

# SUZANO

## 1Q24 Preview: Opposite directions

LatAm Pulp & Paper

(i) Pulp volumes are expected to shrink due to seasonality and the need to restock. We estimate shipments at 2,507Kt Genial Est. (-9.2% q/q; +2.1% y/y); (ii) Pulp prices with sequential price pass-through. We expect a realization of R\$3,076/t Genial Est., +9.3% q/q; (iii) Paper business unit should feel the positive effect of the addition of K-C and report an increase of +15% y/y in shipments; (iv) Paper prices moving sideways; (v) Revenue shrinks on a quarterly basis in both units (seasonal effect); (vi) COGS/t should grow slightly q/q; (vii) EBITDA down slightly q/q and widening losses y/y; (viii) Net income hit hard by **exchange rate variation**; (ix) Through many price increases over the last 6M, we see the pulp bullish cycle coming to an end in the next few months ahead; (x) Will the market absorb the addition of Cerrado capacity? We comment further in the “Our Take” section on some mishaps; (xi) Our **updated pulp curve** has led to an increase of **+R\$4.00 in the company's valuation**. Trading at an **EV/EBITDA 24E of 7x** (vs. 7.6x historical average), we believe that **share prices do not seem to reflect the improvement in indicators after the start-up of Cerrado**, including the downtrend in COGS/t to R\$500/t (vs. ~R\$800/t today). We therefore reinforce our **BUY rating**, with a **12M Target Price of R\$72.00** (vs. R\$68.00 previously), reflecting an **upside of +21.05%**.

Suzano will release its 1Q24 results on May 9, after the market closes. In general, we expect **weaker q/q shipment figures**, due to the transition from the more favorable seasonally period (3Qs and 4Qs). Even so, excluding the seasonal factor in the **y/y comparison**, we expect a **slight increase in volume** (+2.1% y/y), but this will not offset the **negative price effect on an annual basis** (-17.9% y/y). We should remember that although the BHKP price has indeed been on the rise in recent months, this improvement will probably still fall short of the average price practiced over the same period last year.

**Table 1. Shipments Summary (1Q24 Genial Est.)**

(Thousand Tonnes - kt)	Genial Est.				
Summary	1Q24E	4Q23A	% q/q	1Q23A	% y/y
Pulp Shipments	2.507	2.761	-9,2%	2.455	2,1%
Paper Shipments	323	386	-16,5%	280	15,1%

Source: Suzano, Genial Investimentos

**Table 2. Income Statement Summary (1Q24 Genial Est.)**

(R\$ millions)	Genial Est.				
Income Statement	1Q24E	4Q23A	% q/q	1Q23A	% y/y
Net Revenue	9.896	10.372	-4,6%	11.276	-12,2%
Adjusted EBITDA	4.410	4.505	-2,1%	6.054	-27,2%
Net Income	86	4.515	-98,1%	5.243	-98,4%

Source: Suzano, Genial Investimentos

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### Company

#### SUZB3 BZ Equity

Buy

Price: R\$ 59.48 (06-May-2024)

Target Price 12M: R\$ 72.00

#### SUZ US Equity

Target Price 12M: US\$ 14.30

On the other hand, even with the weaker seasonal comparison in volume, we highlight the **price improvement** achieved in the **sequential movement** (+9.3% q/q). However, we also project a **slightly higher COGS/t** (+1.3% q/q). As a result, **EBITDA should remain sideways sequentially** (-2.1% q/q). The financial operation of the currency hedge mechanism will have a positive effect (+R\$248mn), but this time it will be paired with a vector opposite to that on another important line in the financial result.

We project a **strong negative line from the exchange rate variation of the debt** (-R\$2.1bn), which should squeeze out basically all of the operational performance of EBITDA, **causing net income to be anemic**, at just R\$86mn Genial Est. (-98.1% q/q; -98.4% y/y). It's important to remember that this situation has no cash effect and is part of the usual dynamics of Suzano's financial results, which has ~55% of its debt in USD.

