RATING ACTION COMMENTARY

Fitch Affirms Minerva's Ratings

Mon 26 Aug, 2024 - 17:16 ET

Fitch Ratings - Rio de Janeiro - 26 Aug 2024: Fitch Ratings has affirmed Minerva S.A.'s (Minerva) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB' and its senior unsecured notes rating, issued by Minerva Luxembourg S.A., at 'BB'. Fitch has also affirmed Minerva's Long-Term National Scale rating at 'AA+(bra)'. The Rating Outlook is Stable.

Minerva's ratings reflect its robust business profile as the largest beef producer in Latin America and already incorporate the closing of the acquisition of Marfrig Global Foods S.A. (Marfrig)'s assets until YE 2024, which will increase its production capacity by 42%. The company presents an international market exposure within the cyclical and competitive global protein industry, which reduces the risks associated with its concentration in a single protein type.

The ratings affirmation considers that Minerva will maintain strong EBITDA margins for the industry, while the positive FCF should contribute to gradually reduce leverage to more moderate levels. Minerva has high financial flexibility and should keep a robust liquidity even after the significant payment for the ongoing acquisition.

KEY RATING DRIVERS

Strengthening of Business Profile: Minerva is poised to further enhance its robust business profile following the incorporation of assets acquired from Marfrig. This strategic acquisition, encompassing 16 slaughtering facilities and one distribution center across Brazil, Argentina, Uruguay, and Chile, is expected to solidify Minerva's position as the largest beef player in Latin America and expand its international market exposure.

The transaction will bolster Minerva's strategic market share and improve geographic diversification within the region, all while maintaining manageable leverage and liquidity profiles. The deal has been analyzed by the antitrust authorities and Fitch's base case assumes the acquisition will be approved by the end of September 2024.

Minerva's proven track record of integrating 19 assets over the past 14 years positions it favorably to manage the complexities of this substantial acquisition. The new assets are projected to increase Minerva's slaughtering capacity by 42% and potentially boost its annual EBITDA by approximately 55%, contingent on the company's ability to realize operational and commercial synergies.

Strong Profitability Margins for the Industry: Minerva's diversified footprint in Latin America and its export platform support its margins and reduce earnings volatility caused by changes in input costs and protein prices. Fitch anticipates that EBITDA margins will remain around 9% over the next three years, which is strong for the industry.

The forecasted gradual rise in cattle prices in South America beginning in the end of 2025 should be partially compensated by a slight increase in protein prices, driven by growing demand from the U.S. and China. The expected synergies from the incorporation of Marfrig's assets should also add to the company's profitability. Minerva's EBITDA margin was in the range of 8.5%-9.5% in the last three years.

Positive Export Demand: The Latin American beef market benefits from low production costs due to ample cattle availability, robust export demand, and constrained global supply, with North American production facing stringent restrictions in the coming years. This environment mitigates the risk of Minerva to operate with concentration in a sole protein type.

Fitch projects growth in Brazil's exports in 2025, while domestic beef consumption in Brazil is expected to remain stable. This favorable demand landscape in export market supports Fitch's expectation that Minerva will increase volumes to 1.4 billion metric tons, in 2024, and 1.5 billion metric tons, in 2025, from 1.3 billion metric tons in 2023. Average prices are anticipated to rise slightly to BRL22.4 per kilo and BRL22.6 per kilo, in 2024 and 2025, respectively, compared to BRL22.2 per kilo in 2023.

Positive FCF: Fitch expects Minerva to continue reporting strong operating performance. EBITDA and cash flow from operations (CFFO) should reach BRL3.0 billion and BRL1.5 billion, respectively, in 2024, considering the performance of acquired assets only in the 4Q24. In 2025, EBITDA and CFFO should reach BRL4.3 billion and BRL2.4 billion, respectively, reflecting 12 months of the acquired assets. FCF should continue at the positive territory - after capex representing 1.7%-1.8% of net revenues and dividends pay-out at the minimum level of 25% of net income - which enables Minerva to reduce net leverage during the rating horizon.

