

# SUZANO

## 3Q24 Review: Pulp Fiction

LatAm Pulp & Paper

**(i) Pulp shipments** were the **main positive highlight**, coming in at **2.6Mt** (+4.5 vs. Genial Est.), up +2.5% q/q and +6.0% y/y, with a performance in the last month of the quarter that probably exceeded the momentum of demand recovery that we were already using as a premise; **(ii) The realized pulp price** came in at **R\$3,720/t** (+1.7% vs. Genial Est.), up +2.5% q/q and +40.0% y/y. We note that the appreciation of the **USD/BRL exchange rate** (+6.2% q/q) helped to offset the slowdown in the realized price of BHKP (-4.4% q/q in USD); **(iii) Paper prices** remained stable and sales were up +8.1% q/q and +8.9% y/y; **(iv) Consolidated Net revenue**, which reached **R\$12.2bn** (+4.1% vs. Genial Est.), was driven by higher sales volume and higher sales volume, was driven by higher sales volume, up +6.8% q/q and +37.2% y/y; **(v) COGS/t ex. stoppages** stood at **R\$863/t** (+4.7% vs. Genial Est.), up +4.2% y/y, exposing occasional difficulties with operational stability. On the other hand, **COGS/t including stoppages** was **R\$932/t** (+7.1% vs. Genial Est.), up +9.6% q/q, appearing as the **negative highlight** of the quarter; **(vi) Even with the higher costs, adjusted EBITDA** ended up expanding +3.7% q/q and +76.5% y/y, **reaching R\$6.5bn** (+3.6% vs. Genial Est.); **(vii) Net income** was R\$3.2bn (+14.2% vs. Genial Est.), consolidating a reversal of the previous quarter's loss; **(viii) Cash flow burn (FCFE)** was **-R\$4.3bn** (vs. +R\$601m in 2Q24), reversing the positive momentum of the previous quarter, being dredged down by a **CAPEX of R\$7.6bn** (+1.2% vs. Genial Est.), up +77.8% q/q, driven by the closing of M&As; **(ix) LTM accumulated EBITDA** rose to ~R\$22bn (+14.8% q/q). This, in turn, brought leverage to **3.1x Net Debt/EBITDA** vs. 3.2x in 2Q24, regressing smoothly even in a quarter of strong cash flow outflows; **(x) With very interesting metrics**, such as a **25E FCF yield of 13%** (vs. ~9% 24E), and **COGS/t reduction** to **~R\$500/t 25/26E** (vs. R\$800/t currently), we see Suzano **heavily discounted**, trading at an **EV/EBITDA 25E of 5.4x** (vs. historical average of 7x), which leads us to reiterate our **BUY rating**, with a **12M Target Price of R\$72.00**, reflecting an **upside of +25.44%**.

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### Company

**SUZB3 BZ Equity**  
Buy

**Price:** R\$ 55.40 (24-Oct-2024)  
**Target Price 12M:** R\$ 72.00

**SUZ US Equity**  
**Target Price 12M:** US\$ 12.65

**Table 1. Shipments Summary (3Q24 vs. Genial Est.)**

(Thousand Tonnes - kt)	Reported	Genial Est.					
Summary	3Q24A	3Q24E	% Diff.	2Q24A	% q/q	3Q23A	% y/y
Pulp Shipments	2.635	2.522	4,5%	2.545	3,5%	2.486	6,0%
Paper Shipments	360	343	5,0%	333	8,1%	331	8,9%

Source: Suzano, Genial Investimentos

**Table 2. Income Statement Summary (3Q24 vs. Genial Est.)**

(R\$ millions)	Reported	Genial Est.					
Income Statement	3Q24A	3Q24E	% Diff.	2Q24A	% q/q	3Q23A	% y/y
Net Revenue	12.274	11.786	4,1%	11.495	6,8%	8.948	37,2%
Adjusted EBITDA	6.522	6.296	3,6%	6.288	3,7%	3.695	76,5%
Net Income	3.237	2.836	14,1%	(3.764)	-	(729)	-

Source: Suzano, Genial Investimentos

Suzano reported its **3Q24 results** yesterday, October 24, after the market closed. We consider the positive highlight to be the increase in **pulp shipments to 2.6Mt** (+4.5% vs. Genial Est.), up +2.5% q/q and +6.0% y/y, above our estimates and consensus. The **realized price** was consistent with our expectations, reaching **R\$3,720/t** (+1.7% vs. Genial Est.), up +2.5% q/q and +40.0% y/y, growing sequentially even with the reversal of the BHKP cycle occurring precisely in the month of the quarter that accumulated the highest sales volume (September).

