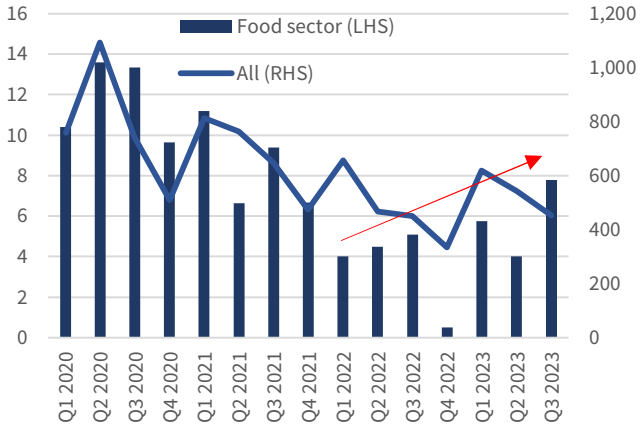
Pilgrim's Pride: tender-izing the meat bond market

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Recent weeks have witnessed robust activity in the food sector's bond market, with beef giants JBS and Minerva respectively issuing bonds worth $2.7bn and $1bn in September alone.[1,2] The latest contributor is chicken and pork producer Pilgrim's Pride Corp (ticker PPC), which issued, on 27 September, a $500mn 2034 note used to tender its $850mn 2027 note.

Figure 1. Total USD issuance ($bn) over $0.5bn by quarter, and in food sector. Source: Bloomberg, accessed 3 Oct 2023. Note, JBS and PPC bond exchanges have been manually removed.



The food sector is under mounting pressure from the financial community due to its environmental impact.[3] It accounts for a third of anthropogenic greenhouse gases emissions and is the largest driver of deforestation worldwide.[4] As financial institutions increase their biodiversity focus, food companies that do not effectively manage their environmental risks face the possibility of being excluded from investment portfolios. This, in turn, may lead to an increase in their cost of capital.

The recent increase in bond issuances in the sector might indicate that food companies are anticipating difficulties surrounding securing funding in the future. For instance, PPC might face exclusionary policies due to its supply chains being involved in soy-driven deforestation, coupled with its status as a subsidiary of JBS S.A.

In this note, we examine PPC's recent issuance and situate it within the broader context of the company's entire bond structure.

There are three main takeaways:

- **Although JBS is not a guarantor for PPC's bond, there is a relationship between the credit ratings of both companies, and PPC could be influenced by JBS's deforestation policies.**
- **PPC's revenue model might significantly expose the company to regulatory risks linked to deforestation.**
- **Replacing a four-year bond with a ten-year bond could suggest that the company aims to secure funding in preparation for potential financing challenges in the future.**

[1] "The Forensic Carbon Accountant: JBS SLB", AFII, 21 Sep 2023.
[2] "Minerva bond issuance: beef up your due diligence", AFII, 5 Sep 2023.
[3] "Investors push food companies to go greener", Financial Times, 20 Oct 2022.
[4] "Driving Finance for Sustainable Food Systems", UN Environment Program, April 2023.

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PPC background and outstanding debt

PPC is a global chicken and pork company. It is the second largest chicken producer in the US[5] and holds a substantial presence in the UK through its subsidiary Pilgrim's UK. The company exited bankruptcy in December 2009 after JBS USA Holdings Inc. - a subsidiary of Brazilian beef giant JBS S.A. – bought a majority share in the company.[6] JBS USA Holdings Inc. currently holds around 80% of the company's shares with the remaining 20% listed on the Nasdaq stock exchange (ticker: PPC).[7]

The company currently has five USD unsecured bonds outstanding, totalling $4.2bn (see Table 1). Except for the 2027 bond which is the subject of this tender, the company's outstanding bonds are long-dated, with an average maturity of 8.6 years. None of the bonds are guaranteed by parent company JBS.

In 2021, the company issued one of the largest a sustainability-linked bonds in the food sector. The 10 year bond is tied to a target of reducing the company's scope 1 and 2 emissions by 30% between 2019 and 2030. If the company fails to meet its linearly interpolated 2025 target, the bond will pay a 25bps step-up coupon until the bond matures in 2031.[8]

As part of the preparation for a potential US listing, JBS and PPC have exchanged their 144a/REGS bonds for SEC registered securities. The 4.25% 31s SLB and 3.5% 32s were both subject to these exchanges. The legacy bonds do still exist, but have a very low notional outstanding.[9] The 5.875% 27s are the only remaining debt that is not SEC registered.

