

## Adecoagro

## Five reasons to Buy Adecoagro

Reiterate Rating: BUY | PO: 13.00 USD | Price: 9.71 USD

## Enhanced buying opportunity after YTD underperformance

We reiterate our Buy rating on Adecoagro following 5% stock price underperformance versus the Ibovespa and Raizen (in USD) since the beginning of the year, while trading in line with Sao Martinho. We believe Adecoagro 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. Also, recent concerns about weather in Argentina have diminished. Finally, the stock is trading at attractive at 10% FCF yield in '24 and 17% in '25 in USD.

## 5 reasons: (1) earnings momentum; (2) diversification...

The five main reasons for our Buy rating on Adecoagro are: (1) solid earnings momentum in 2024, as we estimate EBITDA of US\$475mn, up 7% YoY, given much better yields in Argentina and higher cane crushing volumes in Brazil even though realized grain prices should be down 25% YoY, on average, while sugar prices should drop 5% YoY and ethanol should be up only 5% in USD terms; (2) the company's business diversification adds resilience to financial performance, in contrast with some peers.

## ...(3) weather in Argentina; (4) bottoming ethanol prices...

Other reasons are: (3) the recent improvement in the weather conditions in Argentina with better rainfall in recent days combined with good prospects for the upcoming weeks after two weeks of high temperatures and drought; (4) the recent rebound in ethanol prices in Brazil (+14% year-to-date in Reais), although we believe upside from current levels is limited given oversupply in the market.

## ...and (5) attractive valuation at low to mid-teens FCF yield

Finally, we see the stock trading at an attractive valuation at a 10% FCF yield in USD terms in 2024 and 17% in 2025. We expect most of this cash to be returned to shareholders, with the dividend yield at ~6% in both years.

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	6.7x	8.4x	6.0x	5.5x	6.7x
Dividend Yield	6.4%	6.9%	6.4%	5.7%	6.6%
EV / EBITDA*	4.7x	4.6x	4.5x	4.3x	4.2x
Free Cash Flow Yield*	13.7%	13.5%	14.4%	16.6%	23.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

15 February 2024

## Equity

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## Stock Data

Price	9.71 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
Mkt Val (mn) / Shares Out (mn)	1,045 USD / 107.6
Free Float	100.0%
Average Daily Value (mn)	5.53 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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Timestamp: 15 February 2024 05:15PM EST

# iQprofile<sup>SM</sup> Adecoagro

## iQmethod<sup>SM</sup> – 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	151	174	244

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.2x	3.0x	2.3x	2.2x	2.8x
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)
<b>Net Income (Adjusted)</b>	<b>157</b>	<b>123</b>	<b>174</b>	<b>191</b>	<b>156</b>
% 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	113	111	134
Capital Expenditure	(205)	(229)	(248)	(238)	(192)
<b>Free Cash Flow</b>	<b>143</b>	<b>141</b>	<b>151</b>	<b>174</b>	<b>244</b>
% Change	58.8%	-1.8%	6.9%	15.4%	40.5%
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
<b>Total Assets</b>	<b>2,582</b>	<b>3,109</b>	<b>3,179</b>	<b>3,339</b>	<b>3,467</b>
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
<b>Total Liabilities</b>	<b>1,535</b>	<b>1,945</b>	<b>1,922</b>	<b>1,957</b>	<b>1,994</b>
<b>Total Equity</b>	<b>1,048</b>	<b>1,164</b>	<b>1,258</b>	<b>1,382</b>	<b>1,473</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,582</b>	<b>3,109</b>	<b>3,179</b>	<b>3,339</b>	<b>3,467</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## 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 569,235

## Quarterly Earnings Estimates

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

## 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
<b>BUY</b>				
	3tentos	XTTUF	TTEN3 BZ	Isabella Simonato
	Adecoagro	AGRO	AGRO US	Isabella Simonato
	AmBev	ABEV	ABEV US	Isabella Simonato
	AmBev	AVBPF	ABEV3 BZ	Isabella Simonato
	Arca Continental	EMBUF	AC* MM	Fernando Olvera
	Bimbo	GRBMF	BIMBOA MM	Fernando Olvera
	Coca-Cola Femsa	KOF	KOF US	Fernando Olvera
	Coca-Cola Femsa	COCFS	KOFUBL MM	Fernando Olvera
	Cosan	CSAIF	CSAN3 BZ	Isabella Simonato
	Cosan	CSAN	CSAN US	Isabella Simonato
	Gruma	GPAGF	GRUMAB MM	Fernando Olvera
	Marfrig	MRRTF	MRFG3 BZ	Isabella Simonato
	Raizen	XUXIF	RAIZ4 BZ	Isabella Simonato
<b>NEUTRAL</b>				
	CCU	XLUDF	CCU CI	Fernando Olvera
	CCU - ADR	CCU	CCU US	Fernando Olvera
	JBS	JBSAF	JBSS3 BZ	Isabella Simonato
	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
<b>UNDERPERFORM</b>				
	BRF	BRFS	BRFS US	Isabella Simonato
	BRF	BRFFF	BRFS3 BZ	Isabella Simonato



## Latin America - Agribusiness, Food &amp; Beverage Coverage Cluster

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

**iQmethod<sup>SM</sup> 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 &amp; 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

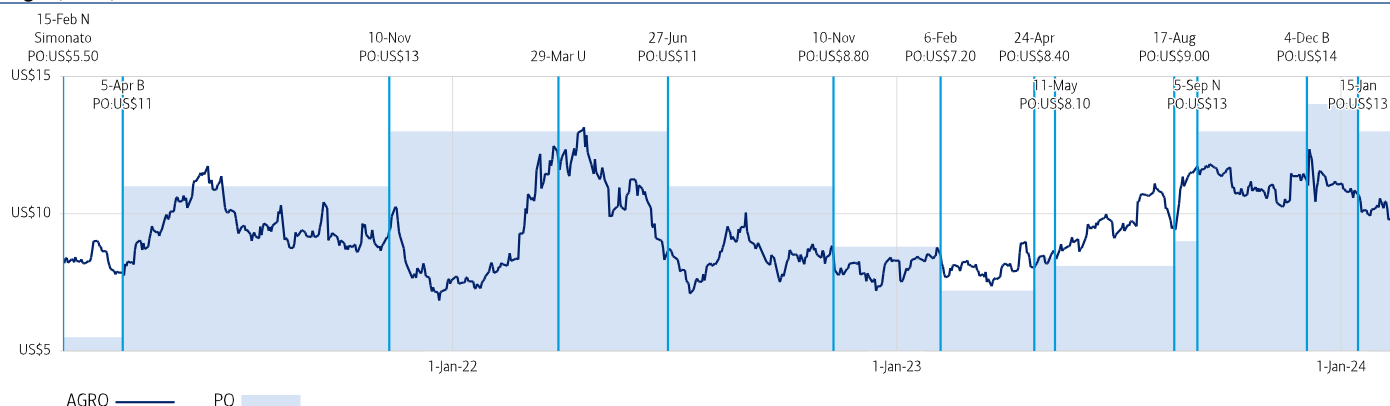
Sales

Basic EBIT + Depreciation + Amortization

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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