

Adecoagro

End of a challenging 2023, ready for a solid 2024 – Maintain Buy

Maintain Rating: BUY | PO: 13.00 USD | Price: 10.32 USD

Rice and sugar & ethanol offset weak crops in 2023

Adecoagro reported full 2023 results. Adj. EBITDA of US\$400mn (excluding gains/losses on biological assets) was 10% below our estimate given Sugar & Ethanol (S&E) results. Nonetheless, we believe this was still a solid print considering the very challenging environment for crops in Argentina resulting from adverse weather last year. Consolidated Adj. EBITDA was up 28% YoY, driven by a 6% growth in S&E and EBITDA for rice 3x higher YoY given much higher prices. Cash flow was positive at US\$67mn, including US\$33mn from land sale. As a result, the company plans to pay dividends of US\$35mn and the balance of total payout of US\$70mn via buybacks (US\$18mn was done in January and February). Maintain Buy.

23/24 crop area +5%YoY, yields to be in line w/ historical

Adj. EBITDA for the crop business (excluding asset sales) was negative at US\$11mn, as yields dropped 30%-40%. Yields for rice also declined 7%, but they were more than offset by a 23% increase in realized prices, leading to an Adj. EBITDA of US\$50mn. Adecoagro provided an update about the 2023/24 season. Planted area should grow 5% YoY to 221k hectares of crops and 58.5k hectares of rice. Yields are being defined now, so weather conditions in the upcoming weeks are crucial. Nonetheless, the company expects yields to be in line with the historical average and better YoY.

Focusing on sugar, successfully managing ethanol strategy

Adj. EBITDA in S&E totaled US\$347mn, +6% YoY. Adecoagro increased crushing by 19%YoY, focusing on sugar, which accounted for 47% of production. Meanwhile, it held 36% of the ethanol production to be sold in 2024 at marginally higher prices, while it is exporting part of the volume at higher prices than in the domestic market.

Maintain Buy and US\$13/sh PO

We maintain our Buy rating on Adecoagro, as we believe the company has solid earnings momentum in 2024 given resilient performance in Sugar and Ethanol, while results in the Crops business should rebound after a very challenging 2023. Such diversification is welcome in a scenario of volatile commodity prices. Finally, the stock is trading at attractive at 9% FCF yield in '24 and 16% in '25 in USD.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.46	1.15	1.62	1.78	1.45
EPS Change (YoY)	19.7%	-21.2%	40.9%	9.9%	-18.5%
Consensus EPS (Bloomberg)			1.17	1.22	0.92
DPS	0.62	0.67	0.62	0.56	0.64
Valuation (Dec)					
P/E	7.1x	9.0x	6.4x	5.8x	7.1x
Dividend Yield	6.0%	6.5%	6.0%	5.4%	6.2%
EV / EBITDA*	4.8x	4.8x	4.7x	4.4x	4.3x
Free Cash Flow Yield*	12.9%	12.7%	7.2%	9.2%	15.7%

* For full definitions of *IQmethod*SM measures, see page 5.

14 March 2024

Equity

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Stock Data

Price	10.32 USD
Price Objective	13.00 USD
Date Established	15-Jan-2024
Investment Opinion	C-1-7
52-Week Range	7.34 USD - 12.51 USD
Mrkt Val (mn) / Shares Out (mn)	1,111 USD / 107.6
Free Float	100.0%
Average Daily Value (mn)	4.50 USD
BofA Ticker / Exchange	AGRO / NYS
Bloomberg / Reuters	AGRO US / AGRO.N
ROE (2023E)	14.8%
Net Dbt to Eqty (Dec-2022A)	82.7%

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iQprofileSM Adecoagro

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	8.4%	7.8%	8.2%	8.4%	6.6%
Return on Equity	16.2%	11.5%	14.8%	14.9%	11.2%
Operating Margin	6.1%	4.2%	19.1%	18.7%	18.5%
Free Cash Flow	143	141	80	103	175

