

MARFRIG

3Q24 Preview: The flesh is weak

LatAm Meatpackers

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	2Q24	3Q23		
	Genial Est.	Reported	% q/q	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

Analysts

Igor Guedes

+55 (11) 3206-8286
igor.guedes@genial.com.vc

Luca Vello

+55 (11) 3206-1457
luca.vello@genial.com.vc

Isabelle Casaca

+55 (11) 3206-8244
isabelle.casaca@genial.com.vc

Company

MRFG3 BZ Equity

Neutral

Price: R\$ 15.40 (11-Nov-2024)

Target Price 12M: R\$ 14.35

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

Disclosure Section

1. GENERAL DISCLAIMER

This report has been produced by the research department (“Genial Institucional Research”) of Genial Institucional Corretora de Câmbio, Títulos e Valores Mobiliários S.A. (“GENIAL INSTITUTIONAL CCTVM”). Genial Institucional is a brand name of Genial Investimentos CCTVM.

Genial Rating

	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	49%
Neutral	Expected return between +10% and -10% relative to the Company's industry average	41%
Sell	Expected return below -10% in relation to the Company's sector average	5%
under Review	Under review	5%

This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of GENIAL INSTITUTIONAL CCTVM. GENIAL INSTITUTIONAL CCTVM accepts no liability whatsoever for the actions of third parties in this respect.

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither GENIAL INSTITUTIONAL CCTVM nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report’s preparation or publication, or any losses or damages which may arise from the use of this research report

GENIAL INSTITUTIONAL CCTVM may rely on information barriers, such as “Chinese Walls” to control the flow of information within the areas, units, divisions, groups, or affiliates of GENIAL INSTITUTIONAL CCTVM.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by GENIAL INSTITUTIONAL CCTVM with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

The locally listed shares of Brazilian companies may only be purchased by investors outside of Brazil who are “eligible investors” within the meaning of applicable laws and regulations.

2. ANALYST(S) DISCLOSURES AND CERTIFICATION

The principal analyst, IGOR GUEDES, is responsible for the content of this report and for meeting the requirements of Securities and Exchange Commission of Brazil (CVM) Instruction 598/2018.

The analysts hereby certify that the views expressed in this research report accurately reflect their personal views about the subject securities or issuers and it was prepared in an independent manner, including with respect to the person and to GENIAL INSTITUTIONAL.

The analyst hereby certifies that he (she) has no connection with any individual who works for the issuer(s) discussed in this report.

The analyst hereby certifies that he (she), or his (her) spouse or companion, either directly or indirectly, in his or her own name or on behalf of a third party, does not hold any of the securities covered in this report.

The analyst hereby certifies that he (she), or his (her) spouse or companion, is not directly or indirectly involved in the purchase, disposal or brokering of the securities covered in this report.

The analyst hereby certifies that he (she), or the his (her) spouse or companion, has no direct or indirect financial interest in the issuer covered in this report (other than trading shares in investment funds, in which the analyst cannot control, directly or indirectly, the administration or management of the fund, or which do not concentrate investments in sectors or companies that are covered by reports produced by the analyst).

The analyst's compensation is, directly or indirectly, determined by income from GENIAL INSTITUTIONAL's business and financial operations.

In addition, the analysts certify that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The compensation of the analyst who prepared this report is determined by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of GENIAL INSTITUTIONAL CCTVM, its affiliates and/or subsidiaries as a whole, of which investment banking, sales and trading are a part. Compensation paid to analysts is the sole responsibility of GENIAL INSTITUTIONAL CCTVM.

The analyst hereby certifies that he (she), or his (her) spouse or companion, does not serve as an officer, director, or advisory board member of the subject company.

The principal analyst is responsible for the content of this report and for meeting the requirements of Securities and Exchange Commission of Brazil (CVM) Instruction 598/2018.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

