genial Equity Research

BRF

1Q25 Review: Quarter beyond, offer below expected

LatAm Meatpackers

Main takeaways:

(i) Brazil Segment: EBITDA of **R$1.3bn** (+15.2% vs. Genial Est.; +36.8% y/y), with a margin of **17.1%** (+0.9p.p. vs. Genial Est.; +2.0p.p. y/y); **(ii) International Segment:** EBITDA of **R$1.4bn** (+1.9% vs. Genial Est.; +15.4% y/y), with a margin of **19.1%** (+1.1p.p. vs. Genial Est.; -1.3p.p. q/q; +2.2p.p. y/y); **(iii) FCF was strong at R$1.3bn** (+44% y/y; -39% q/q; +12% vs. Genial Est.), driven by a working capital contribution of +R$864mn (+38% vs. Genial Est.); **(iv) Leverage surprised positively, ending the quarter at 0.54x Net Debt/EBITDA** (-0.22x q/q; -0.91x y/y) — the lowest level in recent years; **(v) We maintain a constructive bias for volumes in 2025**, anchored in the **expectation of trade down** to more affordable proteins; **(vi)** Despite the good volume performance, we anticipate margin accommodation in the short term due to corn still under pressure in 1H25; **The exchange ratio (0.8521 BRFS3/MRFG3)** favors Marfrig, with no control premium; implicit discount of ~15% for BRF; for Marfrig, the deal is highly accretive; **(vii) Mr. Molina** with **41% of MBRF,** with possible **international listing of the new MBRF**. This initiative could unlock value via **rerating of multiples**; **(viii)** New MBRF will have **strong exposure to chicken**, with **mitigation** from **hedge natural** from beef in Brazil; **(ix) BRF** delivered a strong 1Q25, with higher-than-expected margins and **minimum leverage** of **0.54x net debt./EBITDA**; fundamentals remain solid, supported by a **trade down** trend; however, we consider Marfrig's corporate proposal asymmetrical, with an implied discount of **~15%,** penalizing minority shareholders; given the strong volatility we expect in the coming days, and the **bearish** perception that the proposal is likely to cause **among minority shareholders**, we are **downgrading our rating** to **NEUTRAL** (vs. BUY previously), with a **12M Target Price** of **R$19.50** (vs. R$23.00 previously), implying a **downside** of **-5,4%.**

Analysts

Igor Guedes
+55 (11) 3206-8286
igor.guedes@genial.com.vc

Luca Vello
+55 (11) 3206-1457
luca.vello@genial.com.vc

Iago Souza
+55 (11) 3206-8244
iago.souza@genial.com.vc

Company

BRFS3 BZ Equity
Neutral

Price: R$ 20.62 (16-May-2025)
Target Price 12M: R$ 19.50

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

	1Q25 Reported	1Q25E Genial Est.	% R/E	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Net Revenue	**15.512**	**15.321**	**1,2%**	**17.549**	**-11,6%**	**13.378**	**16,0%**
COGS	(11.459)	(11.388)	0,6%	(13.078)	-12,4%	(10.153)	12,9%
Adjusted EBITDA	**2.753**	**2.573**	**7,0%**	**2.803**	**-1,8%**	**2.117**	**30,1%**
EBITDA Margin (%)	17,7%	16,8%	1,0p.p	16,0%	1,8p.p	15,8%	1,9p.p
EBIT	**1.885**	**1.660**	**13,5%**	**1.869**	**0,8%**	**1.252**	**50,5%**
EBIT Margin (%)	12,2%	10,8%	1,3p.p	10,7%	1,5p.p	9,4%	2,8p.p
D&A	(838)	(900)	-6,8%	(953)	-12,1%	(848)	-1,1%
Financial Result	(457)	(341)	34,2%	(349)	30,9%	(538)	-15,0%
Net Income	**1.185**	**858**	**38,1%**	**868**	**36,5%**	**594**	**99,6%**
Net Margin (%)	7,6%	5,6%	2,0p.p	4,9%	2,7p.p	4,4%	3,2p.p

Source: BRF, Genial Investimentos

BRF released its **1Q25 results** yesterday, **May 15**, after the market closed. We believe that the figures were, in general, **above expectations**. The major **positive highlight is profitability**, given a **stronger margin expansion** than we had projected (+1.0p.p. vs. Genial Est.) and the market (+1.2p.p. vs. BBG consensus).

