genial | Equity Research

SUZANO

2Q24 Review: Leaves in the wind, roots in the ground

LatAm Pulp & Paper

(i) Pulp shipments accelerate: 2,545Kt (-0.4% vs. Genial Est.), up +6.0% q/q and +1.3% y/y; **(ii)** realized price: **US$696/t** (+2.3% vs. Genial Est.), **up sharply by +12.4% q/q and +21.7% y/y**; **(iii)** Paper business sales gain momentum due to election period in Brazil: 333Kt (+3% vs. Genial Est.), up +6.5% q/q and +13.3% y/y; **(iv) Net revenue** driven by realized pulp price: **R$11.5bn** (+1.7% vs. Genial Est.), **robust top line growth** of +21.5% q/q and +25.5% y/y; **(vi) COGS/t ex. stops** of R$828/t (-3.6% vs. Genial Est.), up +2.0% q/q and down -15.5% y/y, exposing **slightly better than expected** cost efficiency; **(vii) EBITDA expanding strongly:** R$6.3bn (+9.1% vs. Genial Est.), up +38.0% q/q and +60.4% y/y; **(viii)** Significant **loss in the bottom line**, but within the average value expected by the street and by us, **at -R$3.8bn** (vs. -R$3bn Genial Est.); **(ix) FCFE surprised positively**, reversing the FCF burn seen in the previous quarter, reaching **+R$601mn**; **(x) Leverage falling** to **3.2x Net Debt/EBITDA** (vs. 3.5x in 1Q24); **(xi)** We believe that the **company will continue to be active in M&A** in favor of diversification, but **aiming for a smaller size of acquisitions compared to IP** (more on this throughout the report); **(xiii)** Uncertainties regarding the **capital allocation** in the diversification strategy, as well as the **drop in the pulp prices** projected for 2H24 **may continue to promote investor disinterest in the short term**. On the other hand, **with the significant improvement in the cost structure expected for 25E**, which makes it trade at an **EV/EBITDA 25E** of **5.2x** (vs. historical average of 7.5x), we believe that the **company is being penalized excessively** and this leads us to reiterate our **BUY rating**, with a **12M Target Price** of **R$72.00**, reflecting an **upside** of **+34.33%**.

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Company

SUZB3 BZ Equity
Buy

Price: R$ 53.60 (08-Aug-2024)
Target Price 12M: R$ 72.00

SUZ US Equity
Target Price 12M: US$ 14.30

Suzano reported its **2Q24 results yesterday, August 8**, after the market closed. Company presented **robust operating figures**, driven mainly by the **sharp rise in BHKP prices**. The pulp realized price reached R$3,629/t (+2.4% vs. Genial Est.), a strong increase of +18.4% q/q and +28.4% y/y, reflecting the rounds of readjustments that Suzano led throughout 1H24. **Price realization**, therefore, turned out to be the **major positive highlight of 2Q24**.

Table 1. Shipments Summary (2Q24 vs. Genial Est.)

(Thousand Tonnes - kt)	Reported	Genial Est.					
Summary	**2Q24A**	**2Q24E**	**% Diff.**	**1Q24A**	**% q/q**	**2Q23A**	**% y/y**
Pulp Shipments	2.545	2.554	**-0,4%**	2.401	**6,0%**	2.513	**1,3%**
Paper Shipments	333	323	**3,0%**	313	**6,5%**	294	**13,3%**

Source: Suzano, Genial Investimentos

Table 2. Income Statement Summary (2Q24 vs. Genial Est.)

