genial | Equity Research

MARFRIG

3Q24 Preview: The flesh is weak

LatAm Meatpackers

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Company

MRFG3 BZ Equity
Neutral

Price: R$ 15.40 (11-Nov-2024)
Target Price 12M: R$ 14.35

Main takeaways:

(i) We project **ex-BRF Net revenue** of **R$21.7bn** (+9.1% q/q; -0.8% y/y) and **consolidated** Revenue of **R$34.1bn**; **(ii) South American operations** expected to see a 15% q/q volume increase, driven by strong domestic and export demand; **(iii)** Estimated net revenue of R$4.1bn and **EBITDA** of **R$445mn**; **(iv)** BRL depreciation to boost results; **(v) North American operations** showing moderate results, with volume driven by the start of barbecue season but still pressured margins due to the negative cattle cycle; **(vi)** Expected net revenue of R$4.12bn and **EBITDA** of **R$411mn**; **(vii)** Leverage unlikely to decrease significantly post-Minerva deal, with **~4.5x Net Debt/EBITDA 25E**; **(viii)** Concerns over **cycle reversal in Brazil** and continued **negative cycle** in the U.S. through ~2Q27 raise questions on Marfrig's ability to manage high leverage; **(ix)** we reiterate our **NEUTRAL rating**, with a **12M Target Price** of **R$14.35**, implying a **-6.82% downside.**

Marfrig will release **its 3Q24 results** on **November 13**, after market closing. We anticipate a seasonally better but still weak year-over-year performance. Key points include: **(i) North American** operations showing **moderate results**, with solid sales volumes due to the barbecue season partially offsetting **(ii)** higher cattle costs, which continue to pressure margins. Our **outlook** for **BRF figures** remains solid, driving Marfrig's consolidated performance, supported by positive momentum from beef-to-chicken protein trade-down. **(iii)** Stronger South American operations, especially in Brazil, with good sales volumes both domestically and in exports, along with flat pricing. **(iv)** A -6.3% q/q depreciation of BRL/USD, enhancing results due to competitive gains in exports.

Table 1. Income Statement Marfrig ex. BRF (3Q24 Genial Est.)

(R$ Millions)	3Q24E Genial Est.	2Q24 Reported	% q/q	3Q23 Reported	% y/y
Net Revenue	**21.700**	**19.882**	**9,1%**	**21.875**	**-0,8%**
COGS	(20.102)	(18.429)	9,1%	(19.869)	1,2%
Adjusted EBITDA	**870**	**757**	**14,9%**	**1.318**	**-34,0%**
EBITDA Margin (%)	4,0%	3,8%	+0.2p.p	6,0%	-2p.p
EBIT	**408**	**347**	**17,6%**	**846**	**-51,8%**
EBIT Margin (%)	1,9%	1,7%	+0.2p.p	3,9%	-2p.p
D&A	462	366	26,2%	417	10,8%
Financial Result	(391)	(1.046)	62,6%	(1.019)	61,6%
Net Income	**(34)**	**475**	**-**	**455**	**-**
Net Margin (%)	-0,2%	2,4%	-	2,1%	-

Source: Marfrig, Genial Investimentos

Valuation and rating. Given a tepid quarter, we believe it's not a favorable time to initiate long positions in the stock due to weak short-term fundamentals, including: **(i)** High leverage, with expectations of further increases amid contracting y/y EBITDA, even post-Minerva deal (**Net Debt/EBITDA 2025E** at ~**4.5x** vs. 3.0x in 2Q24); **(ii)** Negative cattle cycle in the U.S. continuing to compress margins; **(iii)** Cycle reversal in Brazil signaling higher cattle acquisition prices. Thus, we reiterate our **NEUTRAL rating**, with a **12M Target Price** of **R$14.35**, implying a **-6.82% downside.**

3Q24 Preview

3Q24 main figures projected. We expect consolidated **Net revenue ex-BRF of R$21.7bn** Genial Est. (+9.1% q/q; -0.8% y/y) and an adjusted EBITDA of **R$851mn Genial Est**. (+14.9% q/q; -34% y/y). The margin would stand at 4% (+0.2p.p t/t; -2.p.p y/y). The bottom line is projected at a loss of -**R$34mn** (reversing net income both q/q and y/y).

South America: **Continued operations with sequential shipment increase q/q.** We project shipments of 218Kt Genial Est. (+15% q/q; -42% y/y) for South American operations, with a sequential increase driven by favorable seasonality, anticipation of Chinese New Year in January 2025, and BRL/USD depreciation. Net revenue is expected to reach R$4.1bn Genial Est. (+12.5% q/q; -23.8% y/y), with adjusted EBITDA of R$445mn Genial Est. (+33.3% q/q; -28.9% y/y), with stable margins, though the rising cattle costs will compress margins in 4Q24.

