JBS

J&F and BNDES agreement: Untying the knots

LatAm Meatpackers

Main takeaways:

(i) Primary Listing on the NYSE: JBS intends to transfer its primary listing to the NYSE, keeping only BDRs on B3 to increase liquidity and attract global investors; **(ii) Conditions for Dual Listing:** The operation **depends on SEC approval** and the **endorsement of minority shareholders** at an **EGM**; **(iii) J&F and BNDESPar Agreement:** In the event of not reaching the expected valuation appreciation level, BNDESPar will receive up to **R$500mn paid by J&F**, in addition to abstaining from voting at the EGM; **(iv)** We believe that the agreement aims to guarantee a **minimum return** (R$500mn) on **BNDESpar's fiduciary duty** and, at the same time, to **abstain from voting at the EGM**, which would imply taking a **politically contrary position to the financial one**, should it participate. In other words, financially the dual listing seems to make sense, but politically it would be unappealing for BNDES to vote in favor in order to contribute to JBS spreading a larger portion of its capital to foreign investors; **(v)** Furthermore, **an additional view** we bring is that **BNDESPar would hypothetically be under pressure to sell part of its position**, since the SEC could facilitate the approval of the dual listing if the concentration of capital decreases, and **release free float** to ensure **accommodation of the demand** from investors **on the NYSE**. In this scenario, the R$500mn would act as a guarantee of return in the face of uncertainty about future valuation, in addition to exercising a premium to cover BNDES's opportunity cost in having to dispose of the shares; **(vi)** With a multiple of **4.4x EV/EBITDA 25E** (vs. 5x historical average) and **FCF yield ~14%**, the **potential for repricing** with the NYSE listing makes the **valuation attractive**. We therefore continue with our **BUY rating** with a **12M Target Price** of **R$42.50**, giving an **upside** of **+29.77%**.

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Company

JBSS3 BZ Equity
Buy

Price: R$ 32.75 (17-Mar-2025)
Target Price 12M: R$ 42.50

What happened?

JBS has taken another important step to enable the transfer of its **primary listing** to the **New York Stock Exchange (NYSE), keeping only BDRs listed on B3**. In a long-standing desire (since 2022, but dating back to a preliminary intention ~9 years ago) to promote a dual listing with liquidity in both the US and Brazilian markets, we note that the company continues to untie the knots to break through the bureaucracy and requirements of the Securities and Exchange Commission (**SEC**), which has the power to authorize the offering of primary shares in the US. The **dual listing plan** (NYSE and B3), which depends on both **(i)** SEC's and **(ii)** minority shareholders approval at an extraordinary general meeting (EGM) yet to be called later, **now includes an agreement** between **J&F Investimentos** (48.34% of the total capital) and **BNDESPar** (20.8% of the total capital). The agreement, made officially by the company after the closing of the market in yesterday's trading session, binds BNDESPar to **receive up to +R$500mn** in the event of **not reaching** a certain level of **share valuation**, pending SEC clearance and the feasibility of the primary listing process on the NYSE.

The agreement also guarantees that **BNDESpar will abstain from voting** at the EGM when it takes place, leaving the decision to the other minority shareholders. This passage, mentioned in an official JBS statement, **seems to show that the BNDES was opposed to the dual listing** and the agreement was drawn up in such a way as to expunge the opposing vote that would most likely be cast at the meeting.

Who would pay this amount?

The amount would be paid in full by **J&F Investimentos** (the holding company of the Batista family, founders of JBS). Therefore, **it would not come out of JBS's cash flow**, so as not to penalize minority shareholders. Another important point is that it was **not disclosed (i)** what the cutoff would be to indicate the level of appreciation of the shares that would trigger the payment mechanism and **(ii)** nor the staggering of values, since we can assume that it would be up to +R$500mn, which means that there is also the possibility of a value lower than this depending on undisclosed conditions. It was only disclosed that the **deadline** for triggering the mechanism is **December 31, 2026**, considering that by then the dual listing would have already been carried out.

Why would the BNDES oppose dual listing?

The **first factor** would be the criticism that the BNDES could receive for maintaining a relevant position within a company that would be listing primary shares on a stock exchange outside Brazil. This demonstrates the **BNDES' dissatisfaction with the dual listing process**, with the format of **the primary shares being on the NYSE.** Putting into context, a significant part of the shareholders would not be Brazilian, since the shares trading on B3 would be BDRs and the majority of liquidity would flow to NYSE investors. On the other hand, it is important to clarify that JBS already has shares traded on the NYSE, through ADRs. However, we know that **JBS ADRs (JBSAY-NYSE) have low liquidity** and are traded over the counter (OTC), with a 6M ADTV of 806 thousand shares vs. 279 million for JBSS3-B3. The figures show that liquidity is minimal, as is usually the case in OTC markets.

