

SUZANO

4Q23 Preview: First real sign of improvement

LatAm Pulp & Paper

(i) Even after cutting production, shipment volumes will probably grow, driven by destocking and increased demand; **(ii)** We expect to start seeing the effect of the adjustments made during 2H23; **(iii)** Paper Unit should also see a slight rise; **(iv)** Revenue in double-digit growth q/q; **(v)** COGS/t down, both sequentially and y/y; **(vi)** We project EBITDA to evolve considerably q/q; **(vii)** The result of the currency hedge will probably increase net income sequentially; **(viii)** Given the new assumptions we are using in our model, which we describe in more detail throughout the report, and trading at an **EV/EBITDA 24E** of **6.5x** vs. historical average of 7.0x, we have **revised our recommendation, upgrading** the company to **BUY rating**, with a **12M Target Price of R\$68.00** (vs. R\$60.00 previously) providing the shares with an **upside of +21.17%**.

Suzano will release its 4Q23 results on February 28, after the market closes. In general, we expect **strong numbers** with an **increase in pulp volume and realized price** and a **decrease in COGS/t**, while the financial operation of the **currency hedge** mechanism will also bring a **positive effect**, given the depreciation of the USD/BRL exchange rate in 4Q23, contrary to what happened last quarter.

We believe that both the short- and long-term bias (considering the entry of Cerrado by June and the ramp-up throughout 2025) **will show good investor appetite**, and the stock performance should unleash (from now on) a **positive reaction with the 4Q23 release**, given the **catalysts for pulp price adjustments finally being reflected in improved results**, and for 2024, with the cerrado project bringing more volume.

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

(Thousand Tonnes - kt)	Genial Est.				
Summary	4Q23E	3Q23A	% q/q	4Q22A	% y/y
Pulp Shipments	2.771	2.486	11,5%	2.759	0,4%
Paper Shipments	333	331	0,5%	338	-1,7%

Source: Suzano, Genial Investimentos

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

(R\$ millions)	Genial Est.				
Income Statement	4Q23E	3Q23A	% q/q	4Q22A	% y/y
Net Revenue	10.273	8.948	14,8%	14.370	-28,5%
Ajusted EBITDA	4.891	3.695	32,4%	8.175	-40,2%
Net Income	3.801	(729)	-	7.459	-49,0%

Source: Suzano, Genial Investimentos

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Company

SUZB3 BZ Equity

Buy

Price: R\$ 56.12 (26-Feb-2024)

Target Price 12M: R\$ 68.00

SUZ US Equity

Target Price 12M: US\$ 14.30

Valuation and rating. Four months ago, in the 3Q23 preview report, which is attached ([Suzano: 3Q23 Preview](#)), we downgraded the company's rating, as we observed that after the release of the 2Q23 results, Suzano's shares registered an increase of approximately +18% until mid-October, exhausting almost all of the asymmetry we saw for the stock. In the meanwhile, the rise was driven by a combination of slightly better than consensus figures for 2Q23 and bullish conditions for the coming months regarding some investors, given the successive price increases that Suzano was promoting.

Despite the positive forecasts that were already being made at that time for 2024, with a projected increase in the BHKP market pulp price to US\$630/t in January 2024 vs. US\$570/t in October 2023, we opted, on that occasion, to keep Suzano's Target Price unchanged, at R\$60.00, due to the expectation of poor results dynamics in the very short term, especially looking at our estimates for 3Q23, involving decrease in revenue, sharp fall at EBITDA and a reversal of profit into loss (also due to the currency hedge).

We should address here that most of the institutional investors we come into contact with have a **short-term approach** when looking at **cyclical**, commodity-linked **stocks**. This led us to believe that Suzano's shares wouldn't perform much above the R\$55.00 barrier between the end of October and mid-February, considering that the market had already priced in better results further ahead (4Q23 onwards) with the successive adjustments that the company had announced since the middle of the year (the ~18% increase that we have mentioned), but which for contractual reasons, have a delay in effecting the realized price. As a result, even with the rounds of price pass through that were announced to clients' months earlier, Suzano's results for last quarter (3Q23) were not delivered with figures indicating positive dynamics, on the contrary.

In other words, as we expected a 3Q23 without any major new figures, and in fact with a sequential slowdown, we had the perception that investors would only return to pricing new highs in the stock, beyond the +18% they had already built in, when the company's results actually began to reflect the adjustments to the realized price, which were being announced earlier, but have a delay in taking effect. Our interpretation proved correct, with Suzano's shares moving basically nowhere over the last 3M.

