genial | Equity Research

JBS

4Q24 Review: Positive surprise! Pigs really do fly...

LatAm Meatpackers

(i) Beef North America: EBITDA of R$647mn (+1.7x vs. Genial Est.; -0.6% q/q; +131.5% y/y), margin of 1.7% (+1.1p.p. vs. Genial Est.) with an emphasis on operational efficiency, despite the adverse cattle cycle; **(ii) USA Pork:** EBITDA of R$1.6bn (+6.6% vs. Genial Est.; +15.7% q/q +63.8% y/y), margin of 13.5% (+1.7p.p. vs. Genial Est.) sustained by lower feed costs and firm demand for pigs; **(iii) PPC:** EBITDA of R$3.8bn (-0.8% vs. Genial Est.; -12.5% q/q; +71.8% y/y), margin of 14.7% (-0.1p.p. vs. Genial Est.); seasonal compression with the impact of higher corn costs and bonuses paid; **(iv) JBS Australia:** EBITDA of R$819mn (-17.7% vs. Genial Est.; -15.3% q/q; -7.3% y/y), margin of 7.9% (-1.2p. p. vs. Genial Est.); pressured by cattle costs and climatic effects on salmon; **(x) JBS Brazil:** EBITDA of R$1.4bn (-5.6% vs. Genial Est.; -35.5% q/q; +54.5% y/y), margin of 6.6% (-0.9p.p. vs. Genial Est.); relevant compression due to the skyrocketing cost of cattle; **(xi) Seara:** EBITDA of R$2.6bn (+6.1% vs. Genial Est.; **(xi) Seara:** EBITDA of R$2.6bn (+6.1% vs. Genial Est.; +2.7% q/q; +2.9x y/y), margin of 19.8% (-0.2p.p. vs. Genial Est.); with a sequential drop in margin but profitability still very satisfactory, sustained by the trade down in proteins; **(xii)** High CAPEX, **FCFE** stands at **R$9.6bn** (-2.8% vs. Genial Est.), with the **strong Adjusted EBITDA** and the exchange rate gain mitigating part of the impact of the increase in gross debt. Leverage was **2.15x Net Debt/EBITDA** (-0.09x vs. 3Q24); **(xiii)** Despite the recent rise of **+24% in 9 days** in **share prices** driven by the **dual listing**, margin pressure in almost all units (except USA Pork) and possible regulatory delays could reverse part of this advance if the process doesn't materialize by 2H25; **(ix) The thesis has become a "binary call"** because, if the dual listing takes place within ~6M, the shares could advance even further, but if not, the current valuation could suffer a strong reversal in the face of the operational weakening expected for 2025; **(x)** We prefer to wait for the dual listing to take place, with a **12M Target Price** of **R$48.50**, reflecting an **upside** of **+19.05%.** We reiterate our **BUY rating**, without ruling out reversing the discount rate if the dual listing does not occur in the short term.

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Company

JBSS3 BZ Equity
Buy

Price: R$ 40.74 (25-Mar-2025)
Target Price 12M: R$ 48.50

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

(R$ millions)	4Q24E Genial Est.	4Q24A Reported	% R/E	3Q24A Reported	% q/q	4Q23A Reported	% y/y
Net Revenue	**116.701**	**115.461**	**1,1%**	**110.498**	**5,6%**	**96.341**	**21,1%**
COGS	(99.309)	(98.299)	1,0%	(92.310)	7,6%	(85.246)	16,5%
Adjusted EBITDA	**10.789**	**10.492**	**2,8%**	**11.940**	**-9,6%**	**5.104**	**111,4%**
EBITDA Margin (%)	9,2%	9,1%	0,2p.p	10,8%	-156,1%	5,3%	3,9p.p
EBIT	**5.646**	**7.545**	**-25,2%**	**8.619**	**-34,5%**	**1.776**	**217,9%**
EBIT Margin (%)	4,8%	6,5%	-1,7p.p	7,8%	-296,2%	1,8%	3,0p.p
D&A	(3.248)	(2.875)	13,0%	(3.010)	7,9%	(2.859)	13,6%
Financial Result	(2.105)	(4.156)	-49,4%	(2.002)	5,1%	(1.687)	24,8%
Net Income	**2.412**	**2.303**	**4,7%**	**3.843**	**-37,2%**	**83**	**2820,0%**
Net Margin (%)	2,1%	2,0%	0,1p.p	3,5%	-141,1%	0,1%	2,0p.p

