genial | Equity Research

BRF
1Q25 Preview: Trade down vs. Corn prices, which weighs more?

LatAm Meatpackers

Main takeaways:

(i) Brazil: Revenue of **R$6.9bn Genial Est.** (-19.1% q/q; +12.5% y/y), with the quarterly decline explained by lower volume (-18.1% q/q) and price adjustments (-1.1% q/q). On a y/y basis, both sectors contributed positively. EBITDA of R$1.1bn (-11.1% q/q; +20.3% y/y), with a margin of **16.2%**; **(ii) International:** Revenue of **R$7.5bn Genial Est.** (+2.3% q/q; +15.9% y/y), with higher prices and volume, even with one-off operational effects. EBITDA of R$1.4bn (-9.4% q/q; +23.6% y/y), with a margin of **18.0%**, pressured q/q by costs and SG&A, but recovering strongly y/y via prices; **(iii) Net revenue:** at **R$15.3bn Genial Est.** (-12.7% q/q; +14.5% y/y), with seasonal contraction q/q and annual expansion driven by strong demand and a favorable mix in both segments; **(iv) EBITDA:** projected at **R$2.6bn Genial Est.** (-8.2% q/q; +21.6% y/y), with a margin of **16.8%**, benefiting from operational leverage and cost control, despite the decline in revenue in q/q; **(v) Net income** of **R$858mn Genial Est.** (-1.2% q/q; +44.5% y/y), with a margin of **5.6%**; **(vi)** Positive outlook for **25E**, with projected volume growth above the market, driven by processed products and chicken. We estimate **+2.5% y/y in Brazil**, supported by the trade down movement and institutional reinforcement of brands; **(vii)** Even with expected gains in 1Q25, we project **compression of -2.6p.p. in 2025E**, bringing the consolidated margin to **14.5%**. Higher corn prices should limit gains, despite possible relief in 2H25E; **(viii)** After reaching **0.79x Net Debt/EBITDA** in 4Q24, BRF should increase leverage to **1.5–2x by 2026E**, with **CAPEX** of **R$4.3bn 25E** (+30.3% y/y); **(ix)** Even with a **-20% YTD** decline, we maintain a positive outlook. The company is trading at **4.6x EV/EBITDA 25E**, below the historical average (6.7x). We reiterate our **BUY rating**, with a **12M Target Price** of **R$23.00**, implying an **upside of +16.9%**.

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Company

BRFS3 BZ Equity
Buy

Price: R$ 19.68 (14-May-2025)
Target Price 12M: R$ 23.00

Table 1. Income Statement BRF (1Q25 Genial Est.)

	1Q25E Genial Est.	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Net Revenue	**15.321**	**17.549**	**-12,7%**	**13.378**	**14,5%**
COGS	(11.388)	(13.078)	-12,9%	(10.153)	12,2%
Adjusted EBITDA	**2.573**	**2.803**	**-8,2%**	**2.117**	**21,6%**
EBITDA Margin (%)	16,8%	16,0%	0,8p.p	15,8%	1,0p.p
EBIT	**1.660**	**1.869**	**-11,2%**	**1.252**	**32,6%**
EBIT Margin (%)	10,8%	10,7%	0,2p.p	9,4%	1,5p.p
D&A	(900)	(953)	-5,6%	(848)	6,1%
Financial Result	(341)	(349)	-2,4%	(538)	-36,6%
Net Income	**858**	**868**	**-1,2%**	**594**	**44,5%**
Net Margin (%)	5,6%	4,9%	0,7p.p	4,4%	1,2p.p

Source: BRF, Genial Investimentos

BRF will report its **results** for **1Q25 on May 15**, after the market closes. Our view is that the **results will be positive**, even amid adversity linked to seasonal effects. In consolidated terms, we believe that consolidated **Net Revenue** will reach **R$15.3bn Genial Est**. (-12.7% q/q; +14.5% y/y). **Adjusted EBITDA** should total **R$2.6bn Genial Est**. (-8.2% q/q; +21.6% y/y), with a margin of **16.8%** (+0.8p.p. q/q; +1.0p.p. y/y). The q/q contraction should result from the sharp drop in revenue (12.7% q/q) combined with the partial normalization of commercial expenses.

