

SUZANO

3Q24 Preview: Waiting for better days to come

LatAm Pulp & Paper

(i) In the pulp division, we expect **slightly lower shipments**, reaching **2.5Mt Genial Est.** (-0.9% q/q; +1.5% y/y); (ii) We project **realized price contraction in USD**, to US\$668/t Genial Est. (-4.7% q/q), but with **FX compensation**, reaching **R\$3,703/t Genial Est.** (+1.3% q/q); (iii) Our model indicates better volume for paper (+3.0% q/q; +3.7% y/y); (iv) **Net revenue** should be **R\$11.7bn Genial Est.** (+2.5% q/q; +31.7% y/y), with moderate growth in the sequential movement and boosted in the year-on-year comparison, given that last year's BHKP downturn has bottomed out at a lower price than this one; (v) **COGS/t pressured:** R\$870/t Genial Est. (+2.4% q/q), with a **one-off impact** from Cerrado and maintenance stoppages; (vi) **Flat EBITDA**, measured in our model at **R\$6.2bn Genial Est.** (+0.1% q/q); (vii) **Recovered net income**, clocking in at **R\$2.8bn Genial Est.** after FX rate impact in 2Q24 and accounting effect of adjustments to the financial result; (viii) We believe that the efficiency gain that the **ramp-up of Cerrado project** should bring is not currently reflected in the market valuation. **COGS/t is expected to fall to ~R\$500/t** (vs. R\$800/t currently) in 2025. 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 +29.10%**.

Suzano will release its **3Q24 results** on **October 24**, after the market closes. It should be a quarter with a **slight increase** in **Net revenue** (+2.5% q/q) and **flat EBITDA** (+0.1% q/q). **Net income may gain momentum**, reversing the loss of 2Q24, due to the recording of financial gains on currency hedge positions and debt variation in USD. We emphasize that there is no effect on cash flow in relation to these gains. In a quarter without major changes in results, the **Cerrado project** should **only bring more volume from 4Q24 onwards**. Therefore, we believe in an **increased flow of investors setting up long positions throughout 2025**. The valuation at the current price offers a **good entry point**, which have (until now) remained **without short-term catalysts** in the face of the bearish pulp cycle.

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

(Thousand Tonnes - kt)	Genial Est.				
Summary	3Q24E	2Q24A	% q/q	3Q23A	% y/y
Pulp Shipments	2.522	2.545	-0,9%	2.486	1,5%
Paper Shipments	343	333	3,0%	331	3,7%

Source: Suzano, Genial Investimentos

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

(R\$ millions)	Genial Est.				
Income Statement	3Q24E	2Q24A	% q/q	3Q23A	% y/y
Net Revenue	11.786	11.495	2,5%	8.948	31,7%
Adjusted EBITDA	6.296	6.288	0,1%	3.695	70,4%
Net Income	2.836	(3.764)	-	(729)	-

Source: Suzano, Genial Investimentos

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Company

SUZB3 BZ Equity
Buy

Price: R\$ 55.77 (18-Oct-2024)
Target Price 12M: R\$ 72.00

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

On the **operational side**, we expect **pulp sales of 2.5Mt Genial Est.** (-0.9% q/q; +1.5% y/y), with 2/3 of the quarter at a slower sales pace, and with greater demand from China only in September, stabilizing shipments sequentially. For the **realized price**, our projection indicates **a drop in USD**, reaching **US\$668/t Genial Est.** (-4.7% q/q; +22.2% y/y). However, this fall is partially offset by the **acceleration in the USD/BRL exchange rate**, resulting, after conversion, in **R\$3,658/t Genial Est.** (+0.8% q/q; +37.7% y/y), also basically stable q/q.

3Q24 Preview: In detail!

Demand was disproportionate, but shipments should remain flat. We expect pulp sales of 2,522Kt Genial Est. (-0.9% q/q; +1.5% y/y), with a mild sequential retraction and a slight increase on an annual basis. According to market data that we follow, and which was put into context in conversations with the company, we believe that demand was lower in the first 2/3 of the quarter, with recovery only in September, precisely when the BHKP China curve fell back to US\$570/t (-25% in ~60 days). We believe that this reflects the strategy of the Chinese non-integrated paper industry, which is waiting for prices to fall before refilling the market pulp orderbook more emphatically. Our analysis indicates that, although shipments were more apathetic for more than half of the quarter, the acceleration of demand in the last month will leave the sales level in the 3Q24 consolidated figures in a basically stable line vs. last quarter.

