genial Equity Research

KLABIN

4Q23 Review: Rewriting history on paper

LatAm Pulp & Paper

Main takeaways:

(i) Kraftliner sales down, but prices up slightly; **(ii)** Paperboard sales growing, riding the MP28 ramp-up; **(iii)** Corrugated boxes coming out of favorable seasonality, causing a reduction in sales; **(iv)** Industrial bags with a drop in exports, but with a focus on added value; **(v)** Pulp still with good volume, but suffering from carry over; **(vi)** Revenue increasing gently, in line with expectations; **(vii)** Even greater than expected improvement in COGS/t; **(viii)** Paper and Packaging EBITDA as the highlight among the units; **(ix)** Net income increasing q/q, but below estimates; **(x)** Trading at an **EV/EBITDA 24E** of **6.7x** (vs. a historical average of 7.5x), we maintain our **BUY rating**, with a **12M Target Price** of **R$26.35**, which implies an **upside** of **+22.05%**.

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Company

KLBN11 BZ Equity
Buy

Price: R$ 21.59 (07-Feb-2024)
Target Price 12M: R$ 26.35

Klabin reported its 4Q23 results today, February 7th. Operating **figures, in general, came in mostly within expectations**, with the exception of **Kraftliner** volume, which ended up **being reported below our expectations**. Even with the MP28 ramp-up adding to paper shipments, as we commented in our attached preview report (Klabin 4Q23 Preview), Kraftliner sales disappointed. It's worth mentioning that MP28 production related to Paperboard exceeded our estimate. However, Kraftliner misses estimates, impacting shipments. Looking at MP28, Klabin ended up not reaching 175Kt during the ramp-up in 2H23 (3Q + 4Q), even though Paperboard had a production of 49Kt (vs. 34Kt Genial Est.). We already expected that 175kt would not be archived, but our expectation was 170Kt, a reduction of only -3% compared to last quarter's estimate for 2H23.

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

(Thousand Tonnes - kt)	Reported	Genial Est.						
Summary (Shipments)	**4Q23**	**4Q23E**	**% R/E**	**3Q23**	**% q/q**	**4Q22**	**% y/y**
Kraftliner	99,0	113,6	**-12,8%**	102,1	**-3,1%**	126,6	**-21,8%**
Paperboard	198,0	192,6	**2,8%**	165,8	**19,4%**	178,9	**10,7%**
Corrugated boxes	215,0	220,0	**-2,3%**	226,5	**-5,1%**	209,5	**2,6%**
Sack Kraft	32,0	36,8	**-13,0%**	35,9	**-10,8%**	37,7	**-15,0%**
BHKP Pulp	298,0	308,0	**-3,2%**	314,8	**-5,3%**	267,0	**11,6%**
BSKP + Fluff Pulp	114,0	109,1	**4,5%**	111,1	**2,6%**	107,2	**6,4%**

Source: Genial Investimentos, Klabin

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

(R$ millions)	Reported	Genial Est.					
Income Statement	**4Q23**	**4Q23E**	**% R/E**	**3Q23**	**% q/q**	**4Q22**	**% y/y**
Net Revenue	4.500	4.604	**-2,3%**	4.400	**2,3%**	5.083	**-11,5%**
Adjusted EBITDA	1.683	1.533	**9,8%**	1.352	**24,5%**	1.905	**-11,6%**
Net Income	370	513	**-27,9%**	245	**51,3%**	790	**-53,1%**

Source: Genial Investimentos, Klabin

Although we highlight the **percentage penetration of Paperboard as a positive point**, reaching 30.2% of total MP28 production in 2H23 (vs. 20% Genial Est.), this can still be explained not only by an improvement in the machinery switch between paper types, but also by Kraftliner production below our expectations, reducing the total volume to 162Kt (-4.7% vs. Genial Est.).

Nonetheless, even with lower sales volume in Kraftliner, the price dynamic was less impacted than we anticipated. Undoubtedly the oversupply in US production is causing a downward trend for this type of paper, but Klabin seems to have done a good job in the quarter on pricing, reporting the price with a slight increase of +1% vs. our estimate of a -1% retraction. This somewhat offset some of the drop in sales compared to our forecasts. As a result, we categorize the **paper revenue** result **in line with our estimates**, along with **pulp revenue**, with an **improvement in the q/q price** curve and a slight reduction in shipments due to the carry over, as we anticipated in our preview report.