On the negative side, COGS/t including stoppages, clocked in at R\$932/t (+7.1% vs. Genial Est.), suffering more than we anticipated from **(i)** maintenance stoppages, **(ii)** logistics services and **(iii)** one-off Cerrado start-up costs. Although costs were higher than expected, EBITDA came in slightly above expectations, at R\$6.5bn (+3.6% vs. Genial Est.), up +3.7% q/q and +76.5% y/y. Net income was R\$3.2bn (+12% vs. Genial Est.), reversing the loss of 2Q24, derived by the effect of the financial result. Mainly due to having exceeded the level of shipments priced by the market, we expect a slightly positive performance from the shares in today's trading session.

### 3Q24 Review: In detail!

**Shipments above estimates.** Pulp sales volume performed slightly above our expectations and the market consensus, reporting shipments of 2,635Kt (+4.5 vs. Genial Est.), up +3.5% q/q and +6.0% y/y. We emphasize that Suzano's sales surprised positively, even with weaker demand for 2/3 of the quarter, after last quarter the company reduced inventories with a full orderbook, reflecting a lower purchasing impetus for 3Q24.

Even so, our analysis indicates that sales accelerated with even greater voracity than our expectations in the last month of the quarter (September), when the BHKP benchmark curve in China showed strong signs of deceleration, reaching US\$570/t today (vs. ~US\$750/t 2M ago). This surge in demand possibly reflects a more aggressive pace of production by the non-integrated paper industry in China, which seems to have purposely reduced the buying momentum at the beginning of the quarter to help force the price down and put the orderbook in place more emphatically when the price had already fallen. Although we had anticipated this dynamic in our results preview, the movement was even stronger than we had anticipated.

**Realized price rises in BRL and falls in USD.** The average pulp price was consistent with our expectations, reaching R\$3,720/t (+1.7% vs. Genial Est.), rising +2.5% q/q and +40.0% y/y. The realized price for the foreign market reached US\$670/t (+0.3% vs. Genial), which represents a drop of -4.4% q/q and a strong rise of +22.5% y/y. The sequential decline reflects the downward trend in pulp prices, especially in the last month of the quarter, which was weighted more heavily in the calculation due to the higher volume of sales in this period.

However, the robust upward movement on an annual basis considers that, although the quarter showed a reversal of the pulp cycle, the bottom of this cycle seems to have reached a better price level than the bottom of the 2023 cycle. As we mentioned in the preview, the lower pulp prices are partially offset by the acceleration of the USD/BRL exchange rate, which in translation, has erased the sequential fall in the price in US\$ to R\$.

**Table 3. Realized Price Suzano (3Q24 vs. Genial Est.)**

(R\$/t)	3Q24			2Q24		3Q23	
	Reported	Genial Est.	% R/E	Reported	% q/q	Reported	% y/y
<b>Realized price</b>							
Pulp	3.720	3.658	1,7%	3.629	2,5%	2.657	40,0%
Paper	6.871	7.462	-7,9%	6.787	1,2%	7.085	-3,0%

Source: Suzano, Genial Investimentos

**Sales levels in the paper segment also surprised.** Prices for paper remained stable, although below our estimates, reflecting difficulties in passing on prices. Surprising both our projections and the market consensus, sales volume increased significantly to 360Kt (+5% vs. Genial Est.), representing a rise of +8.1% q/q and +8.9% y/y. This robust performance can mainly be attributed to: **(i)** the municipal election period in Brazil, which stimulated demand for coated paper through the printing of graphic material for political campaigns, as we previously mentioned in our preview and **(ii)** a good performance in the demand for paperboard, driven by the food and pharmaceutical sectors - which showed a more heated demand for the period.

**Net revenue reported slightly better than expected.** Consolidated net revenue was R\$12.2bn (+4.1% vs. Genial Est.), representing an increase of +6.8% q/q and +37.2% y/y. The improvement over our expectations was due to a surprising volume of shipments, both in the pulp and paper segments. The strong figure in shipments mitigated the effect of a lower-than-expected realized price in paper (-7.9% vs. Genial Est.), which reached net revenues of R\$2.4bn (+9.3% q/q; +5.4% y/y). The pulp segment had net revenue of R\$9.8bn (+6.2% vs. Genial Est.), up +6.1% q/q and +48.4% y/y. We found that the appreciation of the USD/BRL exchange rate (+6.2% q/q) helped offset the slowdown in the realized price of BHKP (-4.4% q/q in USD).

