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MINERVA

4Q24 Review: Leverage up, margin down

LatAm Meatpackers

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Company

BEEF3 BZ Equity
Neutral

Price: R$ 5.59 (19-Mar-2025)
Target Price 12M: R$ 5.70

Main takeaways:

(i) Net revenue of **R$10.7bn** (+0.9% vs. Genial Est.), with **COGS/kg** advancing to **R$20.9/kg** (+3.2% vs. Genial Est.; +19.7% q/q), pressuring **EBITDA** to **R$943mn** (-4.3% vs. Genial Est.) and **margin** of **8.8%** (-0.5p.p vs. Genial Est.) **contracting -0.8p.p q/q** and **-1p.p y/y**; **(ii)** The cost of cattle rose to **R$319/arroba** (+33.2% q/q; +32.6% y/y), compromising margins and generating a warning for 2025, given the **scenario of higher slaughter** and lower supply of cattle; **(iii)** The company reported a **loss** of **-R$1.6bn** (-66% vs. Genial Est.), reflecting high financial expenses and the non-cash effect of **exchange rate variation** (-R$1.8bn); **(iv) Net Debt/EBITDA** rose to **5.0x** (+2.4x vs. 3Q24), above Genial Est.'s projection (4.5x), **highlighting risk close to covenants**; **(v)** Although the company reported **FCF** of **+R$990mn**, for our calculation there was a strong **FCFE burn** of **-R$4.2bn** (-6.2% vs. Genial Est.) due to the payment for Marfrig's plants; **(vi)** The depreciation of the BRL (+5.4% y/y) **drove** the **realization of the company's average price in BRL** (R$28.6/kg; +29.4% y/y), while the average price in USD rose to US$4.7/kg (+5.8% y/y); **(vii)** Minerva is seeking approval for the purchase of Marfrig's plants excluding the Colonia unit, a proposal which should now have a better chance of approval; **(viii)** The company should **revise downwards** its **incremental EBITDA** guidance, with the **new projection** from **Genial Est.** indicating **~R$1bn** (-29% vs. the original guidance of R$1.5bn); **(ix)** Although we identify multiples that are still discounted and believe that the market has penalized the shares excessively, **we do not see consistent fundamentalist catalysts** that would lead to a significant appreciation of the shares. Consequently, we reiterate our **NEUTRAL rating**, with the **12M Target Price** at **R$5.70**, indicating a **marginal upside** of **+1.96%.**

Minerva released its **4Q24 results** yesterday, **March 19,** after the market closed. The company reported **Net Revenue** of **R$10.7bn** (+0.9% vs. Genial Est.), with **COGS/kg** accelerating to **R$20.9/kg** (+3.2% vs. Genial Est.; +19.7% q/q), which in turn compromised the **EBITDA**, clocking in at **R$943mn** (-4.3% vs. Genial Est.).

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

(R$ millions)	4Q24A Reported	4Q24E Genial Est.	% R/E	3Q24A Reported	% q/q	4Q23A Reported	% y/y
Net Revenue	**10,714**	**10,614**	**0.9%**	**8,501**	**26.0%**	**6,166**	**73.8%**
COGS	(8,580)	(8,313)	3.2%	(6,727)	27.5%	(4,797)	78.9%
Adjusted EBITDA	**943**	**985**	**-4.3%**	**813**	**16.0%**	**606**	**55.6%**
EBITDA Margin (%)	8.8%	9.3%	-0.48p.p	9.6%	-0.76p.p	9.8%	-1.03p.p
EBIT	**708**	**746**	**-5.1%**	**648**	**9.3%**	**503**	**40.8%**
EBIT Margin (%)	6.6%	7.0%	-0.42p.p	7.6%	-1.01p.p	8.2%	-1.55p.p
D&A	(202)	(219)	-7.8%	(165)	22.4%	(103)	96.7%
Financial Result	(2,248)	(1,690)	33.0%	(565)	297.9%	(462)	386.6%
Net Income	**(1,567)**	**(944)**	**66.0%**	**94**	**-**	**20**	**-**
Net Margin (%)	-14.6%	-8.9%	-5.73p.p	1.1%	-15.73p.p	0.3%	-14.95p.p

