

BRF

2Q25 Preview: Fundamentally underpriced, but MBRF deal is restrictive

LatAm Meatpackers

Main takeaways:

(i) Brazil: Net revenue of **R\$6.8bn Genial Est.** (-8.9% q/q; -1.4% y/y), with sequential decline due to lower volume (-4.1% q/q) and price (-5.0% q/q), with redirection of exports impacted by health restrictions related to avian flu; **COGS/t** should reach **R\$9.3/kg Genial Est.** (+0.7% q/q; +8.4% y/y); **adjusted EBITDA** estimated at **R\$904mn Genial Est.** (-29.1% q/q; -16.0% y/y), with a margin of **13.3%** (-3.8p.p. q/q); **(ii) International:** Net revenue of **R\$8.3bn Genial Est.** (+11.1% q/q; +20.0% y/y), sustained by volume growth (+14.6% q/q; +8.0% y/y), despite lower prices (-3.0% q/q), reflecting adjustments in competitive markets, especially in Turkey; **COGS/t** should reach **R\$10.3/kg Genial Est.** (+1.5% q/q; +21.2% y/y), pressured by higher Turkish input and labor costs; **adjusted EBITDA** projected at **R\$1.3bn Genial Est.** (-8.8% q/q; -12.5% y/y), with a margin of **16%** (-3.4 p.p. q/q); **(iii) Consolidated Net revenue** should reach **R\$15.7bn Genial Est.** (+1.3% q/q; +5.3% y/y), sequentially sustained by the robust performance of the International segment, which should offset the downturn in Brazil; **(iv) Consolidated EBITDA** should reach **R\$2.2bn Genial Est.** (-18.8% q/q; -14.7% y/y), with a margin of **14.2%** (-3.5p.p. q/q; -3.3 p.p. y/y); the q/q decline reflects the sharper drop in Brazil; **(v) Net income** estimated at **R\$641mn Genial Est.** (-45.9% q/q; -41.4% y/y), with a **margin of 4.1%** (-3.6p.p. q/q; -3.2 p.p. y/y); **(vi) We view the effects of avian flu as temporary, but the merger with Marfrig — on terms unfavorable to BRF minority shareholders — adds uncertainty to the case in the short term; Although factors such as the partial resumption of exports, the recovery of chicken prices, and resilient domestic demand support our view that the stock remains undervalued, the prospect of delisting and possible legal developments limit its attractiveness. We reiterate our NEUTRAL rating, with a 12M Target Price of R\$19.50, implying an upside of +3.3%.**

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Company

BRFS3 BZ Equity

Neutral

Price: R\$ 18.87 (13-Aug-2025)

Target Price 12M: R\$ 19.50

Table 1. Income Statement BRF (2Q25 Genial Est.)

	2Q25E Genial Est.	1Q25 Reported	% q/q	2Q24 Reported	% y/y
Net Revenue	15.714	15.512	1,3%	14.930	5,3%
COGS	(12.216)	(11.459)	6,6%	(11.000)	11,1%
Adjusted EBITDA	2.236	2.753	-18,8%	2.621	-14,7%
EBITDA Margin (%)	14,2%	17,7%	-3,5p.p	17,6%	-3,3p.p
EBIT	1.361	1.885	-27,8%	1.703	-20,1%
EBIT Margin (%)	8,7%	12,1%	-3,5p.p	11,4%	-2,8p.p
D&A	(896)	(839)	6,9%	(866)	3,5%
Financial Result	(503)	(457)	10,1%	(390)	29,0%
Net Income	641	1.185	-45,9%	1.094	-41,4%
Net Margin (%)	4,1%	7,6%	-3,6p.p	7,3%	-3,2p.p

Source: BRF, Genial Investimentos

BRF will report its **2Q25** results on **August 14**, after market close. We believe that the results will be affected by the **effects of avian flu**. Further down, we comment on the **merger with Marfrig** and how the share swap, **already approved** at the Extraordinary General Meeting (**EGM**) on **Aug. 5**, has led us to reinforce our **Neutral bias** for the stock, given our view that the **exchange ratio** (0.85 BRF shares for 1 Marfrig share), is **below what should be paid** to the company's minority shareholders.

