genial | Equity Research

MINERVA

1Q25 Review: Upward revision, but no cause for euphoria

LatAm Meatpackers

Main takeaways:

(i) Net revenue of R$11.2bn (–0.8% vs. Genial Est.; +4.5% q/q; +55.8% y/y). Slaughter volume grew to **1.4 million head** (+2.2% vs. Genial Est.; +20.4% q/q), with an increase of +38.7% y/y, while the volume sold totaled **415Kt** (–2.4% vs. Genial Est.; +1.2% q/q); **(ii) COGS/kg reached R$22/kg** (+4.8% vs. Genial Est.; +5.0% q/q; +32.2% y/y), pressured by the **price of cattle at R$318.4/aroba** (US$3.6/kg), which remains stable q/q, but accumulates +33% in 6M; **(iii) EBITDA was R$963mn** (+1.6% vs. Genial Est.; +5.8% q/q; +53.0% y/y), with a **margin of 8.6%** (+0.2 p.p. vs. Genial Est.; -0.2 p.p. y/y); **(iv) Net income of R$185mn** (-61.8% vs. Genial Est.), with a **net margin of 1.7%** (-2.6 p.p. vs. Genial Est.), still affected by financial pressures; **(v) FCF** with **a burn** of **-R$514mn** (vs. +R$400mn Genial Est.), reversing generation of ~R$2bn in the last three quarters. Cash consumption was pressured by working capital (-R$145mn) and CAPEX of R$231mn (+12.5% vs. Est.); **(vi) Net Debt** ended the quarter at **R$15.6bn**, stable q/q, with leverage measured by us at **4.6x Net Debt /EBITDA** (-0.4x q/q). The company reports 3.7x including Proforma EBITDA from MSA assets (7M), but we continue to disregard this metric as it does not reflect actual LTM generation; **(vii) Guidance for 25E revenue raised to R$50–R$58bn**, well above Genial Est.'s R$47bn. The update reflects higher **utilization rates at the new plants** (55% vs. 48% Genial Est.). We have adjusted our projection to the lower end of the range, implying a **+6% revision** in the estimate; **(viii)** The projection for the price of **cattle arroba** in **3Q25E** is **R$330** (+4.7% vs. the current level of R$315), supported by **the retention of females, a more humid climate, and the recovery of pastures**. The lower supply in 2H25 tends to keep prices firm, but does not necessarily improve margins, given the still high cost per arroba; **(ix)** We raised our **12M Target Price** to **R$6.00** (vs. R$5.20 previously), implying an ***upside*** of **+7.3%,** which represents an **upgrade** to **NEUTRAL rating** (vs. Sell previously).

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Company

BEEF3 BZ Equity
Neutral

Price: R$ 5.59 (07-May-2025)
Target Price 12M: R$ 6.00

Table 1. Income Statement Minerva (1Q25 vs. Genial Est.)

(R$ millions)	1Q25 Reported	1Q25E Genial Est.	% R/E	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Net Revenue	**11.196**	**11.288**	**-0,8%**	**10.714**	**4,5%**	**7.187**	**55,8%**
COGS	(9.121)	(9.444)	-3,4%	(8.580)	6,3%	(5.758)	58,4%
Adjusted EBITDA	**963**	**947**	**1,6%**	**910**	**5,8%**	**629**	**53,0%**
EBITDA Margin (%)	8,6%	8,4%	0,2p.p	8,5%	0,1p.p	8,8%	-0,2p.p
EBIT	**720**	**729**	**-1,3%**	**708**	**1,7%**	**477**	**51,1%**
EBIT Margin (%)	6,4%	6,5%	0p.p	6,6%	-0,2p.p	6,6%	-0,2p.p
D&A	(242)	(218)	11,3%	(202)	19,9%	(152)	59,0%
Financial Result	(508)	(38)	1241,4%	(2.248)	-77,4%	(626)	-18,9%
Net Income	**185**	**484**	**-61,8%**	**(1.567)**	**-**	**(186)**	**-**
Net Margin (%)	1,7%	4,3%	-2,6p.p	-14,6%	-	-2,6%	-

Source: Minerva, Genial Investimentos

Minerva released its **1Q25 results** yesterday, May 7, after the market closed. The company reported **Net Revenue** of **R$11.2bn** (-0.8% vs. Genial Est.), with **COGS/kg accelerating** to **R$22/kg** (+4.8% vs. Genial Est.; +5.0% q/q), which in turn should have compromised EBITDA, but due to lower SG&A vs. Genial Est., adjusted **EBITDA** totaled **R$963mm** (+1.6% vs. Genial Est.), rising **+5.8% q/q** and **+53.0% y/y**, reaching a **margin** of **8.6%** (+0.2 p.p. vs. Genial Est.), representing an **increase** of **+0.1p.p. q/q** and **-0.2p. p. y/y**.

