

Adecoagro

Lowering ests. and PO on lower sugar & ethanol prices; but reiterate Buy

Reiterate Rating: BUY | PO: 13.00 USD | Price: 10.65 USD

Stock is pricing-in lower S&E prices; grains to offset

We lower our estimates and price objective for Adecoagro to US\$13 from US\$14. Adecoagro shares are down 14% from the recent peak in early December, following lower sugar and ethanol prices. We lower our EBITDA by 14% to US\$475mn as we cut our assumptions for sugar and ethanol prices. However, we reiterate our Buy rating as 1) EBITDA should still grow 7%YoY in 2024, given a significant recovery of crops' results, on better yields in Argentina; and 2) we see 28% total return to the stock from current levels, while it is trading at 4.5x EV/EBITDA in 2024, in line with historical average.

Lowering sugar prices by 13 on excess of supply

We reduce our sugar price forecast for 2024/25 and 2025/26 by 13%-8% to US\$c21.5lb in both years, in line with spot prices. Sugar prices plunged 25% in December as India announced it could restrict the usage of cane to produce ethanol. There are still uncertainties regarding the development of this matter, however, we do not see triggers for prices to pick-up from current levels.

Reducing ethanol prices on updated oil forecast

On ethanol, margins are negative for the Brazilian producers as prices dropped 30% in one year following a 15p.p. decline in the parity to gasoline to 60%. We are seeing demand picking up, which could be supportive of parity coming back to the 65% level, however we lower ethanol prices by 12% in 2024, given lower oil price assumptions.

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)			1.32	1.58	0.98
DPS	0.62	0.67	0.62	0.56	0.64
Valuation (Dec)					
P/E	7.3x	9.3x	6.6x	6.0x	7.3x
Dividend Yield	5.8%	6.3%	5.9%	5.2%	6.0%
EV / EBITDA*	4.9x	4.8x	4.8x	4.5x	4.4x
Free Cash Flow Yield*	12.5%	12.3%	13.1%	15.2%	21.3%

* For full definitions of *IQmethod*SM measures, see page 6.

15 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	14.00	13.00

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Stock Data

Price	10.65 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)	1,146 USD / 107.6
Free Float	100.0%
Average Daily Value (mn)	7.90 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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Refer to important disclosures on page 7 to 9. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 15 January 2024 09:26PM EST

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	151	174	244

iQmethodSM – 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)
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	113	111	134
Capital Expenditure	(205)	(229)	(248)	(238)	(192)
Free Cash Flow	143	141	151	174	244
% 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
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 6.

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 trades at an attractive valuation.

Stock Data

Average Daily Volume 742,031

Quarterly Earnings Estimates

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

Revising S&E price assumptions

Exhibit 2: Revising sugar and ethanol price assumptions

We lower sugar prices given a global oversupply and ethanol given lower oil price assumptions

	2024/25E	2025/26E	LT
Sugar (US\$/lb)			
New	21.5	21.5	20.5
Old	24.8	23.3	21.0
Change	-13%	-8%	-2%
Hydrous (R\$/liter)			
New	2.37	2.55	2.72
Old	2.68	2.50	2.38
Change	-12%	2%	14%
Anhydrous (R\$/liter)			
New	2.70	2.91	3.10
Old	3.05	2.85	2.71
Change	-12%	2%	14%

Source: Bloomberg, BofA Global Research estimates

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Exhibit 2: Sugar prices (US\$/lb)

Sugar prices plunged in December on risks of higher Indian production

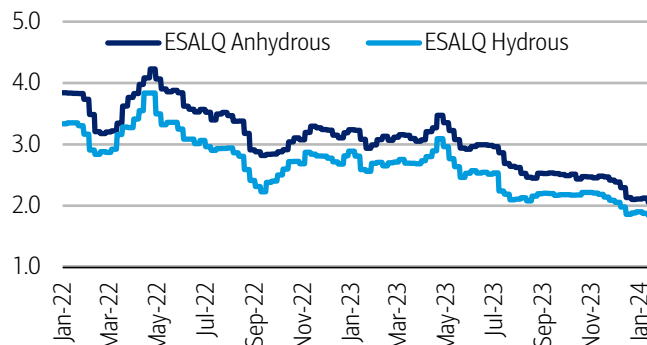


Source: Bloomberg

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Exhibit 3: Ethanol prices in Brazil (R\$/liter)