However, on the **packaging** side, revenue came in **below our projections**, which was more **impacted by seasonality** than initially anticipated. Both types of packaging suffered more in terms of volume, but we would mainly highlight industrial bags, which had a weaker performance linked to the cooling of demand in the bagged cement market in the domestic market and in Latin America.

Valuation and rating. Summing up the parts (Paper + Packaging + Pulp), net revenue grew by +2.3% q/q, in line with expectations. However, cost efficiency had a better effect on EBITDA, with COGS/t coming in cooler than our estimates, mainly in relation to fuel costs. We attribute this lower cost to better efficiency at the biomass plants, which helped offset the increase in the cost of oil derivatives. Klabin also continued the process of reducing fixed costs and administrative expenses, in line with what we have been saying for some time. As a result, we saw a considerable expansion in EBITDA, of +24.5% q/q, reaching R$1.6bn (+9.8% vs. Genial Est.),

We point out that there was a worsening in the financial result, with financial expenses rising more than our estimates, so that net income did not take full advantage of the rise in EBITDA compared to our estimates. However, Klabin still reported a substantial growth of +51.3% q/q in net income. We expect interest expenses to be upscaled in 2024, due to higher leverage as a result of the R$3.7bn in debt taken out for the acquisition of the Caetê project (Synd loan + NCE Citibank).

Faced with an accelerating q/q result, the MP28 ramp-up acted to offset the more unfavorable seasonality typical of 4Qs vs. 3Qs, therefore consolidating an example of the good outcomes that the Puma II project is beginning to generate for Klabin. There's more to come in 2024... Trading at an **EV/EBITDA 24E** of **6.7x** (vs. a historical average of 7.5x), we maintain our **BUY rating**, with a **12M Target Price** of **R$26.35**, which implies an **upside** of **+22.05%**.

4Q23 Review: In detail!

Kraftliner sales weak, but prices up slightly. We categorize Containerboard sales (kraftliner + recycled) as weak, especially due to: **(i)** tighter market conditions, with restrictions on machines that produce recycled paper, including Paulínia -MP29, Franco da Rocha -MP30 and Goiana -MP17. In addition, we consider the **(ii)** production stoppage at Monte Alegre -MP1 for kraftliner, for the same reason (weak margin dynamics). In addition, we thought that MP27 and MP28 ramp-ups should offset this effect. However, it seems to us that Klabin ended up restricting production on purpose. As a result, **(iii)** the MP28 ramp-up came in below our expectations during 2H23, with kraftliner volume reaching 113Kt (-16% vs. Genial Est.).

As we commented at the beginning of the report, MP28's disappointing ramp-up in kraftliner ended up leading to a 4Q23 dispatch of 99Kt (-3.1% q/q; -21.8% y/y), falling short of our estimates by -12% vs. Genial Est. What Klabin has argued is that market conditions are not conducive to increasing production, with capacity closures due to market conditions in other MPs and a potential delay in MP28's ramp-up vs. our estimates. If we consider that the obstacle is consolidated by an excess of international supply, as we have been commenting on for some time, the company's argument seems to make sense to us. This therefore rules out the possibility that the slow ramp-up is due to difficulties in operationalizing production.

Even so, the realized kraftliner price reached R$3,404/t (+1.2% vs. Genial Est.). Pricing ended up showing a little more vigor than expected, given the weak market dynamics. Consolidating an increase of +1% q/q, contrary to our expectation of a fall of the same magnitude. Our opinion is that this helped offset the drop in sales, but only partially, since the reduction in shipments was sharper than the rise in prices (both variables compared to our estimates).

Paperboard sales on the rise, riding the MP28 ramp-up. In the opposite direction to Kraftliner, Paperboard sales performed very well, increasing volume in 4Q23 to 198kt (+19.4% q/q; +10.7% y/y), marking shipments above our estimate (+2.8% vs. Genial Est.). As we commented in our preview report, in 4Q23 we already expected the effect of the increased penetration of Paperboard within the volume produced by the MP28 ramp-up, but we believed that this process would take place more gradually over the course of 2024. In this sense, this quarter has already shown more of this dynamic than we expected at this point.