(R$ millions)	Reported	Genial Est.					
Income Statement	**2Q24A**	**2Q24E**	**% Diff.**	**1Q24A**	**% q/q**	**2Q23A**	**% y/y**
Net Revenue	11.494	11.304	**1,7%**	9.459	**21,5%**	9.160	**25,5%**
Adjusted EBITDA	6.288	5.762	**9,1%**	4.558	**38,0%**	3.919	**60,4%**
Net Income	(3.766)	(3.023)	**24,6%**	220	**-**	5.078	**-174,2%**

Source: Suzano, Genial Investimentos

As there were successive rounds in a short period, but there is a ~2M delay in entering the order backlog, price realization accumulated some of the pass-throughs that were made in 1Q24, consolidating them almost entirely within 2Q24, and for this reason the price became so much more elastic this quarter. Looking at volumes, BHKP shipments reached 2,545Kt (-0.4% vs. Genial Est.), accelerating by +6.0% q/q, due to **(i)** a partial improvement in seasonality and **(ii)** a reduction in the pace of restocking. On a year-on-year basis, progress in shipments was more modest, at +1.3% y/y, but in line with expectations.

Faced with an operational performance boosted by price dynamics, net revenue clocked in at R$11.5bn (+21.5% q/q; +25.5% y/y). COGS/t ex. stoppages was R$828/t (-3.6% vs. Genial Est.), with a slight increase of +2.0% q/q, but a contraction of -15.5% y/y, consolidating slightly better than expected cost efficiency. We also saw **EBITDA come in at R$6.2bn** (+9.1% vs. Genial Est.), **slightly higher than we expected**, accelerating +38% q/q and +60.4% y/y, with a **strong upward movement**. On the bottom line, the **reversal of the operating performance into a loss really happened**, as anticipated in our preview report, which is attached (Suzano 2Q24 Preview).

Why such a big loss? The impact of the exchange rate variation of the debts issued in USD, which correspond to 81% of the pool, in line with the strong sequential appreciation of the **USD/BRL EoP exchange rate** (R$5.56 vs. R$4.93 in 1Q24), held back not only the full gains from the robust EBITDA we mentioned, but was also the main contributor to the accounting **loss of -R$3.7bn**, reversing net income obtained on both a quarterly and annual basis. Even so, the loss was close to what we expected and in line with the average of the street.

We emphasize that, as there is currently no effect on cash flow, considering that the variation due to the consolidation of the debt converted into BRL from the issues made in USD was processed only by the P&L, since the debts has not all yet been fully repaid, **we do not understand that the loss should be reflected in a negative impact on the shares** or in a change in investors' mood. On the other hand, the **(i)** uncertainties regarding capital allocation (more on this later), in addition to the **(ii)** expected reduction in the pulp prices for 2H24, these are reasons that may continue to keep investors away from Suzano's shares in the short term, even with good fundamentals pointing to 2025 and delivering excellent EBITDA growth in 2Q24.

Valuation and rating. Cash flow generation (**FCFE**) **in 2Q24 surprised positively**, reversing the FCF burn seen in the previous quarter, reaching +R$601mn (vs. -R$2.6bn in 1Q24; -R$996mn in 2Q23). The company also managed to reduce its leverage. The **Net Debt/EBITDA** indicator in USD **decreased to 3.2x** (vs. 3.5x in 1Q24), reflecting an improving trend in the capital structure after the peak registered in 1Q24. We believe that the positive operating performance in 2Q24, coupled with the (albeit slight) reduction in leverage, reinforces Suzano's solidity. **This retraction may act as an important message from management to mitigate the effects of the misgivings about capital allocation** that many investors had, especially after the round of negotiations for a failed attempt to acquire International Paper (IP).

We expect that the **financial execution of the Cerrado project**, which closed 2Q24 at 90% (vs. 87% in 1Q24) and already had its start-up in July, will lead to a reduction in CAPEX as spending comes to an end, consequently, softening the impact on FCF. For the purposes of measuring the impact, Suzano has already disbursed R$19.8bn on the Cerrado project. The total budget is R$22.2bn, consolidating the largest project in the company's history and one of the largest capacity expansions globally (~2.55Mtpa) with an extremely competitive CAPEX per ton (one of the lowest in the world today). Therefore, we believe it is **likely that this reduction in CAPEX**, with the completion of an investment cycle of this magnitude, **will mitigate the negative effect of net debt on the leverage indicator**. Consequently, **this dynamic could support the deleveraging process**, **even if we anticipate a reduction in EBITDA** due to a projected **drop in BHKP prices in 2H24** (more on this in the "Our Take" section at the end of the report).

