KLABIN

4Q23 Preview: At MP28's pace

LatAm Pulp & Paper

Main takeaways:

(i) We expect a sequential increase in Kraftliner shipments; **(ii)** Paperboard should start to gradually increase its share in MP28; **(iii)** We anticipate soft adjustments for corrugated paper; **(iv)** Industrial bags (sack kraft) flat compared to the previous quarter; **(v)** Pulp volume should still be high, but impacted by carry over; **(vi)** Pulp price readjustment will help to better compose revenue; **(vii)** Revenue will probably advance, reaching R$4.6bn Genial Est. (+4.6% q/q; -9.4% y/y); **(viii)** COGS/t ex stoppages: greater dilution of fixed costs vs. increase in wood costs; **(ix)** With no stoppages in 4Q23, we expect total COGS/t to show a reduction; **(x)** EBITDA should accelerate +13% q/q, with growth for both the paper and packaging group and the pulp business; **(xi)** Net Income more than doubles q/q in our projections; **(xii)** Showing more favorable dynamics in both pulp (**due to pricing**) and paper (**due to the MP28 ramp-up**), trading with a **24E EV/EBITDA of 6.7x**, we still believe the **company is discounted**. We maintain our **BUY rating**, with a **12M Target Price** of **R$26.35**, which implies an **upside** of **+24.35%**.

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Company

KLBN11 BZ Equity
Buy

Price: R$ 21.19 (05-Feb-2024)
Target Price 12M: R$ 26.35

Klabin will release its **4Q23 results on February 7th**, before the market opens. Our estimate is for a result with an **interesting q/q advance in EBITDA**, driven mainly by better revenue dynamics (partial ramp-up of MP28 + improvement in pulp prices), aligned with some cooled down costs dynamics (greater capacity to dilute fixed costs).

Looking at it separately, the **packaging unit** will move forward from the most seasonally favorable quarter of the year (3Qs) to a quarter with **lower demand** (4Qs). Even so, the **paper segment** should take advantage of the **MP28 ramp-up** to deliver a **higher volume**, mainly in paperboard, somehow offsetting the seasonal effect. On the **price** side, we expect **mostly stable dynamics q/q**. As for the **pulp segment**, we believe that the figures should start to show progress, due to the readjustments promoted by most players trading in market pulp, especially for hardwood (BHKP). We believe that there will be an **improvement in the realized price** for both groups (Hardwood and Softwood).

Table 1. Shipments Summary (4Q23 Genial Est.)

(Thousand Tonnes - kt)	Genial Est.				
Summary (Shipments)	**4Q23E**	**3Q23**	**% q/q**	**4Q22**	**% y/y**
Kraftliner	113,6	102,1	**11,2%**	126,6	**-10,3%**
Paperboard	192,6	165,8	**16,2%**	178,9	**7,7%**
Corrugated boxes	220,0	226,5	**-2,9%**	209,5	**5,0%**
Sack Kraft	36,8	35,9	**2,5%**	37,7	**-2,3%**
BHKP Pulp	308,0	314,8	**-2,2%**	267,0	**15,3%**
BSKP + Fluff Pulp	109,1	111,1	**-1,8%**	107,2	**1,8%**

Source: Genial Investimentos, Klabin

Table 2. Income Statement Summary (4Q23 Genial Est.)

(R$ millions)	Genial Est.				
Income Statement	**4Q23E**	**3Q23**	**% q/q**	**4Q22**	**% y/y**
Net Revenue	4.604	4.400	**4,6%**	5.083	**-9,4%**
Adjusted EBITDA	1.533	1.352	**13,4%**	1.905	**-19,5%**
Net Income	513	245	**109,7%**	790	**-35,0%**

Source: Genial Investimentos, Klabin

Valuation and rating. Klabin's shares experienced a lot of volatility in the last few months of 2023. The main reason for potential pessimism was the CAPEX announcement during the investor day on November 30th. Despite the recent market movement, our Buy rating for Klabin remained unchanged after the event, as stated in our previous publications, something that became almost counter consensus.

We were aware that the market would react negatively to the announcement of a more substantial CAPEX for 2024, especially considering the expected reduction after the start of the Puma II project, which has been the company's main investment focus in recent years. However, after the unfavorable market reaction, with shares falling up to 12% in less than 15 days, Klabin announced the acquisition of the Caetê project. This acquisition is strategically significant and, in our opinion, has the potential to change the prevailing pessimism surrounding Klabin's name in the final days of last year. In fact, the CAPEX announced during Investor Day has been revised to R$3.3bn in 2024 (vs. R$4.5bn previously).