Source: JBS, Genial Investimentos

JBS released its results yesterday, **March 25**, after the market closed. Our understanding is that the company was able to report operating data **slightly above our expectations**. We should remind investors that we were already more optimistic about the result compared to consensus. In consolidated terms, net revenue reached **R$116.7bn** (+1.1% vs. Genial Est.), accelerating +5.6% q/q and +21.1% y/y. **Adjusted EBITDA** was **R$10.8bn**, surpassing our estimates (+2.8% vs. Genial Est.) and the consensus (+9.1% vs. consensus), with a variation of -9.6% q/q and a significant increase of +111.4% y/y. The **margin slowed** to **9.2%** (+0.2 p.p. vs. Genial Est.), but **the contraction was less than expected** (-1.6 p.p. q/q; +3.9 p.p. y/y). On the bottom line, the company reported **net income** of **R$2.4bn** (+4.7% vs. Genial Est.), down -37.2% q/q, but up **+28x y/y**, even with an already heated comparative base.

Operationally, the main **positive highlights** were **USA Pork, Seara and Beef North America**, which showed higher than expected profitability, sustained by **lower feed costs (soy) with firm demand for pigs, protein trade downs driving demand for chickens and operational efficiency**, even with cattle costs still high in the US, in addition to the average appreciation of the USD/BRL exchange rate in the period (+5.4% q/q). On **the downside**, we note that **JBS Australia, PPC and JBS Brazil** reported **sequentially more intense margin compressions**. We believe that the Australian unit was impacted by a significant rise in the cost of lamb and cattle (+47% y/y according to MLA), while PPC also suffered from more prominent costs, given the acceleration in the price of corn and expenses related to bonuses paid (2024 was a record year for the chicken business). **JBS Brazil,** on the other hand, was negatively influenced by **the rise in the price of beef arroba** (+33% q/q), **impacting the cost of acquiring cattle for slaughter.**

4Q24 Review: In detail!

Beef North America: Better than expected, despite negative cattle cycle. The North America Beef division's net revenue was R$37.4bn (+1.5% vs. Genial Est.), accelerating +6.8% q/q and +20.3% y/y, driven by resilient demand and the depreciation of the BRL/USD exchange rate. Gross profit reached R$1.9bn (+14.8% vs. Genial Est.), down -1.6% q/q despite the +146.2% y/y rise, already reflecting the impacts of the rise in cattle prices in the sequential movement and the exchange rate transfer from a stronger USD converted to BRL on an annual basis (+18% USD/BRL vs. 4Q23), intensifying pricing power, translating into a more robust revenue y/y.

Adjusted EBITDA totaled R$647mn (+1.7x vs. Genial Est.), well above what we expected, although it declined slightly by -0.6% q/q, adding a margin of 1.7% (+1.1p.p. vs. Genial Est.), with a much softer compression than we estimated, reaching -0.1p.p. q/q and up +3.3p.p. y/y. Despite the negative cattle cycle in the US - with the price of cattle rising more than the ability to pass it on to the consumer (cutout) - we saw that the company managed to mitigate some of the pressure through operational initiatives focused on efficiency and yield per carcass. We emphasize that the result was better than expected, but even so, the profitability level remains historically low, reflecting the impact of the current stage of the cycle, since the cost of acquiring cattle represents ~85% of the unit's total COGS.