We believe that this situation is very important for Suzano's investment thesis, since we believe it is unlikely that the **company's diversification strategies** will once again move in the short term into a field of negotiation aimed at buying assets as large as the discussion about the takeover of International Paper (IP). The potential deal with IP, which has now been ruled out, has been valued in the range of US$15-20bn, which would exceed Suzano's own market cap and would make the acquisition very large and complex. These conditions would certainly require not only a postponement of the deleveraging process, but also an increase in the current level, which is already high, in addition to the possible loss of investment grade by the rating agencies (S&P, Moody's and Fitch).

On the other hand, **we don't believe that Suzano's strategy will be to pay dividends** or greatly expand the **buyback program**, even with the high generation of FCF from Cerrado expected for 2025, since it is clear that **management wants to diversify geographies and get more into the paper and packaging business** (thus reducing its exposure to direct sales of market pulp). Shortly after announcing that it had given up on buying IP due to a lack of commitment between the parties (as we had anticipated would happen), in July the company announced that it had bought the assets of **Pactiv Evergreen** (a manufacturer of coated and uncoated paperboard) for US$110mn, which is much less than it would have paid for IP.

We believe that the **current lack of relevant opportunities** to acquire **brown field assets** in the **virgin fiber market outside Brazil** should involuntarily make the company **reduce the size of acquisitions in the short term**. However, we do not believe that Suzano will cease its M&A pipeline. Acquisitions can (and should) become frequent in relation to pulverized assets, just as we observed with Pactiv Evergreen. In other words, in this case Suzano didn't buy the whole company as it wanted to do with IP, but rather a selection of assets, which we see as an **assertive strategy since it doesn't compromise leverage**.

Although our line of reasoning is that the **risk inherent in a questionable capital allocation strategy has been greatly reduced**, we still understand that a portion of investors remain reticent about the company's next steps in a potential new post-Cerrado investment cycle.

From our interpretative point of view on the unfolding of the equity story, **Suzano failed to leverage the share price** by entering into a **negotiation with IP** that greatly displeased the market and the general sentiment of investors, **just when the pulp cycle was experiencing significant highs** and the stock had everything it needed to capture these gains. Now, we believe that there is increased investor distrust beyond the capital allocation matters, due to the expectation of the end of the bullish pulp cycle (more on this in the "Our Take" section at the end of the report). In this sense, it seems to us that there was a time mismatch that made it **impossible for investors to get excited about the stock when the commodity cycle was still bullish**. We commented on exactly this in our preview report, which is attached (Suzano 2Q24 Preview).

However, looking at the fundamentals, in addition to an excessive discount, we see in our model an **increase in the ability to dilute fixed costs** through the **Cerrado project**, but this should only come **more strongly during 2025**, through the ramp-up of the plant in Ribas do Rio Pardo (MS). As we have mentioned several times in previous reports, **COGS/t** is projected to decelerate to **~R$500/t** (vs. ~R$800/t currently), which should boost the **25E FCF yield** to **13.25%** (vs. ~5% in 24E), even with the price of **BHKP already being reduced in our proprietary model**. Therefore, this expansion in cash flow generation and improvement in operating efficiency does not seem to be embedded in the current market valuation.

The uncertainties regarding **(i)** capital allocation in the diversification strategy, as well as **(ii)** the fall in the price of pulp, which will possibly be caused by excess supply in the short term, both **act as leaves in the wind...** Conversely, the company's good fundamentals (especially from 2025 onwards) act as **roots in the ground**, providing solidity for the robust growth that is just around the corner. With an **EV/EBITDA 25E** of **5.2x** (vs. historical average of 7.5x), the company seems to us to be **overly penalized by the expected reduction in pulp prices for 2H24** and this leads us to reiterate our **BUY rating**, with a **12M Target Price** of **R$72.00**, reflecting an **upside** of **+34.33%**.

2Q24 Review: In detail!

