

BRF

Raising estimates and POs; keep Underperform

Reiterate Rating: UNDERPERFORM | PO: 15.30 BRL | Price: 15.20 BRL

Q4 results drove a rally of protein stocks this week

Brazilian protein stocks rallied this week, with BRF shares up 14% since last Friday, Marfrig +12.5% and JBS +6%, versus the Ibovespa flattish in the same period. Most of the move was triggered by BRF's [solid 4Q23 results](#), while the stock's short position was high (lending interest ratio at 10 a week ago, versus 1.5 currently), and strong [Pilgrim's Pride Q4](#), which was supportive for JBS. Marfrig rebounded as it owns 50.1% of BRF.

Raising estimates/PO, but better momentum is priced in

We raise our EBITDA estimates for BRF in 2024 by 18% to R\$6.6bn, to account for the carry of lower feed costs seen in Q4 and higher international chicken prices, given the company's diversification strategy and exposure to the Middle East. We thus raise our PO to R\$15.3 (from R\$11.6). Nonetheless, we keep our Underperform since we see limited return potential for the shares post rally, while we believe there is limited room for upward estimate revisions by consensus. Finally, the stock is trading at only 4% FCF yield in '24.

Estimates(Dec) (BRL)	2022A	2023A	2024E	2025E	2026E
EPS	(2.89)	(2.00)	0.95	0.83	1.14
GAAP EPS	(2.89)	(2.44)	0.95	0.83	1.14
EPS Change (YoY)	NM	30.8%	NM	-12.6%	37.3%
Consensus EPS (Bloomberg)			0.29	0.42	0.86
DPS	0	0	0.48	0.41	0.53
ADR EPS (US\$)	(0.56)	(0.40)	0.19	0.17	0.23
ADR DPS (US\$)	0	0	0.10	0.08	0.11
Valuation (Dec)					
P/E	NM	NM	15.9x	18.3x	13.3x
Dividend Yield	0%	0%	3.1%	2.7%	3.5%
EV / EBITDA*	9.8x	8.7x	5.9x	6.0x	5.4x
Free Cash Flow Yield*	-8.5%	-2.6%	4.4%	4.6%	6.1%

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

28 February 2024

Equity

Key Changes

(BRL)	Previous	Current
Price Obj.	11.60	15.30
2024E Rev (m)	56,445.6	56,256.3
2025E Rev (m)	58,048.7	58,219.3
2026E Rev (m)	61,118.9	61,340.9
2024E EPS	0.51	0.95
2025E EPS	1.03	0.83
2026E EPS	1.46	1.14
2024E DPS	0.17	0.48

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Stock Data

Price (Common / ADR)	15.20 BRL / 3.05 USD
Price Objective	15.30 BRL / 3.20 USD
Date Established	28-Feb-2024 / 28-Feb-2024
Investment Opinion	C-3-7 / C-3-7
52-Week Range	5.48 BRL - 15.50 BRL
Market Value (mn)	25,507 BRL
Free Float	45.9%
Average Daily Value	23.25 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 (2024E)	10.4%
Net Dbt to Eqty (Dec-2023A)	72.6%

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Timestamp: 28 February 2024 05:00PM EST

iQprofileSM BRF

iQmethodSM – Bus Performance*

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	0.7%	3.1%	8.5%	7.6%	8.9%
Return on Equity	-31.6%	-21.0%	10.4%	8.6%	11.3%
Operating Margin	-0.3%	2.6%	5.8%	5.2%	5.8%
Free Cash Flow	(2,169)	(661)	1,108	1,161	1,541

iQmethodSM – Quality of Earnings*

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	2.6x	3.1x	2.6x
Asset Replacement Ratio	1.0x	0.8x	0.9x	0.9x	0.9x
Tax Rate	NM	5.8%	20.0%	20.0%	16.3%
Net Debt-to-Equity Ratio	136.5%	72.6%	66.6%	61.2%	54.2%
Interest Cover	-0.1x	0.4x	1.7x	1.7x	2.0x

Income Statement Data (Dec)

