Equity Research

MARFRIG

1Q25 Review: Advantageous exchange ratio vs. sector all-in

LatAm Meatpackers

Main takeaways:

(i) North America: EBITDA of US$6mn (-25% vs. Genial Est.), with a margin of **0.2%** (flat q/q; -1.9p.p. y/y), reflecting compressed spreads and a challenging cycle; **(ii) South America: EBITDA of R$453mn** (-1.8% vs. Genial Est.), down -31.4% q/q and up +56.2% y/y, with a margin of **11.1%** (-0.4p.p. vs. Genial Est.); **(iii) BRF:** EBITDA of R$2.8bn (+7% vs. Genial Est.), falling -1.9% q/q and growing +30.1% y/y, with a margin of **17.8%** (+1.0p.p. vs. Genial Est.); **(iv) Consolidated: EBITDA** was **R$3.2bn** (+6.4% vs. Genial Est.), falling **-14.7% q/q,** but showing a gain of **+20.8% y/y**, with a margin of **8.3%** (-0.6p.p. q/q; -0.1p.p. y/y). **(v) Positive FCF of R$182mn** (+12% vs. Genial Est.), down -88.6% q/q and reversing the consumption of -R$558mn in 1Q24, sustained by discipline in working capital and higher operating generation (R$3.1bn; -29.7% q/q; +102.0% y/y); **Leverage in BRL declined to 2.7x** (-0.13x q/q) with a favorable exchange rate impact; in USD, it rose to 2.6x (+0.15x q/q); **(vi) Risks:** Possible negative turn in BRF; adverse cycle in US cattle and depreciation of the USD/BRL and still high leverage; **(vii) The exchange ratio (0.8521 BRFS3/MRFG3)** favors Marfrig, **with no control premium** or goodwill; implicit **discount** of **~15%** for BRF; for Marfrig, the deal is highly **accretive**; **(viii) Mr. Molina** with **41% of MBRF,** with possible **departure from the domestic market and international listing of the new MBRF**. This initiative could unlock value via **rerating of multiples**; **(ix)** New MBRF will have **strong exposure to chicken**, with **mitigation** from natural **hedge** from beef in Brazil; **(x)** We have **upgraded** our recommendation to **BUY** (vs. NEUTRAL previously), with a **12M Target Price** of **R$26.00** (vs. R$16.00 previously), implying an **upside** of **+25.8%.**

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

	1Q25 Reported	1Q25E Genial Est.	% R/E	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Net Revenue	**38.562**	**37.290**	**3,4%**	**42.150**	**-8,5%**	**31.591**	**22,1%**
COGS	(33.919)	(32.871)	3,2%	(36.469)	-7,0%	(27.753)	22,2%
Adjusted EBITDA	**3.196**	**3.005**	**6,4%**	**3.747**	**-14,7%**	**2.646**	**20,8%**
EBITDA Margin (%)	8,3%	8,1%	0,2p.p	8,9%	-0,6p.p	8,4%	-0,1p.p
EBIT	**1.277**	**1.177**	**8,5%**	**1.531**	**-16,6%**	**877**	**45,7%**
EBIT Margin (%)	3,3%	3,2%	0,2p.p	3,6%	-0,3p.p	2,8%	0,5p.p
D&A	(1.795)	(1.828)	-1,8%	(1.959)	-8,4%	(1.696)	5,8%
Financial Result	(1.347)	(991)	35,9%	(1.805)	-25,4%	(973)	38,5%
Net Income	**88**	**(59)**	**-**	**2.578**	**-96,6%**	**63**	**40,6%**
Net Margin (%)	0,2%	-0,2%	-	6,1%	-5,9p.p	0,2%	0,0p.p

Source: Marfrig, Genial Investimentos

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Company

MRFG3 BZ Equity
Buy

Price: R$ 20.66 (15-May-2025)
Target Price 12M: R$ 26.00

Marfrig released its **Q1 2025 results** yesterday, May 16, after the market closed. In our assessment, the company had a **satisfactory quarter**, given the **cyclical** and seasonal conditions. Although our feeling was that the result was **in line with our expectations**, with an **EBITDA margin of 8.3%** (+0.2p.p. vs. Genial Est.), on the other hand, what should be the focus of investor sentiment in today's trading session will be the announcement, which ran alongside the release of the results **last night** (May 15), that **Marfrig**, which had already been the controlling shareholder since April 2022, **offered to buy the remaining 49.5% of BRF's shares**, reaching 100% ownership and **delisting BRF from B3**.