The bottom line fell short of expectations, with **Net income** clocking in at **R$185mn** (-61% vs. Genial Est.), mainly under pressured by the negative financial result of **-R$508mn** (+12x vs. Genial Est.), explained by other net expenses of **-R$729mn**, which reversed the positive effects recorded in 4Q24. Despite the non-cash gain from the FX rate variation on debt (+R$843mn vs. -R$1.8bn in 4Q24), the adverse impact was dominant. Minerva disclosed **new guidance** for **Net Revenue** of **R$50–R$58bn** for **2025**, **well above us and the street** (R$47bn Genial Est. and R$48bn for BBG consensus). We explore this topic further down.

On the **negative side**, **FCF** came in with **burn** of **-R$514mn** (vs. +R$400mn Genial Est.), reversing three consecutive quarters of positive generation (~R$2.0bn totaled in Mar-Dec 2024), pressured by: **(i)** negative working capital (WC) of **-R$145mn** (vs. +R$692m in 4Q24), mainly due to higher beef inventories in the US (~R$700mn), linked to the early shipment of products to mitigate tariff effects (explained in more detail throughout the report); **(ii)** high **CAPEX** of **R$231mn** (+12.5% vs. Genial Est.); and **(iii)** cash impact from net financial income of **-R$1.1bn** (+49% vs. Genial Est.). As for **leverage**, the company reported **3.7x**, considering **MSA's proforma EBITDA** (7M vs. 10M in 4Q24), but we believe **this metric is inconsistent**, as it does not reflect actual LTM operating generation. Given this, the **leverage calculated by us**, measured by **Net Debt/EBITDA**, closed at **4.6x** (-0.4x vs. 4Q24), driven by the reduction in gross debt to R$27.5bn (-8.7% q/q), in line with our expectations.

1Q25 Review: In detail!

Slaughter volume grows strongly, with exports reconfigured due to asset licensing. The company's consolidated slaughter volume totaled 1.4 million heads (+2.2% vs. Genial Est.), with growth of +20.4% q/q and +38.7% y/y, due to the consolidation of assets from Marfrig plants. The company's sales volume reached 415Kt (-2.4% vs. Genial Est.), up +1.2% q/q and +19.8% y/y. The highlight was the domestic market, which reached 201Kt (+7.5% q/q; +40.3% y/y), to the detriment of the foreign market, which reached 214Kt (-4.0% q/q; +5.4% y/y). Both annual comparisons were inflated due to the incorporation of new assets from the deal, which in this quarter added +79Kt to 1Q25 vs. 1Q24. The domestic price fell to R$26.4/kg (-7.7% q/q), while the foreign price rose to US$5.3/kg (+13.1% q/q).

We draw attention to the reconfiguration of the portfolio by geographic region, justified by the increased relevance of the domestic market, which reached a 44.4% share vs. 42.8% in 1Q25LTM, to the detriment of the relatively low prominence of the foreign market.

We believe this is justified by the fact that the new slaughter plants are in the process of obtaining licenses to be authorized to export, which is also redirecting its focus towards NAFTA (30% vs. 12% in 1Q24LTM) vis-à-vis the decoupling related to dependence on the Asian market (26% vs. 37% in 1Q24LTM), the Russian market (13% vs. 7% 1Q24LTM) and South America (19% vs. 13% 1Q24LTM).

EBITDA rose sequentially, even with COGS/kg expanding. The company's COGS/kg reached R$22/kg (+4.8% vs. Genial Est.), above our expectations and representing an increase of +5.0% q/q and +32.2% y/y. Cattle acquisition represents ~85% of total COGS. The sequential increase seems to have been penalized by other charges, since the average cattle acquisition price stood at R$318.4/arroba (US$3.6/kg) in Brazil. Although it remained basically flat on a quarterly basis, cattle acquisition costs still represent a sharp increase of +33% in 6M. Therefore, in line with our previous outlook given the current cycle reversal that began in 4Q24, we had already widely anticipated year-on-year margin pressure in 1Q25, given the acceleration in the staggering of slaughter in the quarter, with Brazil reaching ~7 million heads slaughtered (+4% q/q; +1% y/y), already rising from a very high base.

Even though the cutout rose by +2.5% q/q, reaching R$28.9/kg (~US$5.0/kg) when the price per arroba remained flat in the quarter, beef prices still accumulated a +17% increase in 6M, almost 2x less than the acceleration in cattle acquisition costs over the same time frame. Therefore, when added to the effects of SG&A expenses, which totaled R$1.4bn (+15% vs. Genial Est.), EBITDA totaled R$963mn (+1.6% vs. Genial Est.), still with an increase of +5.8% q/q and +53.0% y/y and a margin reaching 8.6% (+0.2 p.p. vs. Genial Est.), with an annual increase of +0.1 p.p. q/q and a decline of -0.2 p.p. y/y.

