

SUZANO

Investor Day 2023: Sunrise on a cloudy day

LatAm Pulp & Paper

(i) How Suzano intends to maintain its "best-in-class" position in pulp; **(ii)** Cerrado Project as one of the main points for this maintenance; **(iii)** BHKP continues to be the leader among fibers, with positive prospects for demand ahead; **(iv)** In the short term, demand is returning to normalized levels, both in Asia and Europe; **(v)** Internationalization and advancement in the paper chain should be the drivers of Suzano's growth; **(vi)** Clearly, the news about price increases has made some investors more excited, and Suzano's shares have risen over the past 3M. However, we are still very reticent about the effects of these price increases on incremental demand for pulp, and price increases alone will not solve the medium-term oversupply; **(vii)** We reiterate our **NEUTRAL rating**, with a **12M Target Price of R\$60.00** and an **upside of +15.45%**.

Suzano held its Investor Day 2023 on Friday, October 27th. During the event, management shared some visions and strategies for the development of the thesis in the long term, such as the Cerrado Project, but also the supply and demand situation in the short term.

As the event took place shortly after the results, we've only written about the highlights here. We also strongly recommend that you read our report on the 3Q23 results, where we go into much more detail about our opinion of Suzano's momentum. The link to this report is attached. ([3Q23 Review: The certainty of an uncertain result](#)).

Straight to the point...

Always striving to be the "best-in-class" in pulp. Focusing its efforts on operational improvements, Suzano has constantly invested in improving its biological asset base, which has a direct impact on its costs. Going from a forest with a eucalyptus planted area of 1.37Mha in 2021 to 1.67Mha 2024E, a growth of over +20% in 3 years. Productivity has also kept pace with the development of the planted area, driven by the best silvicultural practices according to micro-regional characteristics, and the combination of clones with environmental mapping.

We understand that the negative situation for wood, in which the entire sector suffers from a short supply, has been partially avoided by Suzano. Locally, the company said that demand for biomass has been increasing. We believe that this leads to competition for the use of the same wood, while rising planting costs and climatic uncertainties about losses in some regions limit the growth of the eucalyptus plantation area.

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Company

SUZB3 BZ Equity

Neutral

Price: R\$ 51.97 (30-Oct-2023)

Target Price 12M: R\$ 60.00

SUZ US Equity

Target Price 12M: US\$ 12.60

Cerrado Project as a key point in maintaining competitive advantages. The continued pursuit of the "best-in-class" title is further reinforced by the Cerrado Project, which adds +2.55Mtpa capacity with **(i)** an average structural radius of 65km (vs. ~200km for Suzano today) and **(ii)** an already established forest base on flat terrain favorable for mechanized planting.

Start-up should be in Jun/24, with a learning curve for ramp-up expected in 9 months, leaving an estimated volume of ~700kt in 2024, and ~2Mt for the first 12 months of its operation. Currently, physical progress is already at 78%, while financial progress is at 68%, with CAPEX of R\$2.6bn still to be disbursed this year and R\$5.1bn for 2024 onwards.

Fiber-to-fiber transition continues to be a growth driver for BHKP. Throughout 2023, we have had major capacity closures in BSKP, which so far have more than offset new additions, for a consolidated net of -0.7Mtpa. Due to the advanced technical age of the global BSKP industry's assets, added to the uncertainty of wood availability and the larger price gap vs. BHKP, BSKP continues to lose competitiveness and market share among the fibers, increasing the relevance of BHKP, which has already gone up to 61% of total demand between the two fibers in 2022 vs. 53% in 2010.

In addition, BHKP supply restrictions help balance volume with demand, with unscheduled maintenance continuing to take place, reaching 1.4Mt so far in 2023 (vs. 1.3Mt in 2022 full year).

Demand from non-integrated producers is improving. According to the company's management, demand for pulp is improving in both Asia and Europe, with orders at similar levels to last year. Confirming this, paper and packaging production from the same players has been strong, with exports increasing.

Internationalization and advancement in the production chain are still on the agenda. After announcing three new investments, namely: **(i)** the construction of a tissue and toilet paper converting plant; **(ii)** a new biomass boiler to replace the current one, and **(iii)** the production of fluff pulp from eucalyptus wood (Eucafluff), Suzano has made clear its intention and capacity to seek out new markets.

