Equity Research

BRF
4Q24 Review: Starting the descent process

LatAm Meatpackers

Main takeaways:

(i) Consolidated **Net revenue** was **R$17.5bn** (+6% vs. Genial Est.), with growth of **+13.1% q/q** and **+21.6% y/y**; **(ii)** The increase was **driven by volumes sold**; market share gains and the rise in USD/BRL Fx rate in the international segment; **(iii)** However, **high production costs** neutralized the expansion in net revenue; **(iv)** SG&A advanced to -R$2.6bn (+18.3% q/q; +12.6% y/y) due to marketing and bonuses; **(v) Net income** has clocked in at **R$868mn** (-40.1% vs. Genial Est.) and **FCF generated** was **R$2.1bn** (-6% vs. Genial Est.), with **CAPEX** reported at -**R$995mn** (+8.5% vs. Genial Est.); **(vi) Brazil Segment** had revenues of R$8.6bn (-1.1% vs. Genial Est.), up +18.3% q/q and +7.4% y/y, driven by an average price of R$12.74/kg (+7.9% q/q; +3.5% y/y) and a market share of 40.8%; **(vii)** However, the **EBITDA margin in Brazil contracted** to **14.7%** (-1.3p.p vs. Genial Est.), impacted by grain and oil costs; **(viii)** The **International Segment** had revenues of **R$7.3bn** (-1.4% vs. Genial Est.), with an average price of R$13.48/kg (+0% vs. Genial Est.), driven by favorable Fx rate in y/y base, remained almost flat in q/q; **(ix) EBITDA** in **international segment** have **clocked** in at **R$1.5bn** (-8.2% q/q; +117% y/y), with a **margin** of **20.4%**, pressured by discounts and cost increases; **(x)** The **International segment** posted record **profitability** with **EBITDA** of **R$5.7bn** and a margin of 20.2% in 12M 2024, driven by processed proteins and market diversification; **(xii)** The **Net Debt/EBITDA** closed at **0.79x** (vs. 0.72x in 3Q24), but our forecast for **25E** is **1.5x**; **(xi)** We believe that the **trade down trend will bring more volume** to the company throughout 2025 vs. 2024. On the other hand, we have increased our **25E CAPEX expectation** to **+7.5% vs. previous Est.**, reducing our **FCF yield** to **13.5%** (vs. 15% previously). This brings us to the second **12M Target Price** cut in a row, now at **R$23.00** (vs. R$24.50 previously), indicating an **upside** of **+20.99%**.

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Company

BRFS3 BZ Equity
Buy

Price: R$ 19.01 (27-Feb-2025)
Target Price 12M: R$ 23.00

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

(R$ millions)	4Q24A Reported	4Q24E Genial Est.	% R/E	3Q24A Reported	% q/q	4Q23A Reported	% y/y
Net Revenue	**17.549**	**16.555**	**6,0%**	**15.523**	**13,1%**	**14.426**	**21,6%**
COGS	(13.078)	(11.892)	10,0%	(11.312)	15,6%	(11.233)	16,4%
Adjusted EBITDA	**2.803**	**3.029**	**-7,5%**	**2.968**	**-5,6%**	**3.193**	**-12,2%**
EBITDA Margin (%)	16,0%	18,3%	-2p.p	19,1%	-3p.p	22,1%	-6p.p
EBIT	**1.869**	**2.025**	**-7,7%**	**2.015**	**-7,2%**	**924**	**102,2%**
EBIT Margin (%)	10,7%	12,2%	-1,58p.p	13,0%	-2,33p.p	6,4%	4,24p.p
D&A	(953)	(1.016)	-6,2%	(858)	11,1%	(869)	9,6%
Financial Result	(350)	(614)	75,4%	(513)	-31,8%	(614)	-43,0%
Net Income	**868**	**1.448**	**-40,1%**	**1.317**	**-34,1%**	**754**	**15,1%**
Net Margin (%)	4,9%	8,7%	-8,75p.p	8,5%	-3,54p.p	5,2%	-0,28p.p