Therefore, for the dual listing process to attract international investors in a relevant amount, **the shares would need to be liquid**, coupled with a free float capable of absorbing demand. To this end, the alternative of transferring **primary shares through the NYSE** (no longer ADRs) **seems to us to be the best way forward**. This, in turn, **would displease the BNDES** under the argument of investing in **companies with mostly Brazilian capital.**

The SEC could create barriers to authorization with a concentrated capital structure.

The **second factor** that would put BNDES against the dual listing process would be a possible **obligation to sell shares** of the reference shareholders (J&F Investimentos and BNDESpar) **to reduce the concentration of the capital structure and increase the free float.** We would point out that the US market values good practices with minority shareholders much more than the regulated Brazilian market, even including B3's so-called “Novo Mercado”. Although there doesn't seem to be prerequisite evidenced as a clear rule in this regard, we still believe it is valid to consider that the SEC would have this concern. Especially if we delve into JBS's intentions to access the US stock market more broadly. Assuming that JBS has the ambition to **apply for the S&P500 index** (which we think is likely), we would highlight two important requirements**: (i)** 50% or more of the company's total net revenue comes from the US, which is already a reality for JBS, as well as **(ii) 50% or more of the capital is free float**, i.e. in the hands of minority shareholders. **This second requirement is not currently met by JBS**, which has 69.15% of its capital held by BNDESpar (+) J&F Investimentos, leaving 30.85% in the hands of minority shareholders.

Our take on JBS

We wouldn't be surprised if BNDES announced the sale of part of its stake. Considering the context and the ambitions that JBS may have with the dual listing, we believe that **one of the hypotheses** that may be behind the making of this agreement between J&F and BNDES would be the possibility of the SEC hindering the dual listing due to the high concentration of reference shareholders, which goes back to the distortion of the perception of corporate governance that JBS may have created with investors and regulators. Therefore, in this case, we could assume that one of the strong motivations for the agreement would be the **binding of a subsequent commitment by BNDESpar to dispose of part of its position**, subject to authorization by the SEC to release dual listing.

Thus, the agreement was sewn up so that, **if the shares do not rise** with the primary listing on the NYSE to a certain level - via the re-approximation of multiples relative to peers - **BNDES would receive a contribution of up to +R$500mn** from J&F Investimentos as **(i)** a premium for possible dilution - which we believe would be a possible condition of the SEC's approval of the dual listing - or **(ii)** a kind of insurance policy, which would compensate for the possible non-appreciation of the shares on the NYSE even though it had already disposed of part of its position.

Is there any kind of restriction on the BNDES investing in companies outside Brazil? Support for the internationalization of Brazilian companies by the BNDES began in the early 2000s. In 2002, changes to the BNDES Statute allowed the financing of foreign direct investments (FDI). This initiative came along with an expansion of Brazilian direct investment (BDI).

Between 2003 and 2013, Brazilian FDI abroad increased from US$55bn to US$293bn. In 2002, financing guidelines were established for these investments and, in 2005, a financing line dedicated to internationalization was created. **Initially,** the guidelines required beneficiaries to be **(i)** Brazilian exporting companies **under national control**, involved in industrial activities to produce consumer or capital goods, reflecting concerns about Brazil's economic vulnerability. **Currently,** access to internationalization financing is open to all Brazilian companies or subsidiaries, **if the major shareholder is Brazilian.** Looking from this perspective, as we don't believe that J&F Investimentos will relinquish control (currently 48.34% of the total capital), the largest shareholder would continue to be Brazilian.

Political gamesmanship is part of the imbroglio. This agreement between BNDESpar and J&F Investimentos was finalized almost 9 years after BNDES vetoed a corporate reorganization of JBS that could transfer the company's headquarters to Northern Ireland, **on the grounds of avoiding "denationalization".** This was part of an initial plan for JBS to list shares abroad. As we commented, this so-called dream of dual listing the company has been coming a long time ago. Since then, JBS has changed its strategy to keep its headquarters in Brazil, and the BNDES lost its veto power after the shareholder agreement expired in 2019. Now, with the contract signed with J&F, the BNDES seems to be distancing itself from a politically sensitive issue. BNDESpar's **relationship** with dual listing also **seems to us to be, curiously, dual** (no pun intended here). If, on the one hand, **(i)** the support exercised at the EGM could cause negative reactions, linked to the political nature of the decision by a Brazilian government authority, by making it too easy for foreign investors to dissipate capital, on the other hand **(ii)** the opposition could annihilate the fiduciary duty that BNDESpar actually has if the operation is successful, and the shares increase in value.