Net Income below estimates. Net income stood at R$185mn (-61.8% vs. Genial Est.), reflecting the impact of negative financial results of -R$508mn (+12x vs. Genial Est.), which was influenced by other expenses (-R$729mn), reversing other net revenues from 4Q24 and 1Q24, more than offsetting the non-cash effect of the exchange rate variation on debt, which reached +R$843mn vs. -R$1.8bn in 4Q24 due to the detraction of the USD/BRL EoP FX rate (5.74 vs. 6.19 in 4Q24).

Our Take on Minerva

Strong FCF burn, pressured by WC and CAPEX. The company reported **FCF burn** of -**R$514mn** (vs. +R$400mn Genial Est.), reversing the recurring positive impact of the last three quarters combined (R$2.0bn) and representing a setback to the company's cash flow generation discipline. According to our analysis, the result was hurt by **(i)** a more intense requirement for **working capital** (WC), reaching a pressure of **-R$145mn** (+5.2% vs. Genial Est.), vs. a release of +R$692mn in 4Q24. In addition to one of the MSA asset plants demanding more WC than initially expected, we believe that the tightening is also justified by the increase in beef inventories in the US. We found that the company slaughtered a considerable volume of cattle and transferred meat in advance to facilities in the US to mitigate risks from additional tariffs on Brazilian exports, in the context of trade tensions created by the Trump administration — the extra quota tax rose to 36% vs. 26% previously.

The financial amount resulting from this situation reaches ~R$700mn, stretching the inventory account without a counterpart in sales yet. In addition, we observed **(ii)** high **CAPEX** expenditure, reaching **R$231mn** (+12.5% vs. Genial Est.), up +4.8% q/q and +31% y/y. Finally, we also highlight **(iii)** the cash impact derived from the net financial result, which closed at -R$1.1bn (+49% vs. Genial Est.). These factors ended up offsetting the EBITDA gain (+1.6% vs. Genial Est.).

Even with FCF burn, the calculated leverage falls, but still remains very high. The company's net debt ended 1Q25 at **R$15.6bn** (-0.2% q/q; +73.3% y/y), reflecting the offsetting effect between the reversal of the FX rate variation due to the slowdown in the USD vs. BRL, which in turn generated a **reduction** of -**R$1.0bn** on **debts issued in USD** – which today represent 71% of the total pool vs. 76% in 4Q24, reflecting a partial loss of dependence on FX rate fluctuations –, added to the net change in debt — funding of +R$700mn (-) amortization of -R$2.8bn —, which totaled a cash flow reduction of -R$2.1bn, representing ~80% of the **effective cash flow burn** of **-R$2.6bn**. As a result, our calculated leverage, measured by **Net Debt/EBITDA**, closed at **4.6x** (-0.4x vs. 4Q24), driven by the **reduction in gross debt** to R$27.5bn (-8.7% q/q), in line with our expectations.

However, as we have already stated in other reports, **our calculation differs from that presented by Minerva** in its releases. The company indicates that **leverage stood** at **3.7x Net Debt/EBITDA** (flat vs. 4Q24). The difference lies in the addition of **Proforma EBITDA** from the **new MSA assets** within the LTM base, estimated at **+R$788mn** (vs. R$1.1bn in 10M in 4Q24). As the company only began operating the assets acquired from Marfrig in November, we do not believe that the remaining months of 2024 (Jan-Oct) should be included in the LTM EBITDA calculation for leverage purposes. As 3M have passed since 4Q24, the amount was reduced in the company's LTM calculation to incorporate 7M (vs. 10M previously). Therefore, it is worth noting that we continue to reiterate that **we do not recommend that this 3.7x leverage be effectively considered by investors** — although it makes sense from a potential EBITDA perspective. The fact is that these assets did not generate EBITDA between May and October for Minerva, since until then, the assets were held by Marfrig.

New revenue guidance for 2025 shows that the market had been underestimating. The company reported **guidance** for **2025E net revenue** of **R$50-R$58bn,** which is substantially **above our projection** of **R$47bn Genial Est.** and the BBG consensus of **R$48bn** (-4.2% vs. the lower end of the guidance range). This situation seems to demonstrate a **misaligned approach by most sell-side firms** (including us) compared to the visibility the company has on its own performance. For management, the main source of this divergence lies in **sales pricing**: the seasonal decline observed in 1Q25 was lower than the historical average, while export price bulletins — widely used as an external reference — show lags that tend to underestimate the actual price levels obtained by Minerva. In addition, there is still **low external visibility** on the operating performance of the recently acquired plants and their degree of integration into the consolidated balance sheet. It was revealed yesterday (May 7) in an interview with management to a reputable media outlet that at the end of 1Q25, the **new slaughter plants** operated at an average of **55% of their installed capacity** (vs. 48% Genial Est.).