We anticipate that **investors positioned in Marfrig** will likely **view as positive** the **exchange ratio** of **0.85 common shares** issued by Marfrig for each 1 common share issued by the company.

The Extraordinary General Meeting (**EGM**) for minority shareholders to decide on the matter will be held on **June 18**. We will explore more details of the transaction in the **"Our Take"** section.

The company reported **consolidated Net Revenues** of **R$38.6bn** (+3.4% vs. Genial Est.), down **-8.5% q/q** and up **+22.1% y/y**. The performance was slightly above expectations, driven mainly by BRF, which accounted for 40% of total revenue. Despite the expected sequential slowdown, reflecting the seasonal peak in 4Q24, the result was favored by a consolidated volume of 1,945kt (+2.3% vs. Genial Est.), up +8.5% y/y.

Adjusted EBITDA was **R$3.2bn** (+6.4% vs. Genial Est.), down **-14.7% q/q** but up **+20.8% y/y**, with a margin of **8.3%** (-0.6p.p. q/q; -0.1p.p. y/y). BRF accounted for **85% of consolidated EBITDA** and posted a **margin +1.0p.p.** above our forecasts, driven by solid operating performance and growing profitability. The **other operations** made a **marginal contribution** (South America) or none (North America), in line with expectations. Finally, **Net Income** attributable to the parent company totaled **R$88mn** (vs. -R$59mn Genial Est.), practically stable compared to 1Q24, but well below 4Q24, which was positively impacted by non-recurring effects.

1Q25 Review

North America: Revenue surprises with higher volume, but costs limit margin. Net Revenues totaled US$3.3bn (+7.2% vs. Genial Est.), advancing +2.1% q/q and +15.4% y/y, with the positive deviation explained by a processed volume of 502 kt (+7.7% vs. Genial Est.), up +5.2% y/y and above our expectations, but basically flat sequentially (+0.4% q/q). The realized price stood at US$6.51/kg (in line with Genial Est.), accelerating +1.9% q/q and +9.7% y/y, reflecting partial pass-through of the upward movement in the USDA Comprehensive cut out indicator, which rose +9.1% y/y to US$3.24/kg. The price difference over the market cutout shows the price premium that National Beef operates, given the higher-quality cuts.

COGS/kg reached US$6.37/kg (+1.9% vs. Genial Est.), up +11.4% y/y, above our estimate, pressured by higher input costs — notably the price of cattle (USDA KS Steer), which rose +12.3% y/y to US$2.0/kg, and the decline in slaughter credits (-1.2% y/y). We believe that **(i)** the lower availability of cattle for slaughter, coupled with **(ii)** climatic and seasonal effects, imposed a higher average cost on operations.

Adjusted EBITDA totaled only US$6mn (-25% vs. Genial Est.), well below our projections, marking stability q/q and a decline of -89.7% y/y. The margin stood at 0.2% (vs. 0.3% Genial Est.), also flat q/q and down -1.9p.p. y/y. In our view, the result reinforces that the fundamentals of the operation remain under pressure, with spreads still at historically low levels — a process that is likely to continue over the next 18 months.

South America: Accelerating costs reduce margins. Net Revenues totaled R$4.1bn (+1.9% vs. Genial Est.), down -20.7% q/q and up +35.2% y/y. The positive deviation from our projections was driven by sales volume of 206kt (+4.0% vs. Genial Est.), down -14.8% q/q and up +24.5% y/y, reflecting the operational ramp-up of new slaughter and deboning capacities at plants that were reborn after the sale of the asset package to Minerva. The realized price was R$19.82/kg (-2.0% vs. Genial Est.), falling -7.0% q/q and rising +8.6% y/y, with a marginal mix adjustment—with a lower share of exports to China and Hong Kong (49% vs. 61% in 1Q24).

