

# JBS

## 3Q24 Preview: Hot meat today, but it could cool down tomorrow

LatAm Meatpackers

### Main takeaways:

(i) Despite the combination of negative cycles in the **US** and now in **Brazil**, unlike Minerva, which has almost 70% exposure to the Brazilian cycle - motivating our downgrade- we see that JBS, at the moment, is benefiting from its successful strategy of geographic and portfolio diversification. (ii) Thus, even with **negative cycles in both locations**, we believe that, for the time being, JBS should remain resilient. (iii) We will be attentive to possible compression impacts on consolidated margins, if PPC and Seara do not compensate in the future for the retraction in the results of Friboi and JBS Beef North America. (iv) With the most attractive valuation in the meatpacking segment, we reiterate our **BUY rating**, given our **12M Target Price of R\$40.00**, indicating an **upside of +12.04%**. We will monitor the speed of margin decompression in the next results for possible changes.

JBS will release its 3Q24 results on **November 13th after the market closes**. We expect another **strong quarter**, with a continuation of the positive trends already seen in 2Q24 being slightly reinforced by (i) JBS Brazil and Seara's even stronger performance, and (ii) BRL/USD exchange rate depreciation (-6.3%q/q). As a result, we expect an increase in revenue both y/y and q/q, with a slight contraction in the EBITDA margin of -0.2p.p q/q. In 3Q24, we estimate total **Net revenue of R\$109bn Genial Est.** (+9.2% q/q; +20.2% y/y). We project an **EBITDA of R\$10.5bn Genial Est.**, up +6.9% q/q and +100.1% y/y, representing an **expansion** of +3.7p.p. y/y in the margin, which should reach **9.6%**. On the bottom line, we project a **Net income of R\$4.2bn Genial Est.**, reflecting an expansion of +2.1p.p q/q and +3.2p.p y/y in the net margin.

**Table 1. Income Statement JBS (3Q24 Genial Est.)**

(R\$ Millions)	3Q24E Genial Est.	2Q24 Reported	% q/q	3Q23 Reported	% y/y
<b>Net Revenue</b>	<b>109.906</b>	<b>100.606</b>	<b>9,2%</b>	<b>91.409</b>	<b>20,2%</b>
COGS	(90.202)	(85.094)	6,0%	(80.357)	12,3%
<b>Adjusted EBITDA</b>	<b>10.559</b>	<b>9.882</b>	<b>6,9%</b>	<b>5.277</b>	<b>100,1%</b>
EBITDA Margin (%)	9,6%	9,8%	-0.5p.p	5,8%	+3.7p.p
<b>EBIT</b>	<b>7.201</b>	<b>5.917</b>	<b>21,7%</b>	<b>2.611</b>	<b>175,8%</b>
EBIT Margin (%)	6,6%	5,9%	+0.7p.p	2,9%	+3.8p.p
D&A	2.990	2.850	4,9%	2.616	-14,3%
Financial Result	(534)	(390)	-36,9%	(674)	20,8%
<b>Net Income</b>	<b>4.213</b>	<b>1.715</b>	<b>145,7%</b>	<b>573</b>	<b>635,3%</b>
Net Margin (%)	3,8%	1,7%	+2.1p.p	0,6%	+3.2p.p

Source: JBS, Genial Investimentos

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### Company

#### JBSS3 BZ Equity

Buy

Price: R\$ 35.70 (12-Nov-2024)

Target Price 12M: R\$ 40.00

### 3Q24 Preview

In 3Q24, we estimate total **Net revenue** of R\$109bn Genial Est. (+9.2% q/q; +20.2% y/y). We project an **EBITDA of R\$10.5bn Genial Est.**, up +6.9% q/q and +100.1% y/y, representing an **expansion** of +3.7p.p. y/y in the margin, which should reach **9.6%**. On the bottom line, we project a **Net income of R\$4.2bn Genial Est.**, reflecting an expansion of +2.1p.p q/q and +3.2p.p in the net margin.

**Beef North America continues to have pressured margins.** The favorable seasonality of early summer (barbecue season) should contribute to a slight increase in volumes. However, the cattle cycle in the US, with low availability and high costs, continues to squeeze meatpackers' margins. We project an adjusted EBITDA of R\$126mn Genial Est. for the segment, with a margin of 1.5% (vs. 9.4% in 2022, during the high cycle), reflecting a retraction of -1.5 p.p. y/y.