For this reason, it is necessary for Suzano to maintain its innovative footprint for new technologies, along with capacity expansions, whether organic or inorganic. Given the importance that the company already has in the local market, one of the main avenues for growth going forward is internationalization, reaching new markets and advancing in the production chain for paper and packaging. We describe in more detail each expansion project announced in our latest report, in the "Our Take" chapter, which is ([3Q23 Review: The certainty of an uncertain result](#)).

Our Take on Suzano

Although some of the points made by management may bring some improvement in the short term for the pulp business, the long-term fundamentals remain practically unchanged. In other words, some large capacity addition projects should unbalance supply and demand for a few years, making it difficult for Suzano to realize future prices.

Sunrise on a cloudy day. After the BHKP curve bottomed out at ~US\$480/t, we saw a big shift towards market pulp, even from some integrated players, which favored price increases in the following months, peaking up to current level of ~US\$580/t, with the possibility of further improve to US\$630/t in 2024, with the new adjustment of +US\$50/t announced.

Even so, in the event of further increases, we expect to see the opposite movement, with non-integrated producers opening up capacity, which could have the effect of making production cheaper for paper producers than the spot price on the curve and downshifting the situation, further reducing demand. Clearly, the news about price pass-thoughts has made some investors more excited, and Suzano's stock have risen over the last 3 months. However, we are still very skeptical about the effects of these adjustments on incremental demand for pulp, and by themselves, the price increases don't solve the medium-term oversupply either.

So, there are more components to be studied in the coming months. Just because the "worst is over" feeling is in the air doesn't mean that the next results will be satisfactory and that all the uncertainties have been eliminated. The positive news feels more like the sun rising on a cloudy day. As the shares have appreciated in recent months, we prefer to **keep our 12M Target Price unchanged at R\$60.00**, and reiterate our **NEUTRAL rating**, leaving the shares with an **upside of +15.45%**.

Appendix: Suzano

Figure 1. Suzano – Income Statement in R\$ Millions (Genial Est. 2023-2028)

Income Statement	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	38.195	40.241	47.198	49.792	50.805	51.017
(-) COGS	(24.208)	(26.411)	(29.309)	(29.481)	(29.308)	(29.431)
Gross Profit	13.987	13.830	17.888	20.310	21.497	21.586
(-) Expenses	(3.944)	(4.138)	(4.691)	(4.823)	(4.909)	(4.929)
Adjusted EBITDA	18.784	18.702	22.500	24.706	25.646	25.562
(-) D&A	(7.557)	(9.010)	(9.303)	(9.218)	(9.058)	(8.905)
EBIT	11.227	9.692	13.197	15.488	16.588	16.657
(+/-) Financial Result	2.600	(7.656)	(4.106)	(4.960)	(3.116)	(1.918)
(-) Taxes	(3.880)	(513)	(2.292)	(2.655)	(3.397)	(3.716)
Net income	9.948	1.523	6.799	7.873	10.075	11.022
Profitability						
Net margin (%)	26,04%	3,78%	14,41%	15,81%	19,83%	21,61%

Figure 2. Suzano– Cash Flow in R\$ Millions (Genial Est. 2023-2028)

Cash Flow (FCFF)	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	38.195	40.241	47.198	49.792	50.805	51.017
(-) COGS	(24.208)	(26.411)	(29.309)	(29.481)	(29.308)	(29.431)
Adjusted EBITDA	18.784	18.702	22.500	24.706	25.646	25.562
EBIT	11.227	9.692	13.197	15.488	16.588	16.657
(-) Taxes	(3.880)	(513)	(2.292)	(2.655)	(3.397)	(3.716)
(+) D&A	7.557	9.010	9.303	9.218	9.058	8.905
(+/-) Δ WK	(298)	(793)	(815)	(189)	(61)	(19)
(-) Capex	(19.683)	(14.623)	(9.208)	(8.094)	(7.833)	(7.994)
FCFF	(5.077)	2.773	10.184	13.768	14.355	13.832

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	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	49%
Neutral	Expected return between +10% and -10% relative to the Company's industry average	41%
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under Review	Under review	5%

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