As in the seasonal trend, the year-on-year increase should be sustained by **the effect of warming demand in both segments**, combined with the **positive operating bias** derived from operating leverage**,** in the context of COGS/t still under control despite pressures on corn prices and logistics. Finally, **Net Income** should reach **R$858mn Genial Est.** (-1.2% q/q; +44.5% y/y), with a margin of **5.6%** (+0.7p. p. q/q; +1.2p.p. y/y), reflecting the seasonal effect of lower operating profitability (-11.2% y/y) and the lesser impact of financial expenses y/y (-36.6 y/y).

1Q25 Preview

Brazil segment: Decline in volumes q/q; but improvement y/y due price and sales acceleration. We project that Net Revenue will total R$6.9bn Genial Est. (-19.1% q/q; +12.5% y/y). The sequential decline reflects a significant drop in both sales volumes, projected at 550Kt Genial Est. (-18.1% q/q), and price, which in turn should reach R$12.60/kg (-1.1% q/q). Volume compression is mainly due to seasonal factors, since the 4Qs typically sees boosted demand due to the end-of-year holidays (Christmas, mainly) and there is a normal slowdown when entering the 1Qs. In the annual comparison, both factors (price and shipments) should reverse the expected outlook in the sequential dynamics, with volumes growing +6.3% y/y and prices +5.8% y/y, impacted by a greater contribution from higher value-added products and commercial adjustments – there were successful pass-throughs of +5%.

Adjusted EBITDA is pointed to in our model at R$1.1bn Genial Est. (-11.1% q/q; +20.3% y/y), with a margin of 16.2% (+1.5p.p. q/q; +1.1p.p. y/y). We believe that the q/q decline in nominal value should be explained by the more significant slowdown in revenues (driven by seasonality) compared to COGS/kg, which should reach R$9.24 (-0.8% q/q) – with operational efficiency gains partially offsetting higher pressure on inputs – such as corn, which rose +7.0% q/q, and the lower effect of fixed cost dilution. In terms of margin, we believe that the q/q expansion will come from a reduction in SG&A expenses, since this line item rose considerably in the last quarter due to bonus payments to management and employees (considering that 2024 was a record year for the company), in addition to marketing expenses related to commemorative campaigns.

On an annual basis, the most prominent expansion can be understood both through prices (+5.8% y/y) and sales (+6.3% y/y) — which should more than offset the +4.5% y/y increase in COGS/kg, reflecting the resilience of domestic operations, sustained by the maintenance of a high level of logistics service and a solid brand presence — with emphasis on activations at NBA and NFL sporting events, which have large audiences.

International Segment: Sequential margin compression due to higher costs. FX rates help YoY. We believe that Net Revenue will reach R$7.5bn Genial Est. (+2.3% q/q; +15.9% y/y). In sequential comparison, we believe that performance should be sustained by higher prices in BRL (+0.5% q/q), given a combination of high demand and restricted supply, as Rio Grande do Sul remains blocked for shipments to China (due to Newcastle disease), but with prospects for release in 2H25. Therefore, we also expect moderate shipments growth, reaching 555kt Genial Est. (+1.9% q/q), countering the seasonal effect observed between 1Q24 vs. 4Q23, when there was a slight contraction in sales (-0.5% q/q at the time). In the annual comparison, the expansion should be explained by the +3.8% y/y increase in volume, reflecting greater traction in the Asian and Gulf markets, in addition to the +11.6% y/y increase in prices in BRL, anchored by gains from the USD/BRL FX rate appreciation (+18.1% y/y).

Adjusted EBITDA should total R$1.4bn Genial Est. (-9.4% q/q; +23.6% y/y), with a margin of 18.0% (-1.6p.p. q/q; +1.1p.p. y/y). The sequential margin compression should mainly result from **(i)** the acceleration of COGS/kg, reaching R$10.16/kg (+0.6% q/q), in addition to **(ii)** greater pressure on SG&A. In the year-on-year comparison, the margin improvement should be explained by the significant recovery in revenue, driven by FX rate-led price gains and higher shipments, factors that should outweigh the expansion of COGS/t (+8.9% y/y), with signs of improvement in soybean oil costs.

Our Take on BRF

We are bullish about volume for 2025. We continue to maintain our projection for the company of **volume growth above the market**, with a focus on **gaining market share** through innovation in processed foods — which have higher margins — in addition to institutional reinforcement of the brands (Sadia and Perdigão) via campaigns and advertising placements at sporting events with large international audiences (such as the NBA and NFL). We also highlight that we remain bullish about **volume growth** in the Brazilian domestic market (+2.5% y/y, reaching 2.5Mt in 25E), even considering that the 2024 base was disruptive and marked a record for the company. As we have already explained in several reports, we believe that consumers are moving towards **trade down**, migrating from demand for more expensive proteins (beef) to a cheaper consumption basket (chicken, pork, and processed foods).