Source: Minerva, Genial Investimentos

Although EBITDA rose +16% q/q and +55.6% y/y, it left a **margin** of **8.8%** (-0.5p.p vs. Genial Est.), representing a **compression** of **-0.8p.p q/q** and **-1p.p y/y**. Our understanding is that this retraction mainly reflects the **significant increase in the cattle purchasing cost**, which reached R$319/arroba (+33.2% q/q; +32.6% y/y). As a **major negative highlight, leverage** measured by **Net Debt/EBITDA** closed at **5.0x** (+2.4x vs. 3Q24), **higher than we expected** (+0.5x vs. Genial Est.). The company makes a calculation where it reaches 3.7x adjusting for the Proforma EBITDA of the new MSA assets (10 months), totaling +R$1.1bn, but we believe that this calculation is inappropriate, since the result of these assets does not comply with the real LTM EBITDA.

We would add that, according to our projection, the **price of cattle arroba should continue to put pressure on the company's margins** in 2025, considering that this spike was justified by the higher number of slaughtering in 2024 vs. 2023, reaching ~28 million heads of cattle (+13.5% y/y). It's important to mention that **February has already registered a 15.2% y/y increase in slaughter volume**, beating the number delivered in 2024. This means that it is very likely that we will have a very strong year of slaughter pace (perhaps surpassing the record already set in 2024), **reducing the cattle supply** and creating support **for maintaining the arroba prices at high levels.**

Bottom line deteriorated sharply, with a **Loss** of **-R$1.6bn** (-66% vs. Genial Est.). We believe that the result was mainly impacted by the negative financial result of **-R$2.2bn**, reflecting higher financial expenses (+5.2% q/q; +18.5% y/y) and by the non-cash effect of the Fx rate variation on the debt, which amounted to -R$1.8bn, more than offsetting the non-cash gain derived from the repurchase of a debt, at a 13% discount to face value (US$100), of the 2031 bond of US$13.0 per bond issued or ~US$10mn gain.

4Q24 Review

Both shipments and average price were above our estimates. The company's consolidated beef slaughter volume totaled 1.2 million heads (+2.3% vs. Genial Est.; +8% q/q; +10% y/y). The company's sales volume reached 409Kt (+1.8% vs. Genial Est.), up +6.6% q/q and +15.6% y/y. The highlight was the domestic market, which reached 186.5Kt (+15% q/q; +40.6% y/y). Therefore, we see a more representative share of the slaughter volume coming from Brazil's performance, which amounted to 24% of the company's portfolio (+6.0p.p q/q), reflecting **(i)** the increase in new assets which favored the slaughter of +166 million heads of cattle and **(ii)** the price transfer to the end consumer, reflected in food inflation, ascending from the sharp rise in the cattle arroba prices in the period.

As a catalyst for favoring exports, the appreciation of the USD vs. BRL, which reached R$5.84 on average (+5.4% q/q), also had an impact on the company's realized price in BRL, which reached R$28.6/kg (+0.8% vs. Genial Est.), accelerating +29.4% q/q. The realized price in USD rose to US$4.7/kg (+5.8% q/q), which seems much milder, demonstrating the intensity of the FX rate's effect on the company's results. NAFTA gained relevance in the share of the export portfolio, reaching 19% (+1.0p.p q/q), with the USA standing out at 17% (+2.0p.p q/q) given the scenario of restricted cattle supply in the region.

Asia, on the other hand, lost representation, reaching 19% (-3.0p.p q/q), especially considering that last quarter there had already been a partial increase in shipments due to restocking before the Chinese New Year.

EBITDA up, but margin squeezed by higher COGS/kg. The company's COGS/kg reached R$20.9/kg (+3.2% vs. Genial Est.), above what we expected, marking up a strong rise of +19.7% q/q and +54.7% y/y. Although it came in slightly higher than expected, the strong acceleration also reflected the anticipated perception of higher cattle prices at all the company's production units. The highlight was the expansion in the purchasing cattle cost in Brazil, which reached R$319/arroba (+33.2% q/q; +32.6% y/y). As we had already anticipated since last quarter's review report, the cattle arroba prices showed a solid increase from September until December, justified mainly by the acceleration in the number of slaughtering in 2H24 vs. 2023, reaching ~28 million heads of cattle (+13.5% y/y). Therefore, it is worth mentioning that 2024 presented a record year for Brazilian fresh meat exports, reaching 3.8Mt of carcass equivalent (+22% y/y).