Table 1. Details of PPC bond issuances. Source: Bloomberg, accessed 3 oct 2023.

Description	144a ISIN	REGS ISIN	SEC registered ISIN	Issue Date	Maturity	SLB	Amount Out. ($ mn)
PPC 5⅞ 27	US72147KAE8	USU72068AD8		29/09/2017	30/09/2027	--	850
PPC 4¼ 31	US72147KAF5	USU72068AG1	US72147KAJ7	15/02/2023	15/04/2031	Yes	1000
PPC 6⅞ 34			US72147KAL2	12/10/2023	15/05/2034	--	500
PPC 6¼ 33			US72147KAK4	19/04/2023	01/07/2033	--	1,000
PPC 3½ 32	US72147KAG3	USU72068AH9	US72147KAH1	15/02/2023	01/03/2032	--	900

Deforestation exposure

The company's deforestation exposure lies both through its parent company JBS S.A. but also through the soy the company is buying to feed its animals.

JBS has long been under the spotlight for its exposure to deforestation in Brazil.[10] While the company is not a guarantor of PPC's bonds, it has a significant influence over PPC's business and

[5] "Pilgrim's Pride Signals Worst is Over for Chicken Suppliers", Bloomberg, 26 Jul 2023.
[6] "Pilgrim's Pride exits bankruptcy under JBS deal", Reuters, 28 Dec 2009.
[7] Source: Bloomberg. Accessed 3 Oct 2023.
[8] "Pilgrim's Sustainability-Linked Bond Framework – March 2021", accessed 4 Oct 2023.
[9] For more details on JBS bond exchanges please see "The Forensic Carbon Accountant: JBS SLB", AFII, 21 Sep 2023.
[10] "Soy and cattle deforestation tracker", Mighty Earth, accessed 3 Oct 2023.

financial strategy. Rating provider Fitch Ratings considers PPC as highly strategic for JBS and views both companies' ratings as highly correlated.[11]

Looking at PPC's animal feed, we observe that despite Pilgrim's UK pledges to eliminate deforestation linked to soy from its supply chains, [12] the company was recently exposed by NGO MightyEarth for sourcing soy from illegally deforested areas.[13] The company however received a moderately good soy-related CDP rating of B-.[14]

Deforestation is of increasing financial relevance due to recent EU regulation, requiring that any sale into the EU of at-risk commodities should be evidenced to be deforestation free.[15] Improving opaque supply chains to comply will be costly, although non-compliance may result in fines or loss of market access.[16]

The company's revenue is highly exposed to deforestation regulatory risk. About 28% of its revenue comes from the UK and Europe, whereas the US contributes over 60%. In Europe and UK, the company will have to comply with the both the Schedule 17 of the UK's Environment Act 2021 [17] and also the new EU regulation of deforestation-free products, the latter coming into force on 31 December 2024. In the US, it will fall in the scope of the country's "Forest Act".[18] PPC has not provided information on how it plans to comply with the aforementioned regulations, bringing investors' uncertainty about their future financial performance.

Debt Issuance and Tender

On 27 September 2023, the company announced the issuance of a $500mn note due 2034 (ISIN US72147KAL26). The notes were priced with an issue price of 98.041% with a coupon of 6.875%, equating to an issue spread of 250bp over treasuries. This is their second new bond in 2023, after pricing a $1bn 10-year bond in April.

Figure 2 shows recent bond spreads for PPC. The new $6.875% 34s may look tight to the curve, but this and the $6.25% 33s have significantly higher coupons than the two bonds trading at wider spreads. They are also the newer bonds, the $4.25 31s and $3.5 32s are the two bonds which

Figure 2. PPC bond spreads. Source: Bloomberg, accessed 3 Oct 2023.