We believe that a consumption slowdown in Brazil is imminent, yielding to inflationary pressures that have led to several increases in the SELIC rate, currently at 14.75%, after a +0.5p.p. increase at the last COPOM meeting (vs. 15% 25E cycle-end, despite a more dovish stance by the Central Bank). We believe that the **reduction in disposable income for consumption**, through the combination of **(i)** high inflation (5.4% IPCA 25E) and **(ii)** high interest rates, removing room for other household spending, should cool the real wage gains we observed in 2024 and hit the unemployment rate in 2H25. In this scenario, we broadly support the narrative of a **decline in consumption of beef** and **capture of demand for lower-priced foods**, which are precisely the **flagship products in BRF's portfolio** (chicken, pork, and processed products).

This trade down movement would also occur because one of the main components that drove inflation higher was food retail, pressured by price increases in beef, given the rapid rise in cattle acquisition costs. Although the price of **fresh chicken** rose **+9.1% in the last 12M**, the price of **red meat cuts** in the IPCA basket rose **+22.2% in the same period**, doubling in value. Noting this shift in consumption, we also saw that the **new price list for processed products was well accepted**, allowing **margins to be preserved** in the face of higher volumes.

Okay... volume is up, but what about costs? In the short term, we believe that the margin will continue to adjust, despite the expectation for 1Q25 to show a gain of +0.8.p.p. q/q and +1.0p.p. y/y in the consolidated results — due to **higher corn costs**, but relief is expected in 2H25 with the **normalization of the second harvest in Brazil**, bringing more supply and cooling prices again. The international scenario should contribute positively, with **strong demand for chicken** in markets sensitive to price differentials between proteins driving the trade-down movement, with recovery in Japan and the prospect of a **marginal increase in exports to China** — in the event of the rollover of agreements related to the trade war, despite the signing of a temporary **90-day tariff reduction** agreement. The possibility of COGS/kg remaining stable, even with the loss of additional chicken sales volume resulting from a **possible agreement between the US and China**, demonstrates the company's operational resilience.

However, although we believe that a more elastic supply of corn from the second harvest may partially alleviate the company's costs throughout 2H25E, we maintain our **expectation of a supply deficit** and prices at **US$4.5/bushel Genial Est. 25E** vs. US$4.44/bushel CBOT currently. **At this level of corn prices**, we still believe that **BRF's margins will compress**, marking **3Q24 as the plateau since the cycle** — something already widely recognized by most investors — with an expected **compression of -2.6p.p. 25E** vs. 2024, reaching **14.5%** (consolidated view). Although this is indeed a lower margin, we point out that last year the chicken cycle entered an exceptionally high level. From this perspective, we still believe that the company will deliver a margin above the 5-year historical average (14.5% 25E vs. 12.3%).

Higher CAPEX and leverage returning to less subdued levels. As we have already mentioned in some reports this year, the company should smooth its path towards a **process of gradually increasing leverage**, which reached a **very low point** (even lower than its peers) of **0.79x Net Debt /EBITDA** in **4Q24**, demonstrating an **excellent debt management process** (prepayment of larger debts with shorter maturities) and robust cash generation, deleveraging the company by **-1.2x in 12M** (0.79x vs. 2.01x in 4Q23). Therefore, management argues that the current level is not optimal from a capital allocation and decision-making perspective for the **continuation of the expansion process**.

As such, we believe it is reasonable to project **leverage rising** to **1.5-2x Net Debt/EBITDA** between **2025-26E**, driven by the expected increase in **CAPEX** of **R$4.3bn 25E** (+30.3% y/y), focused on **international expansion**, particularly in the **Gulf** region. The new investment cycle aims to support the company's consolidation in higher value-added markets, corroborating our **FCF yield 25E** projection of **13.5%** (deleveraged), a **profitability level** that we still consider **strong**.

However, investors with whom we are in contact seem to show some aversion to the more aggressive CAPEX plan, indicating a process of increasing leverage. From what we have seen, the **short-term investor mindset** signaled that the market preference was for leverage to **remain below 1.5x**, with a cooler investment plan and **redirecting FCF** to **dividend payments**, since the company **resumed paying dividends in 2024** (it had not distributed dividends since 2016). However, what is clear at this point is that this **should not be the management's** guidance for capital allocation for 2025. In addition, raising leverage in a more challenging environment of **(i)** a **SELIC rate** of **14.75%** and **(ii)** a possible **cycle inflection** due to **higher costs** for poultry operators already in 1Q25 also seems to be building resistance among some investors to increase their long positions in the stock.