This greater impetus for meatpackers to export has a strong correlation with **(i)** the rise in the USD/BRL Fx rate during this period, making it easier for them to slaughter because of the gain in price competitiveness on the foreign market. In addition, we also saw **(ii)** producers increasing the level of female retention and **(iii)** leaving more cattle on pasture, as it was a very dry year, reducing the supply linked to slaughter phase. As a result, the company's EBITDA reached R$943mn (-4.3% vs. Genial Est.), still a considerable increase of +16.0% q/q and +55.6% y/y, but the margin was knocked down by the upsurge in costs, reaching 8.8% (-0.5p.p vs. Genial Est.), with a compression of -0.8p.p q/q and -1.0p.p y/y.

Loss being reported in the face of strongly negative financial results. The company reported a loss of -R$1.6bn (66% worse vs. Genial Est.) mainly reflecting the impact of the negative financial result of -R$2.2bn, which was influenced by higher financial expenses (+5.2% q/q; +18.5% y/y) and the non-cash effect of the exchange variation on debt, which amounted to -R$1.8bn. In addition, market-to-market (MTM) losses on future hedge positions for exports (sales in USD) and on CDI/IPCA swaps used to hedge long-term debt in BRL added pressure on the net financial result, more than offsetting the non-cash gain derived from the repurchase, at a discount of 13% vs. face value (US$100), of the 2031 bond for US$13.0 per bond issued or ~US$10mn, an amount that would have entered as a gain in the financial result line as agile.

Our Take on Minerva

FCFE with strong burn considering the payment for the slaughter plants. The company reported **FCF** of **R$990mn** (16.0% q/q), representing a quarterly record. This result was driven by good operational performance, with EBITDA totaling R$943mn (+16.0% q/q) and by efficient **working capital** management, which generated a gain of **+R$691.7mn** (+12% vs. Genial Est.). **CAPEX** was **R$221mn** (+5.1% vs. Genial Est.), up +49.1% q/q and the financial result clocked in at **-R$425mn** (-31.7% q/q). However, we note that the FCF calculation indicated by Minerva refers to a structure that excludes two important factors: **(i)** the variation in debt (add up and payments) and **(ii)** disbursements in relation to the acquisition of investments.

Therefore, technically, we believe that this statement could not be included as FCFE. As soon as we compose the cash flow with these two factors excluded, we calculate a **strong FCFE burn of -R$4.2bn** (-6.2% vs. Genial Est.), mainly explained by the second factor, which amounted to a **disbursement of -R$5.7bn**, configured as a cash outflow. This amount refers to the payment for the **acquisition of Marfrig's slaughter plants** (ex. 3 plants in Uruguay), disregarding the R$1.5bn that was already paid in 3Q24, in the form of an advance.

Leverage accelerates to 5.0x, higher than expected. The company's net debt ended at 4Q24 at R$15.6bn (+76.1% q/q; +75.9% y/y) reflecting the impact of the acquisition of Marfrig's assets in South America. The Fx rate variation due to the acceleration of the USD vs. BRL parity, in turn, generated an addition of **+R$1.8bn to gross debt**, reflecting an increase of +10% vs. 3Q24 solely due to an **exchange rate** issue on debt exposure to foreign currency, which today represents **83% of total debt**. As a result, leverage measured by **Net Debt/EBITDA** closed at **5.0x** (+2.4x vs. 3Q24), higher than we expected (4.5x Genial Est.). The company makes a calculation where it reaches 3.7x adjusting for the Proforma EBITDA of the new MSA assets (10 months) of R$1.1bn. In addition, we saw that the **ratio came close to its respective covenants for some of the debts the company holds**, which we consider **a warning sign**. If the LTM Net Debt/EBITDA ratio, excluding **(i)** some permitted debts and **(ii)** the effect of the exchange rate variation (+R$1.8bn increase in gross debt), end up being **greater than 3.5-3.75x**, the notes also have clauses that limit Minerva from issuing new debt and distributing dividends, since the covenants would be breached, which would also require a capital call. We do not have information, at this time, on which debts are authorized to be excluded from the calculation.