**Table 4. Revenue Suzano (3Q24 vs. Genial Est.)**

(R\$ millions)	3Q24			2Q24		3Q23	
	Reported	Genial Est.	% R/E	Reported	% q/q	Reported	% y/y
<b>Net Revenue</b>	<b>12.274</b>	<b>11.786</b>	<b>4,1%</b>	<b>11.495</b>	<b>6,8%</b>	<b>8.948</b>	<b>37,2%</b>
Pulp	9.803	9.228	6,2%	9.236	6,1%	6.605	48,4%
Paper	2.470	2.559	-3,5%	2.259	9,3%	2.343	5,4%

Source: Suzano, Genial Investimentos

**COGS/t was the negative highlight.** COGS/t ex. stoppages came in above our expectations, at R\$863/t (+4.7% vs. Genial Est.), representing an increase of +4.2% q/q and +0.2% y/y. The exceptionally higher costs were impacted by **(i)** one-off events of low operational stability in some plants and **(ii)** the average appreciation of the USD/BRL Fx rate, which increased spending in segments pegged to USD, an effect we had already anticipated.

Considering maintenance and one-off costs from the ramp-up of the Cerrado project, COGS/t including stoppages was R\$932/t (+7.1% vs. Genial Est.), rising by +9.6% q/q due to superlative values linked to **(iii)** logistical issues, **(iv)** the supply mix effect, given the higher unit cost linked to the ramp-up, and **(v)** higher than expected maintenance labor costs, which were partially offset by **(vi)** better operational performance in the harvesting stage.

**EBITDA expanded by +3.7% q/q and +76.5% y/y.** Consolidated adjusted EBITDA reached R\$6.5bn (+3.6% vs. Genial Est.), representing a rise of +3.7% q/q and +76.5% a/a. EBITDA results exceeded expectations, even considering the significant increase in COGS/t. Pulp EBITDA was R\$5.6bn (+8.1% vs. Genial Est.), with growth of +2.9% q/q and +95.6%/y/y, showing that the increase in shipments outweighed the higher costs, in addition to the cyclical issues of pulp which indicate different dynamics on a sequential and annual basis.

**Table 5. EBITDA Suzano (3Q24 vs. Genial Est.)**

(R\$ millions)	3Q24			2Q24		3Q23	
	Reported	Genial Est.	% R/E	Reported	% q/q	Reported	% y/y
<b>Adjusted EBITDA</b>	<b>6.522</b>	<b>6.296</b>	<b>3,6%</b>	<b>6.288</b>	<b>3,7%</b>	<b>3.695</b>	<b>76,5%</b>
Pulp	5.697	5.268	8,1%	5.537	2,9%	2.912	95,6%
Paper	825	1.028	-19,7%	750	9,9%	783	5,4%

Source: Suzano, Genial Investimentos

**Recovery in net income.** With robust results in operational terms, even in the face of higher costs than we expected, Suzano reported net income of R\$3.2bn, above our estimates (+14.2% vs. Genial Est.). This performance allowed the company to reverse the accounting loss of 2Q24, which had been impacted by currency hedges and variations in debt held in USD due to the boost in the USD/BRL EoP exchange rate last quarter. In this quarter, the EoP exchange rate fell to 5.45 vs. 5.56 in 2Q24, which helped to reverse the financial result, becoming positive at +R\$748mn (-R\$11bn in 2Q24).