Although we were **bullish about the results**, on the other hand, what should be the focus of investor sentiment in today's trading session will be the announcement, which came alongside the release of the results **last night** (May 15), that **Marfrig**—which has been the controlling shareholder since April 2022—**has offered to buy the remaining 49.5% of BRF's shares**, reaching 100% ownership and **delisting BRF from B3**. A priori, the quarterly results should have little impact on trading, with **investors positioned in BRF** likely to **view as negative** the **exchange ratio** of **0.85 common shares** issued by Marfrig for each common share issued by the company. The Extraordinary General Meeting (**AGE**) 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 View"** section.

In the **consolidated view** (Brazil + International + Other businesses), **Net revenue** reached **R$15.5bn** (+1.2% vs. Genial Est.), up **+16.0% y/y** and down **-11.6% q/q**, a **seasonal slowdown** already expected **after the peak demand in 4Q** (Chicken, Chester and Peru for the Christmas festivities). Performance was slightly above projections, driven by **volumes**, which reached **1,243kt** (+2.6% vs. Genial Est.), up +7.8% y/y, despite a -6.4% q/q decline related to the seasonal factor mentioned above. Comparatively, the gain in shipments compared to our projections more than offset the **realized price** of **R$12.48** (-1.3% vs. Genial Est., which in the consolidated view **was slightly below expectations**.

Adjusted EBITDA totaled **R$2.8bn** (+7.0% vs. Genial Est.), with a slight decline of **-1.8% q/q** and a strong increase of **+30.1% y/y**. This performance indicated a **margin** of **17.7%** (+1.0 p.p. vs. Genial Est.), which was a pleasant surprise due to a **more favorable COGS/kg** of **R$9.22/kg** (-1.5% vs. Genial Est.), with a **compression** of **-6.3% q/q**, in addition to **SG&A** expenses that were less focused on results, representing **12.7% of revenue** (-0.7 p.p. vs. 4Q24). On the bottom line, **Net Income** reached **R$1.2bn** (+38% vs. Genial Est.), with a net margin of **7.6%** — one of the **highest recent levels** for the company.

1Q25 Preview

Brazil segment: Volumes and prices above estimates. Net revenue totaled R$7.4bn (+7.8% vs. Genial Est.), down -13.2% q/q (due to seasonal effects), but up +20.6% y/y. The positive deviation from our estimate can be explained by stronger shipments, which reached 582kt (+5.9% vs. Genial Est.), accelerating +6.8% q/q and +8.9% y/y—sustained by **(i)** higher plant utilization rates, **(ii)** gains in shelf space, and **(iii)** expansion of distribution capillarity at points of sale.

Realized prices were also slightly above expectations, ending the quarter at R$12.77/kg (+1.3% vs. Genial Est.), basically stable in sequential terms (+0.2% q/q), and with a significant increase of +7.2% y/y, favored by greater penetration of processed products, which advanced +16% y/y in volume and have higher margins.

Brazil segment: Costs and SG&A fall, margin expands more than expected. COGS/kg stood at R$9.23/kg (fully in line with Genial Est.), declining -0.9% q/q and growing +4.3% y/y, still reflecting a scenario of more expensive inputs—with corn (+11% q/q), soybeans (+3% q/q) and soybean oil (+15.6% q/q)—partially offset by efficiency gains via the BRF+2.0 program and dilution of fixed costs linked to the seasonal holiday campaign. Adjusted EBITDA was R$1.3bn (+15.2% vs. Genial Est.), with significant growth of +36.8% y/y and a slight increase of +1.1% q/q. The margin accelerated by +2.4p.p. q/q and +2.0p.p. y/y, reaching 17.1% (+0.9p.p. vs. Genial Est.).

We believe that the company managed costs adequately, given that important inputs saw sequential price increases, but COGS/kg fell slightly q/q. In addition, SG&A (implied by the gap between EBITDA and gross profit) stood at R$786mn (+7.7% vs. Genial Est.). Although it was slightly above our expectations, we still correctly captured the downward trend we mentioned in our preliminary report, as the line contracted significantly by -24.8% q/q. This was due to the temporary upward pressure on SG&A in the last quarter, linked to bonus payments (from a record year) for employees and management.