Lower realized BHKP prices will be offset by the FX rate effect. We are projecting the realized pulp price at US\$668/t Genial Est. (-4.7% q/q; +22.2% y/y), with sequential retraction impacted by the strong contraction of the spot curve in the BHKP China benchmark. However, this fall is partially offset by the acceleration in the USD/BRL exchange rate, resulting, after conversion, in R\$3,658/t Genial Est. (+0.8% q/q; +37.7% y/y). We believe that, since the price of BHKP is approaching the marginal cost of smaller producers (~US\$560/t currently), values should remain at this level for only a short period, before allowing for a recovery later on (we will explore this topic further at the end of the report).

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

(R\$/t)	3Q24E	2Q24	% q/q	3Q23	% y/y
	Genial Est.	Reported		Reported	
Realized Price					
Pulp	3.658	3.629	0,8%	2.657	37,7%
Paper	7.462	6.787	10,0%	7.085	5,3%

Source: Suzano, Genial Investimentos

We expect growth in paper segment sales. We project an improvement in paper segment sales to 343Kt (+3.0% q/q; +3.7% y/y), driven by seasonally stronger demand, due to: **(i)** the PNLD (National Textbook Program) and **(ii)** the period of municipal elections in Brazil, which historically increase demand for paper. We see this phenomenon particularly linked to the P&W segment, coming from politicians' advertising materials.

In addition, the difference observed in relation to the annual base is due to the normalization of the capacity addition of +130Ktpa from the operations that the company acquired from Kimberly-Clark (K-C) in Brazil, linked to the tissue segment. In previous quarters it was common to see more expressive growth as the y/y basis came without this capacity addition. For the realized price, we project R\$7,462/t (+5.3% q/q; +10.0% y/y), with a slight increase driven by the pass-through announced by the company for some specific segments of the paper line.

Net revenue should grow low single digit q/q. We estimate consolidated net revenue of R\$11.7bn Genial Est. (+2.5% q/q; +31.7% y/y). The figure reflects a slightly lower level of pulp shipments (-0.9% q/q) and lower realized prices in USD (-4.7% q/q), partially offset by the appreciation of the USD/BRL FX rate (+6.2% q/q) and higher paper sales (+3.0% q/q). In the year-on-year comparison, although the BHKP reference curve did indeed fall at the end of 3Q24, we believe that the realized pulp price this quarter will be substantially higher than that observed in the same period last year, given the prolonged pulp downcycle during 2Q23 and 3Q23, which reached ~US\$480/t vs. US\$570 today (comparing the bottom of the two cycles). This would justify the more expressive growth in pulp net revenue y/y, which should reach R\$9.2bn Genial Est. (-0.1% q/q; +39.7% y/y). For the paper segment, our projection is R\$2.5bn Genial Est. (+13.3% q/q; +9.2% y/y).

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

(R\$ millions)	3Q24E	2Q24	% q/q	3Q23	% y/y
	Genial Est.	Reported		Reported	
Net Revenue	11.786	11.495	2,5%	8.948	31,7%
Pulp	9.228	9.236	-0,1%	6.605	39,7%
Paper	2.559	2.259	13,3%	2.343	9,2%

Source: Suzano, Genial Investimentos

COGS/t will be pressured by one-offs and stoppages. The fall in the price of Brent crude oil to US\$78.7 (-6.3% q/q) should ease fuel costs, taking pressure off the cost per km in wood transportation. We expect COGS/t ex. stops to reach R\$824/t Genial Est. (-0.4% q/q; -4.3% y/y). However, this reduction in expenses will be erased by (i) one-off costs related to the Cerrado project, such as the start-up of the boilers and lignin consumption, factors that should add ~R\$130mn Genial Est to COGS. In addition, (ii) there will be the effect of scheduled stoppages at the Limeira (SP), Suzano (SP) and Veracel (BA) units. We therefore project COGS/t including stoppages of R\$870/t Genial Est. (+2.4% q/q; -6.9% y/y).

EBITDA is likely to be flat q/q. We project a consolidated adjusted EBITDA of R\$6.2bn Genial Est. (+0.1% q/q; +70.4% y/y), in line with the previous quarter and growing more robustly y/y due to the performance of the pulp segment, in the face of an expected realized price at higher levels than the bearish cycle seen last year. Pulp EBITDA is marked in our model at R\$5.2bn (-4.9% q/q; +80.9% y/y). The paper segment will help balance the sequential result. The combination of higher volume in the domestic market for paper and the depreciation of the BRL favoring exports, should be reflected in an EBITDA of R\$1bn Genial Est. (+36.9% q/q; +31.6% y/y).