Pulp shipments grows both q/q and y/y. As we mentioned in the preview, even with the continuation of the restocking process, at a lower intensity vs. 1Q24, and maintenance stoppages at the Aracruz (ES) lines during 2Q24, Suzano managed to take advantage of the quarter's seasonal improvement, with the absence of the Chinese New Year (which occurs in the 1Qs, within the lunar calendar) and reported pulp shipment of 2,545Kt (-0.4% vs. Genial Est.), in line with our expectation, growing +6.0% q/q and +1.3% y/y. It's worth mentioning that paper production in China grew by +1% q/q, according to SCI, and sanitary paper production by +11% q/q.

Pulp prices up sharply. The quarter began with pulp supply restrictions. We saw **(i)** strikes at production plants in Finland and Chile, **(ii)** an earthquake in Taiwan, **(iii)** floods in southern Brazil and **(iv)** accidents at Finnish and Indonesian facilities. All of these situations led to pulp mill shutdowns and disruptions in the global supply system. With less supply in the system throughout 1H24, Suzano led several BHKP price increases. Therefore, the company reported a realized pulp price of R$3,629/t (+2.4% vs. Genial Est.), accelerating +18.4% q/q and +28.4% y/y, slightly above our estimate. Looking in USD, the realized price stood at US$696/t (+2.3% vs. Genial Est.), up +12.4% q/q and +21.7% y/y. After several rounds of price pass-throughs announced in 2H23 and 1Q24, Suzano announced the last transfer in April (+US$80/t to North America, +US$60/t to Europe and +US$30/t to Asia), which had a significant effect on the 2Q24 result, after the accumulation of transfers.

Paper business sales accelerate due to election period in Brazil. According to the paper producers' industry association (IBÁ), demand for printing & writing paper in Brazil recorded an increase of +25% between April and May. This growth was driven by increased sales of coated paper lines, largely due to demand from the printing sector, especially during the Brazilian election cycle. As for the foreign market, demand stabilized in Europe. Therefore, although we believed in a flatter operation, we were slightly surprised by the volume reported. The company reported shipments of 333Kt (+3% vs. Genial Est.), up +6.5% q/q and +13.3% y/y, with the annual difference attributable to the consolidation of Kimberly-Clark's (K-C) assets in Brazil, which added +130Ktpa of capacity.

FX rate impact partially helps price realization for the Paper segment. The Paper business unit recorded a price of R$3,629/t (-2.5% vs. Genial Est.), advancing +1.1% q/q, but with a contraction of -3.1% y/y. The sequential improvement can be attributed to the effect of the exchange rate variation during 2Q24. The average USD/BRL exchange rate accelerated by +5.3% q/q, which boosted the realized price for the foreign market. However, domestic sales had a lower realized price and considerable demand in the printing & writing segment, due to the seasonal issue linked to the election period in Brazil. Therefore, the compensating effect was only a slight sequential increase.

Net revenue grew by double digits, driven by the realized price. In the top line, Suzano reported consolidated net revenue of R$11.5bn (+1.7% vs. Genial Est.), with a strong increase of +21.5% q/q and +25.5% y/y. Breaking down the units, we saw pulp post net revenues of R$9.2bn (+2.0% vs. Genial Est.), up +25.5% q/q and +30.0% y/y. The main factors behind this strong performance were: **(i)** absorption of the successive price increases that the company announced during 1H24 and which took effect in 2Q24. In addition, we should mention the **(ii)** variation in the USD/BRL exchange rate (+5.3% q/q), which boosted the conversion of the top line into BRL. The paper business line reported net revenue of R$2.3bn (+0.4% vs. Genial Est.), up +7.6% q/q and +9.8% y/y.

Table 3. Revenue Suzano (2Q24 vs. Genial Est.)

