

JBS

3Q24 Review: The barbecue is served, enjoy it soon!

LatAm Meatpackers

Main takeaways:

(i) Beef North America: Results still under pressure, but better on a sequential basis, reflecting better seasonality; **(ii) USA Pork:** Strong performance with EBITDA of R\$1.3bn, driven by increased sales and exports; **(iii) PPC:** EBITDA of R\$4.3bn, with slight margin compression, benefiting from domestic demand and protein trade down; **(iv) JBS Australia:** Weak performance, still below expectations, with EBITDA of R\$966mn and increased costs impacting margins; **(v) JBS Brazil:** Impressive results, with revenue of R\$18bn and EBITDA of R\$2bn, due to price pass-through and increased volume; **(vi) Seara:** Highlight with revenues of R\$12.2bn and EBITDA of R\$2.5bn, favored by protein trade down and higher value portfolio; **(vii)** Dividend distribution announcement and guidance; **(viii)** Strong **FCF** generation of **+R\$5.5bn** and **leverage falling to 2.15x Net Debt/EBITDA**, showing financial stability; **(ix)** Congruence of the negative cattle cycle in both Brazil and the US from 4Q24 onwards; **(x)** We reiterate our **BUY rating** and are **moving upwards** our **12M Target Price to R\$42.00** (vs. R\$40.00 previously). Despite an excellent result, in the preview report, we raise doubts about the ability to **sustain such aggressive margins for next year at JBS Brazil**, in the face of the **reversal of the cattle cycle**.

JBS released its results yesterday, **November 13**, after the market closed. The company once again **surprised positively**, delivering **results above forecasts** in the **main business divisions**, surpassing outlooks that were already optimistic. We will monitor the speed of the potential margin squeeze in coming quarters for possible changes. For now, we are still bullish, and **we expect a favorable reaction from the investors**.

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

(R\$ millions)	3Q24		R/E	2Q24		3Q23	
	Reported	Genial Est.		Reported	% q/q	Reported	% y/y
Net Revenue	110.497	109.906	0,5%	100.606	9,8%	91.409	20,9%
COGS	(92.309)	(90.202)	2,3%	(85.094)	8,5%	(80.357)	14,9%
Adjusted EBITDA	11.939	10.559	13,1%	9.882	20,8%	5.277	126,2%
EBITDA Margin (%)	10,8%	9,6%	+1.2p.p	9,8%	+1p.p	5,8%	+5p.p
EBIT	8.619	7.201	19,7%	5.917	45,7%	2.611	230,1%
EBIT Margin (%)	7,8%	6,6%	+1.2p.p	5,9%	+0.7p.p	2,9%	+3.8p.p
D&A	3.010	2.990	0,7%	2.850	5,6%	2.616	15,1%
Financial Result	(2.002)	(534)	274,9%	(390)	413,3%	(674)	197,0%
Net Income	3.842	4.213	-8,8%	1.715	124,0%	573	570,5%
Net Margin (%)	3,5%	3,8%	-0.3p.p	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\$ 36.43 (13-Nov-2024)

Target Price 12M: R\$ 42.00

3Q24 Review

Main 3Q24 figures. The company reported a **Net revenue** that reached **R\$110.5bn** (+0.5% vs. Genial Est.), accelerating +9.8%q/q and +20.9%y/y. **EBITDA** was **R\$11.9bn** (+13.1% vs. Genial Est.), up +20.8% q/q and +126.2% y/y, with a **margin of 10.8%**, up **+1p.p q/q** and **+5p.p y/y**. On the bottom line, the company achieved a **Net income** of **R\$3.8bn** (-8.8% vs. Genial Est.), slightly below our estimates, impacted by an increase in financial expenses, but indicating an advance of +124% q/q and a level +5x higher y/y. The main **positive highlights** were **Seara**, **PPC** and **JBS Brazil**, which more than offset the **negative performance of Beef North America** and the **Australian** operations, as anticipated in our preview report.

Beef North America: Performance still under pressure, but better than expected. Beef North America's results remained under pressure but slightly exceeded our expectations. Net revenue was R\$35b (+12% q/q; +20.5% y/y), with the figures also boosted by the depreciation of the BRL and more robust volumes due to the typical seasonality of the summer period (barbecue season). Adjusted EBITDA stood at R\$650mn, with the margin reaching 1.9% (vs. 1.5% Genial Est.), expanding +1.4p.p q/q and +0.2p.p y/y.