Deleveraging Expectations: Minerva's net leverage is projected to peak at 4.9x by 2024 due to the completion of Marfrig's asset acquisition, which requires an additional payment of BRL6 billion to Marfrig while only incorporating one quarter of the assets' EBITDA. On a proforma basis, net leverage would be 3.6x at YE 2024 if EBITDA from acquired assets is considered for a 12-month period. This compares to a proforma net leverage of 3.1x by the end of 2023, excluding the BRL1.5 billion upfront payment to Marfrig. The base case scenario considers gross leverage and net leverage ratios at 5.0x and 3.0x, respectively, in 2025.

DERIVATION SUMMARY

Minerva's ratings reflect its solid business profile as a pure-player in the beef industry, with a large presence in South America and small presence in Australia. The ratings consider Minerva's lack of significant diversification across other proteins, making the company less diversified from a product standpoint than JBS S.A. (BBB-/Stable) or Tyson Foods (BBB/Stable).

Minerva has developed a more export-oriented business model, whereas Marfrig (BB+/Stable) has a strong presence in the U.S. domestic market through its subsidiary National Beef.

Minerva is smaller than its peers, such as Marfrig, JBS or Tyson. From a financial standpoint, Minerva's leverage profile is in line with Marfrig and JBS over the next years.

KEY ASSUMPTIONS

--Average volumes growth of 10% in 2024 and 4% in 2025;

--Average prices increasing 0.8% in 2024 and 1.1% in 2025;

--Revenues of the recent acquired assets of BRL15.7 billion in 2025;

--Capex totaling BRL2.3 billion from 2024 to 2026;

--Dividends pay-out of 25% of net income.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Continued geographic and/or protein type diversification;

--Gross leverage to below 3.5x and interest coverage above 3.5x, on a sustained basis;

--Sustainable positive FCF generation.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Gross leverage above 4.5x and interest coverage below 2.5x, on a sustained basis;

--Net leverage above 3.0x on a sustainable basis;

--Sharp contraction of Minerva's EBITDA margins combined with negative FCF trends.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity: Fitch considers Minerva's liquidity profile as strong, based on high cash position and ample access of diversified funding resources. As of June 2024, cash and cash equivalents were high at BRL16.5 billion, which includes resources raised to meet the BRL6 billion acquisition obligation that should be disbursed in the 4Q24. The company's debt total of BRL26.5 billion (net of derivatives) was composed by BRL12.4 billion of senior notes, BRL8.6 billion of debentures, BRL7.7 billion of Export Pre-Export credit lines, among others (including BRL431 million of factoring).

ISSUER PROFILE

Minerva is the South American leader in beef exports, operating in the processing segment and selling its products to over 100 countries. Currently, the company has a daily slaughtering capacity of 30,940 heads of cattle. Present in Brazil, Paraguay, Argentina, Uruguay, Colombia and Australia, Minerva operates 30 slaughtering and deboning plants and three processing plants. Minerva's shareholders are SALIC International Investment Company (30,55%) and Vilela Family (22.36%). Free float represents 43.97% of the shares.

SUMMARY OF FINANCIAL ADJUSTMENTS

--Lease is considered opex and impacts EBITDA

--Factoring is considered debt

--Net derivatives impacts debt.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

Minerva S.A. has an ESG Relevance Score of '4' for Waste & Hazardous Materials Management; Ecological Impacts due to the ecological impacts of land use and supply chain management, as Minerva is exposed to cattle sourcing and needs to monitor direct and indirect suppliers in South America, which could expose Minerva as well the beef sector in general to export bans. This has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

Minerva S.A. has an ESG Relevance Score of '4' for Governance Structure due to ownership concentration, which has a negative impact on the credit profile and is relevant to the ratings in conjunction with other factors., which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Minerva Luxembourg S.A.				
senior unsecured	LT	BB	Affirmed	BB
Minerva S.A.	LT IDR	BB	Affirmed	BB
	LC LT IDR	BB	Affirmed	BB
	Natl LT	AA+(bra)	Affirmed	AA+(bra)

PREVIOUS Page 1 of 1 10 rows NEXT

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Corporate Rating Criteria - Effective 3 November 2023 to 6 December 2024 (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 21 June 2024 to 6 December 2024 (pub. 21 Jun 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Minerva Luxembourg S.A.	EU Endorsed, UK Endorsed
Minerva S.A.	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating s

READ MORE

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.