(R$ millions)	2Q24 Reported	2Q24E Genial Est.	% R/E	1Q24 Reported	% q/q	2Q23 Reported	% y/y
Net Revenue	**11.494**	**11.304**	**1,7%**	**9.459**	**21,5%**	**9.160**	**25,5%**
Pulp	9.235	9.054	2,0%	7.360	25,5%	7.101	30,0%
Paper	2.259	2.250	0,4%	2.099	7,6%	2.058	9,8%

Source: Suzano, Genial Investimentos

Marginal impact on COGS/t. In line with the dynamics we commented on in our preview report, COGS/t was impacted by a sequential increase, driven by the upsurge in average radius and the variation in the price of Brent-type oil, which increased the cost per km of transporting wood through, in addition to various fuel costs. The impact was not as high due to the continuous improvements that Suzano has been applying to increase the efficiency of its assets, in order to promote less need for chemicals and energy, such as the project at the Jacareí (SP) plant.

We also saw greater productivity in the harvest, which could not be fully reflected in the cost due to the rise in the USD/BRL exchange rate putting pressure on some inputs that are quoted in USD. As a result, the company reported COGS/t ex-stoppages of R$828/t (-3.6% vs. Genial Est.), with a slight increase of +2.0% q/q, but a contraction of -15.5% y/y. If we consider the stoppages that occurred on the Aracruz (ES) lines, we find a COGS/t of R$849/t (-8.6% vs. Genial Est.), an expansion of +2.7% q/q and a slowdown of -15.5% y/y. As for the total nominal COGS, it stood at -R$6.1bn (-3.0% vs. Genial Est.), rising by +6.9% q/q and shrinking by -2.2% y/y.

Table 4. EBITDA Suzano (2Q24 vs. Genial Est.)

(R$ millions)	2Q24 Reported	2Q24E Genial Est.	% R/E	1Q24 Reported	% q/q	2Q23 Reported	% y/y
Adjusted EBITDA	**6.288**	**5.762**	**9,1%**	**4.558**	**38,0%**	**3.919**	**60,4%**
Pulp	5.537	5.019	10,3%	3.902	41,9%	3.190	73,6%
Paper	750	743	1,0%	656	14,5%	729	2,9%

Source: Suzano, Genial Investimentos

EBITDA up +38% q/q and +60% y/y. Suzano's consolidated EBITDA stood at R$6.3bn (+9.1% vs. Genial Est.), showing a strong rise of +38.0% q/q and +60.4% y/y. The pulp unit, responsible for the assisted performance, closed the quarter with EBITDA of R$5.5bn (+10.3% vs. Genial Est.), representing an increase of +41.9% q/q and +73.6% y/y, due to, as we commented on revenue, simultaneous prices pass-throughs during 1H24 that boosted 2Q24 and improved shipments with a reduction in the restocking level. Although not as significant, the paper business division also reported an interesting increase in EBITDA, reaching R$750mn (+1.0% vs. Genial Est.), accelerating +14.5% q/q and +2.9% y/y, supported by the increase in volume and improvement in fixed cost dilution in paper COGS/t.

Strong loss, but in line with Genial Est. As we mentioned in the preview, Suzano maintains 81% of the company's total debt in USD (89% considering hedging). This amount of debt suffered a significant effect from the appreciation of the USD/BRL EoP exchange rate (+11.3% q/q), reaching R$5.56 at the end of 2Q24. As a result, the company recorded in its P&L a negative impact of -R$6.5bn, linked to exchange rate and monetary variation, in addition to -R$3.9bn from derivative operations (mark-to-market). As a result, Suzano recorded a net loss of -R$3.8bn, in line with our expectation (vs. -R$3bn Genial Est.), reversing the previous quarter's net income.

Table 5. Income Statement Suzano (2Q24 vs. Genial Est.)

