

Minerva bond issuance: beef up your due diligence

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Brazilian meat exporter and processor Minerva Foods is in the market for a potential $1bn 10 year senior unsecured bond issuance to finance the acquisition of sixteen plants from competitor Marfrig.[1]

This acquisition, announced on 29 Aug 2023, will create a beef giant in Brazil, with clear sustainability and valuation concerns given ongoing regulatory focus on deforestation.[2]

The new bond will increase Minerva's USD outstanding debt by over 65% (for bond details see Table 1), and extend the maturity of exposure for USD bond investors. This issuance will likely come quickly after a $2.5bn two-tranche deal priced on 5 Sep 2023 by BBB- rated JBS, another Brazilian meat processor.[3]

Table 1. Minerva bonds and details of new issuance. Source: Bloomberg, Fitch, accessed 5 Sep 2023.

Description	ISIN	Issue Date	Maturity	Currency	Coupon	Rating	Amount Outstanding
BEEFBZ $5.875 28s	US603374AE94	19-Dec-17	19-Jan-28	USD	5.875	BB	182,267,000
BEEFBZ $4.375 31s	US603374AF69	18-Mar-21	18-Mar-31	USD	4.375	BB	1,291,191,000
BEEFBZ BRLFloat 26s		21-Oct-21	15-Oct-26	BRL	Float		400,000,000
BEEFBZ new bond		Sep-23	10y	USD		BB	1,000,000,000

We see significant sustainability risks for Minerva Foods that could lead to weak bond performance. We believe enhanced due diligence should focus on the following questions:

- **The plants being purchased have now been made public. There is evidence that at least two of these have sourced cattle from illegally deforested land.** In a sector where opaqueness of supply chains has been used to avoid acknowledging environmental destruction, this can no longer be ignored.
- The EU Regulation on deforestation-free supply chains prohibits the sale of products in the EU that contribute to deforestation. **The costs of either improving supply chain management to comply, or the fines for non-conpliance, will be significant.** Fitch identifies this issue as being potentially negative for Minerva's credit profile.[1]
- **Minerva is at increasing risk of being subject to investment exclusions, or struggling to find banking partners.** Deforestation risk is increasingly being accounted for by the investment and banking community and may fall into the scope of more exclusion policies. Such divestment trends could negatively affect the company's bond prices, or impact its ability to refinance its debt.

[1] "Fitch Rates Minerva Luxembourg S.A.'s Senior Unsecured Bond 'BB'", Fitch Rating, 4 Sep 2023.
[2] Please see "Marfrig-Minerva deal: decoding the wood from the trees", AFII, 31 Aug 2023.
[3] "JBS USA LUX S.S. Announces Upsizing and Pricing of its Senior Notes Offering", Yahoo, 5 Sep 2023.

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Deal details

The new bond mandate was reported on 4 Sep 2023, and we believe investor meetings are ongoing.[4] We expect the deal to be formally announced in the coming days. J.P. Morgan will be coordinating logistics (and had offered bridge financing for the acquisition[5]). Itaú BBA, BofA Securities, Bradesco BBI, HSBC, Morgan Stanley, Rabo Securities, BB Securities, Mizuho, MUFG and XP Inc. will act as joint bookrunners.[4] The proceeds will be used to fund the acquisition or repay existing debt.

It has already been confirmed that both Fitch and S&P will assign BB, the existing rating for USD debt, to the issuance.[6,1] In its rating assessment, Fitch highlights some potential ESG concerns, identifying two areas which are scored 4, which is below the neutral score where ESG issues would have a neutral or minimal credit impact on the entity.

Fitch assign a score of 4 for "Waste & Hazardous Materials Management: Ecological Impacts" due to land use and supply chain management. It identifies challenges around monitoring supply chains in South America, and the risk of export bans leading to a negative impact on the credit profile.[1]

This bond significantly increases the public debt issued by Minerva, and will potentially expose more investors to this issuer. Before buying this bond, investors need to consider the sustainability risks of the South American beef production sector.

Unpriced deforestation risks

Marketing material for the new bond explicitly states which slaughter houses are being acquired by Minerva as part of the asset sale. Specifically, the Tangara da Serra and Tucumã units are included.[7] Their supply chains were analysed by the Center for Climate Crime Analysis, which compiled evidence of cattle being sourced from illegally deforested areas.[8]

Minerva has made commitments to eliminate illegal deforestation from its supply chain, so there may be costs to improve the procurement processes for some of these assets.

Recent EU regulation also restricts the sale of products contributing to deforestation into the EU. There may be either costs to comply, or fines for non-compliance, when integrating these assets into the Minerva Foods business.

In conclusion, new information published on the bond issuance confirms acquired plants have sourced cattle from illegally deforested land. This could hinder Minerva Foods' ability to export to the EU market and presents heightened financials risks for investors.

[4] "MANDATE: Minerva $Benchmark 144A /Reg S Bond Sale", Bloomberg, 4 Sept 2023.
[5] "Minerva's $1.5 Billion Deal Creates a South America Beef Giant", Bloomberg, 29 Aug 2023
[6] "X-S&PGR Rates Minerva Luxembourg's New Senior Unsecured Nts 'BB'", Bloomberg, 4 Sept 2023.
[7] "Deal roadshow materials here, accessed 5 Sep 2023.
[8] "DEFORESTATION IN BRAZIL - UBS finances agribusinesses Marfrig and - BrasilAgro exposed to environmental damage in Amazon and Cerrado", Center for Climate Crime Analysis, October 2022.

Sustainability commitments from bookrunners

We also note that amongst the long list of bookrunner banks supporting this financing, there are some whose sustainability policies seem to be contradictory to conducting such business.

HSBC's agricultural commodities policy states that "*HSBC will not knowingly provide financial services to high-risk customers involved directly in or sourcing from suppliers involved in deforestation, that is: the conversion of areas […] necessary to protect HCVs (High Conservation Values); the conversion of primary tropical forests; or clearance by burning.*"[9]

Morgan Stanley's environmental and social policy on the other hand requires that "*for transactions involving beef producers, particularly those operating in higher-risk regions, we will conduct enhanced due diligence.*"[10]

It may be that bond arranging continues to fall between the cracks of more traditional ongoing banking and lending business, for which bank sustainability disclosure is improving. It may be that Minerva passes enhanced due diligence, but if so we would struggle to see what a beef producer would have to do to fail such a test.

Either way, the trend towards more focus on the environmental impact of deforestation should reduce banking and financing options for these businesses, and is another risk factor for bond prices.

Conclusions

Minerva Foods, a sub-investment grade rated Brazillian issuer, has announced a mandate for a $1bn 10y bond probably issued in the coming days. This will increase its outstanding USD debt by over 65%. There are some clear sustainability concerns for investors.

Marketing material now confirms the exact plants being funded by this issuance. There is evidence that at least two plants have sourced cattle from illegally deforested land, which confirms the environmental impact of such an acquisition. Investors need to confirm this is consistent with their sustainability objectives.

Recent EU Deforestion policy prohibits the sale of products that contribute to deforestation in the EU. Fitch Ratings has analysed that this, and potentially other ongoing regulatory restrictions, presents a risk to Minerva's credit profile.[1]

Deforestation and sustainable land use is increasing in focus for investor and bank sustainability policies. Any exclusions could also be negative for bond prices.[2]

[9] "HSBC Agricultural Commodities Policy", accessed 5 Sept 2023.
[10] "Morgan Stanley Environmental and Social Policy Statement", accessed 5 Sept 2023.

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