Monthly Nov/18 | Food and Beverages

RENDA VARIÁVEL

Weak results for 3Q18 and high leverage

November was a difficult month for the food and beverages sector, which reported weak results in 3Q18. The meat processors continued to be highly leveraged.

1 Monthly performance

With the period of uncertainty having come to a and end after the elections and the 3Q18 earning season, combined with the naming of ministers in the new government and expectations of the approval of structural reforms in 2019, November was a strong month for the market. The Ibovespa closed the month up 2.4%, reaching 90,000 points during intraday trading. For the food sector, especially the meat processors, the competitive, challenging environment and the high level of leverage continue to make the recovery of profitability difficult. The exception was JBS, which achieved revenue growth of 20% in 3Q18 against 3Q17, and an increase of 8.7 percentage points in the EBITDA margin. As such, the company's shares rose 14.8 percentage points in November.

The shares of BRF, meanwhile, were negatively affected by the announcement of the 3Q18 results, which showed a loss of R$ 800 million dues to the company's high level of leverage. The same occurred with Minerva, that reported net leverage of 5x EBITDA and a loss of R$ 132 million in 3Q18. The shared of Marfrig, despite the positive news that the Russian embargo on the importation of the meat manufactured by some of the company's plants were to be lifted, dropped 3.3%.

Still, in the food sector, M Dias Branco (-9.1%) and Camil (-12,1%) were the negative highlights of the month. The first was negatively impacted by the weak result reported in 3Q18, which showed a loss of market share and margins negatively affected by the high price of wheat. The second, meanwhile, suffered an adjustment following the purchase of its competitor SLC Alimentos.

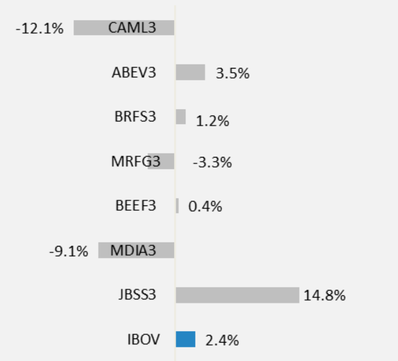
Finally, Ambev shares benefited from upward movement of the market and rose 3.5% after a hard dip in October as a result of the weak 3Q18 results.

Food and Beverages

Ticker	Rating	Target	Current*
BEEF3	N	R$8.0	R$5.51
BRFS3	N	R$25.0	R$22.17
MDIA3	C	R$52.0	R$40.41
ABEV3	N	R$20.0	R$16.92
CAML3	N	R$10.0	R$7.11

C: Buy; N: Neutral; SR: Under revision;
**Data-base: 11/30/2018*

Performance (Δ% Month)



Diana Stuhlberger
Analyst, CFA

Raul Grego
Analyst, CNPI

Adeodato Netto
Chief-Strategist

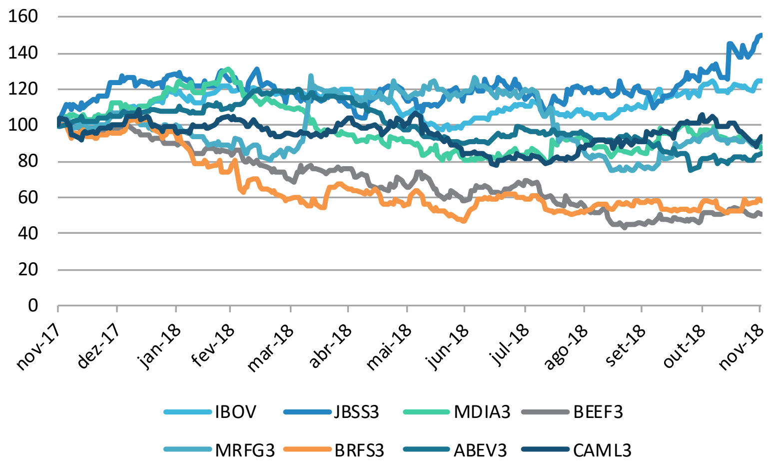
+55 11 4302-3340

Diagram 1: Summary of the performance of the shares

Company	Ticker	Share Price*	Δ % Month	Δ % 12 Months
Ibovespa	**IBOV**	**89,504**	**2.4%**	**24.4%**
JBS	JBSS3	11.77	14.8%	49.6%
M Dias Branco	MDIA3	40.41	-9.1%	-13.0%
Minerva	BEEF3	5.51	0.4%	-49.2%
Marfrig	MRFG3	6.2	-3.3%	-9.5%
BR Foods	BRFS3	22.17	1.2%	-42.4%
Ambev	ABEV3	16.92	3.5%	-15.5%
Camil	CAML3	7.11	-12.1%	-6.7%