Prices dropped 30% in one year given lower parity with gasoline

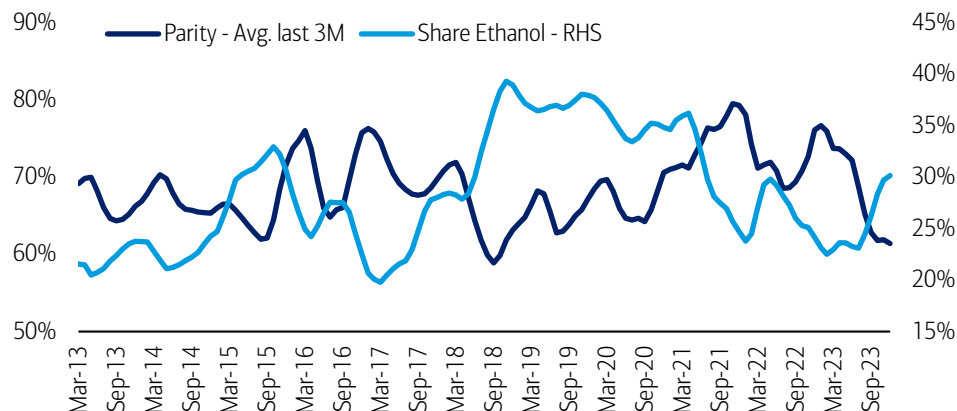


Source: Bloomberg

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Exhibit 4: Ethanol price parity and share of ethanol in the Otto cycle

Price parity to gasoline is low and demand started to show some reaction



Source: National Oil Association (ANP), BofA Global Research estimates

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Exhibit 8: Adecoagro Old vs. New estimates

Lowering estimates on lower sugar and ethanol price assumptions

		2023E	2024E	2025E
Net Revenues (US\$mn)	New Estimates	1,432	1,572	1,593
	Old Estimates	1,450	1,662	1,618
	Change	-1.2%	-5.4%	-1.5%
Adj. EBITDA (US\$mn)	New Estimates	446	475	481
	Old Estimates	461	552	497
	Change	-3.3%	-14.0%	-3.3%
Adj. EBITDA Margin	New Estimates	31.1%	30.2%	30.2%
	Old Estimates	31.8%	33.2%	30.8%
	Change	-0. pp	-3. pp	-0. pp
Net Income (US\$mn)	New Estimates	161	184	160
	Old Estimates	176	247	174
	Change	-8.4%	-25.6%	-7.8%
EPS (US\$)	New Estimates	1.50	1.71	1.49
	Old Estimates	1.64	2.30	1.62
	Change	-8.4%	-25.6%	-7.8%
Net Debt (US\$mn)	New Estimates	1,017	982	872
	Old Estimates	1,004	917	806
	Change	1.3%	7.1%	8.2%

Source: BofA Global Research estimates

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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
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	AmBev	ABEV	ABEV US	Isabella Simonato
	AmBev	AVBPF	ABEV3 BZ	Isabella Simonato
	Arca Continental	EMBVF	AC* MM	Fernando Olvera
	Bimbo	GRBMF	BIMBOA MM	Fernando Olvera
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	Coca-Cola Femsa	COCSF	KOFUBL MM	Fernando Olvera
	Cosan	CSAIF	CSAN3 BZ	Isabella Simonato
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	BRF	BRFS	BRFS US	Isabella Simonato
	BRF	BRFFF	BRFS3 BZ	Isabella Simonato
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	Coca-Cola Andina	AKOBF	ANDINAB CI	Fernando Olvera
	Coca-Cola Andina-ADR	AKOB	AKO/B US	Fernando Olvera
	Cuervo	BCCLF	CUERVO* MM	Fernando Olvera
	SLC Agrícola	SLCJF	SLCE3 BZ	Isabella Simonato



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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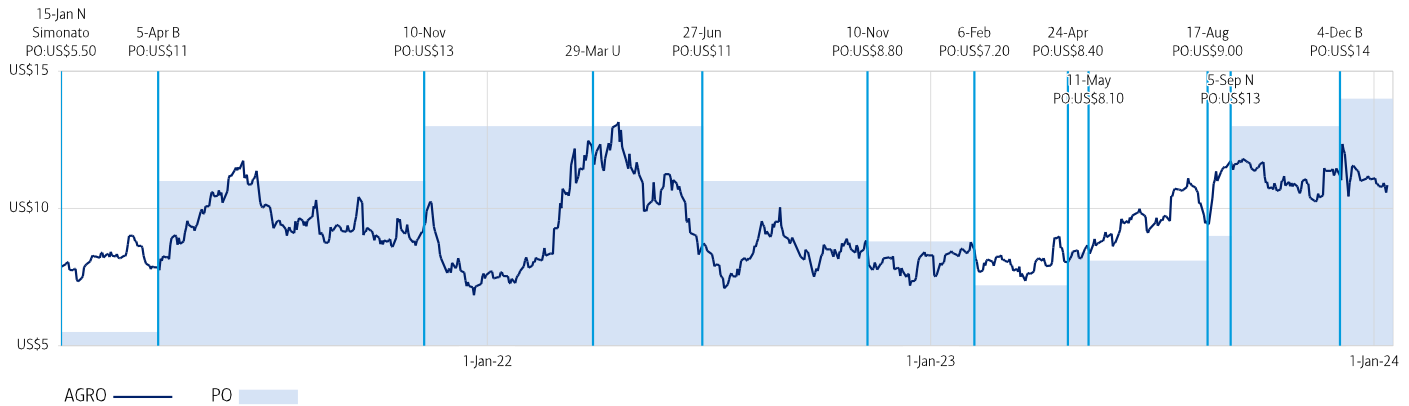
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Adecoagro (AGRO) Price Chart



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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}
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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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