The data released in 4Q23 indicates that Klabin probably anticipated part of this switch in machinery between paper types, demonstrating the company's preference for converting to paperboard, since its price is better than Kraftliner. Despite being a perfectly understandable and even positive move, however, if we consider the total volume produced by the machine during 2H23, the ramp-up end up misses estimates. We expected an increase in production and a better end to the first cycle, but the company reported total MP28 production of 162kt (-4.7% vs. Genial Est.). We attribute this to the fact that the increase in Paperboard production in the MP28 ramp-up, reaching 49Kt (vs. 34Kt Genial Est.) did not fully compensate for the drop in Kraftliner production.

The realized price of Paperboard, meanwhile, was in line with our projection. Reporting a price of R$5,556/t (+1.0% q/q), we saw a slight increase in pricing, given that pass-throughs closed the year slightly above inflation. Taking advantage of a good cycle for the product, in recent years we have seen overpriced readjustments, favored by the trend towards replacing plastic with paper, as we published in our IoC (Pulp & Paper: Are the Theses Growth or Value?). Even so, by 2024 our expectation is that price increases will be slightly below inflation, given past cycles of overpricing.

Corrugated boxes coming out of favorable seasonality, causing reduction in sales. Coming off the most favorable quarter of the year (3Q), a sequential slowdown was expected in 4Q23 for the packaging segment. However, Klabin brought sales in Corrugated Boxes to the 215kt mark (-2.3% vs. Genial Est.), representing a drop of -5.1% q/q, despite a rise of +2.6% y/y. We reiterate that our estimate already indicated this reduction in volume on a quarterly basis, but we believed that it would occur to a lesser degree. We expected that the run-up to the end-of-year festivities would lead to a slightly better figure for the start of the quarter (October and November), which didn't turn out to be the case. On the price side, Klabin achieved R$5,832/t (+0.3% q/q), totally in line with our estimates, indicating a slight readjustment, still slightly below inflation.

Industrial bags with a drop in exports, but with a focus on added value. As we mentioned in the previous report, 4Qs are usually difficult for industrial bags, as the period of torrential rain begins to affect the progress of construction work and, consequently, demand for cement. But going beyond this issue, the company reported weak figures for industrial bags, slowing to 32kt (-13% q/q; -15% y/y). We note a worsening scenario for the cement market, which fell by -1.7% y/y in 2023. For us, Klabin still performed worse than the market in the consolidated figures for 2023, with sales of industrial bags falling by -9% y/y. This somehow justifies the volume clocking in at in well below what we expected (-13% vs. Genial Est.).

Pulp still with good volume but suffering from carry over. As we had already mentioned, we expected pulp volume to slow down in 4Q23, due to sales exceeding capacity in the previous quarter. The carry over effect brought BHKP pulp shipments to 298Kt (-3.2% vs. Genial Est.), down -5.3% q/q. The BSKP + fluff group was less affected, with sales of 114Kt (+4.5% vs. Genial Est.), up +2.6% q/q. On an annual basis, both types of fiber increased shipments in 4Q23, with +11.6% y/y and +6.4% y/y respectively, directing a greater volume of sales to the Chinese market, for which we observed a greater appetite than Europe and the US in this period, reversing the dynamics of previous months.

In line with the increase in demand in China, we saw the references for BHKP pulp being more adherent to movements to recompose the commodity curve, through successive price throughs implemented by major players in direct sales of market pulp. Despite not being a first mover in price, Klabin benefited from this movement and also promoted transfers. This took BHKP up to R$2,892/t (+2.0% vs. Genial Est.), accelerating +10% q/q. BSKP + fluff, on the other hand, lagged behind the readjustment curve, with the realized price falling back to R$4,482/t (-5.6% vs. Genial Est.), decelerating -3% q/q.

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

(R$ Millions)	4Q23 Reported	4Q23E Genial Est.	% R/E	3Q23 Reported	% q/q	4Q22 Reported	% y/y
Net Revenue	**4.500**	**4.604**	**-2,3%**	**4.400**	**2,3%**	**5.083**	**-11,5%**
Paper	1.436	1.453	-1,2%	1.260	14,0%	1.549	-7,3%
Packaging	1.542	1.623	-5,0%	1.648	-6,4%	1.544	-0,1%
Pulp	1.373	1.392	-1,3%	1.339	2,5%	1.821	-24,6%
Wood	46	37	24,8%	51	-9,2%	44	3,7%
Others	103	100	-	102	0,5%	125	-17,4%

Source: Genial Investimentos, Klabin

Revenue up slightly, in line with expectations. Net revenue grew marginally compared to 3Q23, in line with our expectations, and came in at R$4.5bn (-2.3% vs. Genial Est.), up +2.3% q/q and down -11.5% y/y. We highlight the Paperboard segment as the biggest driver for the double-digit sequential growth in paper revenues, which in turn reached R$1.4bn (+14% q/q; -7.3% y/y), in line with our estimates, since the better momentum in Paperboard offset the worse mechanics in Kraftliner (Containerboard).