**Table 6. Income Statement Suzano (3Q24 vs. Genial Est.)**

(R\$ millions)	3Q24			2Q24		3Q23	
	Reported	Genial Est.	% R/E	Reported	% q/q	Reported	% y/y
<b>Net Revenue</b>	<b>12.274</b>	<b>11.786</b>	<b>4,1%</b>	<b>11.495</b>	<b>6,8%</b>	<b>8.948</b>	<b>37,2%</b>
COGS	(6.847)	(6.169)	11,0%	(6.093)	-12,4%	(6.104)	12,2%
<b>Adjusted EBITDA</b>	<b>6.522</b>	<b>6.296</b>	<b>3,6%</b>	<b>6.288</b>	<b>3,7%</b>	<b>3.695</b>	<b>76,5%</b>
EBITDA Margin (%)	53,1%	53,4%	-0,28p.p	54,7%	-1,56p.p	41,3%	11,84p.p
<b>EBIT</b>	<b>4.109</b>	<b>4.118</b>	<b>-0,2%</b>	<b>4.615</b>	<b>-11,0%</b>	<b>1.683</b>	<b>144,1%</b>
EBIT Margin (%)	33,5%	34,9%	-1,46p.p	40,1%	-6,67p.p	18,8%	14,66p.p
D&A	(2.303)	(2.177)	5,8%	(2.129)	8,2%	(1.940)	18,7%
Financial Result	867	748	15,9%	(11.074)	-	(3.494)	-
<b>Net Income</b>	<b>3.237</b>	<b>2.836</b>	<b>14,1%</b>	<b>(3.764)</b>	<b>-</b>	<b>(729)</b>	<b>-</b>
Net Margin (%)	26,4%	24,1%	2,31p.p	-32,7%	-	-8,1%	-

Source: Suzano, Genial Investimentos

## Our take on Suzano

**FCFE burn at -R\$4.3bn, but close to expectations.** The company reported a cash flow burn (FCFE) of -R\$4.3bn (vs. +R\$601mn in 2Q24), reversing the positive momentum of the previous quarter. Cash flow generation was pushed down by **(i)** CAPEX of R\$7.6bn (+1.2% vs. Genial Est.), up +77.8% q/q. This increase was supplemented by the execution schedule of the Cerrado project (closing at 93% of disbursement), **(ii)** the addition of +R\$3.4bn (acquisition of land from BTG Pactual + 15% stake in Lenzing), although the portion earmarked for maintenance investments was lower. The M&A expenses have already been announced in our previous report.

The **(iii)** marginal acceleration in adjusted EBITDA of +4% q/q and the **(iv)** cash expenditure of -R\$2.4bn with the share buyback payment, finished setting the tone for a quite negative FCF. On the other hand, we point out that excluding the repurchase line, FCFE would be equivalent to -R\$1.9bn (37% lower burn vs. Genial Est.), improved compared to our estimates by the dynamics of working capital with a little more release, and more positive gains in the line of derivative adjustments.

**Even with negative FCF, the cash position is robust.** According to our perception, spending on the M&A operations mentioned above + the share buyback program were not factors that interfered with the company's robust cash and equivalents position, which closed the quarter at R\$17.5bn (-20% q/q), a level that we believe is still quite solid. The substantial improvement in adjusted EBITDA year-on-year to R\$6.5bn (+76.5% q/q) brought the accumulated LTM to ~R\$22bn (+14.8% q/q). This, in turn, brought leverage to **3.1x Net Debt/EBITDA** vs. 3.2x in 2Q24, regressing smoothly even in a quarter of strong cash flow outflows. The dynamics are in line with what we commented on in our preview report.

**Deleveraging seems to us to be a clear way forward.** The company is ready for the deleveraging process. We expect the reduction to continue, showing that the peak of leverage was in fact in 1Q24, since the spot price of BHKP China is ~US\$570/t and in 4Q23 the company's realized price was slightly lower than this. This indicates a potential upside in EBITDA y/y in the next quarter as well, considering that the shipments should increase, given the higher percentage of contribution from the Ribas do Rio Pardo (MS) plant, which we expect to reach ~550Kt Genial Est. in sales in 4Q24 vs. the 700kt guidance reinforced by the company (3Q24 + 4Q24).

As the ramp-up of the Cerrado project is not linear, we expect a much higher sales volume for the subsequent quarter than we potentially saw in this one (Suzano did not disclose how much it was). As we don't believe that the pulp price will decrease even with more volume entering the supply system in 4Q24, in the face of better demand and an already depreciated level when considering that the market price is close to the producer's marginal cost (US\$500-550/t), this will help in the ongoing act of deleveraging, by expunging a cooler EBITDA configuration from the LTM base. The down cycle at BHKP in 2023 was more intense than we saw in 2H24. The company looks to us to be on course for **2.6x 25E Net Debt/EBITDA** (vs. 3.5x at the peak of the investment cycle in 1Q24).

**Pulp Fiction.** As the Fujian (1.6Mtpy) and Cerrado (2.5Mtpy) projects reach a more mature ramp-up curve, the fear of pulp oversupply will always lurk. Even so, we are more bullish about the structural demand for BHKP compared to other elements belonging to the hard commodities group, such as iron ore, for example. Therefore, it seems to us that the demand vector is upwards, but the increase y/y is gradual.