With the absence of this expense in this quarter, the line saw significant disinflation. Therefore, we note that **(i)** controlled costs and **(ii)** lower SG&A were important factors in sustaining the sequential margin expansion, given revenue compression due to seasonality.

International Segment: Shipments up slightly sequentially, prices stable. Net revenue totaled R$7.5bn (in line with Genial Est.), up +1.9% q/q and +15.4% y/y, sustained by solid commercial performance. Shipments totaled 553kt (-0.4% vs. Genial Est.), up +1.5% q/q and +3.5% y/y, practically in line with our projection. The realized price was reported at R$13.53/kg (-0.1% vs. Genial Est.), basically stable sequentially (+0.3% q/q); but up +11.5% y/y, reflecting the **(i)** positive impact of the appreciation of the average USD/BRL exchange rate (R$5.85 vs. R$4.95 in 1Q24) and **(ii)** higher share of processed items in the sales mix. The quarter was marked by 12 new export licenses — notably in the United Kingdom and Hong Kong, and the reversal of the Rio Verde (GO) plant to exports to China — in addition to the positive seasonality of Ramadan in the GCC.

International Segment: Margin above estimate with slight relief in COGS/kg. Adjusted EBITDA totaled R$1.4bn (+1.9% vs. Genial Est.), accelerating +1.9% q/q and +15.4% y/y. The margin stood at 19.1% (+1.1p.p. vs. Genial Est.), contracting -1.3p.p. q/q, but expanding +2.2p.p. y/y, exceeding our expectations. The positive deviation was explained by COGS/kg of R$10.09 (-0.7% vs. Genial Est.), showing slightly better efficiency than expected, remaining flat sequentially (-0.1% q/q) and rising +8.1% y/y.

Once again, we highlight that the company managed to maintain a well-behaved cost trend, reducing the weight of corn price acceleration within COGS/kg. Despite the challenging scenario in Turkey — with pressure on fresh products, increased labor costs, and high local supply — we believe that the company managed to partially mitigate these effects with **(i)** a higher share of higher value-added products, **(ii)** increased plant utilization rates in the Middle East, and **(iii)** operational efficiency gains.

Our Take on BRF

Strong FCF, excellent work by the company. The company reported **FCF** of **R$1.3bn** (-39% q/q; +44% y/y) – implying cash flow generation **higher than we expected** (+12% vs. Genial Est.). The performance was sustained by **EBITDA** of **R$2.8bn** (-1.8% q/q; +30.1% y/y), in addition to a positive contribution from **working capital** (WC) of +**R$864mn** (vs. a tightening of -R$69mn in 1Q24), favored by higher sales receipts and deferred payments, at a much higher rate than projected (+38% vs. Genial Est.). **Cash expenditures** on **investments** totaled **-R$1.5bn**, impacted by **(i) CAPEX** of **R$975mn** (+34.3% y/y), very close to our estimate, and added to **(ii) M&A** of **R$511mn**, due to the acquisition of an additional 26% of Addoha Poultry Company, partially offset by **(iii)** a residual asset sale.
Cash flow consumed -R$497mn (-2.4% y/y), reflecting **lower interest payments**, consolidating the company's efforts to prepay short-term debt in previous quarters, as we had anticipated in our earnings preview. Excluding M&A disbursements, **adjusted FCF** was **R$1.8bn**, with a cash flow **conversion rate** reaching ~**65% of EBITDA**, indicating **excellent work by the company** in the face of strong

Leverage continues to fall... Contrary to expectations of an upward trend in leverage, BRF ended at 1Q25 with net debt of R$5.9bn (-28.1% q/q; -33.7% y/y) and leverage of **0.54x Net Debt/EBITDA— the lowest level in recent years**. The movement reflects the combination of robust operating cash flow (R$3.6bn), working capital gains, and efficient investment control, even in the face of significant M&A disbursements. The company ended the quarter with an average debt maturity of **8.1 years**, later extended to **8.5 years**, and had its **rating outlook raised by Fitch** from “stable” to “positive.” From a technical and qualitative standpoint, the quarter represents another milestone in the successful cycle of balance sheet strengthening.

