Equity Research

BRF
4Q24 Preview: Growing with Caution

LatAm Meatpackers

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Company

BRFS3 BZ Equity
Buy

Price: R$ 18.86 (25-Feb-2025)
Target Price 12M: R$ 24.50

Main takeaways:

We project **Net revenue** of **R$16.5bn Genial Est.**, indicating sequential acceleration of +6.6% q/q and +7.6% y/y, with emphasis on **(i)** domestic market sales, which should rise to 1,361Kt Genial Est. (+7% q/q; +8.5% y/y) due to favorable seasonality, driven by **strong demand from year-end festivities** and the **trade-down trend**. We have been mentioning for some time that we should observe a shift in the consumption basket towards cheaper proteins due to the widening price **spread between beef vs. chicken**. Additionally, with **(ii)** growth in **processed food** market share (+4.5%), we believe BRF will report a **higher average price (R$/kg)** in the domestic market. However, **(iii)** the company is not expected to capture the benefits of BRL/USD depreciation in the Top Line in international markets due to discount negotiations in countries such as Japan and the Middle East. **(iv)** Given this scenario, although we maintain our **BUY rating**, we have revised some of our 2025 projections in our proprietary model, particularly regarding corn costs and additional SG&A pressures, which led to a **12M Target Price cut** to **R$24.50** (vs. R$28.00 previously), reflecting a **upside** of **+29.08%.**

BRF will report its **4Q24** results on **February 26**, after the market close. We project **Net revenue** of **R$16.5bn Genial Est.**, indicating sequential acceleration of +6.6% q/q and +7.6% y/y, with emphasis on domestic market sales, which should rise to 1,361Kt Genial Est. (+7% q/q; +8.5% y/y) due to favorable seasonality, driven by **strong demand from year-end festivities** and the **trade-down** trend. Although the top line is positive, we project a **slight EBITDA margin squeeze**, which has already been **negatively impacting investor sentiment**, as the market has anticipated this move since the beginning of the year. We estimate **adjusted EBITDA** of **R$3.1bn Genial Est.** (+4.3% q/q; -7% y/y), with a margin compression of -0.4p.p q/q and -3p.p y/y.

Table 1. Income Statement BRF (4Q24 Genial Est.)

(R$ millions)	4Q24E Genial Est.	3Q24A Reported	% q/q	4Q23A Reported	% y/y
Net Revenue	**16.555**	**15.523**	**6,6%**	**14.426**	**14,8%**
COGS	(11.892)	(11.312)	5,1%	(11.233)	5,9%
Adjusted EBITDA	**3.096**	**2.968**	**4,3%**	**3.193**	**-3,0%**
EBITDA Margin (%)	18,7%	19,1%	-0,42p.p	22,1%	-3p.p
EBIT	**2.078**	**2.015**	**3,1%**	**924**	**124,8%**
EBIT Margin (%)	12,6%	13,0%	-0,43p.p	6,4%	6,57p.p
D&A	(1.016)	(858)	18,4%	(869)	-1,3%
Financial Result	(614)	(513)	19,8%	(614)	-16,5%
Net Income	**1.448**	**1.317**	**9,9%**	**754**	**74,7%**
Net Margin (%)	8,7%	8,5%	0,26p.p	5,2%	3,26p.p

Source: BRF, Genial Investimentos

4Q24 Preview

This performance is due to **(i) a tough comparison base** with 3Q24 and **(ii)** pressure on some cost lines, such as the **acceleration of the USD/BRL** exchange rate and the sequential increase in grain prices, especially corn. Additionally, we expect **(iii) higher SG&A** expenses due to bonuses related to the company's strong performance throughout 2024.

For the **Brazil segment**, we project Net revenue of R$8.7bn Genial Est. (+20% q/q; +17.5% y/y), with EBITDA of R$1.4bn Genial Est. (+16.5% q/q; +21.6% y/y), reflecting positive performance, both in terms of volume and prices, expected to reach R$12.8/kg (+6.7% q/q; +2.3% y/y). **(i)** The sequential sales increase due to favorable seasonality is expected to be partially offset by **(ii)** a rise in costs, resulting in sequential margin pressure, which we estimate at 16% (-0.6p.p q/q; +0.4p.p y/y).