Source: BRF, Genial Investimentos

BRF released its **4Q24 results** yesterday, **February 26** (after market close). The figures were relatively in line with expectations, delivering a **record Net Revenue** but with a **negative surprise** due to a **margin contraction greater than anticipated** by both us and the consensus (contraction of **-3.2p.p q/q** vs. ~**-1p.p q/q** expected by BBG consensus), which could impact investors' perception of the results. While the margin decline was widely expected, its greater-than-anticipated intensity may lead to a negative market reaction in today's trading session. Consolidated **Net Revenue** reached **R$17.5bn** (**+6% vs. Genial Est.**), with a strong expansion of **+13.1% q/q** and **+21.6% y/y**. Growth was driven by **(i)** higher sales volumes due to favorable year-end seasonality in the domestic market and trade-down effects; **(ii)** significant market share gains, particularly in processed products, which have higher added value, across most of BRF's operating markets; and **(iii)** the impact of the USD/BRL appreciation on international segment revenue. However, **(iv)** higher production costs more than offset the net revenue growth.

Additionally, results were impacted by higher SG&A expenses, totaling **-R$2.6bn** (**+18.3% q/q; +12.6% y/y**), driven by **(i)** increased marketing expenditures related to holiday campaign efforts and **(ii)** bonus payouts due to target achievements and stronger 3Q24 results. At the bottom line, the company reported a Net Income of **R$868mn** (-40.1% vs. Genial Est.), slightly below consensus but without major surprises. Moreover, BRF generated **FCF of R$2.1bn** (-6% vs. Genial Est.), up **+15% q/q** and **+2.4x y/y**, with **CAPEX outflows of -R$995mn** (+8.5% vs. Genial Est.).

4Q24 Review

Brazil segment still Strong, but margin contracts more than expected. Net Revenue for the Brazil segment reached **R$8.6bn** (-1.1% vs. Genial Est.), advancing +18.3% q/q and +7.4% y/y, in line with expectations, driven by an increase in average price, which stood at R$12.74 (-0.5% vs. Genial Est.), rising +7.9% q/q and +3.5% y/y, alongside solid volumes. This strong performance reflects BRF's solid strategic growth capacity, supported by **(i)** the successful execution of market share expansion initiatives, **(ii)** higher penetration of higher-value-added products in the portfolio, and **(iii)** effective year-end holiday campaigns by the Sadia and Perdigão brands. The company expanded its market share to 40.8%, improving product availability, shelf space, and pricing adherence, reaching 327k clients and achieving growth across all categories.

However, the strong top-line performance was partially overshadowed by a negative cost surprise, which pressured the **EBITDA margin** to **14.7%** (-1.3p.p vs. Genial Est.), with a contraction of -1.9p.p q/q and -0.9p.p y/y. EBITDA totaled R$1.2bn (-14% vs. Genial Est.), and while below expectations, it still increased +4.7% q/q and +45.5% y/y. As we highlighted in our earnings preview report, the cost increase was mainly driven by higher prices for grains and oils used as raw materials, with corn up +11% q/q, soybeans +3% q/q, and soybean oil +15.6% q/q, the latter being a key input for Margarine (Qualy) production.

In our view, this scenario is likely to **impact the market's perception of the results**, as it reinforces concerns about a potential inflection point for poultry operators. However, the outlook appears more favorable when considering the 12-month accumulated performance in 2024, mainly due to the strong 3Q24 results. Net revenue reached R$28.8bn, up +7.4% vs. 2023. EBITDA totaled R$4.5bn, with a margin of 15.5%, an increase of +4.1p.p y/y. While we have already noted that results were expected to accelerate, **we believe 2024 was a historic year for the company**. Despite an expected y/y margin deterioration, 2025 should still be a solid year.

International segment slows down, in line with expectations. Net revenue for the international segment, which is more focused on fresh products, reached R$7.3bn (-1.4% vs. Genial Est.), remaining flat q/q and rising +18.3% y/y, also in line with our estimates. The average price was set at R$13.48/kg (+0% vs. Genial Est.), exactly matching our projections, reflecting a mild acceleration of +0.9% q/q and a stronger increase of +19% y/y. On an annual basis, the realized price performance was mainly driven by the USD/BRL Fx rate appreciation vs. 2023 and price adjustments made throughout the year. As we mentioned in our earnings preview report, sequentially, the USD/BRL appreciation was not reflected in the quarter due to a discounting strategy in some countries, such as Japan and the Middle East, which are currently in negotiation phases for 2025.