**Valuation and rating.** We believe that the price improvement scenario clearly made up for a bullish pulp cycle, as Suzano led 3 surprising rounds of pass-throughs in 2024, which in turn followed 6 rounds of pass-throughs in Asia and 4 to Europe and the US in 2H23. The price for BHKP in China went to US\$720/t vs. US\$480/t at the bottom of the bearish cycle, which occurred in May 2023. We would point out that Suzano's peers ended up following the movement of readjustments for their client portfolio, altering the commodity curve.

Although some transfers this year have occurred against our expectation of stabilization, we have found data indicating stronger demand than initially forecast, both in China and in Europe. In addition to demand, we also saw atypical events causing a slightly tighter supply, due to a series of events in Finland, as well as geopolitical conflicts that create freight bottlenecks.

Such events were **(i)** strikes at UPM, Stora Enso and Metsä plants, with reduced work shifts and capacity closures, as well as **(ii)** a gas explosion that paralyzed another Metsä plant for ~12 weeks (~360Kt of impact). Reduced production was also restricted in shipments, due to **(iii)** port and rail suspensions also in Finland, and **(iv)** increased pressure on supply due to restrictions in the Red Sea, which ended up bringing less competition from the Asian market into Europe.

We raise our short-term **2024-25E BHKP China breakeven point** to **~US\$700/t** (vs. US\$655/t previously), which suggests a slight decrease vs. the spot price post adjustments, due to the Cerrado project starting up in 2H24 and ramping up in 2025. In addition, Suzano implemented price increases of +US\$80/t for Europe and the US, bringing European BHKP prices to ~US\$1,360/t and North American prices to ~US\$1,500/t.

Regarding production, Suzano cut volumes by ~4% in 2023. **For 2024, the company has not yet officially announced a reduction strategy.** We point out that, although this approach of disciplining the market when the price is in a bad shape was already used by Suzano in 2019 and didn't work then, on the other hand the purposeful shutdown of older machines in 2023 proved to be a successful attempt to manage costs and maintain the balance of the market, which adopted a different tone from 2019 and followed the steps of capacity reduction. We believe that this potentially led to a wider acceptance of the price increases, which have been in place since June 2023.

In talking to Suzano about this particular point, we feel that the company is **strategically evaluating some kind of cut**, but our impression is that **it would only do so if price pass-throughs start to be more resisted by non-integrated paper producers**. While this year's rounds were successful, we don't believe that Suzano has felt the need to reduce capacity in order to anchor prices or lower costs.

However, with the start-up of the plant in **Ribas do Pardo (MS)**, which will add **2.5Mtpa after the end of the ramp-up**, there **may be greater difficulty in continuing to recover prices**. It's worth remembering that 3Q23 realization was below the marginal cost of producers with fewer gains in scale. Therefore, the movement of price increases that has been taking place over the last few months is, in fact, a recomposition of margins and not a real gain.

In addition, the increase in costs expected with the start of the Cerrado project in 2H24 should be offset by **significant reductions in COGS/t in 2025**, when the project reaches a more stabilized operational phase. Suzano looks well-positioned to us, with continued improvements in pulp prices, although we believe that there is a **limit to pass-throughs going forward** and that the **break-even point should be slightly below Spot**.

On the volume side, we are projecting a conservative increase of **+5.5% in production in 2024**, which could be revised upwards depending on the company's execution of the ramp-up of the Cerrado project in 2H24. Furthermore, we do not rule out continued cost management strategies, should Suzano cut capacity at old assets once again this year. Our **updated pulp curve** has led to a **+R\$4.00 increase in the company's valuation**, corresponding to **~5.2% of market cap**. For comparison, the same curve changes in Klabin's model generated a ~1.5% gain in market cap, since Klabin is less dependent on pulp, for better or worse...

We see Suzano trading at an **EV/EBITDA 24E of 7x** (vs. 7.6x historical average), with a reasonable degree of discount. It is important to note that we are already using assumptions with a **subtle decline in the pulp curve against spot**, and that even so, the new level of BHKP already makes the company's valuation attractive. We believe that **share prices do not seem to reflect the improvement in indicators after the start-up of the Cerrado Project** in 2H24, including the downtrend in COGS/t to R\$500/t in 2025+ (vs. ~R\$800/t today). We therefore reinforce our **BUY rating**, with a **12M Target Price of R\$72.00** (vs. R\$68.00 previously), reflecting an **upside of +21.05%**.

