genial | Equity Research

MINERVA

Capital Increase: Dilute and Gasp

LatAm Meatpackers

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Company

BEEF3 BZ Equity
Sell

Price: R$ 6.44 (07-Apr-2025)
Target Price 12M: R$ 5.20

Main takeaways:

(i) The **offer** was priced at **R$5.17/share**, **-20% vs. the last close** (R$6.44), which should generate **immediate negative pressure** on the shares. With the potential to raise up to **R$2bn** (or **R$3bn** considering the warrants), the operation represents **~51% of the current market cap** and could lead to a **dilution** of up to **~65%** for those who don't follow it; **(ii)** In **our calculations**, the effective leverage would be **5.0x Net Debt/EBITDA**, which reinforces the defensive nature of the offer; **(iii)** The shareholder who joins the offer will receive **½ bonus per share subscribed**, **exercisable within 3Y at the same price** (R$5.17), which could generate additional future dilution for those who don't join, acting as an incentive to participate; **(iv)** VDQ (R$700mn) and Salic (R$300mn) have already guaranteed R$1bn of the offer, which ensures compliance with the established floor. If 90% of the offer is subscribed, VDQ will increase its stake to ~28%, while Salic would fall to ~26%; **(v)** Even with the estimated increase in **EPS 25E** to **R$0.59** (**+12% pre-offer**), we **don't** expect a **proportional increase in shareholder payoff via dividends.** The company's focus should continue to be on deleveraging and a high payout in the coming quarters; **(vi)** One possible scenario is to suggest a response to pressure from bondholders. The offer structure, with warrants and urgency in the timetable, reinforces the idea that the company has opted for an unavoidable path to avoid major financial stress; **(vii)** The logic of the follow-on is clear: **those who don't contribute will be diluted**. Only by **participating fully** in the **offer** will **the investor be able to keep their share undiluted** and contribute to restoring the company's cash position. **Otherwise**, in addition to not helping, **it will suffer double dilution**; **(viii)** We **reduced** our **12M Target Price** to **R$5.20** (downside of -19.3%) and **downgraded** our **rating** to **SELL** (vs. Neutral previously). Although **the multiples are discounted** and the **25E operating FCF Yield remains high** (>30%), we believe that **the short-term scenario is negative**, with unfavorable asymmetry for the minority shareholders.

What happened?

Minerva announced through a material **fact released today** (April 7) a **capital increase** (follow on) in the order of **R$2bn** (~51% of market cap currently) or potentially **R$3bn** (more details of the conditions explored below). There is a need for approval by an extraordinary general meeting (EGM) to be held on **April 29, 2025**. As we'll comment later, the discount on the offer is robust (20% vs. the closing price on Friday of last week). As a result, we expect a **strong negative reaction** from the market, so that **share prices converge towards the value pointed out** (today R$6.44 vs. R$5.17 of the offer).

What is the purpose of the capital increase?

The issue will be made at **R$5.17/share** - corresponding to the average of the last 60 trading sessions - which represents a **discount** of **20%** vs. **the closing price** on **Friday** of last week (R$6.44 on April 4). As an **additional incentive through warrants**, shareholders who participate in the offer will receive **half** a warrant per share (which is part of the 386.8 million), with the right to exercise the purchase of new shares at the **same price as the offer** (R$5.17), at **any time in the next 3 years** (from the date of issue). With this instrument, the potential value of the follow-on would rise to **R$3bn** (~77% of the market cap on today's date), leading to an additional offer of **193.4 million ordinary shares** (equivalent to +R$1b vs. R$2b for the 386.8 million shares). Therefore, the total number of shares in the new issue could reach 580.3 million shares, with 1/3 functioning as American-type options, which have a maturity of 3 years.

We believe that the subscription bonus was given as an **advantage to strengthen the minority shareholder's support for the capital increase.** If, on the one hand, it constitutes a **premium for investors who join the share offer**, on the other, it will end up **penalizing even more those who do not choose to participate** in the capital increase. This is because those who exercise their right to subscribe to the bonus will end up further flattening the position of those who did not choose to fund the capital increase.

What about the participation of controlling shareholders?

The controlling block is made up of Holding VDQ and Salic. The **(i) VDQ** holding company, which represents the Vilela family (founders of Minerva), currently holds ~23% of the capital. On the part of VDQ, there would be (if approved by the EGM) a guarantee of **R$700mn in contributions to the capital increase**. **(ii) Salic** (a fund focused on agriculture in Saudi Arabia), which currently holds ~31% of the capital, would contribute **R$300mn to the capital increase**. Therefore, it seems that the controlling block (Salic + VDQ with 54% of the capital) is putting up a **firm guarantee** of **R$1bn** of the subscribed offer, which in turn is equivalent to 50% of the total capital increase excluding the subscription bonus.