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

(R\$ millions)	3Q24E	2Q24	% q/q	3Q23	% y/y
	Genial Est.	Reported		Reported	
Adjusted EBITDA	6.296	6.288	0,1%	3.695	70,4%
Pulp	5.268	5.537	-4,9%	2.912	80,9%
Paper	1.028	750	36,9%	783	31,3%

Source: Suzano, Genial Investimentos

Net income aided by the financial result. For the last line, we project a net income of R\$2.8bn Genial Est., reversing the accounting loss, both from last quarter and from the same period last year, through an estimated financial result of +R\$748mn, the consequence of the reduction in the USD/BRL EoP FX rate to 5.45 vs. 5.56 in 2Q24. Although the average USD/BRL FX rate had a bullish bias during the quarter, standing at 5.54 (+6.3% q/q), the value on the day of closing was lower vs. 2Q24 by -1.9% q/q.

We would like to point out that for **(i)** calculating the exchange rate variation of the debt held in USD and for **(ii)** measuring profit/loss on currency hedging operations, both lines which affect the financial result, we used the EoP exchange rate and not the average for the quarter. As in 2Q24 the EoP exchange rate had risen compared to 1Q24, the financial result line was negatively impacted, which caused the company to record a strong accounting loss. It is important to mention that there is no effect on cash flow from these variations, neither when they are negative (as was the case in 2Q24) nor when they are positive (as should be the case in 3Q24).

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

(R\$ millions)	3Q24E	2Q24	% q/q	3Q23	% y/y
	Genial Est.	Reported		Reported	
Net Revenue	11.786	11.495	2,5%	8.948	31,7%
COGS	(6.169)	(6.093)	-1,2%	(6.104)	1,1%
Adjusted EBITDA	6.296	6.288	0,1%	3.695	70,4%
EBITDA Margin (%)	53,4%	54,7%	-1,28p.p	41,3%	12,12p.p
EBIT	4.118	4.615	-10,8%	1.683	144,6%
EBIT Margin (%)	34,9%	40,1%	-5,2p.p	18,8%	16,13p.p
D&A	(2.177)	(2.129)	2,3%	(1.940)	12,3%
Financial Result	748	(11.074)	106,8%	(3.494)	121,4%
Net Income	2.836	(3.764)	-	(729)	-
Net Margin (%)	24,1%	-32,7%	-	-8,1%	-

Source: Suzano, Genial Investimentos

Our take on Suzano

Important acquisitions. The company made two small strategic acquisitions which represent a cash flow consumption of **-R\$3.4bn**. These are: **(i)** Acquisition of land from BTG Pactual, with 70k ha in Mato Grosso do Sul (MS), the productive portion being 71% of the total area. The objective is self-sufficiency in the supply of wood in strategic areas, representing an outlay of -R\$2.2bn, closed on August 1. **(ii)** A 15% stake in Lenzing, aimed at expanding its operations in the textile industry based on pulp microfibers, reinforcing the company's strategy of diversification in gradual movements. The deal was closed for ~€230mn (~R\$1.3bn) on July 31. Suzano maintains the possibility of increasing its stake in Lenzing in the future.

FCFE will feel the negative impact of the payments in 3Q24. For now, according to our assessment, neither of the two acquisitions mentioned above, nor that of Pactiv Evergreen for US\$110mn (~R\$600mn), will substantially alter the company's capital structure, as was the great fear of investors during the period in which Suzano negotiated the potential purchase of International Paper (IP), from the beginning of May to the end of June. The company closed 2Q24 with a cash and equivalents position of ~R\$14bn, more than enough to pay for the acquisitions and continue on the deleveraging path in 2025, which we expect to reach **3x Net Debt/EBITDA 25E** vs. 3.5x in 2Q24. We wait for a **FCFE** of **-R\$3.1bn** in 3Q24, partially offset by the issuance of +US\$167m (~R\$940m) in 3-year “panda bonds”. The original currency is RMB, since the issue was made possible by Suzano's international subsidiary in China and took place in August. The issue was the first part of a tranche with a total of ~US\$2.8bn (~R\$15.7bn).