We expect a better result for 4Q23 sequentially, although estimates still shows a y/y reduction in the main lines. Market conditions are improving, especially for pulp prices, and combined with the resilience brought by exposure to paper and packaging, along with the MP28 ramp-up, we believe in a gradual enhancement in results. Given the stock's fall since the day before Investor Day (accumulating -10% in less than 60 days), we are still seeing an asymmetry that seems attractive to us, mainly because the market usually prices Klabin as a commodity-related investment case, with very short-term dynamics, penalizing the company's valuation pointed to the long run.

In our opinion, some investors are mistaken in their view of Klabin. As we stated in our initiation of coverage report, which is attached (Pulp & Paper: Are the theses growth or value?), we classify Klabin’s investment thesis as growth. Therefore, investors should have less of a short-term bias, given the slightly moderate cyclical conditions that Klabin has vs. Suzano, for example. With a **24E EV/EBITDA** of **6.7x** (vs. a historical average of ~7.5x), and considering the MP28 ramp-up, that should occur more prominently throughout 2024 and already show signs in 4Q23, we reiterate our **BUY rating**, with a **12M Target Price** of **R$26.35**, which implies an **upside** of **+24.35%**.

Straight to the point!

Paper pulled up by the MP28 ramp-up and packaging facing a marginal drop. For the paper business unit, we anticipate an increase in volume, even though 3Qs are usually seasonally more favorable than 4Qs. Therefore, this sequential gain in paper sales is linked to the MP28 ramp-up, while packaging is facing a slight drop, not enough however, to negatively impact results.

Our projection for 4Q23 is for Kraftliner shipments of 113Kt Genial Est. (+11.2% q/q; -10.3% y/y), while for paperboard the volume should reach 192Kt Genial Est. (+16.2% q/q; +7.7% y/y). For corrugated boxes, in the packaging division, the seasonal slowdown should drag the figure to 220Kt Genial Est. (-2.9% q/q; +5% y/y). Industrial bags are projected at 36Kt Genial Est. (+2.5% q/q; -2.3% y/y) in our model. We rate the figures as favorable for a quarter of revenue acceleration, especially on the paper side (not so much on the packaging). We therefore project an EBITDA of R$990mn Genial Est. (+8.5% q/q; +21.0% y/y) for the paper and packaging business division.

Pulp to bring price improvement and slight volume slowdown. For the pulp segment, we anticipate a sequential decline in the volume of both hardwood and softwood grades. Although sales have adopted a greater appetite, 3Q23 already showed pulp shipments exceeding total capacity (divided per quarter). Considering carry over, we project a sequential slowdown in volume in 4Q23, to 308Kt Genial Est. (-2.2% q/q; +15.3% y/y) at BHKP and 109Kt Genial Est. (-1.8% q/q; +1.8% y/y) for BSKP.

On the price side, we believe that the quarter will see the beginning of the improvement in the realization dynamics for the sale of market pulp, with hardwood reaching R$2,836/t Genial Est. (+8.1% q/q) and softwood reaching R$4,748/t Genial Est. (+2.7% q/q). As previously forecast, this improvement in price pass-throughs will contribute to EBITDA, which according to our projections will reach R$543mn Genial Est. in the pulp business (+23.6% q/q; -50.0% y/y). Our estimate shows a substantial sequential improvement, although the year-on-year drop is an indication that this should only be the start of the recovery process, on a long way to go.

4Q23 Preview: In detail!

We expect a sequential increase in Kraftliner shipments. This quarter, we expect a sequential increase in sales in both the domestic and foreign markets, bringing kraftliner volumes to 113kt Genial Est. (+11.2% q/q; -10.3% y/y), driven by the MP28 ramp-up. In terms of realized price, we project stability q/q, reaching R$3,365/t Genial Est. (-0.1% q/q; -31.0% y/y), with a still strong reduction on an annual basis due to the high supply in the American market, compromising pricing dynamics.

Paperboard should gradually begin to increase its share in MP28. For 4Q23 we estimate an increase in the volume of paperboard, reaching 193kt Genial Est. (+16.2% t/t; +7.7% y/y), considering that the MP28 ramp-up will begin to increase the penetration of paperboard vs. Kraftliner. In the short term, we still expect MP28 to produce more kraftliner, however, throughout 2024 we should see the dynamics reverse, being more favorable to the increase in paperboard. In addition, we forecast a slight price adjustment, to R$5,561/t Genial Est. (+0.7% q/q; +6.8% y/y).