This performance, incidentally, **goes beyond what we had already highlighted:** BRF not only consolidated the deleveraging process that began at the end of 2022, but also **delivered a reduction of -0.91x in 12M** (0.54x vs. 1.45x in 1Q24) outperforming its peers in the sector in terms of financial discipline and operational efficiency. On the other hand, **management has already signaled that the current level** may **not be optimal** from a capital allocation standpoint, opening room for a **gradual increase**, considering a **more robust CAPEX plan**. Although this is in line with a growth strategy, **some investors** — especially those with a more tactical profile and **short-term orientation** — have expressed **concerns about potential re-leveraging**.

We are bullish about volume for 2025. We believe that a slowdown in consumption 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 end of cycle, despite a more dovish speech 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, reducing the space 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**, precisely the **flagship products of 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 12 months**, the price of **red meat cuts** in the IPCA basket rose **+22.2% in the same period**, doubling in price. 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? Although volume in 1Q25 accelerated ahead of our expectations, we anticipate **margins to settle in the short term** due to **high corn costs**, which will only ease in 2H25E with the **full normalization of the second crop**. The 83% planting compliance rate through Week 7—above the historical average according to IMEA, which sets the end of the optimal window in February — led to a revision of **productivity estimates to 114.5 bags/ha** (+3.2% previously) and triggered a price correction of **-14.6% since Mar/25**, a trend that, we believe will intensify as the harvest progresses, allowing **BRF to replenish inventories at more attractive costs** and ease cost pressures in 1H25.

On the other hand, domestic corn prices reached **record highs in Mar/25** — **R$89/bag** vs. R$57 in Jul/24 — driven not only by higher CBOT prices and global supply and demand revisions, but also by strong demand from ethanol mills and concerns about the productivity of the **second crop, which was delayed by rains**. Even so, our projection based on a **supply deficit** of **US$4.50/bushel** (vs. US$4.4 on the CBOT) indicates that prices will remain high, **pressuring BRF's margins to 14.5%** in **25E** (-2.6p.p. vs. 2024), a level that, although less exuberant, remains **above the 5-year average** of 12.3%.

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.

Quarter beyond, offer below. We have held a **bullish view on BRF's equity story since August 2024**, when we upgraded our recommendation to Buy. On the fundamentals side, we are strong supporters of the company, given the **current discount of its shares vs. operational execution**. With the price of cattle reaching a +37% increase in the last 12 months, it seems difficult to us that there will not be further increases in the price of 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 pass-through will be complete, it will still happen. As soon as this occurs, the flow of buyers in the food retail sector for beef will reduce even further, and a **large part of this flow will be captured** by the chain of **(i)** processed foods, **(ii)** pork, or **(iii)** fresh chicken, **in short, key categories for BRF**.

For us, **Q1 2025 was proof of this**, with the company delivering a **margin above our** and consensus projections, with a **strong performance**, slowing volume less between 4Ts vs. Q1 compared to what normally occurs, growing on an annual basis, with good cost management — to the point that COGS/kg fell slightly q/q even with a significant increase in corn prices — and, on top of that, continuing its deleveraging trajectory to 0.54x net debt/EBITDA. However, while the **quarter's performance exceeded expectations**, **the offer** prepared jointly with Marfrig to acquire the remaining stake in the company **fell far short of what would be desired** by BRF's minority shareholders. Therefore, we believe that **the shares will decouple even further from fundamentals** and that investors will **react negatively** going forward.

We believe it is possible that at the Extraordinary General Meeting (**AGE**), to be held on June 18, **shareholders will reject the board of directors' proposal**, and a fight will begin for **better premium conditions**, rather than a 15% discount, as announced yesterday.

Given the strong volatility we expect in the coming days and the **bearish perception** that the proposal is likely to cause **among minority shareholders**, we are **downgrading our rating** to **NEUTRAL** (vs. BUY previously), with a **12M Target Price** to **R$19.50** (vs. R$23.00 previously). The cut in the valuation was made by **applying the same 15% discount from the offer** on the fair value previously indicated in our model. We may review the recommendation, depending on how negotiations unfold and the information that may be provided by management in the coming days, as we still like the company's fundamentals.

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**

Disclosure Section

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Genial Rating

	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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