For packaging, revenue came in at R$1.5bn (-5.0% vs. Genial Est.), with seasonality affecting corrugated boxes sales more than we initially anticipated, making up for a -6.4% q/q shrinkage, and remaining basically stable on an annual basis. In the pulp division, the price increase in BHKP led to a more favorable revenue composition, reaching R$1.3bn (+2.5% q/q; -24.6% y/y), promoting the start of the recovery process. The double-digit drop year-on-year, in line with expectations, shows that there is still a long way to go before we can say that trends in the pulp market are bullish.

Even greater improvement than expected in COGS/t. The growth in the use of third-party wood was already predicted by us and was confirmed by the 4Q23 figures. However, we were surprised by the greater efficiency of the biomass gasification plants, sulfuric acid and the use of potassium sulfate removal. Along these lines, COGS/t for pulp clocked in at R$1,318/t (+0.4% q/q; -1.5% y/y), helping to offset the effect of the oil derivatives upward trend. In addition, as we mentioned previously, the first cycle of the MP28 ramp-up ensured greater capacity to dilute fixed costs.

As there were no maintenance stoppages, the total COGS/t of pulp was lower than in 3Q23, when the Monte Alegre (PR) stoppage occurred, falling by -6.9% q/q. Cost of sales as a percentage of revenue also fell, to 8.5% (-1p.p vs. 3Q23). We have already stated that Klabin is working hard to optimize costs, knowing that the increase in COGS/t related to the cost of wood is inevitable, seeking to control efficiency in other areas of the business.

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

(R$ Millions)	4Q23 Reported	4Q23E Genial Est.	% R/E	3Q23 Reported	% q/q	4Q22 Reported	% y/y
Adjusted EBITDA	**1.683**	**1.533**	**9,8%**	**1.352**	**24,5%**	**1.905**	**-11,6%**
Paper & Packaging	1.124	990	13,5%	913	23,1%	818	37,3%
Pulp	495	543	-8,8%	439	12,7%	1.086	-54,4%

Source: Genial Investimentos, Klabin

Paper and Packaging EBITDA as the highlight among the units. The pulp business division brought in an EBITDA of R$495mn (-8.8% vs. Genial Est.), consolidating a figure below our estimate, due to lower volume in BHKP (-3.2% vs. Genial Est.) and a weaker price in BSKP + fluff (-5.6% vs. Genial Est.). Even so, the segment performed +13.0% q/q, following the upward trend for the pulp market, with the realized price of BHKP being the driver responsible for the advance on a sequential basis.

For the paper and packaging division, EBITDA stood at R$1.1bn (+13.5% vs. Genial Est.), a substantial growth of +23% q/q and +37.3% y/y. In the aggregate of units, Klabin reported an adjusted EBTIDA of R$1.7bn (+24% q/q; -12% y/y), exceeding our expectations by +9.8% vs. Genial Est. We highlight the MP28 ramp-up in Paperboard, which further increased the penetration of this type of paper vs. Krafitliner. There was also an expansion in margin, to 24.5% (+6.6p.p q/q), above our expectations.

Net income up q/q, but below estimates. Due to a financial result with greater pressure from expenses than expected, the reported net income of R$370mn (-27.9% vs. Genial Est.) was below our estimates. Even so, we highlight a very robust sequential growth of +51.3% q/q, despite the -53.1% y/y drop. The result seems to us to show interesting progress compared to 3Q23, but we would reinforce that interest expenses are likely to increase in 2024, given greater leverage for the acquisition of the Caetê project.