We anticipate mild adjustments for corrugated boxes. We anticipate a sequential drop in corrugated paper volume in 4Q23, due to the less favorable seasonality for sales compared to 3Qs, reaching 220kt Genial Est. (-2.9% q/q; +50.0% y/y). Despite the continued pass-through in relation to inflation, we project that price adjustments this quarter will also be more moderate, with the figure clocking in at R$5,879/t Genial Est. (+0.3% q/q; +0.1% y/y).

Although this is a slight increase compared to the -1.1% q/q drop in 3Q23, it should show signs that price adjustments will end the year slightly above inflation. For 2024, the scenario looks a little tighter, given that in recent years the pass-throughs has been above inflation, making it difficult for overpricing to continue in the short term.

Industrial bags flat compared to the previous quarter. We expect the volume of industrial bags to show a slight sequential increase, reaching 36.8kt Genial Est. (+2.5% q/q; - 2.3% y/y). Even so, we believe it will worsen if we consider seasonality y/y. The 4Qs are quarters when the rains begin to appear and the volume of construction work slows down, leading to slightly milder figures, given the driver of cements for industrial bags. With regard to price realization, we project a stable movement in relation to last quarter, clocking in at R$8,952/t Genial Est. (+0.1% q/q; +7.5% y/y).

Pulp volume should still be at high levels but impacted by carry-over. Given the installed capacity of 1.6Mtpy for hardwood (BHKP) and softwood (BSKP), we expect pulp volumes to slow down in 4Q23 compared to last quarter, since shipments exceeded the quarterly production capacity of ~400kt in 3Q23. For BHKP, we project 308kt Genial Est. (-2.2% q/q; +15.3% y/y) and for BSKP + Fluff, the measurement in our model is 109.1kt Genial Est. (-1.8% q/q; +11.5% y/y). Despite the q/q drop in both types of pulp, it's important to mention that sales still seem high to us, putting the carry over in perspective.

Table 3. Net Revenue Klabin (4Q23 Genial Est.)

(R$ Millions)	4Q23E Genial Est.	3Q23 Reported	% q/q	4Q22 Reported	% y/y
Net Revenue	**4.604**	**4.400**	**4,6%**	**5.083**	**-9,4%**
Paper	1.453	1.260	15,3%	1.549	-6,2%
Packaging	1.623	1.648	-1,5%	1.544	5,1%
Pulp	1.392	1.339	3,9%	1.821	-23,6%
Wood	37	51	-27,3%	44	-16,9%
Others	100	102	-2,9%	125	-20,2%

Source: Genial Investimentos, Klabin

Pulp price adjustments will help to better compose revenue. After three consecutive quarters of decline, we anticipate a sequential increase in BHKP and BSKP prices. Our projection is that the price of BHKP will reach R$2,836/t Genial Est. (+8.1% q/q; -34.9% y/y), while the price of BSKP would be clocking in at R$4,748/t Genial Est. (+2.7% q/q; -22.5% y/y). As predicted in our reports for last quarter, this increase is the result of the implementation within the 4Q23 figures of the successive adjustments made by the main pulp players, such as Suzano. The increases have been taking place since the middle of last year. Since company is not usually a first mover for market pulp, the trend observed for players more focused on direct sales of the commodity ends up allowing Klabin to also benefit from the price adjustment scenario.

Revenues will probably increase q/q. Mainly due to the projected increase in shipments in relation to PM28, we estimate a growth in paper segment revenue to R$1.4bn Genial Est. (+15.3% q/q; -6.2% y/y). With the opposite trend, in relation to packaging, we forecast a drop in revenue, due to the decrease in volume, reaching R$1.6bn Genial Est. (-1.5% q/q; +5.1% y/y). For pulp division, revenue should also increase, bringing projections to R$1.4bn Genial Est. (+3.9% q/q; -23.6% y/y). Unlike packaging revenue, the increase is driven by improved pricing dynamics, which we expect to have a greater impact than the slowdown in volume. With a mostly positive mix between trends, Klabin's total consolidated revenue should therefore accelerate compared to last quarter, reaching R$4.6bn Genial Est. (+4.6% q/q; -9.4% y/y).