JBS Brazil: Strong expansion in revenue with a narrowing of margins due to the rise in the price of cattle. For the JBS Brazil division, net revenue totaled R$20.3bn (+6.6% vs. Genial Est.), configuring a robust progression of +12.6% q/q and +36.4% y/y. According to our assessment, the better-than-expected result in the top line was due to **(i)** lower volumes in the domestic market because of successive transfers, reflected in the sequential double-digit increase in the cut-out. Another important point that contributed to the performance was **(ii)** exports, which grew +49% y/y in fresh beef. Adjusted EBITDA fell to R$1.4bn (-5.6% vs. Genial Est.), coming in cooler than our projections, establishing a drop of -35.5% q/q, even with a notable rise of +54.5% y/y. The margin came in at 6.6% (-0.9p.p. vs. Genial Est.), also lower than expected, contracting -5.0p.p. q/q, and with a gentle rise of +0.8p.p. y/y.

For us, this shows that the strength in revenue was not fully translated into EBITDA gains. We believe that the sharp compression in profitability reflects the significant jump in the cost of acquiring cattle, which reached ~R$319/arroba (+33.2% q/q; +32.6% y/y). As we have commented in previous reports, we believe that this scenario is justified by the acceleration in the pace of slaughter to favor export volume, due to the rise in the USD/BRL exchange rate, in addition to the higher level of retention of females by cattle breeders. We also observed a staggering of slaughtering in the face of a drier environment, which lengthened the fattening cycle. These factors together eliminated the excess supply of cattle in the slaughter phase that we were seeing until 1H24. Even though meatpackers have made emphatic price increases for consumers, the price of beef arroba has still risen almost 2x more than the set of red meat cuts that make up the IPCA.

Seara: Corn costs squeeze margins, but this was widely expected. For the Seara division, we reported net revenue of R$13.3bn (+7.3% vs. Genial Est.), with a predominant increase of +9.3% q/q and +27.2% y/y, driven by **(i)** accelerating volumes, both due to seasonality (Christmas festivities with chester and turkey consumption) and also due to the trade down in proteins, due above all to the sharp increase in prices of red meat cuts that make up the IPCA, which rose +13% between Oct-Dec, pushing consumers towards cheaper protein options (chicken, pork and processed). In addition, we observed **(ii)** more elastic price dynamics in the domestic market and a boost from the USD/BRL exchange rate effect on the foreign market, reflecting strong demand and expansion of the product portfolio.

Adjusted EBITDA reached R$2.6bn (+6.1% vs. Genial Est.), accelerating +2.7% q/q and with a strong increase of +2.9x y/y, with a margin of 19.8% (-0.2 p.p. vs. Genial Est.), slightly below what we expected, and equivalent to a sequential tightening of -1.3 p.p. q/q, but with a considerable expansion of +13.4 p.p. y/y. Although the cost of corn rose +18.7% y/y and expenses in USD put pressure on the structure of some lines, we believe that the unit sustained a high level of profitability, above the new structural level, estimated at 14-17% Genial Est. 25E (fluctuation over the quarters of the year). We believe that the contraction of margins in the chicken business was widely expected by investors, with the plateau reached in 3Q24 (the same was true for BRF and PPC itself), with this quarter marking the process of accommodation at cooler levels, since price transfers (with adherence via trade down) should not balance the increase in costs. Even so, we expect 2025 to be a year of good performance (just not as good as 2024).

USA Pork: Margins above historical levels, trade down movement and slight seasonal pressure. The USA Pork unit reported net revenue of R$11.7bn (-7.1% vs. Genial Est.), with a slight increase of +3.2% q/q and a stronger acceleration of +12.3% y/y, impacted by lower domestic volume on a sequential basis, which we believe is a reflection of **(i)** a slightly more deteriorated seasonality due to consumer preference for turkey and chicken during the end-of-year festivities to the detriment of pork, in addition to **(ii)** the quarter having one less week. Gross profit totaled R$2.2bn (+4.6% vs. Genial Est.), accelerating +16.2% q/q and +46.9% y/y, indicating progress in commercial efficiency and the substantial rise in the USD vs. BRL parity condition, which benefited the conversion of figures into BRL.