In consolidated terms, we expect the company to report **Net revenue of R\$15.7bn Genial Est.** (+1.3% q/q; +5.3% y/y). Sequential performance should be sustained mainly by the **International segment**, which tends to show a significant increase in volumes (+14.6% q/q), benefiting from the shipment's recovery to Asian and Persian Gulf markets. The **Brazil segment** should **contribute negatively** to sequential variation, reflecting both a **(i)** drop in volumes (-4.1% q/q) and **(ii)** contraction on prices (-5.0% q/q), mainly impacted by **temporary restrictions** on exports **due to avian flu**. In the annual comparison, consolidated growth is likely to come from the simultaneous increase in shipments (+8% y/y) and prices (+11.1% y/y) in the International segment, supported by favorable FX rates and higher value added sales mix.

The **Adjusted EBITDA** should total **R\$2.2bn Genial Est.** (-18.8% q/q; -14.7% y/y), with a **margin of 14.2%** (-3.5p.p. q/q; -3.3p.p. y/y). The sequential decline should be explained both by the sharp drop in operating income in Brazil (-29.1% q/q), due to the loss of operating leverage in the face of **weaker volumes** and **still high COGS/t**, and by the contraction in the International segment (-8.8% q/q), pressured by higher labor costs in the Turkish operation. In the y/y comparison, the decline in profitability should reflect the increase in COGS/t in both segments, not yet capturing the recent drop in grain prices due to the lead time for purchases. Finally, **Net income** should reach **R\$641mn Genial Est.** (-45.9% q/q; -41.4% y/y).

2Q25 Preview: In detail!

Brazil: Shipments affected by avian flu; price contraction in MD. For the Brazil segment, we project that Net revenue will reach R\$6.8bn Genial Est. (-8.9% q/q; -1.4% y/y). The sequential decline should reflect a contraction in both realized prices, which our model points to R\$12.1/kg Genial Est. (-5.0% q/q; +2.7% y/y), and sales, projected at 559Kt Genial Est. (-4.1% q/q; -4% y/y), due to two factors: **(i)** a natural cooling in demand after the typically hot season in the 1Qs, coupled with **(ii)** the partial shipments redirection originally destined for exports — affected by restrictions imposed by several destinations (mainly China, Europe, and Japan) due to the outbreak of avian influenza at a commercial farm located in Montenegro (RS) in mid-May. After local disinfection within a 10km radius, the Ministry of Agriculture (MAPA) counted 28 days without official cases before issuing an official statement that Brazil was free of the disease. From then on, several countries began to lift restrictions on the entire national territory and apply — in some situations — a restriction only to the location.

Therefore, we observed effects between May-Jun. based on market data, and there is a possibility that they will extend into Jul. (extrapolating the aftermath into 3Q25). Although part of these volumes was absorbed by the domestic market (DM) — especially processed products, which tend to maintain robust performance — we believe that the effect should not be sufficient to offset the negative pressure on prices resulting from the supply accumulation that would have been exported but was redirected to the DM. According to our survey, wholesale prices fell by -2.2% m/m in Jun., and the contraction in retail was -5% m/m. Looking at our company projection, the increase in prices on yoy (+2.7% y/y Est.) is unlikely to offset the volumes decline (-4% y/y Est.), influenced by the reallocation of inputs linked to processed foods to plants in other regions, such as the Middle East and the UK, with the strategy of reselling them there and penetrating markets that were closed to Brazilian shipments.