COGS/t ex stoppages: greater dilution of fixed costs vs. increased spending on wood. With mixed cost dynamics, we should note some interesting predispositions linked to the MP28 ramp-up. Looking up for trends, we believe that there will be a decompression in COGS related to a drop in fixed costs, due to the increased dilution capacity in COGS/t. However, this dynamic should be partially offset by an increase in the third-party wood consumption, chemicals, and fuel oil. Wood costs are expected to rise and are susceptible to a greater need to buy from third parties. Even if the Caetê project goes ahead in 1H24 to improve the composition of the curve between dependence on third-party wood vs. own wood, we know that there will be an increase in pressure on wood-related expenses, due to the MP28 ramp-up. Fuel costs are also expected to rise, this time due to the increase in the price of oil derivatives. Because of these factors, pulp COGS/t excluding stoppages is expected to reach R$1,326/t Genial Est. (+1.0% q/q; -0.9% y/y).

With no stoppages in 4Q23, we expect total COGS/t to show a reduction. As there was no stoppage in 4Q23, we expect no addition to COGS/t including stoppages, so that it will be the same as quoted above, at R$1,326/t Genial Est. (-6.4% q/q; -0.9% y/y), showing an important sequential reduction, since in 3Q23 there was a stoppage at the Monte Alegre plant.

EBITDA should accelerate q/q in both main business units. We expect an important improvement in EBITDA in 4Q23. In the paper and packaging segment, we expect the EBITDA to clock in at R$990mn Genial Est (+8.5% q/q; +21.0% y/y), highlighting among the favorable winds the increase in revenue driven by the MP28 ramp-up and the greater dilution of fixed costs. For pulp, we expect EBITDA to rise as well, reaching R$543mn Genial Est. (+23.6% q/q; -50.0% y/y), driven by more favorable price dynamics. On a consolidated basis, we expect EBITDA of R$1.5bn Genial Est. (+13.4% q/q; -19.5% y/y).

Table 4. EBITDA Klabin (4Q23 Genial Est.)

(R$ Millions)	4Q23E Genial Est.	3Q23 Reported	% q/q	4Q22 Reported	% y/y
Adjusted EBITDA	**1.533**	**1.352**	**13,4%**	**1.905**	**-19,5%**
Paper & Packaging	990	913	8,5%	818	21,0%
Pulp	543	439	23,6%	1.086	-50,0%

Source: Genial Investimentos, Klabin

Net Income more than doubles q/q in our projections. Despite the sequential improvements, we expect Klabin to report a net income that is still falling y/y. However, progress on a quarterly basis is enough to remain optimistic about the thesis, in a movement to recover results and reap the rewards of investments related to Puma II with MP28. Our net income projection is R$513mn Genial Est. (+109.7% q/q; -35.0% y/y), more than doubling on a quarterly basis.

Table 5. Income Statement (4Q23 Genial Est.)

(R$ Millions)	4Q23E Genial Est.	3Q23 Reported	% q/q	4Q22 Reported	% y/y
Net Revenue	**4.604**	**4.400**	**4,6%**	**5.083**	**-9,4%**
COGS	(3.175)	(3.239)	-2,0%	(3.173)	0,1%
Adjusted EBITDA	**1.533**	**1.352**	**13,4%**	**1.905**	**-19,5%**
EBITDA Margin (%)	33,3%	30,7%	2,57p.p	37,5%	-4,17p.p
EBIT	**887**	**631**	**40,6%**	**1.077**	**-17,7%**
EBIT Margin (%)	19,3%	14,3%	4,93p.p	21,2%	-1,93p.p
D&A	(844)	(869)	-2,9%	(791)	6,7%
Financial Result	(262)	(325)	19,4%	(31)	-754,2%
Net Income	**513**	**245**	**109,7%**	**790**	**-35,0%**
Net Margin (%)	11,1%	5,6%	5,58p.p	15,5%	-4,39p.p

Source: Genial Investimentos, Klabin

Our Take on Klabin

We believe that the Klabin's thesis should be viewed differently from other companies in the commodities sector, due to less cyclical trends in the price behavior of the paper and packaging segment compared to that observed in the direct sale of market pulp.