We understand that the full achievement of these targets will depend on the effective materialization of the assumptions and the progression of the domestic and international markets in which the company operates. In advance, based on information about the actual average capacity at which these plants are already operating, **we have raised our revenue forecast** to align with the **lower end of the guidance** (+6% vs. previous Est.).

Cattle arroba prices tend to accelerate in 2H25. As we analyze market situation, we believe it is reasonable to infer that, after sustaining a **still intense slaughter pace** in 1Q25, reaching **7 million head** (+1.0% y/y) with **~49 % of females in the slaughter mix**, this strategy will begin to show signs of **exhaustion in 2H25**, generating a **turning point in the cattle supply** of available for slaughter. We believe it is likely that there will be **(i)** a reduction in the supply available for slaughter due to a slowdown in the number of females being scheduled. This would imply a reduction of **-3.0% y/y Genial Est.** in total annual slaughter – to **38 million heads** – with this slowdown concentrated in **3Q24E**. We believe that, as there will be a drop in the supply available for slaughter due to the retention of females by producers, this tends to support **higher price levels for the cattle arroba** (R$330/arroba in 3Q25E vs. R$315/arroba currently), while encouraging the adjustment of replacement tactics.

It is also worth considering that **(ii)** the **favorable climate** (more rain volume in 2025 vs. last year) and **(iii)** the recovery of pastures should induce the retention of females for reproduction, gradually reducing the volume of animals available for slaughter. This move aims to promote a **tighter supply environment**, suggesting that ranchers reinforce labor on breeding stock in the hottest months and then focus on rebuilding the herd when female slaughter approaches the sustainable limit. In summary, we believe it is likely to wait until **2H25** for a **transition from intensive slaughter to balanced management** vis-à-vis the gradual depletion of the female stock in the market; the accommodation of prices at firm levels, and the adoption of retention policies, paving the way for a **more solid cycle of lower prices per arroba** only **from 2027E** onwards.

Upward revision, but no cause for euphoria. We have adjusted the model for higher revenue due to positive information regarding the average utilization rate of new assets, which are operating slightly above our expectations. However, even with the increase in revenue, we are still projecting a **+4.7% increase in the cattle arroba prices for 3Q25** vs. the current level. Given this, we do not see any major signs of margin expansion for 2025, even though we have adjusted our assumptions. Therefore, due to the materialization of our sell recommendation call on the stock, considering that since we downgraded the company, the shares have deepened **-13.2%** in **30 days**, we believe that the market valuation is **beginning to converge towards the fair price** (still elevated leverage + fundamentals softening), proving that we were right moving down the rating at the time of follow on announcement. Notably, given a **slight improvement in projected net revenue** (+6% vs. Previous Est.), we **raised** our **12M Target Price** to **R$6.00** (vs. R$5.20 previously), implying an **upside** of **+7.3%,** which represents now an **upgrade** to **NEUTRAL rating** (vs. Sell previously).

Appendix: Minerva

Figure 1. Minerva – Income Statement in R$ Millions (Genial Est. 25-28)

Income Statement	2025E	2026E	2027E	2028E
Net Revenue	**49.900**	**52.331**	**54.162**	**56.058**
(-) COGS	(40.129)	(41.921)	(43.284)	(44.690)
Gross Profit	**9.771**	**10.410**	**10.878**	**11.368**
(-) Expenses	(5.061)	(5.360)	(5.550)	(5.747)
Adjusted EBITDA	**4.710**	**5.050**	**5.328**	**5.621**
(-) D&A	(962)	(1.009)	(1.044)	(1.080)
EBIT	**3.749**	**4.042**	**4.183**	**4.413**
(+/-) Financial Result	(2.756)	(2.534)	(2.539)	(2.577)
(-) Taxes	(298)	(422)	(428)	(435)
Net income	**694**	**1.086**	**1.216**	**1.401**
Profitability				
Net margin (%)	1,4%	2,1%	2,2%	2,5%

Figure 2. Minerva– Cash Flow in R$ Millions (Genial Est. 25-28)

Cash Flow (FCFF)	2025E	2026E	2027E	2028E
Net Revenue	**49.900**	**52.331**	**54.162**	**56.058**
(-) COGS	(40.129)	(41.921)	(43.284)	(44.690)
Adjusted EBITDA	**4.710**	**5.050**	**5.328**	**5.621**
EBIT	**3.749**	**4.042**	**4.183**	**4.413**
(-) Taxes	(298)	(422)	(428)	(435)
(+) D&A	962	1.009	1.044	1.080
(+/-) Δ WK	(1.380)	109	(165)	(167)
(-) Capex	(873)	(1.047)	(1.041)	(1.036)
FCFF	**2.160**	**3.691**	**3.592**	**3.855**

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