It's necessary to explain that **we went against the consensus once again...** When many were wary about the case, during 1H23, and the majority of the consensus was split between Neutral or Sell, we adopted a stance of Buy rated the company at that time, thinking that the price of market pulp was falling very quickly and would come close to the breakeven cash cost for average producers, and that this would cause the big players who sell market pulp to be shrewd and promote price adjustments in a few months' time. With the pass throughs, the **price of pulp would gradually return to slightly more normalized levels**, as we saw happen in 2H23. Of course, if we analyzed Suzano's figures alone, there would be no way to have this perception. We had to look at the market as a whole to understand what was to come.

Although Suzano faced a sharp slowdown in results until 3Q23, it still managed to keep its nose out of the water from an operational point of view, even in the face of the difficult price situation, because it **has the lowest cash cost in the market**, playing an **important leadership and resistance role in the sector**. So much so that, even with competitors at more desperate levels, Suzano led the process of price readjustments and potential production volume cuts in units with older machinery, lowering COGS/t and **disciplining peers** to follow a similar path. We can say that this joint movement was **responsible for the rise in pulp prices** seen in 2H23.

And of course, the rise in BHKP prices explained the ~18% rise in Suzano's shares between June and mid-October. Then, the consensus tried to catch up and we saw a series of recommendations moving out of the more negative bias territory and into the bullish one, with several analysts going with a buy rating. However, we thought it was a little late. **We anticipated, ahead of the consensus, that this rise would happen**. When it did, we downgraded Suzano to Neutral, in the opposite direction to the optimism that was beginning to set in. As the **shares have behaved steadily over the last 3M**, it looks like we got it right.

But now, when will the shares rise again? We believe that the signal that investors are waiting for in order to buy more Suzano shares again is linked to two main issues: **(i)** an actual improvement in results, since the price adjustments were being announced, but there is a delay until they have an effect on the company's P&L; and **(ii)** an understanding of the current equilibrium price for pulp, given the potential oversupply that would come into effect in 2025/26, with Suzano carrying out the Cerrado ramp-up and other players also inaugurating relevant capacity addition projects during this period.

On point **(i)**, we believe that 4Q23 will mark the beginning of this process of demonstrating real improvement in the company's figures, since we expect a price increase to R\$2,856/t Genial Est. (+7.5% q/q), which should boost revenue and EBITDA sequentially. On point **(ii)**, the price level that will promote a balance between supply and demand is still somewhat unknown. Capacity shutdowns must be considered whether through volume cuts in older machines or maintenance shutdowns, as well as delays in other capacity addition projects, which **take away some of the fear** that there will be a **flood of supply** at the same time.

If we look at today's spot price for BHKP pulp, the market references in China indicate something like ~US\$655/t vs. US\$630/t in January, showing that the values of the commodity contracts continue to rise. However, we don't rule out a slight reduction between 2Q24 and 3Q24, with the entry of cerrado into the supply mechanism and the impetus of buyers in relation to resale prices in China. Even so, we believe that the BHKP curve would rise again in 4Q24, to close the year at an average of US\$635/t, above the average of US\$605/t seen in 2023, considering that 1Q23 started the last year at a very high price, and the fall in prices brought greater repercussions from 2Q23 onwards. For 2025, **we readjusted our model** to an average of ~US\$650/t, which we believe reflects the **short-term equilibrium price**.

We argued, when we downgraded ~4 months ago, that at the beginning of 2024, given greater visibility on the pulp spot curve, we could consider recalibrating our assumptions in Suzano's model to reflect more bullish assumptions. Our downgrade months ago was based solely on the lack of continuity of catalysts for share price rises in the very short term, and not because we were pessimistic about the company. That's why we didn't cut the target price, we left it intact at the time. However, given the **model revisions we made for this report**, we now have an **EBITDA 24E** projection of **R\$20.3bn** (vs. R\$19.4bn 23E), a growth of +5% y/y vs. the stability we predicted for 2024 before the revisions. Therefore, we promoted a **12M Target Price increase to R\$68.00** (vs. R\$60.00 previously), **moving the stock back to a BUY rating**, with an **upside of 21.17%**.

