genial | Equity Research

BRASIL AGRO

1Q25FY Preview: Neither grain nor land...

LatAm Agribusiness

Main takeaways:

Brasil Agro will report its **1Q25 (Fiscal Year) results on November 6th**, after the market closes. We project **Net revenues** of **R$325mn Genial Est.** (+41.3% q/q; +19.9% y/y), driven by **(i)** the harvest period and **(ii)** higher prices and invoices volumes, especially in sugarcane and soybean crops, respectively. COGS is estimated at R$305mn (+34.4% q/q; +23.5% y/y), which will put pressure on operating margins. Therefore, we project an operational **adjusted EBITDA** of **R$15mn Genial Est.** (-25.0% q/q; -35.1% y/y), with a **margin contraction to 4.6%** (-4.08p.p q/q; -3.91p.p y/y) due to **(iii)** the fall in soybean and corn prices and **(iv)** the increase in input costs. For the bottom line, we expect a net operating income of R$10mn (+190.9% q/q; -66.2% y/y), resulting in a net margin of 3.1% (+7.86p.p q/q; -7.85p.p y/y). This performance reflects Brasil Agro's efforts to adjust to **challenging market conditions**, still marked by **low grain prices**, which impact profitability. **(v)** The continuation of a prolonged downward cycle, many of medium to small-sized producers will be forced to sell or, at the very least, lease their properties to generate cash flow. Given that this opportunity is still maturing and has not come to light yet, we reiterate our **Neutral rating**, with a **12M Target Price** of **R$27.50**, reflecting an **upside of +15.79%.**

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Company

AGRO3 BZ Equity
Neutral

Price: R$ 23.75 (05-Nov-2024)
Target Price 12M: R$ 27.50

Table 1. Income Statement BrasilAgro (1Q25FY Genial Est.)

(R$ millions)	1Q25E Genial Est.	4Q24A Reported	% q/q	1Q24A Reported	% y/y
Net Revenue	**325**	**230**	**41,3%**	**271**	**19,9%**
COGS	(305)	(227)	34,4%	(247)	23,5%
Operational Adjusted EBITDA	**15**	**20**	**-25,0%**	**23**	**-35,1%**
EBITDA Margin (%)	4,6%	8,7%	-4,08p.p	8,5%	-3,91p.p
Operational Net Income	**10**	**(11)**	**190,9%**	**30**	**-66,2%**
Net Margin (%)	3,1%	-4,8%	7,86p.p	10,9%	-7,85p.p

Source: BrasilAgro, Genial Investimentos

Agricultural commodity prices remain challenging y/y. With the continued bearish scenario for soybeans and cotton and a still slow recovery for corn, agricultural commodity prices continue to have limited prospects. Brasil Agro remains in a context that requires caution and operational discipline. The main pressure factors include: **(i)** forecasts of a low-intensity La Niña, which, although benefiting crop development, had an initial negative impact on cotton planting in Mato Grosso (MT) due to delayed rains; **(ii)** stable prices, with no expectations of a significant rise for soybeans (which should continue to depreciate for longer due to oversupply) and cotton (which was already at a good price level); and **(iii)** high logistical and fuel costs due to the appreciation of the USD/BRL exchange rate and the price of oil, which directly impacts operating margins.

Looking ahead: moderate prospects for soybeans and corn. We believe that the fundamentals that would support a significant rise in grain prices remain limited, even with some initiatives to control planted areas and the gradual recovery in corn margins that has been observed in the short term. For soybeans, although the downside is limited at this price level, oversupply should still prevail for longer, given the good prospects for the 24/25 harvest in Brazil and the US. For Argentina, the country's economic pressures could influence a restricted growth in soybean production, which, added to the adverse weather, would put a brake on possible increases in the planted area. Even so, our base scenario is a slight expansion to 52Mt (+4% vs. crop 23/24).

Therefore, we expect Brasil Agro to continue facing challenges to expand margins significantly, especially without the contribution of extraordinary weather events. Looking at the company itself, we believe that the 24/25 crop may express a cautious improvement in margins, driven by continued more controlled production costs and the favorable USD/BRL exchange rate.

Positive impact of weather conditions and sugarcane prices. Although the scenario for some agricultural crops presents challenges, sugarcane maintains a positive performance in Brasil Agro's portfolio. Benefiting from a weak La Niña, **(i)** production should advance favorably, and **(ii)** market price stability should sustain the crop's profitability at levels higher than those of grains. In addition, the sugar market has solid fundamentals, which support optimistic expectations regarding demand. This context allows Brasil Agro to benefit from higher prices for sugarcane, increasing the return on this crop and partially offsetting the impacts of lower prices in other commodities.

