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Food & Beverage

Thematic: Zero Premium, Paid In Cheap Paper

Food & Beverage

Q: What are we changing, and why?

A: We are changing neither the rating nor the target price, but we are changing what the target price is exposed to. JBS proposed to acquire the 17.7% of Pilgrim's Pride it does not own, 42.2mn shares, in an all-stock exchange at a fixed ratio of 2.086, which is to four decimal places the closing ratio of 18 August. The proposal therefore carries no premium: it values Pilgrim's at US$28.49 against a consensus target of US$33.19, 14.1% below, and only US$0.49 above the lowest of nine published targets that reach US$42.00. The mechanical effect on us is adverse and small: the minority interest we deduct disappears, the count rises 7.9% to 1,197.0mn on 88.0mn new Class A shares, and our target becomes US$17.15 from US$17.50. We do not adopt it, because the proposal is non-binding, unsigned, and conditioned on a majority-of-minority vote it will not clear at this price. Nothing is priced yet, as the release came after the US close; we expect Pilgrim's up toward an anticipated bump and JBS flat to modestly weaker, the shares at three tenths of a 52-week band down which they have fallen 9.5%.

Q: What are the most noteworthy areas?

A: The highlights were: **(+)** The industrial logic is sound, and it is not the one the release sells. JBS already consolidates all of Pilgrim's EBITDA yet reaches only 82.3% of its cash, and Pilgrim's carries 1.43x leverage against 3.10x for the group, the underlevered pocket of a balance sheet with no slack elsewhere. Last year's special dividend leaked US$89mn to third parties, and that leakage recurs with every distribution. **(+)** The timing favours the buyer, three weeks after a quarter in which Pilgrim's margin nearly halved to 7.8%; the minority is being taken out at 4.8x mid-cycle EBITDA. **(=)** Earnings per share barely move, which is precisely what an exchange struck at market prices should do. **(−)** The ratio is the problem, and its own history says so. Over the 252 sessions to 18 August, Pilgrim's exchanged into JBS at a mean of 2.507 and a median of 2.611 inside a 1.806 to 3.202 range; the proposed 2.086 sits at the 17th percentile, below which the ratio traded on only 43 of those sessions. That is the standard fairness test, and the committee's banker will run it first. **(−)** The currency is the second problem. All stock and no cash, at 3.10x leverage above the company's own ceiling, says the balance sheet had no room, which makes second-half free cash flow, the test we already published, more decisive rather than less.

Q: Does the outlook ahead change?

A: The operating outlook does not change, as nothing in the proposal touches a plant, a herd or a contract. What changes is the share count, and that change is narrow and knowable. Two independent tests size the likely bump and converge: lifting the ratio to its twelve-month mean of 2.507 requires 20.2%, and lifting the offer to Pilgrim's consensus target requires 16.5%. At the ratio as proposed our target falls to US$17.15; at 16.5% it falls to US$16.94; at 25% to US$16.84. The entire distribution sits inside four percent, which is why we do not move on it. The defence available to JBS is real: the ratio has re-rated all year, from 2.742 last August to 1.951 in July, and on street numbers Pilgrim's holders receive the better security, carrying 31.9% of upside against 16.5% on what they hold. The committee's leverage is bounded too: it can refuse a ratio but cannot obtain the cash alternative that would settle the matter, because JBS has none to offer. Expect months, not weeks.

Q: Valuation and recommendation

A: We maintain BUY with a 12M target price of US$17.50, and we hold it through an announcement that is arithmetically adverse because the arithmetic is not yet real; what would move us is a signed exchange ratio, not a proposed one. On the merits, JBS pays 6.5x this year's EBITDA for the minority using a currency the market prices at 6.3x, which is roughly a wash and clearly favourable on normalised Pilgrim's earnings. Our US$17.50 sits at 42% of a US$15.00 to US$21.00 street range across sixteen analysts, so this is a mid-pack target rather than a bearish outlier. Our objection is neither the asset nor the logic: a company convinced its shares are worth a quarter more than they trade should be reluctant to spend them, and JBS has now done so twice inside a month. That is the equity story this note leaves behind. The portfolio moves are the right ones, Australia marked by Danantara and Pilgrim's simplified here, and each has been financed in a way that reveals a balance sheet without slack. The thesis turns on neither transaction; it turns on whether the second half delivers the free cash flow the first half did not.