Performance was impacted by warmer demand in the quarter, which helped mitigate the challenges arising from complicated price dynamics, with the low availability cattle cycle putting pressure on acquisition costs for slaughter. We believe it is important to highlight that the negative cattle cycle in the US looks set to move at a slower, but at least more progressive pace, towards lower cattle costs. We project a more forceful turnaround in late 2026 and early 2027. Last quarter's basically zero margin is gradually being reversed. This is a good sign.

USA Pork: Trade down and seasonality drive volume increase. The US pork business unit posted solid results, with EBITDA of R\$1.3bn (+9.1% q/q; +34% y/y), in line with our estimates, with a margin of 12.1% (+1p.p q/q; +1.8p.p y/y). The performance was driven by: **(i)** an increase in domestic sales, benefiting from the protein trade down; **(ii)** growth in exports, especially to Mexico, South Korea and Colombia; **(iii)** a reduction in grain costs; and **(iv)** the positive effects of the depreciation of the BRL/USD exchange rate for translation purposes in the consolidation of results.

PPC: Strong momentum. The North American poultry unit, Pilgrim's Pride (PPC), a subsidiary of JBS which had already released its results during the US earnings season, contributed an EBITDA of R\$4.3bn to the consolidated figure, resulting in a margin of 16.9% (-0.3p.p q/q; +6.6p.p y/y), with a slight compression. This robust performance, mainly on a year-on-year basis, was driven by: **(i)** the depreciation of the BRL/USD exchange rate and **(ii)** strong demand from the domestic market, motivated by the protein trade-down scenario, with American consumers migrating to cheaper proteins amid the inflationary scenario in the food consumption basket.

In the US, profitability improved due to high demand, greater efficiency and lower production costs. We highlight that the poultry portfolio grew above the market. In Mexico, despite the seasonal challenges that we believe were responsible for the sequential margin slowdown, PPC focused on capturing market opportunities, strengthening partnerships and expanding private label products.

JBS Australia: The disappointment of the quarter. JBS Australia recorded an EBITDA of R\$966mn (-13.7% vs. Genial Est.), with a margin of 9.8% (-3.9p.p q/q; +1.2p.p y/y), with even worse figures compared to the slowdown we had already projected. The main negative factor was the +19.8% y/y increase in the cost of acquiring cattle for slaughter, which led to an EBITDA drop of -17.9% y/y and margin compression of -3.9 p.p y/y, which was partially mitigated by the benefit of the BRL/AUD exchange rate devaluation. We believe that this performance not only could not be considered the disappointment of the quarter, but also puts a warning sign about a faster reversal of the cycle of high cattle availability that we were seeing until last quarter.

As the cattle cycle in the US is still very negative and was putting pressure on *cutout* prices, importers have increased their impetus to purchase *fresh* meat from countries such as Brazil and Australia. As in Brazil, we believe that the increase in Australian export shipments may be increasing the pace of slaughter more intensely, reducing the supply of cattle that was previously conducive to lower costs.

JBS Brazil: Continues strong, with rising prices and volume. JBS Brazil reported an impressive performance, exceeding our expectations, which were already positive. The segment recorded net revenues of R\$18bn (+16.2% q/q and +25.0% y/y), comprising an adjusted EBITDA of R\$2bn (+77% t/t; 4x higher y/y). This robust performance indicates a margin of 11.6% (vs. 8% Genial Est.), equivalent to an expansion of +4p.p q/q and +8.2p.p y/y. The positive results were driven by: **(i)** an increase in volumes sold, both in the domestic and international markets; **(ii)** successful price pass-throughs, with food retailers already identifying an increase of +2.92% y/y in September and +8.33% y/y in October in the average price of beef cuts, according to IBGE data, as well as **(ii)** capturing the positive effects of the BRL/USD exchange rate depreciation, increasing the competitiveness of exports and favoring volumes.