**JBS USA Pork should post a solid quarter.** We expect JBS USA Pork to continue posting solid results in 3Q24, with EBITDA of R\$1.4bn Genial Est., (+13% q/q) driven by **(i)** favorable demand for pork due to the protein trade down and **(ii)** lower grain costs. With a slight drop in the USD margin being offset by the depreciation of the BRL.

**PPC with solid performance already reported.** The results of the American Pulgrim's Pride Corporation (PPC) were released on October 28. Performance was solid, although slightly below expectations, driven by strong demand with the protein trade down and favorable grain prices, offsetting the negative impact of operations in Mexico. Net revenue was marked at US\$4.6bn and adjusted EBITDA at US\$660mn, representing a margin of 14.4%, apartment q/q, which should translate into an EBITDA contribution of ~R\$1.4bn for JBS.

**JBS Australia with slight slowdown.** We project a slight slowdown in operations in Australia. On the one hand, we see operations being affected by higher lamb and cattle prices, increasing the cost of acquisition for slaughter. We don't yet consider it a significant increase to judge that there is a reversal of the cycle. On the positive side, we tend to see a recovery in export prices. We estimate EBITDA of R\$1.1bn, apartment q/q, with a slight margin expansion in BRL for the segment.

**JBS Brazil: Today it's performing, tomorrow it could get worse...** We expect strong results for JBS Brazil in 3Q24, with our projections indicating net revenue of R\$16.7bn Genial Est. (+7.4% y/y) and EBITDA of R\$1.3bn Genial Est., reflecting a margin of 8% (+0.4p.p. q/q; +4.6p.p. y/y). This should be driven by **(i)** solid demand in the domestic market, favored by the favorable seasonality typical of 3Q; **(ii)** strong export demand, driven mainly by China with the anticipation of Chinese New Year to January/25, with BRL depreciation driving and **(iii)** low cattle prices in the consolidated 3Q24 (~R\$239 quarterly average) for Friboi.

However, today's favorable winds are unlikely to blow tomorrow. As for 4Q24, JBS Brazil's results will be impacted by rising cattle prices, which have already reached a 10-year high of R\$335 this past week (vs. ~R\$215 at the low of this cycle in June), with our estimates indicating an average of ~R\$330 Genial Est. for 25E, bringing challenging prospects for next year.

**Strong momentum for Seara.** We expect a strong performance from the unit driven by positive poultry momentum with **(i)** strong demand in the domestic market, favorable to price increases and **(ii)** low grain prices. This should result in an EBITDA for the segment of R\$2.1bn, with a margin expansion of +13.68p.p q/q.

## Our take on JBS

**Execution of the dual listing is at a slow pace.** The primary listing process of JBS shares on the New York Stock Exchange (NYSE) is much slower than promised by the company, due to **(i)** additional paperwork and **(ii)** checks for liquidity guarantees (since the ADR has a low ADTV). In addition, we see some setbacks for **(iii)** authorization by the Securities Exchange Commission (SEC), which is being pressured by strong opposition from environmental groups and legislators, who demand greater transparency from the company regarding its environmental impacts. We believe that listing on the NYSE is an important step towards attracting a broader investor base and reducing the cost of capital for future acquisitions in the US. It would also close the gap in valuation metrics with a more equivalent dynamic to its international peers, including Tyson Foods. We expected completion by the end of this year, which probably won't happen.

**Potential risks: BNDES participation.** One of the risks for a devaluation of the shares is the possible sale of the stake held by BNDES. Today, this stake represents 21% of JBS shares. This potential sale, which has already been widely mentioned in market rumors, could increase volatility due to the excess supply of shares dumped on the secondary market. This scenario reinforces our concern about JBS's small free float of ~30% of the capital, a factor that could be perceived by minority shareholders as a potential risk.