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Sales	53,806	54,171	56,256	58,219	61,341
% Change	11.3%	0.7%	3.8%	3.5%	5.4%
Gross Profit	8,133	9,390	11,638	11,348	12,395
% Change	-20.1%	15.4%	23.9%	-2.5%	9.2%
EBITDA	3,955	4,490	6,601	6,482	7,189
% Change	-28.7%	13.5%	47.0%	-1.8%	10.9%
Net Interest & Other Income	(2,669)	(2,821)	(1,233)	(1,262)	(1,244)
Net Income (Adjusted)	(3,117)	(2,756)	1,596	1,388	1,905
% Change	NM	11.6%	NM	-13.0%	37.2%

Free Cash Flow Data (Dec)

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(3,117)	(2,029)	1,596	1,388	1,905
Depreciation & Amortization	2,992	3,139	3,365	3,478	3,658
Change in Working Capital	(798)	(2,998)	(153)	129	(21)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,823	3,644	(718)	(631)	(628)
Capital Expenditure	(3,069)	(2,417)	(2,982)	(3,202)	(3,374)
Free Cash Flow	-2,169	-661	1,108	1,161	1,541
% Change	-78.3%	69.5%	NM	4.8%	32.7%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	(798)	(694)	(887)
Change in Debt	(3,984)	(6,890)	0	0	0

Balance Sheet Data (Dec)

(BRL Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	8,131	9,265	9,574	10,042	10,695
Trade Receivables	4,188	4,766	4,853	5,098	5,352
Other Current Assets	14,186	11,924	12,364	12,812	13,092
Property, Plant & Equipment	14,291	14,609	14,906	15,310	15,706
Other Non-Current Assets	17,043	16,701	16,701	16,701	16,709
Total Assets	57,838	57,265	58,399	59,964	61,554
Short-Term Debt	3,880	2,452	2,452	2,452	2,452
Other Current Liabilities	18,418	16,939	17,314	18,136	18,649
Long-Term Debt	19,637	17,644	17,599	17,642	17,686
Other Non-Current Liabilities	4,649	5,315	5,321	5,327	5,335
Total Liabilities	46,584	42,349	42,685	43,556	44,121
Total Equity	11,270	14,923	15,721	16,416	17,433
Total Equity & Liabilities	57,854	57,272	58,407	59,972	61,554

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Food Processors

Company Description

BRF was created after the merger between Perdigao and Sadia in 2009, creating one of the largest protein companies in the world. The company is the domestic market leader in processed food and has a strong global market share in poultry (20% of global trade) and pork products, with presence in more than 110 countries. The company bases its business on a branded domestic business, where it has its own distribution network, combined with a global reach in poultry and pork exports.

Investment Rationale

Despite the expected earnings improvement given lower feed costs in 2H23/2024, we see downside risks to consensus estimates given lower protein prices. Moreover, cash flow remains limited and the stock has outperformed peers year-to-date. Risks to our call include a potential acquisition by Marfrig and US avian flu outbreak.

Stock Data

Average Daily Volume	7,579,284
Shares / ADR	1.00

Quarterly Earnings Estimates

	2023	2024
Q1	-0.96A	0.22E
Q2	-1.26A	0.21E
Q3	-0.23A	0.23E
Q4	0.45A	0.28E

Key Changes

(US\$)	Previous	Current
Price Obj.	2.40	3.20
2024E EPS	0.10	0.19
2025E EPS	0.21	0.17
2026E EPS	0.30	0.23
2024E DPS	0.03	0.10

BRF: 2024 is undoubtedly a good year, but it's priced in

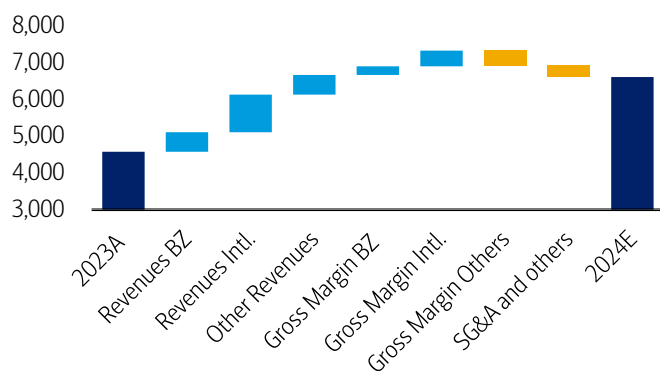
We reiterate our Underperform on BRF with new R\$15.3/US\$3.2 PO (from R\$11.6/US\$2.4). BRF reported solid 4Q23 results, with EBITDA of R\$1.9bn, mainly given lower feed costs and higher international chicken prices. We welcome the results presented by BRF's efficiency plan (BRF+) and the company's initiatives to recover profitability and growth. We also believe the industry outlook remains solid with fresh poultry prices in Brazil higher than in Q3, much higher than expected international chicken prices, mainly in the Middle East, while feed costs should remain low for longer.