3. ADDITIONAL DISCLOSURE

- (i) This document was prepared by GENIAL INSTITUTIONAL Research and is hereby supplied for the sole purpose of providing information about companies and their securities.
- (ii) The information contained herein is provided for informational purposes only and does not constitute an offer to buy or sell, and should not be construed as a solicitation to acquire, any securities in any jurisdiction. The opinions expressed herein regarding the purchase, sale or holding of securities, or with respect to the weighting of such securities in a real or hypothetical portfolio, are based on careful analysis by the analysts who prepared this report and should not be construed by current or future investors as recommendations for any particular investment decision or action. The investor's final decision should be made considering all of the risks and fees involved. This report is based on information obtained from primary or secondary public sources, or directly from companies, and is combined with estimates and calculations prepared by GENIAL INSTITUTIONAL CCTVM. This report does not purport to be a complete statement of all material facts related to any company, industry, security or market strategy mentioned. The information has been obtained from sources believed to be reliable, but GENIAL INSTITUTIONAL CCTVM does not make any express or implied representation or warranty as to the completeness, reliability or accuracy of such information. The information, opinions, estimates and projections contained in this document are based on current data and are subject to change. Prices and availability of financial instruments are indicative only and subject to change without notice. GENIAL INSTITUTIONAL CCTVM is under no obligation to update or revise this document or to advise of any changes in such data.
- (iii) The securities discussed in this report, as well as the opinions and recommendations contained herein, may not be appropriate for every type of investor. This report does not take into account the investments objectives, financial situation or particular needs of any particular investor. Investors who wish to buy, sell or invest in securities that are covered in this report should seek independent financial advice that takes individual characteristics and needs into consideration, before making any investment decision with respect to the securities in question. Each investor should make independent investment decisions after carefully analyzing the risks, fees and commissions involved. If a financial instrument is denominated in a currency other than an investor's currency, changes in exchange rates may adversely affect the price or value of, or the income derived from the financial instrument, and the reader of this report assumes all foreign exchange risks. Income from financial instruments may vary, and therefore their price or value may rise or fall, either directly or indirectly. The information, opinions and recommendations contained in this report do not constitute and should not be interpreted as a promise or guarantee of a particular return on any investment. Past performance does not necessarily indicate future results, and no representation or warranty, express or implied, is made herein regarding future performance. Therefore, GENIAL INSTITUTIONAL CCTVM, its affiliated companies, and the analysts involved in this report take no responsibility for any direct, indirect or consequential loss resulting from the use of the information contained in this report, and anyone using this report undertakes to irrevocably indemnify GENIAL INSTITUTIONAL CCTVM and its affiliates from any claims and demands.
- (iv) Prices in this report are believed to be reliable as of the date on which this report was issued and are derived from one or more of the following: (i) sources as expressly specified alongside the relevant data; (ii) the quoted price on the main regulated market for the security in question; (iii) other public sources believed to be reliable; or (iv) GENIAL INSTITUTIONAL CCTVM's proprietary data or data available to GENIAL INSTITUTIONAL CCTVM.

- (v)** No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning GENIAL INSTITUTIONAL CCTVM, its subsidiaries and affiliates. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this report.
- (vi)** GENIAL INSTITUTIONAL CCTVM makes no representations herein that investors will obtain profits. GENIAL INSTITUTIONAL CCTVM will not share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. GENIAL INSTITUTIONAL CCTVM accepts no fiduciary duties on behalf of recipients of this report and in communicating this report is not acting in a fiduciary capacity. This report is not to be relied upon in substitution for the exercise of recipient's independent judgment. Opinions, estimates, and projections expressed herein constitute the current judgment of the analyst responsible for the substance of this report as of the date on which the report was issued and are therefore subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of GENIAL INSTITUTIONAL CCTVM as a result of using different assumptions and criteria. The information, opinions and recommendations contained in this report do not constitute and should not be interpreted as a promise or guarantee of a particular return on any investment.
- (vii)** Because the personal views of analysts may differ from one another, GENIAL INSTITUTIONAL CCTVM, its subsidiaries and affiliates may have issued or may issue reports that are inconsistent with, and/or reach different conclusions from, the information presented herein. Any such opinions, estimates, and projections must not be construed as a representation that the matters referred to therein will occur. Prices and availability of financial instruments are indicative only and subject to change without notice. Income from financial instruments may vary, and therefore their price or value may rise or fall, either directly or indirectly.
- (viii)** This document may not be: (a) photocopied or duplicated in any manner, in whole or in part, and/or (b) distributed without GENIAL INSTITUTIONAL CCTVM's prior written consent. GENIAL INSTITUTIONAL CCTVM accepts no liability whatsoever for the actions of third parties in this respect.
- (ix)** Neither GENIAL INSTITUTIONAL CCTVM nor any of its affiliates, nor any of their respective directors, employees or agents, accepts any liability for any loss or damage arising out of the use of all or any part of this report.
- (x)** GENIAL INSTITUTIONAL CCTVM (or its affiliates, officers, directors or employees) may, to the extent permitted by law, have acted upon or used the information herein contained before the publication of this report and may have a position in securities issued by the companies mentioned herein and may make a market or act as a principal in any transactions in any such securities. Genial Institucional may from time to time perform investment banking or other services to, or solicit investment banking or other business from, the companies mentioned herein.

4. IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Genial Institucional CCTVM, a company authorized to engage in securities activities in Brazil. Genial Institucional CCTVM is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) and is not being provided pursuant to a soft-dollar arrangement.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Brasil Plural Securities LLC, a registered broker dealer in the United States with an office at 545 Madison Ave., New York, NY 10022, (212) 897-3737. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Genial Institucional CCTVM.

Brasil Plural Securities LLC accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person of Brasil Plural Securities LLC and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

The disclosures contained in research reports produced by GENIAL INSTITUTIONAL CCTVM and distributed by Brasil Plural Securities LLC in the U.S. shall be governed by and construed in accordance with U.S. law. This report may not be reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of GENIAL INSTITUTIONAL CCTVM. Additional information relative to the financial instruments discussed in this report is available upon request.

UK Disclaimer:

(i) This document is STRICTLY CONFIDENTIAL to the recipient, may not be distributed to the press or other media and may not be reproduced in any form. This document is directed only at persons who are “INVESTMENT PROFESSIONALS” falling within article 19(5) of the FSMA 2000 (FINANCIAL PROMOTION) ORDER 2005, or HIGH NET WORTH BODIES falling within ARTICLE 49(2) of that order (together THE “RELEVANT PERSONS”). This document must not be acted on or relied on by persons who are not RELEVANT PERSONS.

(ii) The distribution of this document in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of any such other jurisdiction.

Copyright 2023 GENIAL GENIAL INSTITUTIONAL CCTVM