genial | Equity Research

BRF

3Q24 Review: Let's talk about chicken!

LatAm Meatpackers

Main takeaways:

(i) Total **Net revenue** of **R$15.5bn** (+1.4% vs. Genial Est.; +4.0% q/q; +12.4% y/y), driven both by the increase in **shipments** to **1.273Kt** (+2.3% q/q and y/y), favored by the **BRL Fx depreciation** (+4% q/q), and by higher **price realization**, which reached **R$12.20/kg** (+1.6% q/q); **(ii)** adjusted **EBITDA** of **R$2.9bn** (+8.9% vs. Genial Est.; +13.2% q/q; +146.3% y/y), with a **margin** of **19.1%** (+1.5 p. p. q/q; +146.3% y/y); **(iii) Net income** of **R$1.3bn** (+22.8% vs. Genial Est.; +20.4% q/q), reversing the loss of -R$262mn in 3Q23, showing an operational recovery supported by the fall in **financial leverage** to **0.94x LTM** (-0.45x vs. 2Q24), reflected in lower interest expenses (-31.5% q/q; -23.9% y/y); **(iv) International Segment** reported **R$7.3bn** in **Revenue** (+0.8% vs. Genial Est.; +3.9% q/q; +22.0% y/y), benefiting from the favorable Fx rate and the expansion of market share, with new export licenses and strengthening in the Halal markets; **(v) Brazil Segment** reported **Revenue** of **R$7.2bn** (+1.6% vs. Genial Est.; +5.4% q/q; +10.4% y/y), driven by a commercial expansion strategy that secured 320k points of sale and captured the consumers' trade down movement towards more accessible proteins, such as chicken and processed products; **(vi)** We see BRF as an **attractive investment thesis,** maintaining our **BUY rating**, revising **upwards** once again our **12M Target Price** to **R$29.00** (vs. R$28.00 previously), which represents an **upside** of **+16.28%.**

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Company

BRFS3 BZ Equity
Buy

Price: R$ 24.94 (13-Nov-2024)
Target Price 12M: R$ 28.00

BRF reported its **3Q24 results yesterday,** November 13, after the market closed. The company posted **net revenue of R$15.5bn** (+1.4% vs. Genial Est.; +4.0% q/q; +12.4% y/y), benefiting both from the **increase in sales volume** to **1,273Kt** (+2.3% q/q; +2.3% y/y), justified by the competitiveness of exports due to the exchange rate depreciation (+4% q/q), and the **higher realization of prices,** which reached **R$12.20/kg** (+1.6% q/q; 9.9% y/y).

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

(R$ millions)	3Q24A Reported	3Q24E Genial Est.	% R/E	2Q24A Reported	% q/q	3Q23A Reported	% y/y
Net Revenue	**15.523**	**15.316**	**1,4%**	**14.930**	**4,0%**	**13.806**	**12,4%**
COGS	(11.312)	(11.316)	0,0%	(11.000)	2,8%	(11.324)	-0,1%
Adjusted EBITDA	**2.968**	**2.725**	**8,9%**	**2.621**	**13,2%**	**1.205**	**146,3%**
EBITDA Margin (%)	19,1%	17,8%	1p.p	17,6%	2p.p	8,7%	10p.p
EBIT	**2.015**	**1.810**	**11,3%**	**1.703**	**18,3%**	**452**	**345,8%**
EBIT Margin (%)	13,0%	11,8%	1p.p	11,4%	2p.p	3,3%	10p.p
D&A	(858)	(888)	-3,4%	(866)	-0,9%	(791)	8,5%
Financial Result	(513)	(591)	-13,2%	(390)	31,5%	(674)	-23,9%
Net Income	**1.317**	**1.072**	**22,8%**	**1.094**	**20,4%**	**(262)**	**-602,7%**
Net Margin (%)	8,5%	7,0%	1p.p	7,3%	1p.p	-1,9%	10p.p