**Negative cycle in both BR and USA is a warning point.** The negative cycle in the US led to a drop in margin from 9.4% in 2022 to 1.5% in 2Q24, with market projections indicating that this adverse cycle should last until ~2Q27, as herds are taking longer than expected to be replenished. However, JBS's diversification thesis has proved effective in mitigating these results, reflected in the robust figures presented last quarter. However, the anticipation of the reversal of the cycle in Brazil worries us, with the price of cattle reaching an all-time high of R\$334 this week (vs. ~R\$239 average in 2Q24).

This change was driven by **(i)** an exceptionally drier winter, which caused ranchers to keep more animals in pasture in 2H24, taking them out of the slaughter pipeline and contributing to a reduction in supply, and **(ii)** record exports, which have contributed to a ~53% rise in prices since June.

**Hot meat today, but it could cool down tomorrow.** Inflation data measured by the Brazilian Institute of Geography and Statistics (IBGE) indicates an aggressive rise in the prices of red meat cuts of +5.81% m/m in October, which suggests some ability for meatpackers to pass on prices in 4Q24, providing some relief for margins in the quarter even with the cost of acquiring cattle for slaughter rising by +50% in 5M. However, considering that meat historically has a low elasticity of demand, with price increases leading **consumers to migrate to more affordable proteins** (trade down), we don't expect these pass-throughs to be sustained, which could negatively impact the company's margins in 2025E. For the time being, we are in line with the view that **diversification will promote neutral margins**, but we will have to monitor potential signs of more aggressive contraction that may emerge from the performance over the course of 2025.

With the more attractive valuation of the meatpacking segment, we reiterate our **BUY rating**, given our **12M Target Price of R\$40.00**, indicating an **upside of +12.04%**. We will monitor the speed of margin decompression in the next results for possible changes.

## Appendix: JBS

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

Income Statement	2024E	2025E	2026E	2027E	2028E
<b>Net Revenue</b>	<b>361.480</b>	<b>420.455</b>	<b>432.208</b>	<b>452.549</b>	<b>473.916</b>
(-) COGS	(314.488)	(370.000)	(373.428)	(391.003)	(409.464)
<b>Gross Profit</b>	<b>46.992</b>	<b>50.455</b>	<b>58.780</b>	<b>61.547</b>	<b>64.453</b>
(-) Expenses	(13.512)	(20.345)	(27.991)	(26.949)	(18.458)
<b>Adjusted EBITDA</b>	<b>33.480</b>	<b>30.110</b>	<b>30.789</b>	<b>34.598</b>	<b>45.995</b>
(-) D&A	12.257	12.328	12.528	11.912	11.789
<b>EBIT</b>	<b>21.223</b>	<b>17.782</b>	<b>18.261</b>	<b>22.686</b>	<b>34.206</b>
(+/-) Financial Result	(8.200)	(3.707)	(4.187)	(4.661)	(3.722)
(-) Taxes	(3.820)	(4.801)	(4.930)	(6.806)	(10.180)
<b>Net income</b>	<b>9.203</b>	<b>9.274</b>	<b>9.144</b>	<b>11.219</b>	<b>20.304</b>
<b>Profitability</b>					
Net margin (%)	2,55%	2,21%	2,12%	2,48%	4,28%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
<b>Net Revenue</b>	<b>361.480</b>	<b>420.455</b>	<b>432.208</b>	<b>452.549</b>	<b>473.916</b>
(-) COGS	(314.488)	(370.000)	(373.428)	(391.003)	(409.464)
<b>Adjusted EBITDA</b>	<b>33.480</b>	<b>30.110</b>	<b>30.789</b>	<b>34.598</b>	<b>45.995</b>
<b>EBIT</b>	<b>21.223</b>	<b>17.782</b>	<b>18.261</b>	<b>22.686</b>	<b>34.206</b>
(-) Taxes	(3.820)	(4.801)	(4.930)	(6.806)	(10.180)
(+) D&A	12.257	12.328	12.528	11.912	11.789
(+/-) Δ WK	(1.586)	(3.400)	(986)	(1.033)	(1.102)
(-) Capex	(7.278)	(8.359)	(8.836)	(8.135)	(8.135)
<b>FCFF</b>	<b>20.796</b>	<b>13.550</b>	<b>16.036</b>	<b>18.624</b>	<b>26.578</b>

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under Review	Under review	5%

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