COGS/kg was higher than expected, at R$16.21 (+2.6% vs. Genial Est.), falling -6.6% q/q and rising +7.1% y/y, pressured by the increase in cattle prices in Brazil, which accelerated by +32.9% y/y. Other regions also saw significant increases in cattle purchase prices, such as Argentina (+25.9% y/y) and Uruguay (+19.7% y/y).

Adjusted EBITDA reached R$453mn (-1.8% vs. Genial Est.), falling -31.4% q/q and growing +56.2% y/y, with a margin of 11.1% (-0.4p.p. vs. Genial Est.), contracting -1.7p.p. q/q and expanding +1.5p.p. y/y. In our view, the result confirms that strong demand traction, with **(i)** robust volume growth, but also reflects **(ii)** margin challenges indicating a downward cycle, given **(iii)** higher cattle acquisition costs and **(iv)** a slight weakening of the price mix in the quarter.

BRF: Margin surprises positively with lower unit costs and control of operating expenses. Net Revenues totaled R$15.4bn (+1.2% vs. Genial Est.), declining -11.7% q/q and advancing +15.7% y/y. The slight positive surprise compared to our estimates stems from higher volumes, which totaled 1,243kt (+2.6% vs. Genial Est.), more than offsetting the implied average price of R$12.48/kg (-1.3% vs. Genial Est.), falling -5.5% q/q and rising +7.6% y/y. The sequential decline was already expected, given the seasonal effect of the transition between 4Q and 1Q, while the annual expansion reflects commercial passthroughs and greater penetration of processed products.

COGS/kg was R$9.22 (-1.5% vs. Genial Est.), falling -6.3% q/q and advancing +4.8% y/y, a more benign level than we had anticipated, favored by lower labor costs and better absorption of fixed expenses, in addition to the seasonal effect of 4Q24, which inflated the comparative base. Discipline in SG&A also contributed to the result, with operating expenses representing 12.7% of revenue (vs. 12.9% Genial Est.).

Adjusted EBITDA reached R$2.8bn (+7% vs. Genial Est.), falling -1.9% q/q and growing +30.1% y/y, while the margin accelerated to 17.8% (+1.0p.p. vs. Genial Est.), rising +1.8p.p. q/q and +2.0p.p. y/y. We believe that the results reinforce BRF's strong operational execution, with gains in scale, cost control, and greater dilution of expenses. For more details, we recommend reading our report on the BRF's results.

Our Take on Marfrig

FCF positive; leverage down. The company reported **FCF** of **R$182mn** (+12% vs. Genial Est.), down **-88.6% q/q**, but **reversing cash consumption in 1Q24** (-R$558mn). The year-on-year comparison reflects a **substantial recovery** in cash conversion, anchored by greater discipline in working capital (WC) and significant growth in **operating cash generation**, which reached **R$3.1bn** (-29.7% q/q; +102.0% y/y), more than offsetting interest payments, which reached **R$1.5bn** (+4.9% q/q; +19.0% y/y), and **CAPEX**, which totaled **R$1.4bn** (+5.2% vs. Genial Est.), accelerating +3.6% q/q and +67.3% y/y, reflecting greater investment intensity — mainly via BRF.

Even in this context of higher capital requirements, the company managed to reduce its **level of leverage**. In **BRL**, the **Net Debt/EBITDA** ratio fell to **2.7x** (-0.13x q/q), marking the **lowest level** since the beginning of the **group's reorganization** cycle. Although this was a positive milestone, we highlight that the reduction was due to the **slowdown in the USD/BRL FX rate EoP** (R$5.74 vs. 6.19 in 4Q24) and its impact on the marking of debts issued in USD. We also highlight the **significant disbursements** for **share buybacks**, which totaled **R$800mn**. In **USD**, **leverage accelerated** to **2.6x** (+0.15x q/q). Adjusted for the possible sale of assets in Uruguay, the consolidated ratio would fall to **2.6x in BRL**.

However, we still point it out... Despite this, we still point out some challenges inherent to the thesis in the short and medium terms. Among the main risks, we highlight **(i) the company's high level of leverage**, which, although on a downward trajectory, still imposes restrictions on financial flexibility and may limit more ambitious strategic moves. In addition, **(ii) any negative inflections in the earnings cycle of BRF** — which today represents the group's main source of FCF generation — could significantly compromise the consolidated dynamics.