Source: BRF, Genial Investimentos

3Q24 Review

3Q24 main figures. The company reported a **Net revenue** of **R$15.5bn** (+1.4% vs. Genial Est.), going up +4.0% q/q and +12.4% y/y. Adjusted **EBITDA** have clocked in at **R$2.9bn** (+8.9% vs. Genial Est.), accelerating +13.2% q/q and +146.3% y/y, with a margin of **19.1%** (+1.5p.p. q/q; +10.4p.p. y/y), driven both by the BRL/USD exchange rate depreciation and by the higher realization of prices, which reached R$12.20/kg (+1.6% q/q; +9.9% y/y). Unit operating efficiency gains also helped, reflected in the fall in COGS/t (-2.4% y/y). Performance was enhanced by the greater weight of processed products (70% of BRF's portfolio) which, by premise, condition **more expansionary margins** compared to fresh products. Finally, the bottom line was consolidated with a **Net income** of **R$1.3bn** (+22.8% vs. Genial Est.), up +20.4% q/q and reversing the loss of -R$262m in 3Q23.

For us, this was a **great result**, once again delivering **figures above consensus and our expectations**. This highlights what we said in our **results preview**, that there was a doubt hanging over the market about margin progression. Many investors were wary of taking long positions in BRF's shares in view of the impressive performance the stock has already had throughout the year. They wondered if all the efficiency gains and increased demand had already been priced in. Even so, we had commented that **our opinion is that there is more to come...** And the 3Q24 result proves it.

International segment: Increased competitiveness due to the exchange rate. For the International segment, the company achieved net revenue of R$7.3bn (+0.8% vs. Genial Est.), showing an increase of +3.9% q/q and +22.0% y/y, driven by the BRL/USD depreciation (+4% q/q), which increased competitiveness and prices in BRL, favoring profitability gains and expanding export margins. Adjusted EBITDA reached R$1.6bn (+4.7% vs. Genial Est.), showing an acceleration of +9.6% q/q and +548.5% y/y, indicating operational robustness and promoting a margin increase to 22.2% (+1.6p.p q/q; +18.0p.p. y/y). The margin gain was slightly higher than we expected, driven by the recovery in pork cutlet prices and the increase in processed products, which offer higher margins and mitigate exposure to commodity volatilities, more than offsetting the rise in COGS/kg (+2.9% q/q).

International segment: Gaining market share and improving sales mix. Although the implied volume in the International segment was 554Kt (-1.2% vs. Genial Est.), leading to a slight slowdown in shipments of -0.4% q/q and -1.0% y/y, we believe strategic moves, such as **(i)** expansion into high value-added markets through 13 new plant licenses (+70 in the year), coupled with a **(ii)** better sales mix, with the realized price marked at R$13.36/kg (+4.3% q/q; +23.2% y/y), were more than enough to compensate. We would highlight exports to the United Kingdom and the Middle East/North Africa (MENA), which diversifies commercial exposure and reduces geographical risks.

In the Gulf (GCC), BRF expanded its presence with value-added products, while in Turkey Banvit achieved a 22.6% market share, consolidating its position in the Halal markets and strengthening its pricing power and competitiveness in these strategic niches. In summary, the recovery of prices in China and the expansion into Southeast Asia point to growth potential in a region of strong demand. Meanwhile, in the Americas, BRF is taking advantage of good pricing opportunities, reducing its dependence on a few markets and bringing greater resilience in terms of volumes and price competitiveness.

Brazil segment: Strengthening trade down trends. In the Brazil segment, net revenue reached R$7.2bn (+1.6% Genial Est.), up +5.4% q/q and +10.4% y/y, with adjusted EBITDA of R$1.2bn (+11% vs. Genial Est.), comprising a significant increase of +11.8% q/q and +54.6% y/y and margin of 16.6% (+4.7p.p. y/y), higher than we expected. According to our interpretation, driven by **(i)** the commercial strategy's productivity vector; **(ii)** totaling more than 320k points of sale; **(iii)** greater adherence to in-store product suggestion prices; and **(iv)** record growth in processed product sales, which reached 40% share (+0.9p.p q/q) predicted in our preview, justified by the trade down movement of consumers (70% of domestic sales), who are looking for cheaper sources of protein in the face of the considerable increase in the price of beef cuts at the retail level, as we commented in our results preview.

Brazil segment: Macroeconomic scenario and commercial stance driving improved results. The implied volume in the Brazil segment was 613Kt (+4.2% vs. Genial Est.), up +5.4% q/q and +8.0% y/y, slightly higher than we expected. We believe that the strengthening of the Sadia and Perdigão brands, in partnership with Marfrig, has increased the already high penetration in the domestic market. The realized price was apartment q/q, at R$11.81/kg (+8% y/y), reflecting a healthier and more rational environment in the face of competition for market share in the domestic market. We believe that the change in management at the end of 2022, with the entry of Mr. Miguel Gularte as CEO after leading Marfrig for four years, has shown a different attitude in the commercial relationship, which until then was harshly criticized by investors in the company's former management.

