

# BRF

February 27, 2015

## 4Q14 results: strong results exceed expectations

BRF released very strong results underpinned by (i) peak season, (ii) solid operational results, especially in the international market, (iii) lower grain prices, and (iv) further efficiency gains captured through structural improvements. In the 4Q14 the company reached a Ebitda of BRL 1.8 billion (+125,6% YoY and 21% above consensus), while Ebitda margin beat the record of 21,9%, from 10,4% in the 4Q13, helped also by a non-recurring operating gain related to the sale of its beef division.

**Domestic Market: recovering volumes.** The challenging scenario in the domestic market remains offset by Go to Market and Zero Based Budget initiatives. Although the average price fell 2.7%, sales volume grew 10.6% compared to 4Q13 and led an increase of 7.6% YoY in revenue. Due to lower costs and declining SG&A expenses, the Ebit of the unit climbed to BRL 723 million (+78.8 YoY), and Ebit margin ascended 7.4 pp to 18.6%.

**International Market: another great quarter.** Pursuing the strategy of focus on high-margin customers, BRF presented one more successful quarter. Despite the fall of 11% in volume, revenue reached 5% growth (BRL 3.5 billion) due to an increase of 17.9% in average prices YoY. Accompanied by structural progress, the unit achieved an Ebit of BRL 581 million, from BRL 21 million in the 4Q13, while Ebit margin increased 15.6 pp to 16.2%.

**Working Capital and Cash.** BRF reported lower levels of cash conversion cycle in the 4Q14 (36.9 days vs. 41.8 in the same period last year), which shows that the company succeeded in resource allocation and use of working capital. As a result, a positive growth of 170.9% in FCF was recorded and it enabled the company to decrease the leverage to 1.04x.

**Outlook.** Structural improvements coming from turnaround started in 2013 combined with a favorable scenario for chicken producers led BRF to higher solid results in 2014. We highlight some factors that should help the company to sustain margins in a more adverse scenario this year: (i) all initiatives that have been implemented and shown results, (ii) upcoming projects, mainly in international footprint, (iii) expectations of dollar appreciation and (iv) a positive international demand through opening up of new markets.

On the other hand, we also point out the company risk exposure: (i) any embargoes and geopolitical issues, (ii) a reverse of the big drop in grain prices noticed in 2014 that may push costs, (iii) global economic growth remaining relatively low, negatively affecting sales volumes, and (iv) water and energy shortage. We maintain our BRFS3 target price of BRL 70.3 for YE2015, with Outperform recommendation.

BRL million *	4Q14	QoQ	YoY	2014	YoY
Net Revenue	8,047	11.2%	6.8%	29,007	4%
Gross Profit	2,687	25.3%	38.3%	8,509	23%
Gross Margin (%)	33.4%	3.8 p.p.	7.6 p.p.	29.3%	4.5 p.p.
EBITDA	1,762	55.9%	126%	4,709	56%
EBITDA Margin (%)	21.9%	6.3 p.p.	11.5 p.p.	16.2%	5 p.p.
Net Income	991	73.3%	335%	2,135	110%
Net Margin (%)	12.3%	4.4 p.p.	9.3 p.p.	7.4%	3.7 p.p.

Indebtedness (BRL million)	4Q14	QoQ	YoY
Total Debt	11,847	8.2%	12.4%
Net Debt	5,032	-6.7%	-25.8%
Net Debt / EBITDA	1.04x	-0.36x	-1.13x

Source: BRF and BB Investimentos; \* excluding Dairy operations

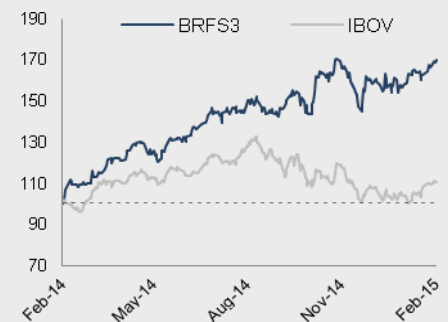
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BRFS3	Outperform
Last Price 02/27/2015 (BRL)	64.4
Target Price 12/2015 (BRL)	70.3
Upside	9,2%
Market Cap (BRL million)	55,879
1 Month Change	3.2%
LTM Change	60.1%
YTD Change	2.4%
52w Low (BRL)	42.50
52w High (BRL)	68.57

Multiples	2015e	2016e	2017e
EV/EBITDA	11.2x	9.8x	8.8x
P/E	20.7x	16.4x	15.1x
EPS (BRL)	3.48	4.28	4.65



Source: Bloomberg and BB Investimentos

<i>Income Statement (BRL million)</i>	2014A	2014E	A/E	2013	YoY
Net revenues	31,727.0	32,493	-2.4%	30,521.0	4%
Gross Profit	9,118.0	8,729	4.5%	7,568.0	20%
Gross Margin (%)	28.7%	26.9%	1.9 p.p.	24.8%	3.9 p.p.
EBITDA	4,897.0	4,664	5%	3,131.0	56%
EBITDA Margin (%)	15.4%	14.4%	1.1 p.p.	10.3%	5 p.p.
Net Income	2,225.0	2,206	1%	1,062.0	110%
Net Margin (%)	7.0%	6.8%	0.2 p.p.	3.5%	3.5 p.p.
EPS (BRL)	2.55	2.53	0.9%	1.22	109.0%
ROE (%)	14.1%	13.6%	0.5 p.p.	7.3%	6.8 p.p.

Source: BRF and BB Investimentos

**Actual versus Estimated.** Considering BRF's performance in the entire year, numbers came above our estimates, especially EBITDA (+5.0% YoY A/E). Regarding profitability, EBITDA margin was the highlight. It came 1.1 pp above ours and excluding the Dairy operations the difference would increase to 1.8 pp. The company also reach a positive EPS (2.55), 0.9% above our forecasts and 14% above consensus.

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