If **90%** of **the offer** is **subscribed**, the joint controlling stake **remains** at **54%**, but there would be a **readjustment** of the **stake within** the **controlling block**: VDQ would rise to ~28%, while Salic would be diluted to ~26%. This readjustment implies a **mismatch** of **expectations** among the participants in the block. We believe it is **implicit** to assume that the **founding family** would be **more optimistic** about the investment thesis **compared** to **Salic**. This is because Salic would be willing to be diluted to the point of giving up its position as Minerva's majority shareholder.

Our Take on Minerva

Is “accretive” operation synonymous with raising yields? We don't think so. According to our perception, the **potential dilution is significant** (~65%) for those who don't exercise the right of first refusal. Even so, the management argues (in an interview given today to the press outlet Brazil Journal) that the transaction would generate value for the minority shareholder. This is because the **early repayment of high-cost debt** could **generate financial savings** of **+R$310mn**, resulting in a net gain (after taxes) of **+R$286mn** in **25E.** The consensus net income is ~R$313mn (-10% vs. Genial Est.), or R$0.53/share. With the new shareholder base, in the event of the full success of the primary underwritten offer (975 million shares vs. 588 million today), **adjusted earnings per share** (EPS) would **rise** to **R$0.59** (+12%).

Although the company argues that the operation creates value for minority positions - with a positive impact on the EPS projected for 2025 - it is important to note that this increase in profit does not necessarily translate into a higher return to shareholders via dividends, for example. We believe that the central objective of the offer, which is to reduce indebtedness, indicates that the **FCF should be directed primarily to debt amortization**. Therefore, a higher dividend yield in the coming quarters does not seem compatible with a prudent capital allocation strategy. In our view, maintaining a contained payout in the short term is not only justifiable, but expected, considering the company's current scenario. Therefore, **raising** the **EPS would not translate,** invariably**, into additional remuneration** for the investor.

We had already anticipated this... Our opinion, as we had **already stated** in **our last report**, which is attached (4Q24 Review: Leverage up, margin down), was that the company was in a delicate situation with its level of debt and might need a capital call. At the end of March, we argued that the leverage ratio **came close to its respective covenants for some of the company's debts**, which we considered to be a **warning sign**. We had already determined that if the LTM Net Debt/EBITDA ratio, excluding **(i)** some permitted debts and **(ii)** the effect of exchange rate variations, were **greater than 3.5-3.75x**, the notes would also have clauses that would limit Minerva from issuing new debt and distributing dividends, since the covenants would be breached.

We also commented that we have not had access to information, at this time, on which debts are authorized to be excluded from the calculation. According to conversations with Minerva after the previous publication, considering the two points mentioned, leverage for the **purposes** of **covenants** would have closed 4Q24 at **1.4x Net Debt/EBITDA, below the range**. However, this figure assumes the addition of R$1.1bn of 10M Proforma EBITDA from the new MSA assets on an LTM basis.

Dilute and Gasp. For us, one **possible scenario** is that the **bondholders**, faced with the significant increase in leverage, which reached 5.0x Net Debt/EBITDA in 4Q24 when not considering Proforma EBITDA (R$1.1bn from the new MSA assets), **could have suggested** or agreed with the company's management to seek a solution to **reduce the level of debt** more quickly. In this context, the **follow-on appears to be an inevitable defensive move**. Minerva seems to be trying to bring benefit to shareholders by offering subscription bonuses as an additional incentive.

For the holders of minority positions, **the message seems crystal clear**: **(i) if investors want to avoid dilution**, they will need to contribute with resources, participate in the share offer and exercise the warrants in the future. In doing so, it contributes directly to restoring the company's cash position, acting as a mitigating particle in the lack of oxygenation for debt obligations. **(ii) If it chooses not to participate**, it suffers significant dilution and no longer contributes to the company's relief - becoming an accomplice in further gasping up, removing oxygen from the cash position, something that is exactly the purpose of the share offer. To the detriment of the **probable convergence of the share price to the offer price** (R$5.17) plus the issues discussed in our writing, we **cut our 12M Target Price** to **R$5.20** (vs. R$5.70 previously), **downgrading our rating** to **SELL** (vs. Neutral previously), indicating a **downside** of **-19.3%.** The Target Price cut comes from a **situational downward trigger**, since we expect a **high 25E operating FCF yield** (above 30%).

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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