genial | Equity Research

MARFRIG

3Q24 Review: A treasure in a clay pot

LatAm Meatpackers

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Company

MRFG3 BZ Equity
Neutral

Price: R$ 15.61 (13-Nov-2024)
Target Price 12M: R$ 14.35

Main takeaways:

(i) South America with accelerated shipments and exchange rate support with the devaluation of the BRL, volume of 219K; **(ii) North America** with sales volume of 508Kt, up +2.6% and -4.9%, reflecting favorable seasonality; **(iii)** Marfrig's consolidated results were once again weighed down by **BRF**'s good performance**;** **(iv)** Meat price pass-through scenario should not last; **(v)** Marfrig announces dividends and share cancellations; **(vi)** Our projections point to a leverage of 4.5x Net Debt/EBITDA in 2025; **(vii)** Even though from a fundamentalist point of view **we don't agree** with the way **investors trade** the company **as proxy of BRF's performance**, we still expect **Marfrig's shares to rise in the trading session after the result,** driven by the announcements cancellation of treasury shares and **distribution of dividends** with a **strong yield** (18%), due to **BRF's** excellent **performance**. We emphasize that **this effect may be transitory**, due to a flow of buyers who will dispose of the shares after the ex-dividend date. We therefore reiterate that, in our opinion, **this is not a good time** to set up long positions in the shares from a fundamentalist point of view, and we reiterate our **NEUTRAL rating** with a **12M Target Price** of **R$14.35**, implying a **downside of -8.07%**.

Marfrig released its results yesterday, **November 13**, after the market closed. In our view, the company delivered **a reasonable quarter**, slightly above our estimates. When we look at BRF's figures from the standpoint of excluding consolidation, we still maintain our opinion that **the company lacks catalysts from a fundamentalist point of view**

3Q24 Review

South America: Acceleration in shipments, supported by the exchange rate. Marfrig's operations in South America posted net revenues of R$4.3bn (+16.4% q/q; +28.9% y/y) and EBITDA of R$517mn (+54.85% q/q; +8.2% y/y), with a margin of 12.1%. The volume of shipments reached 219Kt, in line with our estimates (+0.5% vs. Genial Est.), accelerating +15.1% q/q and +22.1% y/y. As we anticipated in our preview report, this performance was driven by **(i)** recent capacity additions and sustained by **(ii)** warmer demand, both domestically and abroad, given the gain in competitiveness due to the devaluation of the BRL/USD exchange rate. Domestic sales accounted for 60% of the volume, and China remained the main export destination, with 49% of the total.

North America: Margin compression continues. The North American operation totaled a sales volume of 508Kt (+2.6% q/q; -4.9% y/y), reflecting the expected quarterly acceleration due to favorable seasonality during the summer period (barbecue season). The segment's net revenue was US$3.2bn (+4.7% q/q; -3.9% y/y), while EBITDA fell to US$79m, representing a contraction of -12.1% q/q and -47.1% y/y. The margin fell to 2.4% (-0.5p.p q/q; -2p.p y/y). In BRL, the ~6% devaluation of the BRL/USD favored the figures, with net revenue at R$17.9b and EBITDA at R$438.9mn.

Our Take on Marfrig

Results uploaded by BRF. BRF reported its results yesterday, October 13, reaching net revenue of R$15.4b, up +3.8%t/t and +12.2%a/a. EBITDA came in at R$2.9bn (+13.2% q/q; +138.6%a/a), above our estimates which were already more optimistic than the consensus, as we wrote in our report on the result (BRF 3Q24 Review: Let's talk about chicken!), contributing to Marfrig's consolidated net revenue of R$37.7bn (69% contribution from BRF) and EBITDA of R$3.9b (77% contribution from BRF).

Keeping an eye on the macro! In a scenario where the SELIC rate is expected to rise, we see disadvantages in investing in companies with high leverage, due to the increase in the cost of capital, which puts pressure on financial expenses and reduces net income, compromising the ability to generate shareholder value. Considering that the meatpackers sector is historically more leveraged, our preference is for companies with a better debt profile. In this context, we maintain our BUY recommendation for JBS and BRF, which have more controlled leverage and stronger fundamentals and are names with much lower leverage than Marfrig.

Passing on the price of meat in Brazil shouldn't last. The increase in the price of cattle seen in 3Q24 earlier than expected by the market was catalyzed by factors such as **(i)** an improvement in Brazilian income indicators, with a drop in unemployment and GDP growth, stimulating meat consumption; **(ii)** a higher volume of exports due to the favorable demand scenario and the devaluation of the BRL driving more, which resulted in large quantities of slaughter; and **(iii)** adverse weather conditions, with an exceptionally dry winter, leading ranchers to keep animals on pasture for longer, removing them from the slaughter pipeline and thus reducing supply

Market data shows that meatpackers had some ability to pass on costs to wholesalers in 4Q24, which was shown by the increase in the price of the boxed carcass. In turn, we saw that wholesalers passed on this increase to consumers, which was reflected in the IPCA with a 5.8% increase in the price of meat. However, we believe that these passthroughs are temporary, as meat prices tend to struggle to remain at high levels, given that consumers tend to trade down to more affordable proteins in boom scenarios.

Marfrig: announcement of dividends and cancellation of shares. The company announced two relevant facts yesterday, along with its results: **(i**) a dividend payment of R$2.5bn, corresponding to R$2.82/share, representing a yield of ~18%. This dividend is explained by BRF's results, and we question whether this is the company's best capital allocation decision, considering that they could keep this amount in cash to reduce leverage; **(ii)** cancellation of 20 million ordinary treasury shares, without reducing share capital, which we see as an effort by the company to generate shareholder value.

Leverage will decrease, but not by much. Marfrig has already received R$1.5bn out of a total of R$7.2bn from the sale of 13 assets to Minerva, with the remaining R$5.7bn expected in 4Q24. The transaction took place at a multiple significantly higher than Marfrig's leverage ratio of 3.05x Net Debt/EBITDA in 2Q24, which provides some relief. However, we believe it will not be enough to solve the company's leverage challenges. Our projections indicate that Marfrig's leverage ratio should reach **4.5x Net Debt/EBITDA** in **2025**, even with BRF's contribution, which is above reasonable levels for the sector. This is due to the company's high level of debt and the reduction in slaughter capacity, especially in Brazil, resulting in lower EBITDA and making it difficult to reduce leverage.

A treasure in a clay pot. Market data indicates that the **US beef cycle** should remain **negative until at least 2Q27**, putting pressure on margins for a prolonged period. **In Brazil**, margins are also likely to be challenged due to the **reversal of the cycle**, with our estimates for the price of an arroba of beef at around R$330 in 2025, compared to R$239 on average in 3Q24. On the other hand, BRF's performance has been overwhelming, delivering successively above-consensus figures.

As a result, Marfrig's shares have had a high correlation with those of BRF, its subsidiary. We still see **Marfrig as the clay pot**, with many weaknesses in its investment thesis, and **BRF as the treasure**. With both markets (Brazil and the US) facing difficult cycles from 4Q24 onwards, Marfrig will find a hardship to manage its high leverage of **4.5x Net Debt/EBITDA** in **25E**. We therefore reiterate our **NEUTRAL rating**, with a **12M Target Price of R$14.35,** which implies a **downside of -6.82%**.

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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	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%**

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