## 1Q24 Preview: In detail!

**Pulp volumes are expected to shrink due to seasonality and the need to restock**. Although we saw favorable demand at the beginning of the year in China, Q1 usually marks a performance characterized by weaker seasonality. We therefore expected a reduction in shipments during this period. In addition, we saw the company shipping significant volumes at the end of last year, which led to a need to restock in 1Q24. As a result, we estimate pulp shipments at 2,507Kt Genial Est., down -9.2% t/t, with +2.1% y/y when excluding the seasonal factor.

**Pulp prices with the sequential increase.** The market has lined up over the last few months for Suzano to make price adjustments. The last one for 1Q24 was announced at the end of February (valid for March), between US\$30/t and US\$80/t applied in Asia, Europe and North America. With the serial pass-throughs, we saw the average short fiber price (BHKP) for 1Q24 reach ~US\$656/t in China and ~US\$1,126/t in Europe. Pass-throughs were faster on the European continent than in China, where some tissue producers still suffer from tighter margins. Even so, the price discount realized in Europe is much greater than in China, at ~40% vs. 3%, respectively. Following this logic, we project a realized price of US\$621/t Genial Est. (+9.4% q/q; -13.9% y/y), with the exchange rate slightly against it, at R\$3,076/t Genial Est. (+9.3% q/q; -17.9% y/y).

**Paper business unit should perform on the addition of the K-C mill.** In the paper segment, we expect an annual increase in sales volume due to the addition of 130Ktpa of capacity at the new plant that Suzano acquired from Kimberly-Clark (K-C) in Brazil, making the company the national market leader in toilet paper and tissue-related products. However, as this is a seasonally weaker quarter, just after the period of high consumption of paper in retail, we project sales of 323Kt Genial Est., down -16.5% q/q, but with an increase of +15.1% y/y as the comparative base does not include K-C.

**Paper prices almost flat.** After a recent drop in the realized price of paper in the printing & writing and cardboard categories, Suzano announced increases at the beginning of the year. Therefore, we estimate the realized price at R\$6,778/t Genial Est. (+0.7% q/q; -8.5% y/y).

**Revenue shrinks on a quarterly basis in both units.** We expect consolidated revenue of R\$9.9bn Genial Est. (-4.6% q/q; -12.2% y/y). We project the Pulp business unit to report revenues of R\$7.7bn Genial Est (-0.8% q/q; -16.2% y/y). We anticipate stability q/q due to the recent upward cycle in prices, even with the seasonal factor playing against it on the volume side. The double-digit drop year-on-year is linked to the fact that, although there is a sequential recovery underway, the realized price a year ago was still much higher. As for the paper unit, we project R\$2.2bn Genial Est. (-16% q/q; +5.3% y/y), feeling the seasonality more, with no significant price changes q/q, but with K-C to help on an annual basis.

**Table 3. Revenue Suzano (1Q24 Genial Est.)**

(R\$ millions)	1Q24E			1Q23	
	Genial Est.	Reported	% q/q	Reported	% y/y
<b>Net Revenue</b>	<b>9.896</b>	<b>10.372</b>	<b>-4,6%</b>	<b>11.276</b>	<b>-12,2%</b>
Pulp	7.710	7.770	-0,8%	9.201	-16,2%
Paper	2.186	2.602	-16,0%	2.075	5,3%

Source: Suzano, Genial Investimentos

**COGS/t should increase smoothly q/q.** Although the (i) price of Brent oil has increased sequentially, which should push the fuel line upwards and impact the cost/km of transporting wood, we believe that the increase in COGS/t will be marginal. This is because the company has been improving (ii) the efficiency of its assets, promoting (iii) a reduction in the need for chemicals and the purchase of wood from third parties.