Having said that, we believe the better earnings momentum is priced in after the recent rally of the shares and a 145% rebound in one year. Our new 2024 EBITDA estimate of R\$6.6bn is at the top of the consensus' range and the stock is trading at only 4% FCF yield. It is also trading at similar EV/EBITDA than JBS at 5.9x in 2024, which is not justified in our view given the more limited EBITDA cash conversion (16% vs. 30% for JBS), and less business and geographic diversification.

Finally, we continue to see risk to the case: 1) competition with JBS' Seara in Brazil; 2) potential rebound on poultry supply given attractive margins to producers; 3) the normalized level of SG&A, which was higher than expected in 4Q23.

Exhibit 1: 2024E EBITDA build-up for BRF (R\$mnn)

Drivers of EBITDA growth should be mainly international pricing and margins

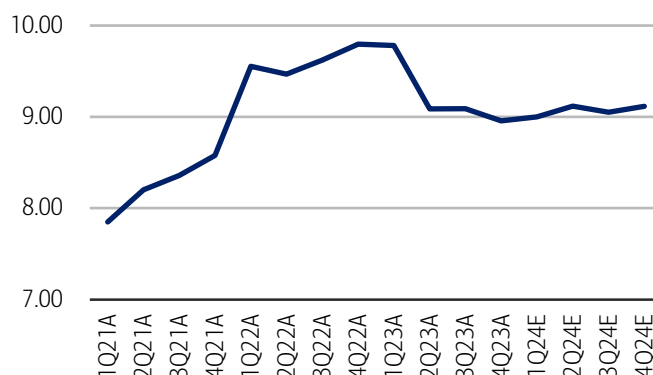


Source: Company reports, BofA Global Research estimates

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Exhibit 2: BRF cost per ton (R\$)

Cost started to decline in 2H23 and should remain low in 2024



Source: Company reports, BofA Global Research estimates

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Exhibit 9: BRF Old vs. New estimates

Raising 2024 estimates given lower feed costs and higher international chicken prices

		2024E	2024E	2025E
Net Revenues (R\$mnn)	New Estimates	56,256	58,219	61,341
	Old Estimates	56,446	58,049	61,119
	Change	-0.3%	0.3%	0.4%
Adj. EBITDA (R\$mnn)	New Estimates	6,601	6,482	7,189
	Old Estimates	5,598	6,512	7,219
	Change	17.9%	-0.5%	-0.4%
Adj. EBITDA Margin	New Estimates	11.7%	11.1%	11.7%
	Old Estimates	9.9%	11.2%	11.8%
	Change	1.8 pp	-0. pp	-0. pp
Net Income (R\$mnn)	New Estimates	1,596	1,388	1,905
	Old Estimates	856	1,729	2,445
	Change	86.5%	-19.7%	-22.1%
EPS (R\$/share)	New Estimates	0.95	0.83	1.14
	Old Estimates	0.51	1.03	1.46
	Change	86.5%	-19.7%	-22.1%
Net Debt (R\$mnn)	New Estimates	13,430	13,006	11,906
	Old Estimates	13,785	13,663	14,690
	Change	-2.6%	-4.8%	-19.0%

Source: BofA Global Research estimates

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Price objective basis & risk

BRF (BRFF / BRFS)

Our PO for BRF of R\$15.3/share (US\$3.2/ADR) is based on a 50%/50% blend of DCF and target EV/EBITDA in 2024E. We base our 11.8% 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.

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.