[11] "Fitch Rates Pilgrim's Pride Corporation's New Senior Unsecured Notes 'BBB-'", Fitch Ratings, 4 Apr 2023.
[12] "Pilgrim's UK joins alliance cut deforestation and soy from supply chain", Pilgrim's UK, accessed 3 Oct 2023.
[13] "Tesco: a basket of problems for the Amazon", Mighty Earth, 13 Apr 2023.
[14] CDP Rating – Pilgrim's Pride, accessed 3 Oct 2023.
[15] "Parliament adopts new law to fight global deforestation", European Parliament News, 19 Apr 2023.
[16] For an analysis of the impact on soy traders please see "EU deforestation law: fire on the horizon for soy traders?", AFII, 13 Sep 2023.
[17] "The UK Environment Act - what's happening now?", Client Earth, 1 Apr 2022.
[18] "Comment: Why humanity needs more investors to back deforestation-free legislation", Reuters, 29 Nov 2022.

were exchanged. There may be investor preference for the newer high coupon bonds, either because they offer higher carry, or because they are newer bonds they have better liquidity. The cover ratio was 2.4x for the deal, below the average for September of 3.17x,[19] although still comfortably oversubscribed.

The proceeds of this new issuance, combined with cash on the balance sheet, are being used to tender the $850mn 5.875% note due 2027 (US72147KAE82/USU72068AD89), the sole bond that is still in 144a/REGS format.

By supporting this new deal, investors have extended financing for PPC. Aside from the tendered note, the next debt maturity is Apr 2031, meaning PPC may not come back to the fixed income market for many years. Below, we consider its motivations for such a debt extension, and the engagement opportunities for investors.

Liability management

This issuance and tender will reduce PPC's outstanding debt by $350mn. However, the refinancing of a bond maturing in four years, in a context of high interest rates is surprising.

It can be advantageous to buyback bonds with high coupons, and refinance at lower levels. The bond in question has a coupon of 5.875% and is being replaced with a bond of coupon 6.875%, so this does not seem to be the motivation.

It can also be economically rational to tender bonds that are trading well below par, i.e. with low coupons, to lock-in the cash price benefit of the reduction in the value of liabilities. The tendered bond has a cash price around par, of 101.5% (up 2.5% since the tender was announced), so this also does not seem to be the motivation.

Credit rating trend

PPC's rating history is mixed, as shown in Table 2. It is currently rated by all three agencies, but split BBB-/Ba2/BBB-. These ratings cross the crucial investment grade / high yield boundary. An investment-grade investor typically needs two investment-grade ratings to invest, and so this would be satisfied. A high-yield investor typically needs one high-yield rating to invest, and so this is also satisfied.

PPC's historical rating trend is also confusing, with recent action in both directions.

The company's outstanding bonds rating were upgraded to Ba2 from Ba3 by Moody's shortly after the it was announced that Pilgrim's $800 million senior secured revolving credit facility will be replaced with a new senior unsecured revolving credit facility.[20] Existing bonds that were junior to the secured credit facility will now be pari-passu, and a senior claim have been removed. This would improve the senior unsecured bonds' recovery potential.

However, despite affirming the company's long-term rating at BBB-, S&P revised its outlook to negative from stable in July this year, reflecting S&P's concerns over JBS's leverage and difficult conditions for the U.S. poultry industry.[21] This negative outlook also reflects a greater risk of S&P

[19] Data from Bloomberg, all USD Corp deals over $0.5bn in size.
[20] "Moody's assigns Ba2 to Pilgrim's Pride's proposed notes; affirms Ba2 CFR; outlook stable", Bloomberg, 28 Sep 2023.
[21] "Pilgrim's Pride Outlook to Negative by S&P; L-T Rating Affirmed", Bloomberg, 14 Jul 2023.

downgrading PPC to BB+, which would definitively place PPC in the high-yield bracket, and could generate negative price moves.

The anticipation of a downgrade to high yield could be a motivation to lock in longer-dated funding while the issuer is still rated investment grade.

Table 2. Ratings for Pilgrim's Pride Corp. Source: Bloomberg, accessed 4 Oct 2023.

Issuer	PILGRIM'S PRIDE CORP				
Rating Agency	Current Rating	Current Outlook	Date of Rating	Date of Outlook	Last rating action
S&P	BBB-	NEG	02-Jun-22	14-Jul-23	Put on negative watch
Moodys	Ba2	STABLE	28-Sep-23	28-Sep-23	Upgraded from Ba2
Fitch	BBB-	STABLE	08-Jun-21	08-Jun-21	

Banking relationships

Although PPC may be engaged in a standard liability management exercise, it could indicate the company's concern about potential deterioration in its future funding capabilities. The company could be locking in current funding conditions in preparation for potential adverse developments that may deteriorate its funding capabilities.