*Source: Bloomberg; Prepared for Eleven Financial / * Final price of the month*

Diagram 2: Summary of the performance of the shares over 12 months



*Source: Bloomberg; Prepared for Eleven Financial / * Final price of the month*

1 Perspectives

Looking forward, we expect the shares reactions of the food sector to be related to the unfolding of the agenda of reforms and growth perspectives for the economy in 2019.

For M Dias Branco and Camil, a recovery of the Brazilian economy is essential for them to gain market share and be able to ajust prices in line with cost increases.

For the meat pricessing sector, however, a weaker US Dollar may harm the performance of its exports. For Minerva, a large part of the costs is based in the Brazilian real, while itsrevenue is almost entirely linked with the US Dollar. The company is also going through a capital increase and intends makean IPO for its international division (Athena Foods) in 2019, the success of which is essential for the company to reduce leverage.

BRF, meanwhile, has approximately 50% of its revenue in the internal market, meaning that weak performance of its exports could be compensated for by better performance on the internal market. The company is also in the process of selling its subsidiaries in Argentina, Thailand and Europe, with the intention of raising R$ 3 billion in order to reduce its leverage.

In the beverages sector, the volume of sales of beer and soft drinks should also benefit from an improvement in the economy. However, we believe that Ambev will probably struggle to gain a market share if it does not expand its brand portfolio outside its mainstream segment (e.g. premium or value)

1 Summary of the investment premises

<table>
<tr><td>brf</td><td>Neutral | 25.0
EV/EBITDA: 12.2
P/E: -</td><td>Minerva Foods</td><td>Neutral | 8.0
EV/EBITDA: - 4.5
P/E: -</td><td>M.Dias Branco</td><td>Buy | R$ 52
EV/EBITDA: 12.4
P/E: 14.5</td></tr>
<tr><td colspan="2">BRF recently announced a restructuring plan aimed at recovering profitability as well as the sale of assets in the value of R$ 5 billion, a move designed to reduce its financial leverage. However, given the difficulties that the company has been facing, we wait for company to show operationsl improvements before we can recommend buying securities.</td><td colspan="2">Minerva is South America’s leading beef exporter, with 25% of the region’s exports and 8% of the world’s exports. The company recently reviewed its net revenue guidance for 2018 to a target range of R$ 15 billion to R$ 16 billion (previously R$ 14 to R$ 15 billion). The company is also studying the viability of an Initial Public Offering (IPO) in relation to its non-operational holding in Chile - Athena Foods.</td><td colspan="2">M Dias Branco is the leader in the Brazilian pastas and biscuits sector. The company recently announced the purchase of Piraquê, a move that should not only contribute to a gain in market share, but also to operational synergies. The company's volume of sales was also negatively affected by the weak performance of the economy and should benefit from a scenario of economic recovery.</td></tr>
<tr><td>ambev</td><td>Neutral | R$ 20.00
EV/EBITDA: 10.0
P/E: 17.7</td><td>Camil</td><td>Buy | 10.0
EV/EBITDA: -7.0
P/E: -11.0</td><td></td><td></td></tr>
<tr><td colspan="2">Ambev is the biggest beer manufacturer in Brazil, with a 65% market share. The beer market in Brazil, however, has been is stagnating, , and the company has lost part of its share to premium and low-cost brands. Furthermore, the considerable rise in the price of aluminum has had a negative effect on the company's operating margins.</td><td colspan="2">Camil is the market leader in the Brazilian rice segment. It also trades in beans, sugar and fish products. The company recently purchased SLC Alimentos, the country’s fifth biggest rice producer, a move which contributed to the expansion of Camil’s market share. With the synergies obtained from the acquisition of this company and the strengthening of its competitive postition in the grains market, added to the difficulties in the fish segment, we are revising our premises concerning volume and price. Our recommendation is BUY at a target price of R$ 10.0.</td><td colspan="2"></td></tr>
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