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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	ABEV	ABEV US	Isabella Simonato
	AmBev	AVBPF	ABEV3 BZ	Isabella Simonato
	Arca Continental	EMBVF	AC* MM	Fernando Olvera
	Coca-Cola Femsa	KOF	KOF US	Fernando Olvera
	Coca-Cola Femsa	COCSF	KOFUBL MM	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	BRFS	BRFS US	Isabella Simonato
	BRF	BRFFF	BRFS3 BZ	Isabella Simonato



Latin America - Agribusiness, Food & 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

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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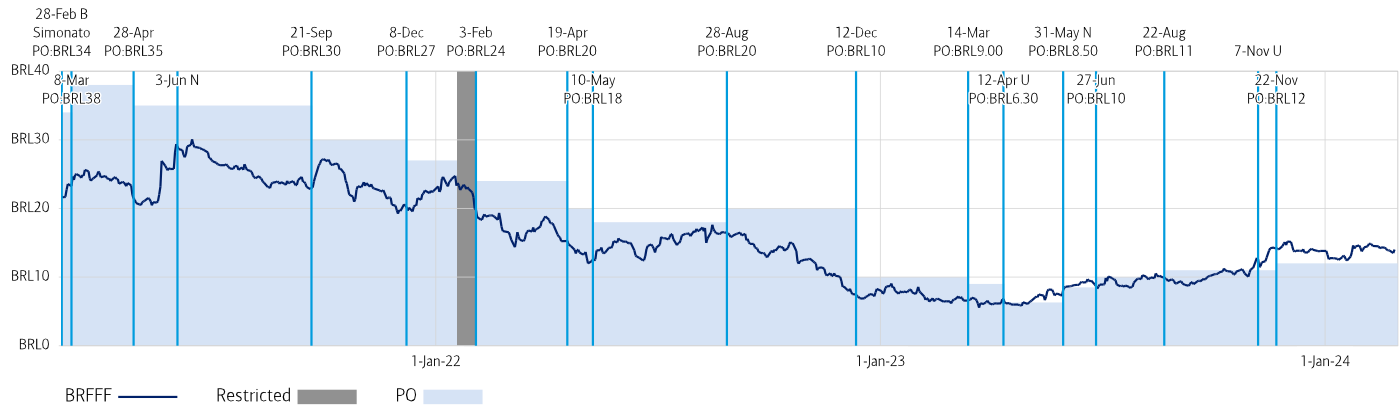
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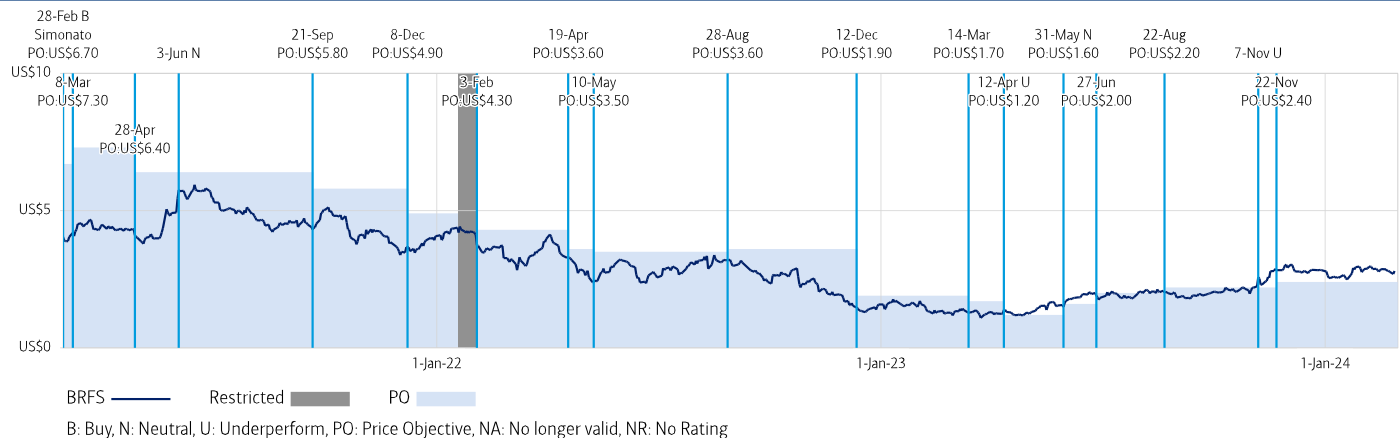
Disclosures

Important Disclosures

BRF SA (BRFFF) Price Chart



BRF SA (BRFS) Price Chart



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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