The worst phase of this pulp cycle seems to have already happened. Our perception is that the bearish cycle for pulp has already bottomed out at ~US\$560/t, with demand showing more benign signs from September onwards, even with the plant in Ribas do Rio Pardo (MS) having been ramping up since July, which would have once again instilled the fear of oversupply, a fact that has brought prices down intensely over the last 2-3M. The Cerrado project, as Suzano calls it, will become the largest BHPK manufacturing plant in the world, delivering ~2.5Mtpy when it reaches full capacity. Another relevant project is that of the Liansheng company, with a mega mill in Fujian province (FJ), inaugurating ~1.6Mtpy of pulp production and which came online in October.

Capacity cut and partial improvement in market sentiment. With the ramp-up of these two projects (Fujian + Cerrado) still in its initial phase, plus Suzano's capacity **cut of ~4% of production**, we expect the market to gradually resume its perception of a balance between supply and demand, which should improve sentiment towards BHPK prices. Clearly, the cutback promoted by Suzano, which will have its effect until the end of the year, would not alone put an end to the fear of oversupply. On the other hand, the company's announcement in October that it was withdrawing volume from old machines could influence other players to reduce production, as happened last year, in a very similar move. In our view, the price of BHPK China will remain close to the **current level of ~US\$570/t** until the end of **4Q24**, with a potential **upside** for **1H25**.

BHKP prices are expected to uplift by 2Q25. As we mentioned earlier, we project a short-term recovery for the price of BHKP China pulp to **~US\$650/t Genial Est. by 2Q25**, given that we see the current spot price approaching the marginal cost of production (~US\$500-550/t). Historically, we observe that when this situation occurs, the bearish cycle tends to bottom out in ~3M (having started in August), before prices return to stability and readjustments can be renegotiated for the client portfolio with the futures market already pricing an improvement in the BHKP price curve. Looking back, between 2H23 and 1Q24, combined with a context of supply disruption (mainly in Finland), Suzano promoted 9 rounds of price increases, leaving the bottom of the previous cycle for a strong upward trend that lasted until the middle of this year. However, in August the pulp price began a new downward cycle, returning to price the entry of Cerrado and other capacity addition projects, with the issues in Finland normalized.

Cerrado project should start generating results in 4Q24. The Cerrado Project began operations in July and is expected to produce +900Kt by 2024E (700Kt of which will be sales). As the ramp-up is not linear, almost none of this volume should be seen in 3Q24. However, in 4Q24 the 700Kt of shipments should be part of the result almost in its entirety (we estimate ~90% or 630Kt). After this ramp-up period, the project has a capacity of +2.55Mtpy (+23% vs. current capacity). We estimate that the plant in Ribas do Rio Pardo (MS) will generate **incremental EBITDA of ~R\$4b Genial Est. in 2025-2026E** and represent an improvement in operational efficiency, indicating a reduction in COGS/t that should reach ~R\$500/t in 2025E (vs. R\$800/t currently).

Waiting for better days to come. With the ramp-up of the Cerrado project over the next year, we estimate a **25E FCF yield of 13%** (vs. ~9% in 2024). We believe this will result in a clear deleveraging process (3x Net Debt/EBITDA 25E vs. 3.5x in 2Q24), reinforcing the company's good fundamentals, **especially from 2025 onwards**. This improvement in operational efficiency will be seen in the expansion of FCF, mainly due to the **reduction in COGS/t to ~R\$500/t** (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 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 +29.10%**

Appendix: Suzano

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	44.048	48.367	54.667	55.213	58.295
(-) COGS	(24.588)	(26.977)	(27.754)	(26.958)	(26.545)
Gross Profit	19.461	21.390	26.913	27.927	31.466
(-) Expenses	(5.372)	(5.900)	(6.741)	(6.900)	(7.267)
Adjusted EBITDA	23.046	24.751	29.428	30.358	33.250
(-) D&A	(8.537)	(9.261)	(9.256)	(9.003)	(8.767)
EBIT	14.510	15.491	20.172	21.027	24.199
(+/-) Financial Result	(9.717)	(2.811)	(3.660)	(2.049)	(821)
(-) Taxes	(1.495)	(5.290)	(6.888)	(7.918)	(9.752)
Net income	3.298	7.390	9.623	11.061	13.625
Profitability					
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
Net Revenue	44.048	48.367	54.667	55.213	58.295
(-) COGS	(24.588)	(26.977)	(27.754)	(26.958)	(26.545)
Adjusted EBITDA	23.046	24.751	29.428	30.358	33.250
EBIT	14.510	15.491	20.172	21.027	24.199
(-) 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)
FCFF	8.163	8.350	14.073	15.603	15.443

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