

BRF

Solid Q4, as expected; Q1 the next big driver

Maintain Rating: UNDERPERFORM | PO: 11.60 BRL | Price: 14.01 BRL

Adj. EBITDA at R\$1.9bn; lower costs but higher SG&A

BRF reported 4Q23 results, which were slightly ahead of our estimates and at the top of the range of consensus expectations with Adj. EBITDA at R\$1.9bn (13.2% margin vs. BofAe at 12.5%), totaling R\$4.2bn in 2023. Results at the international operations were better than expected, while Brazil was a miss. Net Income was R\$751mn, vs. our estimate at R\$583mn on higher FX gains. Despite the solid EBITDA print, we note that better than expected gross margin was mostly offset by SG&A expenses which came in 11% above our estimate, driven by freight & marketing. For the full year of 2023, gross margin rose 160bps YoY, but SG&A rose 100bps. We maintain our Underperform rating.

Brazil: weaker top line on price, EBITDA miss on SG&A

Results in Brazil were weaker than expected. Top line was 3% below BofAe (-5% YoY) mostly given prices. Prices improved sequentially given better seasonality but were 3% down YoY. Gross margin was very strong at 27.7%, versus our forecast at 26%, as cost per ton dropped 11.7%YoY, driven by much lower feed costs and better execution. However, EBITDA margin came in at 15.6%, 40bps below our estimate, on much higher SG&A. BRF mentioned higher marketing expenses for seasonal products & freight costs.

Solid international performance on pricing

International results were the highlight of the quarter. Top line was below BofAe by 4% given volumes, but gross margin reached 19.5%, versus our forecast at 13.5%, as costs fell 15%YoY, with prices down 6% in BRL terms. Prices rose 5% QoQ, given better performance in the Middle East and better mix in Türkiye. As in Brazil, part of the gross margin expansion was offset by higher SG&A, with EBITDA margin reaching 11.1%, versus our estimate at 7.8%, but still much higher than the 3% posted in the 4Q22.

Positive cash flow; healthy balance sheet

Cash flow was positive in the quarter at R\$425mn on working capital release and lower than expected capex. As a result, Net Debt (IFRS-16) was R\$13bn, implying a Net Debt/EBITDA of 2.9x, down from 4.4x at the end of 2022.

Maintain Underperform; Q1 performance is key

2023 was a key year for BRF, as: 1) costs became a tailwind; 2) the company's execution on all fronts was better than before; and 3) balance sheet is more solid. Going forward, we believe Q1 is the next relevant datapoint, as it should establish the potential EBITDA run-rate for 2024. We maintain our Underperform rating, as we believe consensus already assumes a significant EBITDA improvement this year (+40% YoY), while pass-through of lower feed costs and SG&A remain points of attention. Also, we see no upside potential for the shares and valuation is uninspiring at mid-single digit FCF yield.

26 February 2024

Equity

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Stock Data

Price (Common / ADR)	14.01 BRL / 2.80 USD
Price Objective	11.60 BRL / 2.40 USD
Date Established	22-Nov-2023 / 22-Nov-2023
Investment Opinion	C-3-7 / C-3-7
52-Week Range	5.48 BRL - 15.49 BRL
Market Value (mn)	23,510 BRL
Free Float	48.5%
Average Daily Value	20.58 USD
Shares Outstanding (mn)	1,678.1 / 1,678.1
BofA Ticker / Exchange	BRFF / SAO
BofA Ticker / Exchange	BRFS / NYS
Bloomberg / Reuters	BRFS3 BZ / BRFS3.SA
ROE (2023E)	-23.6%
Net Dbt to Eqty (Dec-2022A)	136.5%

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Timestamp: 26 February 2024 08:05PM EST

BRF 4Q23 results

Exhibit 1: BRF 4Q23 results

Adj. EBITDA slightly ahead of BofAe in Q4

R\$m	4Q23A	4Q23E	A/E	3Q23A	QoQ	4Q22A	YoY
Domestic Market							
Net revenues	7,390	7,607	-2.9%	6,556	12.7%	7,762	-4.8%
Adj. EBITDA	1,153	1,217	-5.3%	778	48.2%	685	68.3%
Adj. EBITDA margin	15.6%	16.0%	-0.4 p.p.	11.9%	3.7 p.p.	8.8%	6.8 p.p.
International division							
Net revenues	6,209	6,475	-4.1%	6,023	3.1%	6,239	-0.5%
Adj. EBITDA	687	505	36.0%	251	173.5%	209	228.7%
Adj. EBITDA margin	11.1%	7.8%	3.3 p.p.	4.2%	6.9 p.p.	3.3%	7.7 p.p.
Others/Corporate							
Net revenues	839	616	36.3%	827	1.4%	681	23.2%
Adj. EBITDA	98	128	-23.5%	123	-20.0%	131	-25.3%
Adj. EBITDA margin	11.7%	20.8%	-9.1 p.p.	14.8%	-3.1 p.p.	19.3%	-7.6 p.p.
Consolidated BRF							
Net revenues	14,426	14,698	-1.8%	13,406	7.6%	14,768	-2.3%
EBITDA	1,794	1,840	-2.5%	1,243	44.3%	484	270.7%
EBITDA margin	12.4%	12.5%	-0.1 p.p.	9.3%	3.2 p.p.	3.3%	9.2 p.p.
Adj. EBITDA	1,903	1,840	3.4%	1,176	61.8%	1,032	84.3%
Adj. EBITDA margin	13.2%	12.5%	0.7 p.p.	8.8%	4.4 p.p.	7.0%	6.2 p.p.
Net income	751	583	29.0%	(387)	n.m.	(914)	n.m.
Adj Net Income	751	583	29.0%	(387)	n.m.	(914)	n.m.
Adj EPS (R\$/share)	0.45	0.35	29.0%	(0.23)	n.m.	(0.85)	n.m.