Conclusion: There is both political motivation and possible SEC restrictions. Considering that the agreement guarantees a minimum return of up to +R$500mn, we believe that this somewhat protects BNDES management from criticism related to the best interests of the Brazilian government. For J&F, this agreement eliminates the possibility of BNDES voting against the dual listing at the AGM**.** We emphasize that BNDESpar would be the main shareholder at the minority meeting if it participated and could come under political pressure to oppose the project. J&F Investimentos, on the other hand, will not take part in the EGM, since it is the controlling shareholder. As a result, the decision on the dual listing will be taken by the minority shareholders, who hold 30.85% of the shares. The largest individual shareholder in this group is the investment fund Capital Group, with 5.03% of the total capital.

We believe **the J&F group has a certain degree of conviction** that the operation **will unlock significant value**, allowing JBS to access global investors, especially passive funds that today have virtually no exposure to the company due to its exclusive listing on B3.

We see JBS currently trading at **4.4x EV/EBITDA 25E**, which **seems significantly discounted compared to its international competitors** such as Tyson Foods (8.5x) and Smithfield (8.0x). Therefore, the primary listing of the shares on the NYSE, guaranteeing liquidity, **would eliminate this gap with its peers** (or at least partially eliminate). In other words, the market valuation of JBS would stretch beyond the current level, to converge with values more like peers, causing the shares to rise, via multiples repricing. In addition, we believe that JBS would need to build up **a higher level of free float to accommodate investors' interest** on a much wider capital access base, possibly even joining the SP&500. Therefore, conjecturing as a hypothetical (but well-founded) scenario, it seems to us that **there is a signal from the SEC to facilitate the approval** of primary shares on the NYSE by reducing the concentration in the capital structure.

The chances of making the dual listing possible have increased. As we don't believe that this possible capital reduction will come from J&F Investimentos, it would be left to BNDESpar to sell part of its position. For this reason, it could have **demanded a real guarantee of returns** (translated into receiving the R$500mn) **to dispose of the shares,** under some degree of uncertainty from the feasible point of view that the shares would rise after the operation was carried out. This considers the scenario outlined where there would be no desire on the part of BNDES to be diluted, but an obligation, so to speak, to do so to make the operation viable. Summarizing, we still believe that **the valuation remains attractive**, supported by **(i)** a multiple of **4.4x EV/EBITDA 25E** (vs. 5x historical), with **(ii)** generation of **FCF yield 25E** at **~14%,** in addition to **(iii)** benefiting from a potential unlocking of value with the conclusion of the dual listing of the shares on the NYSE. We continue with our **BUY rating**, with a **12M Target Price** of **R$42.50**, leading to an **upside** of **+29.77%.**

Appendix: JBS

Figure 1. JBS – Income Statement in R$ Millions (Genial Est. 24-27)

Income Statement	2024E	2025E	2026E	2027E
Net Revenue	**418.941**	**456.771**	**472.193**	**486.098**
(-) COGS	(360.289)	(392.823)	(406.086)	(418.044)
Gross Profit	**58.652**	**63.948**	**66.107**	**68.054**
(-) Expenses	(13.512)	(20.345)	(27.992)	(26.949)
Adjusted EBITDA	**37.053**	**36.063**	**33.515**	**36.978**
(-) D&A	(11.761)	(12.609)	(13.217)	(12.755)
EBIT	**25.292**	**23.454**	**20.298**	**24.223**
(+/-) Financial Result	(8.200)	(3.707)	(4.187)	(4.661)
(-) Taxes	(6.449)	(8.375)	(7.279)	(8.829)
Net Income	**10.643**	**11.372**	**8.832**	**10.733**
Profitability				
Net margin (%)	3%	2%	2%	2%

Figure 2. JBS– Cash Flow in R$ Millions (Genial Est. 24-27)

Cash Flow (FCFF)	2024E	2025E	2026E	2027E
Net Revenue	**418.941**	**456.771**	**472.193**	**486.098**
(-) COGS	(360.289)	(392.823)	(406.086)	(418.044)
Adjusted EBITDA	**37.053**	**36.063**	**33.515**	**36.978**
EBIT	**25.292**	**23.454**	**20.298**	**24.223**
(-) Taxes	(6.449)	(8.375)	(7.279)	(8.829)
(+) D&A	11.761	12.609	13.217	12.755
(+ -) ΔWC	(1.584)	(3.890)	(2.757)	(1.033)
(-) Capex	(7.088)	(8.416)	(7.441)	(9.214)
FCFF	**21.932**	**15.382**	**16.038**	**17.902**

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Neutral	Expected return between +10% and -10% relative to the Company's industry average	**41%**
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under Review	Under review	**5%**

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