Downshifts in value drivers should contribute to the adverse outlook for 25E. Minerva has ~60% of its net revenue coming from exports. This strategy gains even more relevance in the face of the challenging environment in the domestic market, impacted by pressure on food inflation in Brazil, which will reduce household consumption of red meat and promote the **trade down to cheaper proteins** (chicken and pork). In the **NAFTA** market (USA, Canada and Mexico), which accounts for ~20% of exports, we expect beef consumption to remain solid, driven by demand for prime cuts. However, the **anticipation of the cattle cycle reversal in Brazil** has reduced the arbitrage window of the slaughter **price differential** between **Brazil vs. the US**, limiting an important source of profitability for the company, and the central point we see in the investment thesis. In addition, the greater concentration of the company's slaughter volume in Brazil after the recent acquisition (11 plants out of 16 assets are in Brazil), coupled with the cycle reversal, should intensify the company's **operational challenges throughout 2025.**

Regarding the **Asian market**, which accounts for ~30% of exports, we believe that the **contraction of per capita income in China**, due to the **Trump administration's** aggressive tariff policy, should weaken demand for products directly associated with purchasing power, such as beef consumption. Therefore, the company's performance in 2025 is likely to fall short of what was initially expected before the assets acquisition. In other words, both company's **largest export destinations** (NAFTA and Asia) **should face a more adverse scenario in 25E.**

We believe that the real effects of the imposition of tariffs will translate into **(i)** domestic inflationary pressure in the US and **(ii)** the decrease of per capita income in China. Both reasons should contribute to a cooling external scenario. As for Brazil, we think that it will continue to be pressured by the cost of acquiring cattle for slaughter at high levels.

Cattle cycle reversal in Brazil will damage company margins in 2025. As previously stated, the reversal of the cattle cycle in Brazil is already underway, and there are two issues that corroborate this. The **(i)** increase in the price of calves, which has significantly raised costs for producers; and the **(ii)** slowdown in the rate of female slaughter, a movement that indicates greater retention and signals a scenario of lower supply for 2025. It is worth remembering that beef slaughter grew by +15.2% y/y in 2024, the highest volume ever recorded in the entire historical series. In 4Q24, ~1.2 million heads of cattle were slaughtered in Brazil (+9.3% q/q; +11.3% y/y). This increase in the pace of slaughter has reduced the supply of animals ready for slaughter, contributing to the recent rise in the spot price of the arroba (~R$310, up +29% since the cycle bottomed out) and forward (~R$331/arroba in Sep/25; +0.5% vs. Genial Est.).

The intensification of beef exports in 2024, which reached ~3.8Mt (+22% y/y) of carcass equivalent (TEC) makes us very uncomfortable for the domestic scenario in 2025, since we can clearly see the cattle supply ready for slaughter, which was once vast, reducing by a great deal. Although there has been a sequence of **price transfers in the cut-out** over the last 3-4M, with an increase of +14% in the weighting of the consumption basket of red meat cuts that are part of the IPCA, **this increase is still quite less than the increase in the cattle purchase price** (which rose at a rate almost 2x higher over the same period). Therefore, although the company argues that there are still signs of ample availability of cattle, the data points, in our view, to a more restrictive supply scenario and a **squeeze in margins through increased costs.**

Feasibility of the deal in Uruguay vis-à-vis the compulsory resale of the Colonia unit. The company announced that it had submitted a new proposal to the Uruguayan competition authority (Coprodec) to obtain authorization for the acquisition of three Marfrig plants, located in the cities of San José, Salto and Colonia. This measure comes after the initial rejection by the regulatory body, which had blocked the acquisition of the three units on the grounds of excessive market concentration, given that Minerva is already the sector leader in the region. In the **new proposal**, the company intends to keep only the San José and Salto plants, while the **Colonia unit** - considered the largest of the three (capacity of ~1k heads slaughtered per day) - would be **immediately resold to the Allana Group** (which is already negotiating the price). This restructuring aims to meet Coprodec's requirements and reduce concerns about market concentration. If approved, the operation would result in a leaner structure for Minerva in Uruguay. Therefore, we believe that now with the proposed changes**, there is a good chance that approval for the acquisition will occur,** and the EBITDA portion will be added to our model (we previously left the Uruguay plants out of our +R$960mn Genial Est.).