Adjusted EBITDA totaled R$1.6bn (+6.6% vs. Genial Est.), also above expectations and expanding +15.7% q/q and +63.8% y/y, with a margin of 13.5% (+1.7p.p. vs. Genial Est.), expanding at a good pace of +1.5p.p. q/q and +4.3p.p. y/y. We believe that this performance was underpinned by the increased penetration of higher value-added products in the sales mix and resilience in demand. Despite the unfavorable seasonality, we believe that the unit continues to deliver margins above the historical average (8-10%), driven by lower feed costs - soybeans fell -8.1% q/q, for example - as well as a more robust commercial strategy, which allowed it to capture the trade down movement (search for cheaper proteins in the face of rising beef prices).

PPC: Corn prices, pressure to pay bonuses and seasonality led to a contraction in margins. PPC, the company's chicken subsidiary in the US, had already reported its results on Feb. 12 in US GAAP. Now the company has released its IFRS figures, with net revenue reaching R$25.5bn (-0.1% vs. Genial Est.), showing a mild rise of +0.5% q/q and a stronger +13.9% y/y (driven by volume gains and exchange rate effects). On a sequential basis, we believe the figures show **(i)** a drop in sales due to the seasonal effect, partially offset by **(ii)** the protein trade down and **(iii)** the effect of the USD to BRL exchange rate conversion.

Adjusted EBITDA totaled R$3.8bn (-0.8% vs. Genial Est.), with a considerable drop of -12.5% q/q, despite the strong rise of +71.8% y/y. We saw a margin of 14.7% (-0.1p.p. vs. Genial Est.), which despite the +5.0p.p. y/y rise, showed a sequential contraction of -2.2p.p. q/q, with **(iv)** the negative impact of seasonal factors - such as the peak consumption of turkey at Thanksgiving (PPC only sells chicken) - by **(v)** the increase in grain costs, especially corn (+18.7% q/q), and **(vi)** incentive compensation expenses (bonuses), as we commented in our preview report. Despite the downturn, profitability remained at a high level, sustained by gains in operational efficiency, expansion of the portfolio of higher value-added products, with a strong presence of the Just Bare and Pilgrim's brands in US retail and foodservice.

JBS Australia: Margin below projection because of high cattle and lamb costs. For JBS Australia, the unit's net revenue totaled R$10.3bn (-4.8% vs. Genial Est.), up +4.2% q/q and +20.4% y/y, benefiting from the increase in exported volume and the appreciation of the AUD/BRL exchange rate. However, adjusted EBITDA was R$819mn (-17.7% vs. Genial Est.), with a sharp drop of -15.3% q/q and -7.3% y/y, making up a margin of 7.9% (-1.2p.p. vs. Genial Est.), equivalent to a considerable compression of -1.8p.p. q/q and -2.4p.p. y/y.

The weak performance was the result of **(i)** a significant rise in the cost of cattle and lamb - with the price of Australian beef up +47% y/y, according to MLA data - as well as **(ii)** persistent negative impacts on salmon operations due to adverse weather effects.

Our take on JBS

FCFE is below expectations due to high CAPEX. In 4Q24, the **FCF** shown by the company in its release totaled R$5.3bn (+23.3% y/y), justified by net operating generation, which reached R$9.0bn (+5.8% y/y) due to the unwinding of ~R$3.8bn (US$650mn) of receivables discounts. However, we don't consider what the company indicated to be comparable with the FCFE metric used by us. Therefore, we added up the factors that technically make up the indicator, mainly **(i)** operating cash flow; **(ii)** investment cash flow; and **(iii)** net debt raising. By doing this calculation, we arrive at a **FCFE** that would have been effectively reported **R$9.6bn** (-2.8% vs. Genial Est.).