In addition, we believe that both the **(i)** macroeconomic scenario of low unemployment (6.4% in September) and **(ii)** stability in average income in Brazil (+0.4% q/q), are items that are highly correlated to the consumption of food products. The acceleration in food inflation driven by beef cuts in turn sustained demand for affordable proteins (chicken, pork and processed products), with a tendency for the consumption basket to migrate. On the cost side, we continued to see well-depreciated levels for soybeans and corn, which protected margins from negative fluctuations, amplifying the positive sentiment of the new commercial pricing strategy in favor of profitability

Consolidated EBITDA with strong expansion, above estimates. The company recorded consolidated EBITDA of R$2.9bn (+8.9% vs. Genial Est.), exceeding our estimates and the consensus, in the face of a considerable expansion of +13.3% q/q and +146.4% y/y. The margin reached 19.1% (+1.5 p.p. q/q; +10.4 p.p. y/y). We emphasize that this is a remarkable performance, driven by the cooling of unit operating expenses (-2.4% q/q), represented by **(i)** the fall in the cost of consuming grains, which began to positively impact the result as of 2H23, also linked to **(ii)** the effects of the BRF+ and BRF+2.0 programs, which evolved in various indicators, reaching record levels in capturing efficiency (+R$330mn in 3Q24).

On the other hand, we saw that **(iii)** the mix of products sold in Brazil may have cooled in terms of added value, and **(iv)** the rise in the COGS of the Turkish platform (Banvit), may have mitigated an even more expressive rise. The results were supported by the BRL/USD exchange rate depreciation (+4% q/q), which increased the competitiveness of exports.

Our Take on BRF

FCFE burn justified by debt repayment and buyback program. We noted a FCFE burn of **-R$1bn** (vs. generation of +R$2.7bn in 2Q24), justified by **(i)** the outflow of -R$2.4bn with debt repayments, bringing gross debt to R$18.9bn (-14.2% q/q). In addition, **(ii)** the company spent -R$496mn on the share's buyback program (2x more vs. 2Q24). Excluding these two points, **FCF** reached a **notable generation** of **+R$1.8bn** (+12% vs. Genial Est.), representing an increase of +6.4% q/q and reversing the y/y burn. This improvement was due to the working capital control, with the release of +R$296mn (vs. -R$452mn in 3Q23) and the operating result measured by EBITDA (+8.9% vs. Genial Est.), representing an increase of +146.4% y/y. We would point out that the fact that the company continues to buy back shares may signal to the market that the valuation remains discounted even though the shares have risen +80% YTD.

Excellent capital allocation, making BRF the most unleveraged company in the sector. As commented above, amortizations for the quarter reached R$2.5bn, as part of a strategy to reduce leverage by prepaying larger debts with shorter maturities. This included R$1bn for Debentures and CRA, R$1.2bn for bilateral lines and ~R$300mn for scheduled debt repayments. We found that the average debt maturity increased to 8.5 years (+0.5 year on 2Q24), with a healthier debt reprofiling.

These efforts contributed to a significant contraction in leverage in USD, which reached **0.94x Net Debt/EBITDA** (-0.45x vs. 2Q24). We believe that this may contribute to a reduction in the perception of risk applied to the company. This financial discipline was indicated by the increase in the global credit rating ("Ba2" vs. "Ba3") by Moody's. Today BRF is in a privileged position, exercising the **most unleveraged name among the players in the meatpacking sector** under our coverage, and by a large margin of difference.

Even with the effort to deleverage, the dividends are back! If deleveraging wasn't enough, the company also announced the distribution of **equity interest (JCP)** in the amount of R$946mn (**R$0.58/share**), with payment on December 5 and an ex-date of November 26. We certainly weren't expecting this news. Although the **yield is low**, this announcement represents an **important milestone**, being the first payment of dividends since 2016. With great momentum, our understanding is that investors may feel even more compelled to set up long positions, hoping that the flow of dividends will increase from now on. In addition, and as already mentioned in the report, the company also continues to increase the pace of its share buyback program, authorized for the acquisition of up to 30 million ordinary shares, with the aim of maximizing the generation of shareholder value.