Klabin vs. Suzano: differences in capacity addition projects. The Puma II project, with the start-up of MP28, indicates that this greater predictability in the paper and packaging business can be converted on a larger scale into increased revenue, something that may not happen to an equivalent extent with Suzano and its Cerrado project, which is more dependent on the commodity prices to generate an attractive ROIC. Even so, between the pros and cons, Klabin will face a hard time in costs, caused by the increased penetration of third-party wood, considering that, to encourage the ramp-up of MP28, there is still not enough of its own wood standing in regions close to the machine complex in Paraná (PR) to support growth rates.

In an effort to mitigate this issue, the Caetê project announced at the end of last year is not a complete solution, but we believe it is very welcome in improving the cost curve. The demand for third-party wood still persists, although our projections indicate a considerable reduction in this dependence over the next five years vs. previous estimates.

Even with the CAPEX update for 2024 resulting in a decrease, on the other hand, the **increase in leverage** to **~4x Net Debt/EBITDA 24E** (vs. 3x in our pre-acquisition projection), will culminate in more significant financial expenses that will pervade the P&L, therefore offsetting the positive effect of the short-term improvement. It is important to mention that we found this leverage estimate considering the debt increase, equivalent to R$3.7bn (Synd loan + NCE Citibank), and also the reduction in cash position due to the payment of R$5.8bn for the acquisition, **affecting FCFE** (estimated in our model at -R$4.5bn 24E).

At MP28's pace. Although 4Q23 is usually a weaker quarter than 3Qs (the best seasonal period for the packaging segment), Klabin will have benefits regarding shipments, due to the MP28 ramp-up, and the price pass-throughs of pulp division, with more prospects for revenue generation. In addition, we project different effects for the company in relation to COGS/t, taking advantage of an increase in fixed cost dilution capacity brought about by the improvement in shipments, given the greater volume onboard by MP28. Even so, the increase in wood cost and fuel should slow down the full progress in COGS/t efficiency. As there were no stoppages, the final cost will be lower than last quarter though.

So, we expect Klabin to post a 4Q23 result with substantial growth in EBITDA (+13% q/q Genial Est.), with more favorable dynamics in both pulp (due to pricing) and paper (due to the MP28 ramp-up). Trading at an **EV/EBITDA 24E** of **6.7x**, we still believe that the **company is discounted** in view of all the changes that the Puma II project brings **from a structural point of view**. We maintain our **BUY rating**, with a **12M Target Price** of **R$26.35**, which implies an **upside** of **+24.35%**.

Appendix: Klabin

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

Income Statement	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**18.128**	**19.776**	**20.720**	**21.658**	**22.378**	**23.021**
(-) COGS	(12.396)	(13.502)	(13.558)	(13.633)	(13.311)	(13.338)
Gross Profit	**7.029**	**7.007**	**7.803**	**8.402**	**9.518**	**9.915**
(-) Expenses	(2.760)	(3.037)	(3.076)	(3.226)	(3.337)	(3.426)
Adjusted EBITDA	**6.190**	**6.651**	**7.381**	**8.016**	**8.852**	**9.296**
(-) D&A	(3.218)	(3.413)	(3.295)	(3.218)	(3.121)	(3.039)
EBIT	**4.260**	**3.970**	**4.727**	**5.175**	**6.182**	**6.489**
(+/-) Financial Result	-372	(1.499)	(1.376)	(933)	(886)	(768)
(-) Taxes	(917)	(475)	(643)	(813)	(1.014)	(1.095)
Net income	**2.990**	**2.017**	**2.730**	**3.451**	**4.303**	**4.648**
Profitability						
Net margin (%)	16,50%	10,20%	13,18%	15,93%	19,23%	20,19%

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

Cash Flow (FCFF)	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	**18.128**	**19.776**	**20.720**	**21.658**	**22.378**	**23.021**
(-) COGS	(12.396)	(13.502)	(13.558)	(13.633)	(13.311)	(13.338)
Adjusted EBITDA	**6.190**	**6.651**	**7.381**	**8.016**	**8.852**	**9.296**
EBIT	**4.260**	**3.970**	**4.727**	**5.175**	**6.182**	**6.489**
(-) Taxes	(917)	(475)	(643)	(813)	(1.014)	(1.095)
(+) D&A	3.218	3.413	3.295	3.218	3.121	3.039
(+/-) Δ WK	(344)	(247)	(163)	(106)	(75)	(101)
(-) Capex	(4.388)	(3.334)	(3.148)	(2.729)	(2.826)	(2.588)
FCFF	**1.830**	**3.327**	**4.068**	**4.746**	**5.388**	**5.744**

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	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	**49%**
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under Review	Under review	**5%**

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