In the **external environment**, we remain concerned about a **(iii)** possible **extension of the downturn** in the **cattle** industry in the **US**, which would continue to pressure operating margins in North America.

Finally, **(iv)** the recent **depreciation of the USD/BRL** combined with a global macroeconomic downturn, with a possible **slowdown in demand for beef,** given the global trend toward **trade down from more expensive proteins** to cheaper ones (chicken, pork, and processed meats), should be the most structural risk factors to the thesis, especially if we exclude BRF's results when evaluating the business.

Corporate perspective: Good for Marfrig's minority position, bad for BRF's. From a corporate perspective, **Marfrig is conducting the transaction in a clearly favorable manner**. The takeover of BRF—a company in better operational shape, with expanding margins, strong FCF generation, and very low leverage—is taking place without the payment of a control premium or significant valuation multiple, even though BRF was trading at more than twice Marfrig's market cap (R$34.6bn vs. R$17.7bn) prior to the announcement.

The exchange ratio set at **0.8521 Marfrig shares for each BRF** share, even if accompanied by **extraordinary dividends**, implies a **shift in value in favor of Marfrig**, estimated at up to **+15%** (1 – 0.85 = 0.15), considering that the respective share prices closed yesterday basically side by side (R$20.62 BRFS3 and R$20.66 MRFG3). We believe that in this type of situation, it is common for the controlling shareholder to include a premium to incorporate all the shares of the subsidiary. However, not only did this not happen, but on a non-agile basis — that is, 1 for 1 — the share swap ratio still has a **15% discount** vs. BRF's share price.

We found that the discount left **investors positioned** in **BRF dissatisfied**, and this immediately translated into a **broadly negative market reaction**, while **ADRs-NYSE** plunged **-11% in the aftermarket** after the official announcement of the agreement. This asymmetry, which was previously implicit, is objectively confirmed by our analysis of Marfrig's proforma EPS. Our projection for **EPS 25E** (before the transaction, with a 50.5% stake) was **R$0.93**. With the incorporation of **100% of BRF**, **EPS 25E rises to R$2.31** (a hyperbolic increase of +148% vs. previous estimate) in **scenario 1**, which considers the **average price** of the shares over the **last 52 weeks**. Normally, transactions of this type are parameterized by this range from the date to remove daily fluctuations and, at the same time, capture the company's current situation.

In **scenario 2**, based on **yesterday's closing share price** (May 15), **EPS 25E** rises to **R$1.94** (a notable increase of 109% vs. previous Est). In other words, regardless of the scenario, we believe that the transaction would **more than double Marfrig's pre-deal EPS**. This gives the transaction an accretive character (generating value), showing that, from the perspective of value **for Marfrig shareholders**, this is a **highly advantageous deal**.

Corporate perspective: Majority shareholder to relinquish control. Although **Mr. Marcos Molina** is **relinquishing control** (currently exercised through his participation as an individual and holding vehicles), given the dilution caused by the absorption of BRF's share base into Marfrig's structure, he will retain **41%** (vs. 72% currently).

We believe that this percentage is more than sufficient to ensure **a broad influence over the strategic direction of the new company**. This configuration raises questions about the **balance of the boards of directors** and the level of effective independence in **decision-making power**, especially considering past moves toward more centralized management. Finally, a relevant point of optionality is the **departure from the domestic domicile and international listing of the new MBRF**, with migration of the **shareholder base to the US** (a move like that of JBS). This initiative could unlock value through **rerating of multiples**, access to more liquid and broader capital markets, as well as a reduction in the cost of debt in hard currency.

Business perspective: The new company will concentrate much of its exposure on chicken. However, from a business structure standpoint, the **new MBRF** — as the company will be called, combining Marfrig + BRF — is expected to undergo a **significant change in its risk profile and value creation**.