As long as the non-integrated paper industry in China does not absorb such a brutal expansion of supply, we believe that the majors in the sector will close old capacities in order to promote a better balance between additional supply and progressive demand. Making a pun on Quentin Tarantino's famous movie, "Pulp Fiction", it sounds a bit fictional for investors to believe that producers will not follow this path and will not move to rebalance the price, reverting the pulp cycle to an upward trend when the price approaches marginal cost. The proof of this was what happened in 2023, when the price of BHKP reached US\$480/t at the bottom of the cycle and months later it was already US\$700/t.

**Cutting old capacity and an upward trend for pulp prices.** In line with our comments above, for the second year running, Suzano has announced a production cut of ~4% vs. its nominal production capacity (ex-Cerrado). This is a recent announcement made earlier this month. In addition to optimizing the cost structure by shutting down machines in older, less efficient production plants, the announced capacity cut could contribute to the formation of a general perception among producers to reduce oversupply in the market. In other words, Suzano could encourage other players to adopt similar measures, purging the negative sentiment that has brought the price of BHKP down to US\$570/t today (vs. US\$750/t 2M ago).

We forecast that BHKP prices in China will stabilize by the end of the year, with a recovery towards ~US\$650/t by 2Q25, as **(i)** the current level is close to the marginal cost of production, **(ii)** more aggressive than consensus expected shipment volumes for Suzano indicate that September demand has returned quite strongly, and **(iii)** potential cuts in old capacity at other players should cool market fears of oversupply.

**One of the Ibov's most discounted large caps.** With the ramp-up of the Cerrado project over the next year, we estimate a **25E FCF yield of 13%** (vs. ~9% in 2024). This FCF expansion will come mainly from the **reduction in COGS/t to ~R\$500/t 25/26E** (vs. R\$800/t currently). We do not believe that this efficiency gain is currently reflected in the market valuation. We see Suzano heavily discounted, trading at **5.4x EV/EBITDA 25E** (vs. historical average of 7x), which leads us to reiterate our **BUY rating**, with a **12M Target Price of R\$72.00**, reflecting an **upside of +25.44%**.

## 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>44.048</b>	<b>48.367</b>	<b>54.667</b>	<b>55.213</b>	<b>58.295</b>
(-) COGS	(24.588)	(26.977)	(27.754)	(26.958)	(26.545)
<b>Gross Profit</b>	<b>19.461</b>	<b>21.390</b>	<b>26.913</b>	<b>27.927</b>	<b>31.466</b>
(-) Expenses	(5.372)	(5.900)	(6.741)	(6.900)	(7.267)
<b>Adjusted EBITDA</b>	<b>23.046</b>	<b>24.751</b>	<b>29.428</b>	<b>30.358</b>	<b>33.250</b>
(-) D&A	(8.537)	(9.261)	(9.256)	(9.003)	(8.767)
<b>EBIT</b>	<b>14.510</b>	<b>15.491</b>	<b>20.172</b>	<b>21.027</b>	<b>24.199</b>
(+/-) Financial Result	(9.717)	(2.811)	(3.660)	(2.049)	(821)
(-) Taxes	(1.495)	(5.290)	(6.888)	(7.918)	(9.752)
<b>Net income</b>	<b>3.298</b>	<b>7.390</b>	<b>9.623</b>	<b>11.061</b>	<b>13.625</b>
<b>Profitability</b>					
Net margin (%)	7,49%	15,28%	17,60%	20,03%	23,37%

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>44.048</b>	<b>48.367</b>	<b>54.667</b>	<b>55.213</b>	<b>58.295</b>
(-) COGS	(24.588)	(26.977)	(27.754)	(26.958)	(26.545)
<b>Adjusted EBITDA</b>	<b>23.046</b>	<b>24.751</b>	<b>29.428</b>	<b>30.358</b>	<b>33.250</b>
<b>EBIT</b>	<b>14.510</b>	<b>15.491</b>	<b>20.172</b>	<b>21.027</b>	<b>24.199</b>
(-) Taxes	(1.495)	(5.290)	(6.888)	(7.918)	(9.752)
(+) D&A	8.537	9.261	9.256	9.003	8.767
(+/-) Δ WK	(1.832)	(1.116)	(996)	341	(738)
(-) Capex	(11.557)	(9.996)	(7.470)	(7.178)	(7.316)
<b>FCFF</b>	<b>8.163</b>	<b>8.350</b>	<b>14.073</b>	<b>15.603</b>	<b>15.443</b>

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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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