We therefore assume a pulp COGS/t of R\$826/t Genial Est. (+1.3% q/q; -15.1% y/y). The stronger y/y drop is based on the absence of the maintenance stoppage in 1Q24, considering that in 1Q23 there were stoppages at Aracruz (ES), Suzano (SP) and Veracel (BA), which intensified the cost. Total nominal COGS appears in our model to have fallen, due to the lower volume of shipments, standing at -R\$6.3b Genial Est. (-6.9% q/q; +5.7% y/y).

**EBITDA slightly down q/q, but with a stronger drop y/y.** After declining revenues and a slight increase in COGS/t, we are projecting an adjusted EBITDA of R\$4.4bn Genial Est. (-2.1% q/q; -28.3% y/y). Pulp performance, slightly more affected, is expected to post EBITDA of R\$3.7bn Genial Est. (-2.2% q/q; -31.2% y/y), while the paper unit is expected to deliver a milder retraction and post R\$738mn Genial Est. (-1.4% q/q; -9.9% y/y). Both business units are damaged sequentially by the unfavorable seasonality typical of Q1s. The pulp business will suffer greater pressure from the price dynamics on an annual basis, while the paper unit's fall is cushioned using the comparison base without Kimberly-Clark (K-C).

**Table 4. EBITDA Suzano (1Q24 Genial Est.)**

(R\$ millions)	1Q24E		4Q23		1Q23	
	Genial Est.	Reported	% q/q	Reported	% y/y	
<b>Adjusted EBITDA</b>	<b>4.410</b>	<b>4.505</b>	<b>-2,1%</b>	<b>6.155</b>	<b>-28,3%</b>	
Pulp	3.672	3.756	-2,2%	5.336	-31,2%	
Paper	738	748	-1,4%	818	-9,9%	

Source: Suzano, Genial Investimentos

**Net income hit hard by exchange rate variation.** Through the zero-cost collar hedge operation, Suzano should have a positive impact of ~R\$248mn Genial Est. However, as the company holds ~54% of its debt in USD, we calculate a negative impact of -R\$2.1bn Genial Est. on the P&L from the positive variation in the USD/BRL exchange rate, leading the company to record a net income of only R\$86mn Genial Est (-98.1% q/q; -98.4% y/y) and a net margin of 0.87% (vs. 43.5% in 4Q23). Although the result seems weak in this sense, it is important to note that there is no cash effect.

**Table 5. Income Statement Suzano (1Q24 Genial Est.)**

(R\$ millions)	1Q24E	4Q23	% q/q	1Q23	% y/y
	Genial Est.	Reported		Reported	
<b>Net Revenue</b>	<b>9.896</b>	<b>10.372</b>	<b>-4,6%</b>	<b>11.276</b>	<b>-12,2%</b>
COGS	(6.311)	(6.776)	-6,9%	(5.969)	5,7%
<b>Adjusted EBITDA</b>	<b>4.410</b>	<b>4.505</b>	<b>-2,1%</b>	<b>6.054</b>	<b>-27,2%</b>
EBITDA Margin (%)	44,6%	43,4%	1,13p.p	53,7%	-9,13p.p
<b>EBIT</b>	<b>2.573</b>	<b>3.158</b>	<b>-18,5%</b>	<b>4.306</b>	<b>-40,2%</b>
EBIT Margin (%)	26,0%	30,4%	-4,45p.p	38,2%	-12,19p.p
D&A	(1.837)	(1.788)	2,7%	(1.748)	5,1%
Financial Result	(2.470)	2.269	-208,8%	2.470	-200,0%
<b>Net Income</b>	<b>86</b>	<b>4.515</b>	<b>-98,1%</b>	<b>5.243</b>	<b>-98,4%</b>
Net Margin (%)	0,9%	43,5%	-42,66p.p	46,5%	-45,63p.p

Source: Suzano, Genial Investimentos

## Our take on Suzano

**With several price adjustments already implemented, the bullish cycle may be nearing its end.** Suzano has made several price adjustments over the last few months. After having succeeded in 2 surprising rounds of pass-throughs in 2024 and 6 rounds in Asia and 4 for Europe and the USA in 2H23, the company announced another one in April, valid for the current month. The adjustments announced were +US\$80/t for North America, +US\$60/t for Europe and +US\$30/t for Asia. The price for BHKP in China went up to US\$720/t vs. US\$480/t at the bottom of the cycle, which took place in May 2023. These last transfers have not yet had an effect in 1Q24 and should bring good results in 2Q24, which will take advantage of a weak y/y base, unlike now in 1Q24.