Property sale in stages. At the beginning of October, the company concluded the second stage of the sale of Fazenda Alto Taquari (MT), totaling 67% of the farm's total usable area. 1,157 useful hectares were sold at a value of 1,100 bags of soy/useful hectare, reaching ~R$189.4m (~R$163,755/useful hectare), which will be accounted for in 1Q25. Ownership of the area was transferred, ending operations. The first stage, completed in October 2021, included 1,537 usable ha, making the second stage 2,694 usable ha out of a total of 3,723 ha. With this transaction, all the property's plateau areas were sold, leaving Brasil Agro's portfolio with 1,308 ha (809 useful ha) with different soil and altitude characteristics, now dedicated to growing sugar cane. This transaction, carried out with goodwill, strengthens the company's results and cash position in the quarter, reflecting the added value of the land and the significant return on the initial investment in converting the property into a highly profitable crop. The recent sale was split to maintain controlled exposure with the same buyer. The initial IRR was 19% and, after adjusting to the fall in soybean prices, fell slightly to 18.7%, still a highly attractive rate for the project.

Our Take on BrasilAgro

Outlook for pressure on soybean prices due to increased global supply. The scenario for soybeans remains challenging in terms of supply and demand, with robust global supply putting pressure on prices. Despite some regional fluctuations, **(i)** soybean exports from Brazil remain strong, meeting China's continued appetite, while **(ii)** availability in the US contributes to keeping the market well supplied. This scenario of abundance reduces the potential for price recovery in the short term, with margins for producers still under pressure. With global demand expected to moderate, the environment suggests a downward trend for soybean prices.

Duality in the soybean market: possible US-China tariff embargo. The possibility of increased tariff barriers in the US for any products of Chinese origin creates a duality for the soybean market. On the one hand, Brazil could benefit **(i)** by filling the gap left by the US, assuming an even more leading position in exports to China and capturing high demand, given the imminent break in trade relations if Trump's administration is victorious and implements tariff hikes. On the other hand, **(ii)** a tariff embargo could negatively impact China's GDP, reducing the country's average income and, consequently, domestic consumption. This economic weakening would put negative pressure on demand for soybeans, generating a bearish effect on global prices.

Cotton scenario: Uncertainties in the global market. As we have already pointed out in our last reports, we believe that the outlook for cotton remains uncertain, with external factors influencing production and demand in the global market. The possible **(i)** imposition of additional tariffs by the US on Chinese products could significantly affect demand for cotton, especially in the clothing and textiles sector. In the event of the re-election of Donald Trump, known for his protectionist stance, there is an expectation of high tariffs on Chinese products, which would reduce the competitiveness of these products and, consequently, the demand for textiles. In addition, the **(ii)** increase in the price of a barrel of oil puts pressure on the price of synthetic fibers due to logistical costs, introducing additional complexity to the competitive scenario. Although these factors may provide support for cotton prices in the short term, we expect a slowdown to be more evident in the medium term, with the downward movement in prices gaining strength from 2H25 onwards, as these impacts consolidate.

Opportunity for land acquisition? With tight margins and a prolonged cycle of low prices for commodities like soy and corn, the current scenario should be favorable for land acquisitions by large producers like Brasil Agro. Small and medium-sized producers, more vulnerable in negative cycles, face pressure on working capital and often postpone hedging their crops, waiting for prices to recover. This context leads many of these producers to consider selling part of their assets to generate cash flow, often accepting lower prices than usual. However, as we discussed with Brasil Agro, the moment of offering land at reduced prices has not yet fully materialized. The company believes that this scenario of greater supply at low prices may be close, but it is still in the process of maturing.

Neither grain nor land... The agricultural real estate market remains a strategic base for Brasil Agro, but the company is facing difficulties in expanding its acquisitions in this cycle. Despite the **fall in grain prices**, producers are still reluctant to reduce land prices. One factor contributing to this retention is the increase in requests for judicial recovery, leading small and medium-sized producers to hold on to their assets rather than put them up for sale. Even so, Brasil Agro believes that, with the continuation of a **prolonged downward cycle**, many of these producers will be forced to sell or, at the very least, lease their properties to generate cash flow. Given that this **opportunity is still maturing**, we reiterate our **Neutral rating**, with a **12M Target Price of R$27.50**, reflecting an **upside of +15.79%.**

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