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.2x	3.0x	1.9x	1.8x	2.4x
Asset Replacement Ratio	1.2x	1.2x	1.4x	1.3x	1.0x
Tax Rate	26.9%	19.9%	15.0%	15.0%	30.0%
Net Debt-to-Equity Ratio	78.2%	82.7%	76.6%	67.1%	55.5%
Interest Cover	4.6x	5.6x	6.0x	6.4x	6.7x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,098	1,352	1,432	1,572	1,593
% Change	33.5%	23.1%	5.9%	9.8%	1.3%
Gross Profit	463	465	459	518	510
% Change	36.8%	0.3%	-1.3%	12.9%	-1.6%
EBITDA	433	440	446	475	481
% Change	26.7%	1.6%	1.3%	6.6%	1.2%
Net Interest & Other Income	(129)	(50)	(84)	(78)	(65)
Net Income (Adjusted)	157	123	174	191	156
% Change	19.7%	-21.2%	40.9%	9.9%	-18.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	119	107	161	184	160
Depreciation & Amortization	167	191	172	181	187
Change in Working Capital	(162)	(87)	(33)	(41)	(10)
Deferred Taxation Charge	(2)	(8)	(14)	(23)	(34)
Other Adjustments, Net	227	166	42	40	64
Capital Expenditure	(205)	(229)	(248)	(238)	(192)
Free Cash Flow	143	141	80	103	175
% Change	58.8%	-1.8%	-43.6%	29.1%	70.0%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(66)	(35)	(67)	(60)	(69)
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	200	329	342	385	490
Trade Receivables	146	184	195	214	217
Other Current Assets	416	510	481	521	535
Property, Plant & Equipment	1,423	1,565	1,641	1,699	1,704
Other Non-Current Assets	398	520	520	520	520
Total Assets	2,582	3,109	3,179	3,339	3,467
Short-Term Debt	112	280	283	285	284
Other Current Liabilities	245	331	280	299	305
Long-Term Debt	907	1,012	1,021	1,026	1,023
Other Non-Current Liabilities	270	323	337	347	381
Total Liabilities	1,535	1,945	1,922	1,957	1,994
Total Equity	1,048	1,164	1,258	1,382	1,473
Total Equity & Liabilities	2,582	3,109	3,179	3,339	3,467

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Food-Commodities

Company Description

Adecoagro is a diversified agricultural company with three main businesses in Argentina, Uruguay and Brazil: 1) Farming, which comprises the production of soybean, corn, cotton, wheat, sunflower, rice, coffee and dairy products, 2) Sugar, Ethanol & Cogeneration, and 3) Land transformation. In addition, the company also leases land not suitable for crop production to a third party for cattle grazing activities

Investment Rationale

Adecoagro is a diversified South American Agribusiness company, with exposure to: 1) low-cost farming in Argentina, Brazil and Uruguay, 2) sugar & ethanol in Brazil, and 3) land transformation, to monetize a portion of its land portfolio. We expect strong earnings momentum in 2024 given better crop yields, higher cane crushing volumes, and cost dilution. There is additional upside depending on Argentine economy development, and the stock is trading at attractive valuation.

Stock Data

Average Daily Volume 436,172

Quarterly Earnings Estimates

	2022	2023
Q1	NA	NA
Q2	NA	NA
Q3	NA	NA
Q4	NA	NA

Adecoagro 2023 results

Exhibit 1: Adecoagro 2023 results

Results improved YoY despite weak crop performance

US\$m	2023A	2023E	A/E	2022A	YoY
Consolidated					
Net revenues	1,442	1,432	1%	1,352	7%
Gross profit	361	459	-21%	273	32%
Gross margin	25%	32%	-7.0 p.p.	20%	4.8 p.p.
Adjusted EBITDA	477	446	7%	433	10%
EBITDA margin	33%	31%	1.9 p.p.	32%	1.0 p.p.
Adj EBITDA ex-MtM	399	446	-10%	312	28%
EBITDA margin	28%	31%	-3.4 p.p.	23%	4.6 p.p.
Adjusted Net Income	153	174	-12%	124	24%
Net margin	11%	12%	-1.5 p.p.	9%	1.5 p.p.
Capex	250	248	1%	229	9%

Source: Adecoagro, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Adecoagro (AGRO)

Our price objective of US\$13 for Adecoagro is derived from a 50% DCF (US\$14.6/sh) and 50% target EV/EBITDA multiple 2024 of 4.0x (US\$11.7/sh), in line with historical average. Our DCF is based on a WACC of 13.6% in USD terms, which is the average of 12% in Brazil (75% of EBITDA) and 19.4% in Argentina (25% of EBITDA), with a 3% perpetuity growth.

Upside risks are: 1) further depreciation in the Argentine peso, as 50% of the company's costs are in this country, which could help results, 2) better-than-expected grain and sugar prices in 2024-25, which would lead to better margins, 3) better-than-expected productivity, 4) stronger-than-expected grain, sugar and ethanol sales volumes, 5) faster-than-expected growth of planted area, 6) faster-than-expected farm sales, 7) reduced political risks in Argentina.

