3 BZ Equity

Buy

Price: R\$ 23.51 (15-Aug-2024)

Target Price 12M: R\$ 27.50

The appreciation of the USD/BRL exchange rate helped improve the competitiveness of BRF's Brazilian exports, maximizing sales prices in BRL. In addition, sales costs fell, reflecting the drop in grain consumption costs, although the exchange rate impact affected international inventories. In addition, it is worth mentioning the outstanding performance in several regions: **(i)** in the Halal market, it consolidated its leadership with a 38.4% market share in the GCC (Gulf Cooperation Council); **(ii)** in Turkey, Banvit expanded its leadership position in processed products with a 27.2% market share; **(iii)** in Asia, the company expanded its presence in Southeast Asia and observed a recovery in pork protein prices in China; and **(iv)** in the Americas, the Sadia brand grew in all categories in Chile, reinforcing its position in the processed products market.

Brazil segment advances with lower grain costs. Brazilian operations showed a remarkable performance, evidenced by a significant improvement in profitability and sales volume, especially in processed products. This growth was driven by effective commercial execution, which expanded the company's presence in the Brazilian market. In addition, BRF managed to reduce production costs, mainly due to the fall in grain prices and efficiency in the product mix, which contributed to more solid results.

The Sadia and Perdigão brands played a central role in the quarter, as it were launched new products that managed to boost demand. With the more favorable economic scenario, including lower unemployment and also protein trade down, as food consumption kept happening at higher levels in Brazil even with the recent rise in inflation, consolidating BRF as the leader in the processed food market.

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

(R\$ Millions)	2Q24			1Q24		2Q23	
	Reported	Genial Est.	% R/E	Reported	% q/q	Reported	% y/y
Net Revenue	14.930	14.211	5,1%	13.378	11,6%	12.205	22,3%
COGS	(11.000)	(10.632)	3,5%	(10.153)	8,3%	(10.719)	2,6%
Adjusted EBITDA	2.621	2.406	8,9%	2.117	23,8%	1.006	160,5%
EBITDA Margin (%)	17,6%	16,9%	0,62p.p	15,8%	1,73p.p	8,2%	9,31p.p
EBIT	1.703	1.615	5,4%	1.252	36,0%	-361	-572,2%
EBIT Margin (%)	11,4%	11,4%	0,04p.p	9,4%	2,05p.p	-3,0%	14,36p.p
D&A	866	870	-0,5%	865	0,2%	1.367	-36,6%
Financial Result	(390)	(817)	-52,3%	(538)	-27,5%	(1.099)	-64,5%
Net Income	1.094	798	37,1%	594	84,3%	(1.337)	-181,8%
Net Margin (%)	7,3%	5,6%	1,71p.p	4,4%	2,89p.p	-11,0%	18,28p.p

Source: BRF, Genial Investimentos

Our Take on BRF

Newcastle disease with limited impact. We believe that Newcastle disease, which could have negatively impacted exports, has had a more limited impact than initially expected. Efficient management of operations and rapid adaptation to restrictions imposed by countries such as Japan and Saudi Arabia allow BRF to mitigate potential negative effects.

In addition, **(i)** the continued fall in grain prices, **(ii)** the operational improvements introduced by the BRF+ 2.0 program and **(iii)** the trade down in proteins that we have observed worldwide reinforce our optimistic view of the company's ability to maintain its **deleveraging trajectory**, which reached **1.14x Net Debt/EBITDA** (vs. 1.45x in 1Q24). In addition, although we have had some time to reflect on the new management's stance (the change took place with the arrival of Mr. Miguel Gularte at the end of 2022), we needed to be clearer about the **path towards profitability** and **better cash flow management**, since the previous management's track record we judged to be very negative.

Birds flying high, you know how I feel. Considering not only the **favorable momentum for chickens** (external factors), but also initiatives such as BRF+ 2.0 (which are internal), we believe that management is actually showing more confidence. **It's a structural change** ("It's a new dawn, it's a new day, it's a new life for me..."), quoting Nina Simone's famous song "**Birds flying high... and you know how I feel**", which perfectly fits BRF's new equity story. Based on these results and the prospect of continued operational improvements, even though we had already witnessed a rise in the shares following JBS's (Seara) result the previous day, with investors anticipating BRF's good result, we believe that the market's reaction to the result will continue to be positive. We reiterate **our recent BUY rating**, with a **12M Target Price** of **R\$27.50**, which represents a potential **upside** of **+22.49%**. We remind investors that we had **changed our rating from Neutral to BUY** and raised our TP in the **preview report**, just before the results.

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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under Review	Under review	5%

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