Source: Company reports, BofA Global Research estimates

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Price objective basis & risk

BRF (BRFF / BRFS)

Our PO for BRF of R\$11.6/share (US\$2.4/ADR) is based on a 50%/50% blend of DCF and target EV/EBITDA in 2024E. We base our 12.5% WACC on a capital structure of 60% equity/40% debt and a long term cost of debt of 10.5% in BRL term. Our target 2024E EV/EBITDA multiple valuation is at 6x, in line with current valuation and a discount to longer historical average given high leverage and deteriorating results over the years.

Downside risks to our PO are (1) lower-than-expected top-line growth in the domestic market and limited pass-through of costs, (2) low level of exports, (3) inherent proteins sector volatility (regarding supply conditions and trade barriers), (4) much higher grain prices on unfavorable weather, (5) bird flu to take a toll on production and exports, (6) failure to complete proposed share offering.

Upside risks to our PO are (1) stronger upside on protein prices in the domestic market, (2) exports margins recover ahead of expectations, (3) grain prices and other costs decline, (4) faster turnaround of operations, (5) successful execution of the long-term growth plan.

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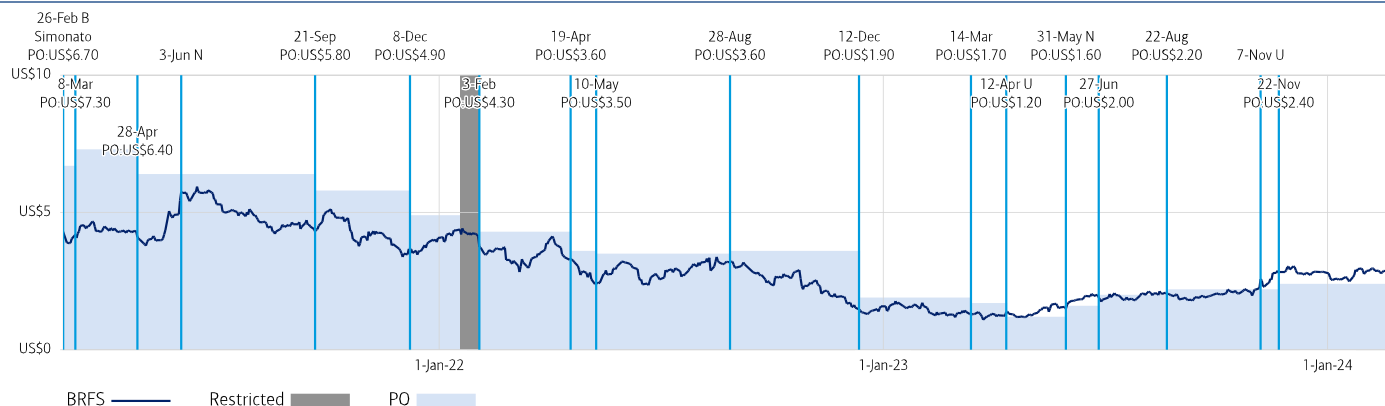
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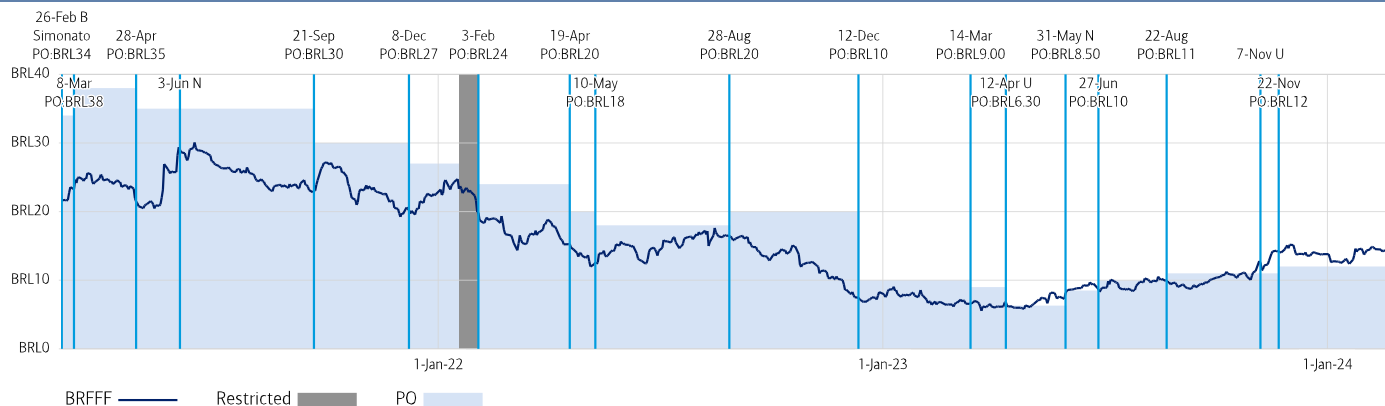
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BRF SA (BRFF) Price Chart



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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%

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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