(R$ millions)	2Q24 Reported	2Q24E Genial Est.	% R/E	1Q24 Reported	% q/q	2Q23 Reported	% y/y
Net Revenue	**11.494**	**11.304**	**1,7%**	**9.459**	**21,5%**	**9.160**	**25,5%**
COGS	(6.093)	(6.279)	-3,0%	(5.700)	6,9%	(6.228)	-2,2%
Adjusted EBITDA	**6.288**	**5.762**	**9,1%**	**4.558**	**38,0%**	**3.919**	**60,4%**
EBITDA Margin (%)	54,7%	51,0%	3,73p.p	48,2%	6,52p.p	42,8%	11,92p.p
EBIT	**4.614**	**3.735**	**23,5%**	**2.552**	**80,8%**	**3.069**	**50,3%**
EBIT Margin (%)	40,1%	33,0%	7,1p.p	27,0%	13,15p.p	33,5%	6,64p.p
D&A	(2.129)	(2.027)	5,0%	(1.982)	7,4%	(1.846)	15,3%
Financial Result	(11.074)	(6.758)	63,9%	(3.040)	264,3%	4.536	-
Net Income	**(3.766)**	**(3.023)**	**24,6%**	**220**	**-**	**5.078**	**-**
Net Margin (%)	-32,8%	-26,7%	-6,02p.p	2,3%	-35,09p.p	55,4%	-88,2p.p

Source: Suzano, Genial Investimentos

Our take on Suzano

FCFE surprises positively. Cash flow generation (FCFE) was positive, reaching +R$601mn (vs. -R$2.6bn in 1Q24; -R$996mn in 2Q23), reversing the FCF burn seen on both a quarterly and annual basis. The result wasn't even better due to **derivatives adjustments**, which detracted -R$1.1bn from FCF. Within the opening of hedge operations, we observed the effects of: **(i)** -R$1.5bn relating to a debt, partially offset by **(ii)** +R$356m linked to protection of the FCF itself and **(iii)** +R$32mn related to commodities. Looking for the details on the -R$1.5bn figure, we noticed that there had been **(iv)** early settlement of the swap on the 6th debenture issue (-R$5.5bn), the result of the liability management carried out with the 11th debenture issue (+R$6.6bn), just as we anticipated in our preview report.

CAPEX was R$4.3bn (+10% vs. Genial Est.), slightly higher than we expected, but offset by higher EBITDA vs. our estimates. The pressure on working capital (WC) came to -R$1.7bn (+9% vs. Genial Est.), excluding the effects of the variation in gross debt (early payment + funding rising - interest payments), which Suzano places within WC, but we believe should be excluded from this account.

Leverage fell in 2Q24, reaffirming that the peak was last quarter. Suzano's Net **Debt/EBITDA** indicator in USD retreated to **3.2x** (vs. 3.5x in 1Q24) and 3.5x in BRL (vs. 3.6x in 1Q24), reflecting the downward trend in leverage after the peak in 1Q24, with the Cerrado Project reaching a financial execution of 90% (vs. 87% in 1Q24). According to our analysis, the contraction of the leverage indicator is mainly due to the **expansion of LTM EBITDA to R$19bn** (+14% vs. 1Q24). This retraction may act as an important message from management to mitigate the effects of the misgivings about capital allocation that many investors had, especially after the round of negotiations for a failed attempt to acquire International Paper (IP).

The company should continue to deleverage despite the expected fall in pulp prices. We believe that **(i)** the progress of the financial execution of the Cerrado project should cause a slowdown in the level of CAPEX, **(ii)** cushioning the impact on FCF going forward, **(iii)** thus reducing the detracting effect of net debt on the leverage indicator. This dynamic will probably continue to help in the deleveraging process even if EBITDA loses progression as we anticipate a fall in the price of BHKP in 2H24, as we have already detailed in our preview.

As we have already commented, even if the pulp price falls, the ability to dilute fixed costs as the Ribas do Rio Pardo (MS) plant ramps up is fantastic and this will support strong cash generation, with an **FCF Yield 25E** of **13.25%**. On this particular point, Suzano updated that it considers it feasible to produce **900Kt in 2024** and reach **2Mt at the end of 12M of operation** from the present date. The project will have **+2.55Mtpa when it reaches full ramp-up**, which corresponds to an addition of +22% vs. the company's current capacity, with an additional ~9 months to complete the learning curve.