With the recent sale of a very significant portion of its beef slaughter plants in Brazil to Minerva, Marfrig had already **reduced its natural hedge to the beef cycle** in the domestic market. Now, by incorporating BRF and making it the main generator of operating results (BRF accounted for 85% of EBITDA), the company consolidates its **dependence on chicken in Brazil**, precisely at a time when the sector is operating with historically high spreads. This concentration accentuates MBRF's sensitivity to a possible cyclical reversal in chicken, **without a relevant sectoral counterweight**.

Additionally, even with potential synergy gains—estimated at **R$805mn/year**, of which **R$485mn via revenues and supply chain** and **R$320mn through fixed cost cuts**, in addition to **R$3bn in present value tax gains**—we believe that **execution will be critical**. The integration of two distinct corporate cultures, operating systems, and logistics structures will require discipline and agility for the value thesis to materialize, even though we recognize that since Marfrig's purchase of ~50% of BRF's capital in 2021, operational improvements vis-à-vis the capture of synergies have been crystal clear.

Advantageous exchange ratio vs. sector all-in. Bull cycles do not last forever. In summary, the transaction is, from all corporate angles, positive and transformational for Marfrig, delivering direct value to shareholders **(i)** via a strong increase in earnings per share (EPS), **(ii)** scale gains with an estimated R$805mn/year in operational synergies, and **(iii)** tax opportunities valued at approximately R$3bn (measured by NPV). However, we believe that it **reconfigures the group's risk profile**, increasing **exposure to a single cyclical sector** (chicken, pork, and processed products via BRF), with a drastic reduction in the existence of a natural hedge with a producing counterparty, given the **cooling of the beef business** within Brazilian operations. We emphasize that, although the chicken cycle is currently operating with margins above the historical average (~12% in the last five years), with 2024 even being a record year for BRF (peak margin of 19.1% in 3Q24), **up cycles do not last forever...** Focusing on the high point of the cycle seems to us to be a **risk in the medium term**.

However, **in the short term, it makes perfect sense**.

Given the **clear increase in share value** resulting from an advantageous proposed exchange ratio – we use scenario 2 as our baseline scenario, as we believe it to be more conservative than scenario 1 – we consider it necessary to **upgrade our rating** to **BUY** (vs. NEUTRAL previously), changing our **12M Target Price** to **R$26.00** (vs. R$16.00 previously), implying an **upside** of **25.8%.**

Appendix: Marfrig

Figure 1. Marfrig – Income Statement in R$ Mn (Genial Est. 25-28E)

Income Statement	2025E	2026E	2027E	2028E
Net Revenue	**160.230**	**166.445**	**174.145**	**182.201**
(-) COGS	(140.522)	(147.470)	(155.337)	(163.981)
Gross Profit	**19.708**	**18.975**	**18.808**	**18.220**
(-) Expenses	(13.854)	(14.070)	(14.072)	(13.265)
Adjusted EBITDA	**13.459**	**11.485**	**10.971**	**10.932**
(-) D&A	(7.605)	(6.580)	(6.235)	(5.977)
EBIT	**5.854**	**4.905**	**4.736**	**4.955**
(+/-) Financial Result	(4.220)	(3.876)	(3.094)	(3.237)
(-) Taxes	(1.509)	(846)	(1.210)	(1.264)
Net Income	**125**	**183**	**432**	**454**
Profitability				
Net margin (%)	0,1%	0,1%	0,2%	0,2%

Figure 2. Marfrig– Cash Flow in R$ Mn (Genial Est. 25-28E)

Cash Flow (FCFF)	2025E	2026E	2027E	2028E
Net Revenue	**160.230**	**166.445**	**174.145**	**182.201**
(-) COGS	(140.522)	(147.470)	(155.337)	(163.981)
Adjusted EBITDA	**13.459**	**11.485**	**10.971**	**10.932**
EBIT	**5.854**	**4.905**	**4.736**	**4.955**
(-) Taxes	(1.509)	(846)	(1.210)	(1.264)
(+) D&A	7.605	6.580	6.235	5.977
(+/-) Δ WK	(315)	(327)	(342)	(358)
(-) Capex	(5.728)	(4.956)	(4.696)	(4.502)
FCFF	**5.907**	**5.356**	**4.723**	**4.808**

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	Definition	Coverage
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Neutral	Expected return between +10% and -10% relative to the Company's industry average	**41%**
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under Review	Under review	**5%**

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