Negative reassessment of incremental EBITDA seems inevitable. As a result of anticipated scenario changes and recent conversations with the company, we had the perception that Minerva would be considering revising its incremental EBITDA projection downwards, reflecting not only the **significant rise in the price of cattle arroba**, but also a less favorable macroeconomic environment vs. pre-deal (food inflation reducing beef consumption in the domestic market). Even if this possible reassessment occurs, we understand that **the market no longer fully attributes to the company the ability to capture synergies** and increase asset efficiency to the point of achieving the incremental EBITDA of R$1.5bn previously targeted by Minerva. Therefore, any negative adjustment to this estimate already seems to be largely reflected in the market's current expectations. In our projections, we estimate an annualized **incremental EBITDA** of **+R$960mn Genial Est**. for the 13 plants (11 in Brazil, 1 in Argentina and 1 in Chile). This represents ~64% of Minerva's initially reported EBITDA of R$1.5bn and +28% higher than Marfrig's (R$750mn).

As the company stated in its release that the 10M proforma EBITDA of these assets would amount to R$1.1bn, it would be feasible to assume that the annualized incremental EBITDA would be something close to R$1.3bn. Thus, we believe that the three plants in Uruguay would be generating ~R$200mn of incremental EBITDA or R$1.5bn (-) R$1.3bn. Based on the assumption that the Colonia plant alone would account for 50% of this amount (due to its greater slaughter capacity), if we exclude this figure from the R$200mn inferred earlier, the increase in EBITDA from the situation that will probably be approved in **Uruguay** is **+R$100mn**. Therefore, our total **incremental EBITDA** projection would be **~R$1bn Genial Est.** (+10.4% vs. previous Est. which excluded the Uruguay plants). Compared to Minerva's previous target (R$1.5bn), our projection is now **-29% vs. the annulled guidance**. Although we identify multiples that are still discounted and believe that the market has penalized the shares excessively, **we do not see consistent fundamentalist catalysts** that would lead to a significant appreciation of the shares. Consequently, we reiterate our **NEUTRAL rating**, with the **12M Target Price** at **R$5.70**, indicating a **marginal upside** of **+1.96%.**

Appendix: Minerva

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

Income Statement	2024E	2025E	2026E	2027E
Net Revenue	**32.701**	**46.092**	**47.203**	**46.306**
(-) COGS	(26.324)	(37.058)	(37.998)	(37.276)
Gross Profit	**6.377**	**9.034**	**9.205**	**9.030**
(-) Expenses	(3.686)	(4.352)	(4.032)	(3.901)
Adjusted EBITDA	**2.953**	**4.050**	**4.141**	**4.106**
(-) D&A	(769)	(946)	(854)	(764)
EBIT	**2.184**	**3.104**	**3.287**	**3.342**
(+/-) Financial Result	(2.011)	(2.044)	(1.987)	(2.266)
(-) Taxes	(114)	(700)	(858)	(710)
Net Income	**59**	**360**	**442**	**366**
Profitability				
Net margin (%)	0,2%	0,8%	0,9%	0,8%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E
Net Revenue	**32.701**	**46.092**	**47.203**	**46.306**
(-) COGS	(26.324)	(37.058)	(37.998)	(37.276)
Adjusted EBITDA	**6.377**	**9.034**	**9.205**	**9.030**
EBIT	**2.953**	**4.050**	**4.141**	**4.106**
(-) Taxes	114	700	858	710
(+) D&A	(769)	(946)	(854)	(764)
(+ -) ΔWC	(230)	(198)	32	(20)
(-) Capex	(5.083)	(1.088)	(1.177)	(1.099)
FCFF	**(3.015)**	**2.518**	**3.000**	**2.933**

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under Review	Under review	**5%**

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