Is the bullish cycle for pulp over? We believe so... In 1H24, market pulp dynamics were favorable for producers to pass on prices, as we witnessed: **(i)** supply restrictions due to disruptions in the chain (strikes, logistical challenges, maintenance) and **(ii)** a reheating of demand in China and continued improvement in Europe and the US. However, we believe that this upward cycle in pulp prices is probably over. The addition of relevant capacity through new projects, among which 2 are expected to ramp-up during 2H24 (Suzano's Cerrado and a new plant in China, in Fujian), and a softer outlook on the level of demand going forward in China, should put an **oversupply of market pulp** in the coming months of this year. We estimate that **global production** could **increase by +12% in 2H24** vs. 1H24, **while demand is likely to grow by only +4.5%**. This difference should put downward pressure on BHKP prices in China, which should fall **to ~US$705/t in 4Q24** vs. US$720/t average in 2Q24.

Margins of non-integrated paper producers in China impose additional challenges for new pass-throughs. In addition to the gap between supply and demand that we project for 2H24, small non-integrated paper producers in China, who have already been facing tight margins for some time, will find it even more difficult to pass on costs to the final consumer at the end of the production chain, which limits the possibility of further increases in pulp prices. With supply outstripping demand, especially with the entry of new production capacity, competition in the market is likely to intensify, putting even more downward pressure on prices in the coming months.

Leaves in the wind, roots in the ground. Looking at the fundamentals, in addition to an excessive discount, we see in our model an **increase in the ability to dilute fixed costs** through the **Cerrado project**, but this should only come **more strongly during 2025**, through the ramp-up of the plant in Ribas do Rio Pardo (MS). As we have mentioned several times in previous reports, **COGS/t** is projected to decelerate to **~R$500/t** (vs. ~R$800/t currently), which should boost the **25E FCF yield** to **13.25%** (vs. ~5% in 24E), even with the price of **BHKP already being reduced in our proprietary model**. Therefore, this expansion in cash flow generation and improvement in operating efficiency does not seem to be embedded in the current market valuation.

The uncertainties regarding **(i)** capital allocation in the diversification strategy, as well as **(ii)** the fall in the price of pulp, which will possibly be caused by excess supply in the short term, both **act as leaves in the wind...** Conversely, the company's good fundamentals (especially from 2025 onwards) act as **roots in the ground**, providing solidity for the robust growth that is just around the corner. With an **EV/EBITDA 25E** of **5.2x** (vs. historical average of 7.5x), the company seems to us to be **overly penalized by the expected reduction in pulp prices for 2H24** and this leads us to reiterate our **BUY rating**, with a **12M Target Price** of **R$72.00**, reflecting an **upside** of **+34.33%**.

Appendix: Suzano

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	**44.034**	**51.068**	**53.783**	**56.737**	**57.702**
(-) COGS	(27.659)	(31.324)	(31.487)	(30.557)	(30.374)
Gross Profit	**16.375**	**19.745**	**22.297**	**26.180**	**27.328**
(-) Expenses	(5.251)	(6.155)	(6.620)	(7.074)	(7.191)
Adjusted EBITDA	**18.953**	**21.703**	**23.749**	**27.164**	**28.172**
(-) D&A	(7.829)	(8.113)	(8.072)	(8.059)	(8.035)
EBIT	**11.124**	**13.590**	**15.677**	**19.105**	**20.137**
(+/-) Financial Result	(5.031)	(1.661)	(3.534)	(1.342)	143
(-) Taxes	(1.024)	(2.006)	(2.042)	(2.987)	(3.410)
Net income	**5.068**	**9.923**	**10.101**	**14.776**	**16.870**
Profitability					
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
Net Revenue	**44.034**	**51.068**	**53.783**	**56.737**	**57.702**
(-) COGS	(27.659)	(31.324)	(31.487)	(30.557)	(30.374)
Adjusted EBITDA	**18.953**	**21.703**	**23.749**	**27.164**	**28.172**
EBIT	**11.124**	**13.590**	**15.677**	**19.105**	**20.137**
(-) 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)
FCFF	**3.514**	**10.818**	**13.169**	**16.273**	**16.692**

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