The momentum for pulp was very favorable, but we don't know how long it will last. We believe **it is possible that the adjustments will become more spaced out**, towards a stabilization and a subsequent slight retreat with the entry of Cerrado into the supply system. Therefore, we believe that the high-speed pass-throughs between the end of last year and the first few months of 2024 should not be an irrigation route. In other words, we are witnessing a circumstantial rather than a structural scenario. The adjustments were timely as they coincided with the **(i)** production interruption problems in Finland, **(ii)** supply system pressured by logistical bottlenecks due to geopolitical conflicts, **(iii)** lingering consequences of the forest fires in Chile, as well as the **(iv)** slower than initially expected ramp-up of UPM's Paso de Los Toros asset.

**Will the Cerrado capacity addition be absorbed?** The plant in Ribas do Pardo (MS) to be inaugurated in June will add 2.5Mtpa after the end of the ramp-up. With supply entering the system at this level of scope, which makes up **~22% of capacity addition** within the world's largest BHKP pulp producer, some investors remain skeptical about the absorption capacity in terms of demand, for such a large degree of additional supply over the next few years.

Through conversations with investors, we know that the tight margins of paper producers in China, where we have located some tissue mills being closed in the last two weeks, are creating doubts about the continuity of pulp price pass-through movements, such as those we have seen over the last few months.

The more pass-throughs there are, the more oxygen-starved the non-integrated paper producer becomes. As China has a geographical restriction on the integration of its mills, the price of BHKP being stretched creates a squeeze on margins and, consequently, a **reduction in the pulp purchases made by producers**, affecting a large addressable market for the volume of the Cerrado project. However, it's worth mentioning that, even though paper producers have tight conditions, there is a ramp-up of new tissue mills in Asia to take place in the short term. More efficient machines could lower producers' costs and relieve pressure on margins.

In **Europe**, we see a **healthier scenario**, with demand picking up again. Non-integrated paper producers are enjoying wider margins, and the **conflicts affecting the Red Sea route** are hampering imports of products from Asia and stimulating domestic production. Difficulties with strikes and other setbacks in Finland help to counterbalance the supply side in the short term, which made it **easier to promote the readjustments** without the client portfolio denying the negotiations. As for freight, which could supposedly become more expensive due to the scenario in the Middle East, we believe that the risk of altering Suzano's cost dynamics is lower, since the company only depends on ~5% of containers.

**Will Suzano discipline the market again with capacity cuts in 2024?** Many investors ask us about our opinion regarding the potential repetition of the production cut that Suzano made last year. We believe that the company is not ruling out cutting capacity again, but our view is that this will only happen when the price of pulp stabilizes or begins to fall.

For the time being, the company should maintain full production levels, not least because backlog visibility at the start of the year was good (~60 days), with capacity 100% taken up. It's worth remembering that when they cut production at the beginning of 2019 to control prices, they were unsuccessful, since the other players remained with high production, and took advantage of the absence of the company's products to gain market share.

**Update on the pulp price curve.** As Suzano made quicker transfers than we expected, we updated our short-term equilibrium price by 2x within 3M. Although we believe that the price will fall due to Cerrado's entry into the capacity system, placing more supply than the Asian market can currently absorb at this price (~US\$720/t), the revision was nevertheless upwards.

Our projected short-term **2024-25E BHKP China break-even point is clocking in at ~US\$700/t** (vs. US\$655/t previously), which still suggests a slight drop vs. the spot price. Our updated pulp curve led to an **increase of +R\$4.00 in the company's valuation**, corresponding to **~5.2% of the market cap**. For comparison, the same curve changes in Klabin's model generated a gain of ~1.5% of the market cap, since Klabin is less dependent on pulp, for better or worse...