Brazil: COGS/t increase, EBITDA pressured; effects are one-off. Although we should see significant impacts from avian flu in this quarter's results (and partially in 3Q25E), we still believe that the repercussions will be temporary, since (i) a significant number of regions that have a relevant share in the company's export portfolio have already lifted domestic shipment restrictions (the EU and China maintain a total suspension, but Hong Kong, Japan, and the Middle East have already revoked restrictions). In addition, (ii) our inflation monitoring data shows that prices for fresh chicken in the DM have already recovered and returned to the levels we were seeing in Apr. Therefore, we could classify the episode as a one-off, since demand in Brazil should remain resilient, sustained by consumer trade down — buyers migrating to cheaper protein options, such as chicken and processed foods. In other words, we still defend the thesis that consumers will increasingly replace red meat with chicken during this cycle given the restriction in household disposable income, with beef prices up +23% y/y for weighted average of all cuts measured by the IPCA.

Clearly, we do not deny that avian flu was an obstacle to the complete takeover of this consumer habit, even so it remains in place due to the turnaround in the cattle cycle in Brazil, enlarging chicken spreads. Thus, the figures for 2Q25 will not reflect a permanent contractionary trend. In addition, strong brand presence and promotional activations continue to be a relevant vector. On the other hand, COGS/t should reach R\$9.3/kg Genial Est. (+0.7% q/q; +8.4% y/y), reflecting the maintenance of more expensive inputs — especially corn, whose cost should not yet capture the recent decline (-7.4% q/q), stemming from increased supply due to the arrival of the second harvest, due to the lead time for purchases — partially mitigated by operating gains and the positive effect of the softening average USD/BRL FX rate (-3% q/q). Finally, EBITDA should reach R\$904mn Genial Est. (-29.1% q/q; -16.0% y/y), with a margin of 13.3% (-3.8 p.p. q/q; -2.3 p.p. y/y), putting in place all these one-off effects of lower shipments and prices.

International: Volume up; prices down q/q, margin pressured by costs. In the International segment, we estimate that Net revenue will reach R\$8.3bn Genial Est. (+11.1% q/q; +20.0% y/y). Sequential performance will likely be driven by volume growth, estimated at 628Kt Genial Est. (+14.6% q/q; +8.0% y/y), with emphasis on the recovery of chicken and pork sales in Asian and Persian Gulf (GCC) markets, in addition to additional shipments to China, the Philippines, and Mexico.

The realized price should decline to R\$13.1/kg Genial Est. (-3% q/q; +11% y/y), reflecting the softening of the average USD/BRL FX rate (-3% q/q), in addition to adjustments in more competitive markets, especially in Turkey, where high supply is putting pressure on the ability to pass on costs. Even so, we will see prominent effects on an annual basis, with significant advances in both **(i)** volumes (+8% y/y Est.) and **(ii)** realized prices in BRL (+11.1% y/y Est). In addition, we believe that the company has been focusing on a higher value-added sales mix, contributing to the segment's improved performance.

However, on the cost side, the story remains a little more challenging. Our model points to COGS/t reaching R\$10.3/kg Genial Est. (+1.5% q/q; +21.2% y/y), impacted by the combination of higher grain prices, especially corn — given the lead time for purchases and the passage of inventories through the P&L, which delays the effect of the price decline seen recently with the Brazilian off-season harvest entering the global supply system. In addition, higher labor costs in the Turkish operation should continue to hamper margins recovery. The sequential increase in costs tends to reflect this specific context in Turkey, where avian flu (identified in Nov. last year) and the closure of exports to Iraq increased local supply, making it difficult to restore prices in the face of cost pressures. With all these dynamics, we believe that EBITDA will reach R\$1.3bn Genial Est. (-8.8% q/q; -12.5% y/y), representing a margin of 16% (-3.4p.p. q/q; -5.9p.p. y/y).

Our Take on BRF

FCF: Considerable decline, but leverage will remain very controlled. We estimate that **FCF** will reach **R\$323mn Genial Est.** (-82% q/q; -81% y/y). The sequential decline should be explained by the slowdown in **EBITDA** (-18.8% q/q; -14.7% y/y) and the reversal in the working capital (WC), which tends to consume -R\$150mn, according to our projections. In addition, **CAPEX** should total **R\$1.0bn** (-29.4% q/q; +38.6% y/y), reflecting the maintenance of a high pace of disbursements, especially focused on the facilities modernizations and operational efficiency projects. As has been widely discussed in several reports we have published, CAPEX yoy tends to show double-digit acceleration.