EBITDA for the segment totaled **R$1.5bn** (-8.2% q/q; +117% y/y), with the margin slowing sequentially to **20.4%** (-0.6p.p vs. Genial Est.), compressing by -1.8p.p q/q, though still at a very strong level compared to 2023, up +9.3p.p y/y. The quarterly margin contraction was driven by **(i)** price discount negotiations in USD across some key markets, as previously mentioned; **(ii)** a significant increase in costs in Brazil and Turkey; and most notably, **(iii)** the impact of exchange rate fluctuations on input inventories and other cost lines.

On a **12M accumulated basis in 2024**, the international segment delivered **record profitability**, driven by a higher share of processed products in the portfolio, recovering protein prices in the global market surpassing the global chicken oversupply scenario seen in 2023—and the continued market diversification strategy. Reported EBITDA reached R$5.7bn, with a margin of 20.2%, expanding +15.8p.p y/y.

Our Take on BRF

Leverage rises slightly but is expected to increase further in 2025. BRF ended 2024 with a significantly reduced Net Debt/EBITDA leverage of 0.79x (vs. 2.01x in 2023 and 0.71x in 3Q24). However, it's important to note that the company revised its leverage target to **1.5-2x for 2025-26E** (vs. 0.72x in 3Q24), driven by an expected incremental **CAPEX** of **+R$1bn** for **2025E**, focused on capacity expansion. As a result, **total CAPEX** for **2025E** is **projected** at **R$4.3bn** (+30.7% vs. 2024) and **+7.5% vs. the previous estimate**.

Starting the descent process. This movement unfolds in a challenging context of **(i)** accelerating SELIC rates, increasing the cost of capital, given that BRF holds ~77% of its debt in BRL, and **(ii)** a potential cycle inflection, driven by rising costs for poultry operators, heightening concerns about the investment thesis. Additionally, from an investor flow perspective, the sharp **-24% YTD** drop in share price also reflects profit-taking by fund managers after capitalizing on BRF's significant appreciation in 2024. This likely marked the cycle's peak, consolidated in **3Q24** and now confirmed in **4Q24**.

Why do we have a buy rating if the cycle is reversing? We maintain our **BUY rating** based on the effective penalty for the voracity with which the shares have been sold since the beginning of the year, which seems irrational to us, leading the company to trade at an **EV/EBITDA 25E** of **4.8x**, well below the historical average of 6.7x. In addition, our rating is also contributing to the pillar that supports our investment thesis at the moment, which is the trade down. There has been a considerable increase in the **price spread between beef vs. chicken**. Although the price of fresh chicken has risen by +8-9% in the last 12M (already considering the +5% transfer made in January), the price of the set of red meat cuts in the IPCA basket has still risen by +16% in the same period, basically doubling, putting considerable pressure on food inflation.

As this has happened due to the **reversal of the cattle cycle in Brazil**, with the price of the arroba of the ox reaching an increase of +40% in the last 4M, it seems difficult to us that there won't be further transfers in the price of red meat during 2025, since the +16% increase in the cut-out doesn't cover the +40% cost of cattle. Although we don't believe the pass-through will be 100%, it will still happen to some degree. Soon, the flow of retail buyers for beef will reduce even further, and **much of this flow will be captured** by the chain of **(i)** processed foods, **(ii)** pork or **(iii)** fresh chicken, in short, **key categories for BRF**.

So, although we recognize that there is an inflection in margins, which was already expected by the consensus, and **was confirmed by this 4Q24 result**, we still maintain an optimistic bias towards the case. This is because the fundamentals seem to us to still be favorable vs. the level of discount that has been created, given the selling pressure that investors have put on the stock since the beginning of the year. We believe that the trade down trend will bring more volume to the company over the course of 2025 vs. 2024. On the other hand, as we have already stated in this report, we have increased our **25E CAPEX** expectation to **+7.5% vs. previous Est.**, reducing our **FCF yield** to **13.5%** (vs. 15% previously). This brings us to the **second 12M Target Price cut in a row**, now at **R$23.00** (vs. R$24.50 previously), indicating an **upside** of **+20.99%**.

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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under Review	Under review	**5%**

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