This figure is explained by a high **CAPEX**, reaching **R$2.9bn** (+7.1% vs. Genial Est.), whose acceleration attenuated the positive effect of **the higher net funding** in the period. Gross debt reached R$120bn (+15.9% q/q), but we noticed an effect of the exchange rate variation on cash and cash equivalents in USD, which ended up generating a considerable gain of R$2.9bn (+70.0% q/q), helping to boost **FCFE**, and reduce the difference we had in our projection, which in turn had lower CAPEX. In addition, strong Adjusted EBITDA (+111.4% y/y) more than offset the expansion in gross debt, **cooling leverage** to **2.15x LTM Net Debt/EBITDA in BRL** vs. 2.24x in 3Q24.

Pigs do fly! We believe that pressure on margins would take away from the stock's upside potential, but dual listing more than compensates for weakening fundamentals. We believe that the **margin squeeze** that is expected for **2025 vs. 2024 in almost all business units** (apart from USA Pork) would reduce investor appetite for the JBS name (even though the stock is already trading at discounted levels). This is because we are inclined to project a tightening of margins and **the only business unit that should continue to have higher margins is USA Pork**, due to the preponderance of soy in pig feed (which is depressed in price) compared to corn (which is rising in price), which in turn is a more dominant input in poultry feed such as chicken. In view of **the recent strong advance in the share price** (+24% in 9 days), we believe that this has considerably reduced the upside potential that we had previously identified via strictly operational fundamentals. Although the valuation is still supported by **(i)** a multiple of **4.6x EV/EBITDA 25E** (vs. 4.8x historically) and **(ii)** an **FCF Yield 25E of 14%,** the deterioration in margins (a process that has already begun with the 4Q24 release) reinforces our perception that, without progress on the dual listing by 2H25, the main valuation trigger could be lost.

We have also noticed, through conversations with investors over the last few days, that the market has a high degree of confidence that the dual listing will be concluded quickly (within the next 6 months), since, as the company announced in a material factor on March 17, **BNDESpar will choose to abstain from the EGM that will decide on the issue** (no date has yet been set), which **would remove one of the major obstacles that was holding up the process**.

In addition, the company filed an application with the CVM the day before yesterday for registration as a foreign issuer and for a level III BDR program, which could reinforce that the execution will take place soon. However, **we believe that this optimism disregards possible additional obstacles,** especially in relation to SEC requirements, which could delay both the primary listing on the NYSE and the conversion of the shares into BDRs on B3. We emphasize that, in our view, **if the dual listing does not take place in the next ~6M**, the **recent influx of buyers** - which pushed the shares up by **+24% in 9 days** following the announcement of the agreement between J&F and BNDES on March 17 - **tends to be reversed almost entirely**, putting negative pressure on the performance of the shares.

Why do we consider this a binary call? Although JBS has announced December 31, 2026, as the deadline for the process - according to a material fact about the agreement signed between BNDESpar and J&F, which provides for an additional payment of up to +R$500m if the shares don't reach a pre-defined (and undisclosed) level - this horizon still implies a lengthy process. In this context, we don't see investors sustaining long positions until then. Objectively, we highlight two scenarios: **(i) If the dual listing is made official within ~6 months**, we believe that the shares could advance even further, despite already being close to their all-time highs; and **(ii) If the dual listing does not occur within this timeframe**, the main value drivers would not sustain the stretched valuation observed so far (+24% in just 9 days), especially considering the expectation of operational deterioration in 2025, with more pressured margins in most business units. Given this uncertain scenario, we believe that **the decision to invest in JBS has become essentially binary**, requiring investors to assess which of these two outcomes is the most likely.

We prefer to wait a while for the dual listing to materialize. From our side, we continue to believe that it is too early to say that the dual listing will not happen in 6 months. So, as we don't feel comfortable changing the operating assumptions to a more bullish bias in our proprietary model, we have adjusted the discount rate on our model, considering the preview report (published 2 days ago) to bring the **12M Target Price** up to **R$48.50** and therefore reiterate our **BUY** rating, implying an **upside** of **+19.05%.** However, we do not disregard backdating the reduction in the discount rate in our model if the dual listing does not become viable over the next 6 months.

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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	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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