For the **international segment**, more focused on in natura products, we project net revenue of R$7.4bn Genial Est. (+0.9% q/q; +18.7% y/y), and EBITDA of R$1.6bn (Genial Est.), flat q/q, with an average price (R$13.3/kg Genial Est.) and stable volumes sequentially, resulting in a margin contraction on a sequential basis to 21% (-1.3p.p q/q; +10p.p y/y).

Our Take on BRF

Despite continuing to deliver good operating results and making progress on strategic decisions to expand the capillarity and added value of the portfolio, we recognize that the company's decision to increase leverage raises concerns on the part of short-term investors.

BRF revised its **Net Debt/EBITDA** leverage target to **1.5-2x between 2025-26E** (vs. 0.7x in 3Q24), driven by the expectation of an incremental **CAPEX** of **+R$1.9bn** for **25E** aimed at capacity expansion. Added to this fact, this movement occurs in a challenging context of **(i)** an acceleration in the SELIC rate bringing higher cost of capital, considering that BRF has ~77% of its debts issued in BRL and **(ii)** a possible cycle inflection, due to a rise in costs for poultry operators, increasing the fear in relation to the thesis. Other than that, from the point of view of investor flow, we believe that the **significant drop of -24% YTD** in the share price also reflects the realization of long positions by fund managers, after having taken advantage of the significant appreciation in 2024, with the achievement of what was probably the cycle high, consolidated in 3Q24.

Given this scenario, although we maintain our **BUY rating**, we have revised some of our 2025 projections in our proprietary model, particularly regarding **(i)** corn costs and **(ii)** additional SG&A pressures, which led to a **12M Target Price cut** to **R$24.50** (vs. R$28.00 previously), reflecting a **+29.08% upside**.

We believe the stock has been excessively penalized by the market, and the **discount is overly detached from the fundamentals**. Currently, the company is trading at an **EV/EBITDA 25E** of **4.8x**, below the historical average of 6.7x, reinforcing our view that the market valuation already prices in a more bearish scenario than it should, focused on the fact that the company reached a plateau in margins in the last quarter. In fact, we agree that margins will slow down in 2025, but the year will still be very operationally strong for BRF, and the decline in shares seems exaggerated to us.

Appendix: BRF

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

Income Statement	2024E	2025E	2026E	2027E
Net Revenue	**60.280**	**65.767**	**67.539**	**70.995**
(-) COGS	(44.246)	(49.523)	(54.031)	(55.021)
Gross Profit	**16.034**	**16.244**	**13.508**	**15.974**
(-) Expenses	(8.768)	(8.906)	(9.265)	(9.821)
Adjusted EBITDA	**10.871**	**10.142**	**9.556**	**9.588**
(-) D&A	(3.673)	(3.526)	(3.768)	(3.555)
EBIT	**7.198**	**6.616**	**5.788**	**6.033**
(+/-) Financial Result	(1.933)	(3.560)	(4.331)	(1.163)
(-) Taxes	(786)	(1.088)	(1.567)	(1.741)
Net Income	**4.073**	**3.962**	**3.343**	**3.214**
Profitability				
Net margin (%)	7%	6%	5%	5%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E
Net Revenue	**60.280**	**65.767**	**67.539**	**70.995**
(-) COGS	(44.246)	(49.523)	(54.031)	(55.021)
Adjusted EBITDA	**10.871**	**10.142**	**9.556**	**9.588**
EBIT	**7.198**	**6.616**	**5.788**	**6.033**
(-) Taxes	(786)	(1.088)	(1.567)	(1.741)
(+) D&A	3.673	3.526	3.768	3.555
(+ -) ΔWC	2.050	956	(34)	1.765
(-) Capex	(3.157)	(4.188)	(3.735)	(3.900)
FCFF	**8.978**	**5.822**	**4.220**	**5.712**

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