Straight to the point

Volume and prices up. We believe that Suzano's 4Q23 will see an increase of low double digits in the shipments, demonstrating a solid 4Q. Although Suzano announced a 4% cut in annual production back in June, demand should lead to this growth in sales volume. We expect pulp shipments to reach 2,771Kt Genial Est (+11.5% q/q; +0.4% y/y). Regarding prices, the company made several adjustments during 2H23, and as we mentioned in the 3Q23 preview report, the results of these adjustments should be seen in 4Q23. The market price evolved to ~US\$590/t in 4Q23 (+8.5% q/q). However, due to Suzano's individual dynamics or group contracts, there is a delay in the generated effect. We project US\$577/t Genial Est realized price, an increase of +6.0% q/q (gently below average). The value gains even more momentum from the exchange rate effect (USD/BRL), with our model pointing to a price of R\$2,856/t Genial Est. (+7.5% q/q).

Costs dynamics should also be better. The 4% cut in capacity was carried out in more inefficient assets, so the increase in shipment volumes will come from production through newer assets, which have a lower COGS/t. In addition, better consumption, better wood performance and the absence of maintenance stoppages also contribute to the reduction in COGS/t. We therefore estimate a COGS/t of R\$814/t Genial Est. (-13.2% q/q; -5.5% y/y).

EBITDA estimate with double-digit advance q/q. Our bias for the expected result for 4Q23 is a recovery. The company's operations should improve considerably compared to the previous quarter as a result of the increase in volume and the rise in price, resulting in higher revenue, although still below last year, since even though the price is showing a sequential recovery, it is still well below a year ago. We forecast net revenue of R\$10.3bn Genial Est. (+14.8% q/q; -28.5% y/y). With higher revenue and a decreasing COGS/t, our estimate for EBITDA is a double-digit sequential advance, reaching R\$4.9bn Genial Est. (+32.4% q/q; -40.2% y/y).

4Q23 Preview: In detail!

Even after cutting production, shipments will probably grow, driven by destocking and increased demand. The company announced in June that it would cut production by -4% y/y. In our calculations, we estimated a reduction of ~430ktpa. Although the strategy was aimed at optimizing COGS/t, we still believed that Suzano could have an influence on changing the commodity scenario, since it is one of the biggest players in the market. With Suzano imposing discipline, peers could follow suit and jointly withdraw some supply from the market to try to move the pulp price curve back up. We have seen Arauco close a production plant in Licancel (~3% of total production) in September 2023, for example.

Announced in the middle of the year, with effect for 2H23, Suzano chose to reduce production, as this period coincides with the most favorable seasonality for paper (higher demand, lower supply). As we know, the strategy did indeed have the desired effect on cash costs, which improved significantly last quarter, but we also believe that it helped with the higher level of adherence to pass-throughs promoted by the company and other market players, taking the BHKP curve from ~US\$480/t to ~US\$655/t, a significant increase of +35% in approximately 6M.

Looking at volumes, we believe that sales should stand at 2,771Kt Genial Est. (+11.5% q/q; +0.4% y/y). We would like to remember that the 4% reduction in annual capacity was only announced in the middle of the year, so the effect within the quarter should be greater than -4% (we came up with -9% y/y). This makes the alternative that we developed in the previous quarter's report, which is attached ([Suzano 3Q23 Review](#)), placing the likelihood of Suzano having higher inventory reserves seem increasingly assertive to us, since sales are expected to rise q/q but production to decline (totally opposite directions).

We now expect to start seeing the effect of the adjustments made during 2H23. After several adjustments, we finally expect to see some of the effects in 4Q23. This is due to a delay in the pricing dynamics of Suzano's contracts, before the adjustments become effective in the result for the period. We still won't see the full amount of the increases, considering that the spot curve is currently at ~US\$655/t. We therefore project a realized price of US\$584/t Genial Est. (+6.9% q/q; -29.2% y/y). Our model indicates an exchange rate effect driving the value to a price of R\$2,856/t Genial Est. (+7.5% q/q; -34.2% y/y). In 1Q24, prices should continue to rise sequentially, although they are still well behind the cur year-on-year.

Paper unit also expected to rise results slightly. Looking at paper unit, despite having less than 25% weight within Suzano's consolidated revenue, we still expect it to also contribute positively to the 4Q23 result. We assume a slight increase in sales volume to 333Kt Genial Est. (+0.5% q/q; -1.7% y/y). Among the reasons, we observe a **(i)** still favorable seasonality, in addition to **(ii)** the contribution of the new K-C plant, acquired from Kimberly-Clark in Brazil, which has positioned the company as the leader of the domestic toilet paper market in terms of value traded. Despite a sequential increase in sales, we believe that the company has found it difficult to pass on prices, given the recent upshifts in previous periods and the cooling trend now, with the foreign market under more pressure than the domestic. We therefore project stability at R\$7,096/t Genial Est (+0.2% q/q; +0.3% y/y).