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

(R$ Millions)	4Q23 Reported	4Q23E Genial Est.	% R/E	3Q23 Reported	% q/q	4Q22 Reported	% y/y
Net Revenue	**4.500**	**4.604**	**-2,3%**	**4.400**	**2,3%**	**5.083**	**-11,5%**
COGS	(3.181)	(3.175)	0,2%	(3.239)	-1,8%	(3.173)	0,3%
Adjusted EBITDA	**1.683**	**1.533**	**9,8%**	**1.352**	**24,5%**	**1.905**	**-11,6%**
EBITDA Margin (%)	37,4%	33,3%	4,1p.p	30,7%	6,67p.p	37,5%	-0,07p.p
EBIT	**866**	**887**	**-2,4%**	**631**	**37,3%**	**1.077**	**-19,6%**
EBIT Margin (%)	19,2%	19,3%	-0,02p.p	14,3%	4,91p.p	21,2%	-1,95p.p
D&A	(953)	(844)	13,0%	(869)	9,7%	(791)	20,5%
Financial Result	(325)	(262)	24,2%	(325)	-0,1%	(31)	-960,6%
Net Income	**370**	**513**	**-27,9%**	**245**	**51,3%**	**790**	**-53,1%**
Net Margin (%)	8,2%	11,1%	-2,92p.p	5,6%	2,66p.p	15,5%	-7,31p.p

Source: Genial Investimentos, Klabin

Our Take on Klabin

Klabin's 4Q23 results were generally within expectations, except for the Kraftliner volume, which disappointed. On the other hand, Paperboard production related to the MP28 ramp-up exceeded our estimates. Meanwhile, packaging revenues fell short of projections, as both types of packaging suffered volume reductions, especially industrial bags, which were affected by cooling demand in the domestic and Latin American markets.

Low cash flow generation, but better than expected. The company reported an FCFE of R$42mn (vs. -R$200mn Genial Est.), contrary to our expectation of cash flow burn. This result is mainly attributable to the positive working capital balance, but also to the reduction in accounts receivable, the increase in the payment period to suppliers and the seasonality of interest payments on bonds. In this process, the dividend distribution announced for the 4Q23 result was R$192mn or R$0.19 per share (for the units). The dividend came in just below our estimate of R$0.20 per share. We expect lower dividends in 2024, as we believe the company should partially recover cash position after the 2024 negative flow, from which we forecast an FCFE of -R$4.5bn.

EBITDA guidance causes upside. The company said today that the Puma II project, with the addition of Figueira, should generate R$3bn of incremental EBITDA up to 2027, when the ramp-up of MP28 is complete. We projected an incremental EBITDA by 2027 of R$2.7bn Genial Est. Therefore, there is an upside of +12.7% that was not priced into our model, and we also believe that it is not incorporated by consensus. Taking this gap, it can be said that the market is unnecessarily pessimistic about Klabin.

Does comparing Klabin with Suzano make sense? Contrary to the usual perspectives of commodities investors, with a very short-term time horizon, we believe that Klabin's thesis is geared towards growth, generating more value in the long term. We know that Suzano has a more elastic EBITDA margin, considering that the structure of Klabin's integration into a more verticalized company puts pressure on total COGS/t. One of Suzano's advantages is its cash cost, which seems to be immaculate, with no interference from the integration process for the sale of paper and packaging, compared to its greater exposure to the sale of market pulp.

However, Suzano seems to us to be more unprotected, being at the mercy of volatile commodity price conditions, something that is not seen to the same extent in Klabin, which has more exposure to the paper and packaging business, with less cyclical dynamics. Although it is perfectly understandable for investors to compare both companies, we believe that there are substantial differences in the way they should look at the cases.

As we have already mentioned, we are in favor of a more long-term view for Klabin's investment thesis (less cyclical), and in turn, a more short-term view for Suzano (more cyclical). Therefore, in our view, as investors look for short-term triggers for Klabin's stock, the company's valuation begins to lose correlation with the fundamentals, which lie further ahead in the cash flow. This is exactly what happened after the Investor Day, held at the end of November. The market's reaction was entirely based on the short term.

Rewriting history on paper. In line with our estimates, the 4Q23 result consolidated better figures on a q/q basis. Notable improvements are being seen in market conditions, especially with pulp prices. Combined with the resilience due to the exposure to paper and packaging and the MP28 ramp-up, we expect a gradual improvement in results throughout 2024. Despite a 10% drop in the stock in less than 60 days, we believe Klabin remains attractive due to market misperceptions. Trading at a **24E EV/EBITDA** of **6.7x** (vs. a historical average of 7.5x), we maintain our **BUY rating**, with a **12M Target Price** of **R$26.35**, which implies an upside of **+22.05%**.

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**

Disclosure Section

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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%**
Sell	Expected return below -10% in relation to the Company's sector average	**5%**
under Review	Under review	**5%**

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