The shares have shown strong volatility YTD. From an investor flow perspective, we believe that the significant decline of **-20% YTD** in the share price reflects the **realization of long positions** by fund managers after taking advantage of the **significant appreciation in 2024** (+63% Jan-Dec), reaching what was probably the highest cycle point, consolidated in 3Q24. From April 8 to 25, **shares rose +20%**, offsetting the -**23% decline** from January to April 8. The market assessed that the suspension of export licenses to China for US meatpackers, in the context of the trade war that began mainly after Liberation Day (April 2), made **Brazilian meatpackers the big winners**, since the gap left by the drastic reduction in US shipments to China could be filled by Brazil.

In 2024, US poultry exports to China were worth ~US$500mn. This represents a significant share of US agricultural exports to China. However, since mid-April, there have been signs of a possible agreement between the Trump administration and China, which were initially ratified by Treasury Secretary Scott Bessent and then confirmed with the **90-day tariff suspension announced** earlier this week.

So, while this **catalyst has lost momentum**, we remain emphatic from a fundamental operational standpoint.

Trade down vs. corn prices, which weighs more? With the cattle prices reaching a 37% increase in the last 12M, it seems difficult that there will not be further price increases for red meat during 2025, since the 22.2% increase in the cut-out does not cover the 37% increase in cattle costs. Although we do not believe that the increase will be passed on in full, it will still happen. As soon as this happens, the flow of buyers in the food retail sector for beef will be reduced even further, and **much of this flow will be captured** by the **(i)** processed food, **(ii)** pork, or **(iii)** fresh chicken chains, **in short, key categories for BRF**.

Given this scenario, we maintain a **bullish bias** with the case **given the discount on share prices**, with a **BUY rating** and a **12M Target Price** of **R$23.00**, **reflecting** an **upside** of **+16.9%.** We believe that the stock market has been **excessively** penalized and that the discount is too **disconnected** from **fundamentals**. Currently, the company is trading at a **25E EV/EBITDA of 4.6x**, below the historical average of **6.7x**, which reinforces our view that the market valuation already prices in an **excessively pessimistic scenario**, justified by the margin plateau in 3Q24. In fact, we agree that margins will slow down in 2025, but the year will still be very good for BRF, and the drop in shares seems exaggerated to us.

Appendix: BRF

Figure 1. BRF – Income Statement in R$ Millions (Genial Est. 2025-2028)

Income Statement	2025E	2026E	2027E	2028E
Net Revenue	**65.804**	**68.894**	**70.151**	**75.458**
(-) COGS	(49.939)	(52.973)	(54.641)	(58.774)
Gross Profit	**15.865**	**15.921**	**15.510**	**16.684**
(-) Expenses	(9.285)	(10.065)	(9.898)	(10.647)
Adjusted EBITDA	**10.200**	**9.645**	**9.821**	**10.564**
(-) D&A	(3.619)	(3.789)	(4.209)	(4.527)
EBIT	**6.580**	**5.856**	**5.612**	**6.037**
(+/-) Financial Result	(1.724)	(1.526)	(1.492)	(1.347)
(-) Taxes	(1.434)	(1.229)	(823)	(1.067)
Net Income	**3.422**	**3.100**	**3.297**	**3.622**
Profitability				
Net margin (%)	5,2%	4,5%	4,7%	4,8%

Figure 2. BRF – Cash Flow in R$ Millions (Genial Est. 2025-2028)

Cash Flow (FCFF)	2025E	2026E	2027E	2028E
Net Revenue	**65.804**	**68.894**	**70.151**	**75.458**
(-) COGS	(49.939)	(52.973)	(54.641)	(58.774)
Adjusted EBITDA	**10.200**	**9.645**	**9.821**	**10.564**
EBIT	**6.580**	**5.856**	**5.612**	**6.037**
(-) Taxes	(1.434)	(1.229)	(823)	(1.067)
(+) D&A	3.619	3.789	4.209	4.527
(+/-) Δ WK	(523)	(578)	(592)	(587)
(-) Capex	(4.006)	(3.742)	(3.737)	(3.830)
FCFF	**4.236**	**4.096**	**4.670**	**5.080**

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