BRF continues driving Marfrig's consolidated results. As previously mentioned, BRF operations continue to benefit Marfrig's results due to a favorable mix: trade down from beef to more affordable proteins and low grain prices. The poultry business is the largest contributor to Marfrig's EBITDA, accounting for approximately 78%, with an estimated EBITDA of R$2.2bn Genial Est. (vs. R$870mn ex. BRF).

North America: **National Beef pressured by the cattle cycle**. North American operations are expected to see a slight improvement in sales volume, boosted by favorable seasonality from the barbecue season, with projected net revenue of R$4.1bn. However, high cattle costs will continue to pressure margins, resulting in EBITDA of R$411mn Genial Est. (-13.7% q/q; -43.6% y/y).

Our Take on Marfrig

Leverage will decrease, but not significantly. Marfrig has already received **R$1.5bn** in cash and will receive the remaining portion, totaling **R$5.7bn** in **4Q24**, related to the sale of 13 assets to Minerva, excluding the 3 plants in Uruguay that were also part of the agreement but are still under evaluation by the CPDC (antitrust authority).

The sales of these assets at a multiple significantly higher than Marfrig's leverage ratio of **3.05x** in **2Q24** will certainly provide some relief. However, it doesn't seem sufficient. According to our projections and considering that US beef margins will remain under pressure until a potential cycle shift between late 2026 and early 2027, Marfrig's leverage ratio is expected to close at **4.5x Net Debt/EBITDA for 2025E** (including BRF), which is considerably high for the sector.

The flesh is weak. There will be a volume increase due to the typical barbecue season seasonality in the US and more appetite for exports in South America, but as the saying goes, it doesn't help if the flesh is weak. We highlight that it will still be a challenging quarter for Marfrig's own operations. Nonetheless, BRF has proven to be a strategic asset for Marfrig, partially compensating for the negative cattle cycle in the US in the consolidated results.

While we know many investors are taking long positions in Marfrig to gain exposure to BRF, we disagree with this view. We recommend these investors follow our **Buy call on BRF** and refrain from exposing themselves to Marfrig at this moment. In our view, Marfrig's short-term fundamentals are weak, leaving doubts about the sustainability of its investment thesis. This is because we believe the company carries too high leverage and has lost slaughter capacity, especially in Brazil, leading to a reduced EBITDA level to lower leverage post deal with Minerva. The main points of attention are: **(i)** market data indicating the cycle in the US will likely remain **negative until 2Q27**, implying margins under pressure for a prolonged period; and **(ii)** the **reversal of the cycle in Brazil**, reflected in our estimates of the cattle arroba price at **~R$330** in **2025E** (vs. R$239 in 3Q24 average).

With both markets (Brazil and the US) facing challenging cycles from 4Q24 onward, the company will struggle to manage its high leverage of **4.5x Net Debt/EBITDA** for 2025E. Therefore, we reiterate our **NEUTRAL rating**, with a **12M Target Price** of **R$14.35**, implying a **-6.82% downside.**

Appendix: Marfrig

Figure 1. Marfrig – Income Statement in R$ Millions (Genial Est. 2024-2027)

Income Statement	2024E	2025E	2026E	2027E
Net Revenue	**141,232**	**131,660**	**134,335**	**132,730**
(-) COGS	(128,239)	(119,942)	(121,708)	(120,855)
Gross Profit	**12,993**	**11,718**	**12,627**	**11,875**
(-) Expenses	(4,071)	(3,454)	(4,363)	(5,387)
Adjusted EBITDA	**8,922**	**8,264**	**8,264**	**6,488**
(-) D&A	(1,454)	(1,609)	(1,654)	(1,730)
EBIT	**4,302**	**3,449**	**4,205**	**4,471**
(+/-) Financial Result	(2,384)	(2,100)	(2,619)	(1,971)
(-) Taxes	(1,291)	(1,035)	(1,262)	(1,341)
Net income	**627**	**(314)**	**325**	**1,159**
Profitability				
Net margin (%)	0,44%	-0,24%	0,24%	0,00%

Figure 2. Marfrig– Cash Flow in R$ Million (Genial Est. 2024-2027)

Cash Flow (FCFF)	2024E	2025E	2026E	2027E
Net Revenue	**141,232**	**131,660**	**134,335**	**132,730**
(-) COGS	(128,239)	(119,942)	(121,708)	(120,855)
Adjusted EBITDA	**8,922**	**8,264**	**8,264**	**6,488**
(-) D&A	(1,454)	(1,609)	(1,654)	(1,730)
EBIT	**4,302**	**3,449**	**4,205**	**4,471**
(-) Taxes	(1,291)	(1,035)	(1,262)	(1,341)
(+) D&A	1,454	1,609	1,654	1,730
(+/-) Δ WK	(3,576)	(3,576)	(3,576)	(3,576)
(-) Capex	(26)	(292)	(795)	(184)
FCFF	**863**	**155**	**226**	**1,100**

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under Review	Under review	**5%**

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