In addition, we see leverage rising slightly to **0.6x Net Debt/EBITDA** (+0.1x q/q Est.), still at a **very healthy level**—below peers—and demonstrating the company's good execution in liability management. Our model points to a reduction in gross debt, given the favorable FX rate effect on the amount issued in USD, as the USD/BRL EoP declined (R\$5.46 in 2Q25 vs. R\$5.74 in 1Q25). In addition, projected positive FCF generation should contribute to smoothing net debt. On the other hand, **LTM EBITDA** should decline, influenced by **weaker performance in 2Q25 vs. 2Q24** (-14.7% y/y), which should **push the indicator upward**. As it still will remain at very controllable levels, we believe that the company will continue with its higher CAPEX strategy throughout the year.

BRF & Marfrig: Many discussions around minority positions, as we anticipated. We recognize that **the merger** of the remaining 49% of BRF by Marfrig highlights an asymmetry in value, considering that the **exchange ratio** of **0.8521 shares** of the company for each **1 share of Marfrig** did in fact provoke **contestation** by the **minority position of BRF**, as we had anticipated in the day of the announcement (15 of May).

Unlike the vast majority of sell-side firms, which did not demonstrate at the time that the then-imminent action by minority shareholders could hinder Marfrig's plans for a faster merger — considering only that Marfrig could approve the merger promptly, since it already had control — we were accurate in mentioning this controversial bias. For this reason, although **we were very favorable to BRF's equity story**, with fundamentals still strongly indicating that the company was undervalued, we nevertheless **downgraded the rating to Neutral** on that day, assuming that some investors might unwind their long positions because they probably wouldn't agree with the exchange ratio.

Soon after, as a result of the minority shareholders' fight for more transparent information to justify an **exchange ratio with an implicit discount** (at the time, -15% vs. the previous day's closing price), when a premium is normally paid in similar situations, the **EGM was postponed 2x**, only **taking place on Aug. 5** (vs. the initial schedule of June 18). Groups of investors took different paths, either by filing requests with the CVM or by attempting to take the process to court (17th Federal Court of São Paulo - SP). However, these strategies did not translate into material chances of repricing the offer in the share swap ratio. Therefore, as we had anticipated, **certain investors ended up opting for dissent** — priced at **R\$19.89/share** (above the current levels of R\$18.87) — which generated selling pressure on the stock (beyond the avian flu), leading to a **-8.5% fall in share prices** since 15 of May. Among the examples, we mention the liquidation of the position by Previ (a fund that held ~7% stake) — after more than 30Y of investments in BRF — added to the withdrawal of other minority shareholders in seeking an improvement in the exchange ratio, including representatives of the Fontana family (founders of Sadia, a company that merged with Perdigão to form BRF).

Formation of MBRF: Approval at the EGM basically removes the overhang for Marfrig. Both BRF's and Marfrig's EGMs were finally approved on Aug. 5, which **seems to remove an important corporate overhang** for the **structuring of New Co.**, which will be named **MBRF**. If the merger is ratified, a **30-day recess period** will begin, followed by a resolution on the estimated extraordinary dividend of up to R\$3.25bn, after which the transaction will be closed — estimated to occur **~40 days after the EGM** (second half of Sep.). The exchange ratio remains fixed at 0.8521 BRFS3 per 1 MRFG3, based on the closing price on the day prior to the swap. Final approval is still pending with CADE, which referred to the case for detailed analysis. Even so, we do not see a significant chance of CADE blocking the transaction, even though the regulatory agency has elevated the level of analysis to full review (vs. fast-track previously), especially after **Minerva's appeal**, which questioned **potential conflicts** of interest related to the **Saudi fund SALIC** and the possible market imbalance that the merger could bring.