Revenue in double-digit growth q/q. We expect consolidated revenue of R\$10.4bn Genial Est (+16.0% q/q; -27.8% y/y), with the highlight being the beginning of resumption performance in the pulp segment for both volume and price. We project net revenue of R\$8.0bn Genial Est. (+21.4% q/q; -33.1% y/y) for pulp and R\$2.4bn Genial Est. (+0.7% q/q; -1.5% y/y) for the paper unit, which absorbs an improvement resulting from favorable seasonality and the addition of volume.

Table 3. Revenue Suzano (4Q23 Genial Est.)

(R\$ millions)	4Q23E	3Q23	% q/q	4Q22	% y/y
	Genial Est.	Reported		Reported	
Net Revenue	10.273	8.948	14,8%	14.370	-28,5%
Pulp	7.914	6.605	19,8%	11.975	-33,9%
Paper	2.359	2.343	0,7%	2.395	-1,5%

Source: Suzano, Genial Investimentos

COGS/t down, both sequentially and y/y. Although the barrel of brent oil has increased in price q/q, which could put pressure on the cost per Km in relation to the average radius, given the logistics for transporting the wood, we believe that COGS/t will still be reduced, due to: **(i)** the absence of maintenance stoppages, as well as **(ii)** improved efficiency of the assets in operation. In addition, we anticipate a **(iii)** lower level of wood consumption due to capacity cuts in older assets and **(iv)** lower prices when purchasing wood from third parties. Taking these factors consideration, we project COGS/t in 4Q23 at R\$814/t Genial Est. (-13.2% q/q; -5.5% y/y). Looking ahead, the expected cash cost for 2024 may increase slightly with the start-up of the Cerrado project, due to the volume being small in first stages, leading to a low dilution of fixed cost in the asset itself vs. an increase in specific costs linked to the start-up process. However, in 2025, the project should help to dilute Suzano's fixed costs and significantly reduce COGS/t. We believe that this reduction is not accounted for in the stock price today.

We project EBITDA to evolve considerably q/q. Considering an upward movement in revenue, although we will probably see a growing nominal COGS due to the increase in volume, we are projecting a declining COGS/t, which configures an adjusted EBITDA of R\$4.9bn Genial Est. (+32.4% q/q; -40.2% y/y). Both units should deliver superior performance sequentially, with the pulp unit's growth standing out, achieving an EBITDA of R\$4bn Genial Est. (+38.6 q/q; -44.5% y/y), driven mainly by the increase in realized prices and the improvement in the BHKP curve.

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

(R\$ millions)	4Q23E	3Q23	% q/q	4Q22	% y/y
	Genial Est.	Reported		Reported	
Adjusted EBITDA	4.891	3.695	32,4%	8.175	-40,2%
Pulp	4.037	2.912	38,6%	7.274	-44,5%
Paper	855	783	9,2%	901	-5,2%

Source: Suzano, Genial Investimentos

Hedge result likely to increase net profit q/q. Hedge operations should have a positive impact of +R\$1.0bn Genial Est. due to the difference between the exercise price and the USD/BRL exchange rate for the period. The company carries out a zero-cost collar operation and should record a 12.9% bottom strike variation vs. the USD/BRL exchange rate. We also estimate a positive result for the line of exchange variation of the debts taken out in dollars by the company, at R\$2.1bn Genial Est., since the end of period dollar exchange rate fell -R\$0.17 q/q. We project a net income of R\$3.8bn Genial Est., easily reversing the loss of the previous period by 6x, despite the -49% y/y drop, because the pulp prices are at beginning of the recovery process and compared to 2022, levels still indicate fragility.

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

(R\$ millions)	4Q23E	3Q23	% q/q	4Q22	% y/y
	Genial Est.	Reported		Reported	
Net Revenue	10.273	8.948	14,8%	14.370	-28,5%
COGS	(6.214)	(6.104)	1,8%	(6.793)	-8,5%
Adjusted EBITDA	4.891	3.695	32,4%	8.175	-40,2%
EBITDA Margin (%)	47,6%	41,3%	6,32p.p	56,9%	-9,28p.p
EBIT	2.900	1.683	72,2%	7.299	-60,3%
EBIT Margin (%)	28,2%	18,8%	9,41p.p	50,8%	-22,57p.p
D&A	(1.991)	(1.940)	2,7%	(1.910)	4,2%
Financial Result	2.521	(3.494)	-172,1%	2.000	26,0%
Net Income	3.801	(729)	621,6%	7.459	-49,0%
Net Margin (%)	37,0%	-8,1%	45,14p.p	51,9%	-14,91p.p