In short, the right asset at the wrong premium, bought with the one currency we argue is too cheap to spend: BUY, 12M target price of US$17.50, with the special committee's answer as the next mark.

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COMPANY

JBS US Equity / JBSS32 BZ Equity
BUY
Price: US$13.66 / R$71.45
Target 12M: US$17.50 / R$89.40

MARKET DATA	
Market cap	US$15.1bn
Free float	~30%
ADTV (3m)	US$97mn
52-wk range	US$11.49–18.65
Net debt (2Q26)	US$19.0bn
Net debt/EBITDA	3.1x (2Q26)
MULTIPLES — IFRS	
EV/EBITDA 26E	6.5x
EV/EBITDA 27E	5.7x
P/E 26E	12.6x
Div. yield (ind.)	7.3%
PERFORMANCE	
YTD	−5.3%
LTM	−9.5%
THE PROPOSAL	
Stake sought	17.7% of PPC
Exchange ratio	2.086x (fixed)
Premium	0.0%
Consideration	US$1,202mn

The proposal, and the premium it does not carry

Term	Value	Read
Exchange ratio	2.086x	fixed; JBS Class A per PPC share
JBS close (18-Aug)	US$13.66	the basis of the proposal
Implied value per PPC share	US$28.49	2.086 x US$13.66
PPC close (18-Aug)	US$28.49	market ratio of 2.0857x
Premium offered	**0.0%**	**the ratio is the screen, to four decimals**
PPC consensus target	US$33.19	BBG BEst, 9 analysts
Offer vs. that target	**−14.1%**	**below the street's own price for PPC**
PPC target range	US$28.00–42.00	the offer sits at 3.5% of it
PPC shares not owned by JBS	42.2mn	17.7% free float, per BBG
New JBS Class A shares	**88.0mn**	**consideration US$1,202mn, all stock**
Dilution	7.9%	1,109.1 to 1,197.0mn diluted; no JBS vote required
PPC holders' stake in JBS	7.3%	post-completion

The exchange ratio measured against its own history

PPC / JBS exchange ratio	Value	Read
12m high	3.202x (18-Aug-25)	when PPC last led
12m low	1.806x (08-May-26)	the trough of the year
12m mean	2.507x	252 sessions to 18-Aug
12m median	2.611x	—
Last 3m mean	2.257x	the re-rating JBS will cite
Proposed ratio	**2.086x**	**17th percentile; below on 43 of 252 sessions**
Bump to the 12m mean	**20.2%**	**historical exchange ratio test**
Bump to PPC's target	**16.5%**	**independent method, same answer**

What is paid vs. what the currency is worth

Basis	Paid for the minority	JBS currency	Gap
PPC 2026E EBITDA (consensus)	**6.5x**	**6.3x**	**3.3%**
PPC 2027E EBITDA (consensus)	5.8x	5.4x	7.2%
PPC mid-cycle (~US$2.0bn)	4.8x	—	—
Memo: EV of the minority	US$1,711mn	equity + share of PPC net debt	—

Sensitivity to a special-committee bump (* neutral vs. PPC target)

Bump	Ratio	US$/PPC	vs. PPC target	New shares	Our target
0%	2.086x	US$28.49	−14.1%	88.0mn	US$17.15
10%	2.295x	US$31.34	−5.6%	96.8mn	US$17.02
16% *	**2.430x**	**US$33.19**	**0.0%**	**102.5mn**	**US$16.94**
20%	2.503x	US$34.19	3.0%	105.6mn	US$16.90
25%	2.607x	US$35.62	7.3%	110.0mn	US$16.84

Annual projections — Genial vs. consensus, US$mn

US$mn	2025A	2026E	2027E	2028E
Genial Adj. EBITDA	6,831	5,400	6,200	7,280
Consensus (BBG BEst)	6,831	5,822	6,743	7,323
Genial vs. consensus	**—**	**−7.2%**	**−8.1%**	**−0.6%**
PPC Adj. EBITDA (consensus)	2,268	1,493	1,667	1,832

Calendar and triggers

When	Event	What it tests
to be defined	PPC appoints the special committee	independence and choice of advisers
weeks ahead	Committee's response to the ratio	whether a bump is demanded, and how large
if agreed	Signed exchange ratio	the only number we would mark to
thereafter	Majority-of-minority vote	42.2mn shares decide; JBS cannot vote them
3Q26 results	Second-half free cash flow	the test carried over from the 2Q26 review

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	Definition	Coverage
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under Review	Under review	**5%**

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