Downside risks to our price objective are: 1) weaker-than-expected grain and sugar and ethanol prices, 2) worse climate conditions negatively impacting yields and sales volumes in Argentina and in Brazil, 3) lower-than-expected expansion of planted area, 4) more strict land acquisition and export regulations in Argentina and Brazil, 5) higher exports tariffs and barriers in Argentina.

Analyst Certification

I, Isabella Simonato, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Latin America - Agribusiness, Food & Beverage Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	3tentos	XTTUF	TTEN3 BZ	Isabella Simonato
	Adecoagro	AGRO	AGRO US	Isabella Simonato
	AmBev	AVBPF	ABEV3 BZ	Isabella Simonato
	AmBev	ABEV	ABEV US	Isabella Simonato
	Arca Continental	EMBVF	AC* MM	Fernando Olvera
	Coca-Cola Femsa	COCSE	KOFUBL MM	Fernando Olvera
	Coca-Cola Femsa	KOF	KOF US	Fernando Olvera
	Cosan	CSAIF	CSAN3 BZ	Isabella Simonato
	Cosan	CSAN	CSAN US	Isabella Simonato
	Gruma	GPAGF	GRUMAB MM	Fernando Olvera
	JBS	JBSAF	JBSS3 BZ	Isabella Simonato
	Marfrig	MRRTF	MRFG3 BZ	Isabella Simonato
	Raizen	XUXIF	RAIZ4 BZ	Isabella Simonato
NEUTRAL				
	Bimbo	GRBMF	BIMBOA MM	Fernando Olvera
	CCU	XLUDF	CCU CI	Fernando Olvera
	CCU - ADR	CCU	CCU US	Fernando Olvera
	M. Dias Branco	XDMIF	MDIA3 BZ	Isabella Simonato
	Minerva	MRVSF	BEEF3 BZ	Isabella Simonato
	Sao Martinho	SRTOF	SMT03 BZ	Isabella Simonato
	SLC Agricola	SLCJF	SLCE3 BZ	Isabella Simonato
UNDERPERFORM				
	BRF	BRFFF	BRFS3 BZ	Isabella Simonato
	BRF	BRFS	BRFS US	Isabella Simonato
	Camil Alimentos	XSREF	CAML3 BZ	Isabella Simonato
	Coca-Cola Andina	AKOBF	ANDINAB CI	Fernando Olvera
	Coca-Cola Andina-ADR	AKOB	AKO/B US	Fernando Olvera
	Cuervo	BCCLF	CUERVO* MM	Fernando Olvera

Latin America - Agribusiness, Food & Beverage Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	SQM	SQM	SQM US	Isabella Simonato

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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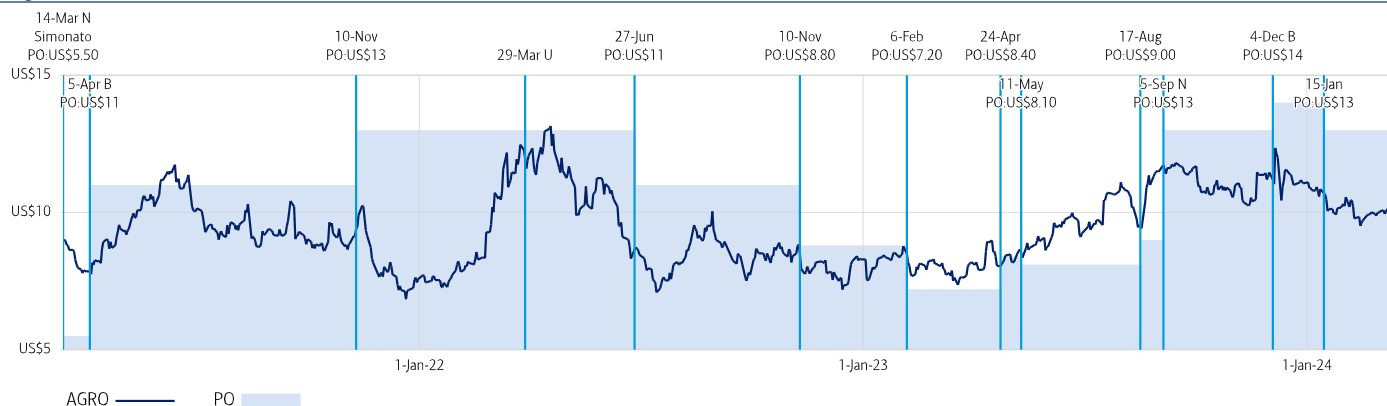
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Adecoagro (AGRO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Food Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	33	49.25%	Buy	16	48.48%
Hold	17	25.37%	Hold	10	58.82%
Sell	17	25.37%	Sell	8	47.06%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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