**Opposite directions.** We expect a 1Q24 with dynamics following many vectors on a comparative basis. For example, looking at the sequential reference, although there will be a drop in shipments due to seasonality, on the other hand the price of pulp should show an interesting rise. On an annual basis, there is an inversion, since the shipments projected volume is slightly up, but the pulp realized price is much lower than in the same period last year. In 2Q24, there should be a set-up of basis since the y/y comparison will be made with a quarter that has already seen the drop in BHKP prices.

We see Suzano trading at an **EV/EBITDA 24E** of **7x** (vs. 7.6x historical average), with a reasonable degree of discount. It is important to note that we are already using assumptions with a **subtle decline in the pulp curve vs. spot**, and even so, the new level of BHKP already makes the company's valuation attractive. We believe that **share prices do not seem to reflect the improvement in indicators after the start-up of the Cerrado Project** in 2H24, including the fall in COGS/t to R\$500/t in 2025+ (vs. ~R\$800/t today). We therefore reinforce our **BUY rating**, with a **12M Target Price** of **R\$72.00** (vs. R\$68.00 previously), reflecting an **upside** of **+21.05%**.



## Appendix: Suzano

Figure 1. Suzano – Income Statement in R\$ Millions (Genial Est. 2024-2028)

Income Statement	2024E	2025E	2026E	2027E	2028E
<b>Net Revenue</b>	<b>44.034</b>	<b>51.068</b>	<b>53.783</b>	<b>56.737</b>	<b>57.702</b>
(-) COGS	(27.659)	(31.324)	(31.487)	(30.557)	(30.374)
<b>Gross Profit</b>	<b>16.375</b>	<b>19.745</b>	<b>22.297</b>	<b>26.180</b>	<b>27.328</b>
(-) Expenses	(5.251)	(6.155)	(6.620)	(7.074)	(7.191)
<b>Adjusted EBITDA</b>	<b>18.953</b>	<b>21.703</b>	<b>23.749</b>	<b>27.164</b>	<b>28.172</b>
(-) D&A	(7.829)	(8.113)	(8.072)	(8.059)	(8.035)
<b>EBIT</b>	<b>11.124</b>	<b>13.590</b>	<b>15.677</b>	<b>19.105</b>	<b>20.137</b>
(+/-) Financial Result	(5.031)	(1.661)	(3.534)	(1.342)	143
(-) Taxes	(1.024)	(2.006)	(2.042)	(2.987)	(3.410)
<b>Net income</b>	<b>5.068</b>	<b>9.923</b>	<b>10.101</b>	<b>14.776</b>	<b>16.870</b>
<b>Profitability</b>					
Net margin (%)	11,51%	19,43%	18,78%	26,04%	29,24%

Figure 2. Suzano– Cash Flow in R\$ Millions (Genial Est. 2024-2028)

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
<b>Net Revenue</b>	<b>44.034</b>	<b>51.068</b>	<b>53.783</b>	<b>56.737</b>	<b>57.702</b>
(-) COGS	(27.659)	(31.324)	(31.487)	(30.557)	(30.374)
<b>Adjusted EBITDA</b>	<b>18.953</b>	<b>21.703</b>	<b>23.749</b>	<b>27.164</b>	<b>28.172</b>
<b>EBIT</b>	<b>11.124</b>	<b>13.590</b>	<b>15.677</b>	<b>19.105</b>	<b>20.137</b>
(-) Taxes	(1.024)	(2.006)	(2.042)	(2.987)	(3.410)
(+) D&A	7.829	8.113	8.072	8.059	8.035
(+/-) Δ WK	(867)	(634)	(474)	(114)	(116)
(-) Capex	(13.547)	(8.244)	(8.065)	(7.791)	(7.954)
<b>FCFF</b>	<b>3.514</b>	<b>10.818</b>	<b>13.169</b>	<b>16.273</b>	<b>16.692</b>

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under Review	Under review	5%

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