Banks and investors are increasingly implementing stricter policies for the food sector due to deforestation concerns.[22] Such trends could place PPC under investment exclusions lists if the company does not strengthen is deforestation policy. This could reduce PPC's access to capital.[23] Our analysis of banks participating in the most recent JBS deal suggested that five may have participated in contradiction with their public policies.[1]

This is a space where public pressure is changing quite rapidly, and it may be that banks withdraw services from high-risk clients quite suddenly.

Swapping out a note that matures shortly after the implementation of the UK, Europe and US deforestation regulations with a longer-term one could be a strategic move for the company.

Issuance trends in food sector

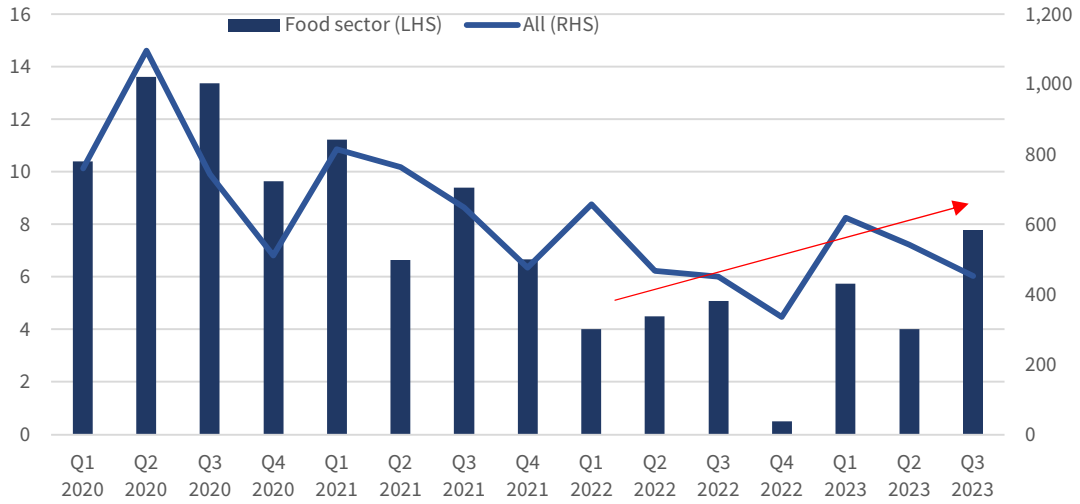
There has been a lot of recent issuance in the food sector, as shown in Figure 3. The data covers USD issuance over $0.5bn in size.[24] Total issuance is fairly flat over the period, with a downward trend. This is mirrored in the food sector in 2020/2021, however there has been an upward trend in 2022/2023.

In general, fixed-income issuance is quite negatively correlated with the level of interest rates, and in a rising rate environment, issuers can try to wait for lower interest-rate levels to return. It is interesting to see the food sector going against that overall trend, as it could suggest a different funding outlook.

[22] See as an example "Barclay's Forestry & Agricultural Commodities Statement", accessed 4 Oct 2023.
[23] "Exclusive: Investors may exit consumer goods firms over EU deforestation law", Reuters, 14 Jun 2023.
[24] As discussed earlier, PPC and its parent JBS have been conducting bond exchanges, which register as new deals. I have manually removed them from the Food sector population.

Some high-profile deals in this period include $2.7bn issuance for JBS and $1bn issuance for Minerva (to fund an asset purchase from Marfrig).[25]

Figure 3. Total USD issuance ($bn) over $0.5bn in size by quarter, and in food sector. Source: Bloomberg, accessed 3 Oct 2023. Note, JBS and PPC bond exchanges have bene manually removed.



Conclusions

The food sector has a substantial impact on the environment. Companies in the sector are increasingly drawing the financial industry's scrutiny, putting them at risk of potential exclusion from investment portfolios and facing the possibility of banks disengaging them as clients. **PPC's revenue model, combined with the deforestation risk linked to its parent company, JBS S.A., makes it susceptible to exclusion policies addressing deforestation.**

PPC's recent debt restructuring alongside the strong flow of new issuances in the sector may indicate anticipation of difficulties to secure funding in the future. Bondholders have an opportunity to engage with the company and ensure compliance with upcoming deforestation regulations and policies to protect their financial performance.

[25] This deal is covered in "Minerva bond issuance: beef up your due diligence", AFII, 5 Sep 2023.

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