Newcastle disease and its impact on exports. Despite the positive scenario for exports in the face of a favorable USD/BRL exchange rate, we expect the impact of shipment restrictions due to Newcastle disease to limit the full use of favorable conditions in premium markets such as China and Saudi Arabia. These destinations are crucial for BRF, as they demand specific cuts (such as chicken wings and feet) and offer high prices compared to other regions, providing higher margins. The temporary suspension of exports to these markets represents a significant loss, given the demand for value-added products.

The shares have already risen a lot, but there's more to come. And we warned you... Our analysis suggests that BRF continues to strengthen its value creation profile, with strong FCF intensity, ex. buybacks and debt repayments, which have been effective in lowering leverage. EBITDA also exceeded our already more optimistic than consensus expectations. We warned in our results preview those margins had not yet reached the plateau, and that progress would continue not only in 3Q24 but also throughout 2025, albeit at a slightly slower pace. We continue to be proved right, with the margin rising to 19.1% (+1.55p.p q/q), still higher than we expected. Now, looking at the trading session after the result, we expect a positive market reaction.

It's important to note that today there is no crystal-clear bullish consensus on BRF, which seems to us to be against the fundamentals. In Bloomberg's coverage, in addition to us, there are 4 other sell side firms with a Buy rating vs. 7 with a Neutral recommendation. When talking to investors, we realized that there are still a significant number of fund managers who are averse to forming new long positions today due to the aggressive rise in BRF shares, which **are up +80% YTD**. On the other hand, we are confident that **there is more to come**, albeit at a more gradual pace going forward.

Let's talk about chicken! One of the main reasons behind our call on BRF is the **increasingly intense trade-down** of proteins in the consumer basket, which we expect to happen in the face of the sharp rise in beef prices in Brazil. Prices for beef cuts rose by +5.8% m/m in October, as indicated by the IBGE. Our analysis suggests that the pressure will continue to be for an increase of **+16% y/y** in **25E** in the price of Beefs in natura, well above general inflation.

Soon, **consumers will increasingly shift their demand to chicken and pork**. This consolidates the company as an **attractive investment thesis**, with the **lowest leverage** in Brazil's **meatpacking sector.** As a reflection of our **bullish bias**, we have reduced our discount rate to provide a valuation that we believe is fairer to the company's efforts to deleverage and allocate capital. We reiterate our **BUY rating**, again revising our **12M Target Price** to **R$29.00** (previously R$28.00), implying an **upside** of **+16.28%.**

Appendix: BRF

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

Income Statement	2024E	2025E	2026E	2027E
Net Revenue	**59.175**	**61.802**	**64.294**	**68.151**
(-) COGS	(43.546)	(45.479)	(47.313)	(50.152)
Gross Profit	**15.629**	**16.323**	**16.981**	**17.999**
(-) Expenses	(8.768)	(8.906)	(9.265)	(9.821)
Adjusted EBITDA	**10.393**	**11.742**	**11.573**	**12.267**
(-) D&A	(3.532)	(4.326)	(3.858)	(4.089)
EBIT	**6.861**	**7.416**	**7.715**	**8.178**
(+/-) Financial Result	(1.933)	(3.560)	(4.331)	(4.467)
(-) Taxes	(786)	(1.088)	(1.567)	(1.741)
Net Income	**4.142**	**4.944**	**4.951**	**5.452**
Profitability				
Net margin (%)	7,00%	8,00%	7,70%	8,00%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E
Net Revenue	**59.175**	**61.802**	**64.294**	**68.151**
(-) COGS	(43.546)	(45.479)	(47.313)	(50.152)
Adjusted EBITDA	**10.393**	**11.742**	**11.573**	**12.267**
EBIT	**6.861**	**7.416**	**7.715**	**8.178**
(-) Taxes	(786)	(1.088)	(1.567)	(1.741)
(+) D&A	3.532	4.326	3.858	4.089
(+/-) Δ WK	2.050	956	(34)	1.765
(-) Capex	(3.000)	(3.400)	(3.400)	(3.400)
FCFF	**8.657**	**8.210**	**6.572**	**8.891**

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under Review	Under review	**5%**

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