Source: Suzano, Genial Investimentos

Our take on Suzano

The musical chairs in Suzano's recommendations... If we look in the rear-view mirror, Suzano's shares registered an increase of ~18% between June and October, driven by better-than-expected figures in 2Q23 and bullish price conditions with the announced adjustments. At the time, forecasts moved into positive territory for 2024, with a projected increase in BHKP's market pulp price to US\$630/t in January 2024, compared to US\$570/t in October 2023. However, we did not make any changes to the Target Price, which remained at R\$60.00 due to the poor short-term results (3Q23), included a drop in revenue and EBITDA, as well as a loss in the bottom line emphasized by the currency hedge.

Along with the +18% rise in Suzano's shares between June and mid-October, recommendations from part of the sell-side became more optimistic, with several analysts changing their ratings to buy, and reviewing their TP upwards. However, at this point, we had gone the other way and downgraded the company to Neutral, since our mindset was that Suzano's shares would not exceed the R\$55.00 barrier between the end of October and mid-February. The 3Q23 results didn't show positive dynamics and knowing the **short-term mentality of commodity investors**, we indicated the absence of triggers for the stock to continue its upward trend for a few months. **We got it right...** but now, when will stocks go up again?

First real sign of improvement. In our opinion, the next round of share price rises is linked to two catalysts: **(i)** an effective improvement in results, which should manifest itself in 4Q23, and **(ii)** an understanding of the current equilibrium price of pulp. Although we still see uncertainties regarding the balance between supply and demand for the market benchmarks, the current spot price for BHKP pulp is ~US\$655/t vs. an average of US\$605/t in 2023, **so now we are seeing signs to get bullish about the stock again** and model slightly more aggressive assumptions. In this sense, we project an adjustment in our model to an **average of US\$650/t in 2025**, which reflects the equilibrium price that we believe to be fair, and which would therefore stabilize the productive volume brought by the assets that will have their respective start-ups in this period, counterbalanced by cuts in old capacity.

These cuts would not only help to rebalance the price, but also promote a healthier cost environment, by removing equipment with higher wood consumption from operation. In other words, Suzano should show a 2024 with **lower costs and higher revenues**. Trading at an **EV/EBITDA 24E of 6.5x**, below the historical average of 7.0x, we have revised our recommendation, **raising the company to BUY rating**, given **the 12M Target Price of R\$68.00** (vs. R\$60.00 previously), after changes we did in some in our model, giving the stock an **upside of +21.17%**.

Appendix: Suzano

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

Income Statement	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	39.657	42.065	49.177	51.186	52.326	52.682
(-) COGS	(24.515)	(26.006)	(29.124)	(28.846)	(28.624)	(28.769)
Gross Profit	15.142	16.059	20.053	22.341	23.703	23.913
(-) Expenses	(4.353)	(4.682)	(5.310)	(5.397)	(5.501)	(5.537)
Adjusted EBITDA	19.483	20.262	23.916	26.046	27.189	27.251
(-) D&A	(7.525)	(8.886)	(9.173)	(9.103)	(8.988)	(8.875)
EBIT	11.958	11.376	14.743	16.943	18.201	18.376
(+/-) Financial Result	6.033	(5.459)	(3.168)	(4.136)	(2.307)	(1.084)
(-) Taxes	(4.598)	(1.768)	(3.458)	(3.827)	(4.749)	(5.167)
Net income	13.393	4.149	8.116	8.981	11.145	12.126
Profitability						
Net margin (%)	33,77%	9,86%	16,50%	17,55%	21,30%	23,02%

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

Cash Flow (FCFF)	2023E	2024E	2025E	2026E	2027E	2028E
Net Revenue	39.657	42.065	49.177	51.186	52.326	52.682
(-) COGS	(24.515)	(26.006)	(29.124)	(28.846)	(28.624)	(28.769)
Adjusted EBITDA	19.483	20.262	23.916	26.046	27.189	27.251
EBIT	11.958	11.376	14.743	16.943	18.201	18.376
(-) Taxes	(4.598)	(1.768)	(3.458)	(3.827)	(4.749)	(5.167)
(+) D&A	7.525	8.886	9.173	9.103	8.988	8.875
(+/-) Δ WK	(951)	536	(795)	(194)	(79)	(40)
(-) Capex	(19.528)	(14.402)	(9.114)	(8.337)	(8.062)	(8.228)
FCFF	(5.595)	4.628	10.549	13.688	14.300	13.817

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

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