Strategically, the deal consolidates a company that is strong in chicken and beef in Brazil — but with the new MBRF profile designed to be highly exposed to the chicken cycle. Such concentration, despite offering significant gains in FCF, scale generation, and **estimated synergies** of **~R\$805mn/year** (in addition to R\$3bn in tax benefits), brings greater vulnerability if the chicken cycle reverses. Its viability will depend on the ability to quickly integrate different systems, chains, and cultures. In short, the deal continues with the support of the controlling shareholder, without significant minority resistance, and with decisive institutional advances.

We remain constructive on volumes in 2H25. Despite the restrictive **effects of avian flu**, which at its peak led several countries to partially or totally suspend Brazilian chicken imports, we maintain a constructive outlook for volume performance throughout 2025. The health situation has evolved positively: with Brazil declared free of the disease on June 18, Mexico and the UK have completely lifted their barriers, bringing the number of markets with unrestricted access to 26. Other important destinations, such as Japan and South Africa, already accept the regionalization of restrictions, allowing shipments from unaffected regions. There are still countries that maintain total bans (e.g., China, the European Union, and Canada) and others that restrict only Rio Grande do Sul or specific areas, but the picture points to a clear normalization in 2H25, gradually favoring the volumes recovery in the international market.

Even against this backdrop, we recognize the likelihood better consumption in domestic in 2H25. The persistence of an inflationary environment — with the **IPCA at 5.2% Est.** — coupled with the **SELIC at a restrictive level** (15%) **should compress household disposable income**, cooling the real gains observed in wages in 2024 and introducing additional pressures on the labor market in 2H25. In this context, we reinforce our view that the **lower average ticket protein portfolio** — chicken, pork, and processed foods — is strategically positioned to capture the **migratory demand for beef**, whose cuts in the IPCA accumulated a high increase of **+23% y/y** through July, double the variation recorded by **whole chicken of +10.5% y/y** and **chicken pieces of +11.7% y/y** in the same period.

And what about costs? We anticipate margin accommodation in the short term due to the still high corn costs— whose relief, even with the **-7.4% q/q** decline in 2Q25, should only be **fully captured in the company's P&L starting in 3Q25E**, given the natural lag in the purchase lead time. It is worth noting that this correction trajectory had already been anticipated in our previous projections, based on the reading that the good progress of the second crop — with 83% of planting completed by Week 7, above the historical average according to IMEA — would boost **productivity to 114.5 bags/ha** (+3.2% vs. previous) and trigger a **downward movement in corn prices**. Since the beginning of the year, the price per bag has fallen **-12.8% YTD**, a trend that should intensify as the harvest progresses, allowing BRF to rebuild inventory at more competitive costs as early as 3Q25 and thus ease pressure on margins that should be seen in 2Q25.

Fundamentally underpriced, but MBRF deal is restrictive. Although we believe that the impacts of avian flu on 2Q25 results — and, to a lesser extent, the effects that may still materialize in 3Q25E — tend to be one-off, we believe that the **situation regarding minority shareholders** in light of the merger with Marfrig adds a significant **vector of uncertainty** to the equity story. On the one hand, factors such as **(i)** the partial shipments resumption to key markets, **(ii)** the recovery of domestic prices for fresh chicken, and the resilience demand — favored by the **trade down** movement amid pressure on disposable income for beef consumption in the Brazilian market — reinforce our view that, from a **fundamental standpoint**, the company remains **undervalued**.

On the other hand, the **incorporation of the remaining 49% by Marfrig**, in an exchange ratio that was contested by the minority shareholders, keeps potential legal and strategic developments on the radar that could limit the visibility and attractiveness of the case.

In fact, the company is likely to **delist from B3**, while we **do not see as material** the possibility of **CADE blocking the deal with Marfrig**, and **EMG has already been approved to enable the merger**, as mentioned above. Thus, although we recognize solid fundamentals, we believe that the imbalance between uncertainties and positive vectors justifies our **NEUTRAL rating**, with a **12M Target Price of R\$19.50**, which implies an **upside of +3.3%**.

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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	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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