In addition, although the price of arroba for cattle has risen sharply in recent weeks, we have identified that the rise only affected the last month of 3Q24, putting the average price at ~R\$239 per arroba for the quarter, which is still a very decent cost level. However, we are concerned about the impact of the increase in the cost of cattle over the coming quarters, given that the price of the arroba has risen by +50% in 5M.

Seara: Golden goose. We believe that Seara was the goose that laid the golden eggs, recording Net revenue of R\$12.2bn (+4.9% q/q and +19.2% y/y), with EBITDA of R\$2.5bn (+26.7% q/q; 4.5x y/y), with a margin of 21%, an aggressive expansion of +3.6p.p q/q and 15.5p.p y/y, with a strong emphasis on the in natura category. The surprising figures were driven by **(i)** consumers trading down in search of cheaper proteins in the face of rising beef prices, as we've already mentioned, **(ii)** strong global demand for exports, and **(iii)** expansion of the company's higher value-added portfolio with the sale of prepared products.

Our take on JBS

Extraordinarily divided distribution and upward revision to guidance. JBS announced two important updates: **(i)** The distribution of R\$2.22bn in dividend payments, corresponding to R\$1.00/share, and a yield of 2.7%. Last month, in October, the company had already distributed R\$4.4bn in dividends. **(ii)** Guidance for 2024E of net revenue of R\$411.8bn and EBITDA of R\$37bn - R\$38bn, figures well above our estimates and the market consensus, based, according to the company, on current operating performance.

FCF generation remains strong! The **CAPEX** spending was **R\$1.78bn**, a slight retraction q/q and y/y, supporting a cash flow generation (**FCF**) of **R\$5.5bn** (+12% vs. Genial Est.), ending the quarter with R\$46.9bn in cash and cash equivalents. With strong EBITDA expansion y/y and a reduction in net debt for the period, the company's **leverage fell to 2.15x in USD** (vs. 2.77x in 2Q24). We emphasize that the pace of the company's deleveraging has been faster than we had anticipated.

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 cattle prices reaching an all-time **high of R\$334 an arroba** this week (vs. ~R\$239 average in 2Q24). This change was driven by **(i)** an exceptionally drier winter, which caused cattle ranchers to keep more animals on 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.

The barbecue is served, enjoy it soon! Consolidating figures that were generally above expectations, JBS once again proved its **ability to execute** and the **strength of its diversification thesis**, both in terms of geographical regions and the different proteins in its portfolio. Even so, we recommend “eating the barbecue” soon, while the beef is still hot. In other words, we suggest that investors take advantage of the consolidation of figures above expectations and surf the positive momentum of stock appreciation as soon as possible, since we raise doubts about the ability to **sustain such aggressive margins**, especially at **JBS Brazil**.

Considering that beef historically has a low elasticity of demand, with price increases leading **consumers to migrate to more affordable proteins** (trade down), we don't expect the cut-out transfers we saw in September and October to be sustained so emphatically next year, 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 arise from performance over the course of 2025. For now, we reiterate our **BUY rating** and are **raising our 12M Target Price to R\$42.00** (vs. R\$40.00 previously), indicating an **upside of +15.29%**. We will monitor the speed of possible margin compression 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
Net Revenue	361.480	420.455	432.208	452.549	473.916
(-) COGS	(314.488)	(370.000)	(373.428)	(391.003)	(409.464)
Gross Profit	46.992	50.455	58.780	61.547	64.453
(-) Expenses	(13.512)	(20.345)	(27.991)	(26.949)	(18.458)
Adjusted EBITDA	33.480	30.110	30.789	34.598	45.995
(-) D&A	12.257	12.328	12.528	11.912	11.789
EBIT	21.223	17.782	18.261	22.686	34.206
(+/-) Financial Result	(8.200)	(3.707)	(4.187)	(4.661)	(3.722)
(-) Taxes	(3.820)	(4.801)	(4.930)	(6.806)	(10.180)
Net income	9.203	9.274	9.144	11.219	20.304
Profitability					
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
Net Revenue	361.480	420.455	432.208	452.549	473.916
(-) COGS	(314.488)	(370.000)	(373.428)	(391.003)	(409.464)
Adjusted EBITDA	33.480	30.110	30.789	34.598	45.995
EBIT	21.223	17.782	18.261	22.686	34.206
(-) 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)
FCFF	20.796	13.550	16.036	18.624	26.578

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