genial Equity Research

KLABIN

Investor Day 2024: Time to reap the harvest!

LatAm Pulp & Paper

Main Takeaways:

We access that the company **will start to reap the rewards of the growth projects** in which it has invested, including: **(i)** a more intense shift next year of PM28 production volume to Paperboard instead of Kraftliner, with LPB homologation scheduled for 1Q25, generating an increase in realized price due to the higher added value; **(ii)** completion of the PM27 and PM28 ramp-ups in 2025, and **(iii)** improved sales mix and greater conversion optionality for corrugated boxes with the Figueira Project. In addition, we highlight the **(iv)** reduction in costs on a real basis (discounting inflation), with **new guidance** for **total cash COGS**, including stoppages, being placed at **R$3.1-3.2 thousand/t** for **24E** and **25E** in their nominal values, basically flat vs. 2023. In addition, the company updated **(v) CAPEX curve**, putting the **guidance** at **R$3.3bn 25E** (flat y/y), so that, even adding +R$800mn for the application of a new boiler at Monte Alegre (PR), the level of expenditure would be stable vs. 2024, and with a **reduction** of **-12%** for **26E**. Also, management emphasized the **(vi)** commitment to **deleveraging**, as the company cashes in on the **Plateau Project** and achieves an increase in EBITDA, reducing the indicator to **3x Net Debt/EBITDA 25E** (according to our calculations) vs. 3.9x in 3Q24. **(vii)** With the company well positioned in a market momentum and with solid fundamentals, we reiterate our **BUY rating**, given an **EV/EBITDA 25E of 6.5x** (below the historical average of ~7x), with a **12M Target Price** of **R$27.00**, indicating an **upside** of **+16.63%**.

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Company

KLBN11 BZ Equity
Buy

Price: R$ 23.15 (10-Dec-2024)
Target Price 12M: R$ 27.00

Yesterday, **December 10,** we attended the Klabin's **Investor Day 2024**, which took place at the new corrugated boxes unit in Piracicaba II (SP), commonly known as the **Figueira Project,** following the **conclusion of the plant's ramp-up**, which began in April. The **event gave us a positive outlook**, with Mr. Cristiano Teixeira (CEO), Mr. Marcos Ivo (CFO) and Mr. Douglas Dalmasi (Packaging Commercial Director) highlighting notorious growth levers for the company's future.

The main **points discussed during the presentation** were: **(i)** focus on BSKP and fluff as a strategic portfolio; **(ii)** strong emphasis on deleveraging and FCF generation with policy updates announced at the end of October, bringing more security in the capital allocation; **(iii)** favorable momentum, with the conclusion of major projects and good prospects for prices and market growth; **(iv)** competitive positioning of the company considering COGS/t, with no negative impacts from the upward movement in the USD/BRL exchange rate (neutral effect on costs).

In line with what we have said about Klabin since our IoC, we believe that the **verticalization strategy is indeed rewarding**, by mitigating cyclical impacts attributed to players that are very exposed to market pulp.

At the same time, we observed a **(v)** reinforcement of the diversification strategy by management, quoting that Klabin is dividing its operations into 1/3 net revenue from market pulp, 1/3 from packaging, 1/3 from paper sales.

Investor Day 2024: In detail!

The big bet on softwood. At various points during the event, the company reinforced its strong commitment to softwood (BSKP) as a portfolio for the future, identifying great opportunities for expansion in this market. In our view, this decision is both an opportunity and a necessity, since Klabin would not be able to compete for leadership in the hardwood market. It doesn't sound much of a choice, but it's an interesting decision, because by focusing on BSKP, the company is able to move away from a more commoditized model, offering more customized downstream products with greater added value, as well as ensuring greater predictability in cash flow generation by not depending so much on price fluctuations, like other players in the market.

To this end, Klabin is also looking for opportunities in southern Brazil to expand its pine plantation areas. The Plateau project, which is currently being processed by CADE and is expected to close in 1Q25, should contribute to the supply of timber inputs in the short to medium term.

Fiber-to-fiber and the fluff market. To compensate for a greater exposure to BSKP despite having its assets in a tropical country, the company has also focused on the fiber-to-fiber process, developing a unique product basically composed by BHKP, the Eukaliner, which serves to produce corrugated boxes with cost competitiveness, reduced grammage and print quality without giving up strength. In addition, the company was very optimistic about the fluff market, which is geared towards the production of geriatric and children's diapers, as well as other hygiene items, identifying opportunities for greater penetration in this niche, which is expected to grow with **(i)** the aging of the global population and **(ii)** the increase in income in various regions around the world, which directly boosts domestic demand.

New leverage policies in the investment cycle. During the event, Mr. Ivo recalled that at the end of October, the company updated its financial debt policy, maintaining the **leverage target** of **2.5-3.5x** Net Debt/EBITDA, but **adding metrics** rigorously linked to **period differentiations** (investment cycles or not) as a way of subsidizing its commitment to the new guidelines. In order to achieve the deleveraging process, Klabin established **(i)** a reduction in the maximum leverage for investment periods (3.9x vs. 4.2x previously); **(ii)** an increase in the maintenance CAPEX floor as a means of skillfully classifying the "investment cycle" (US$1.2bn vs. US$1.0bn previously), indicating greater rigor, and **(iii)** a reduction in the period in which the company can maintain this high leverage (12M vs. 24M previously).

Reduction in dividend policy brings more reassurance for investors. Although this is, in a superficial analysis, a negative point, since according to our calculations over the next 5Y the company would not achieve a Dividend Yield higher than 6.5%, even so, looking more closely at the reasons that led the company, also at the end of October, to **reduce the dividend distribution target** (10-20% Adjusted EBITDA vs. 15-25% previously), we understand that the initiative should bring more reassurance to the investor, since it demonstrates more responsibility and rigor from Klabin with capital allocation.

Management confirmed during yesterday's presentation that **the change is here to stay**. Through our contact with investors, we validated that the majority did not seem to perceive the dividends previously distributed as a major attraction for setting up long positions, given that the previous Dividend Yield generally oscillated between 6-7%, which does not seem to be a "silver bullet" for appealing for new investment choice, considering that companies that do not have growth theses pay ~10% or more.

Therefore, we make it clear that the reduction in the dividend policy ends up being attractive, as it signals Klabin's concern to **address the 3 points that we believe were more critical** to attracting investors than necessarily maintaining a yield payment that could be considered average. Among these 3 points that we mentioned at the beginning of the report, we recall: **(i)** high leverage ratio; **(ii)** robust CAPEX level reducing FCF and **(iii)** operational efficiency questioned by higher costs. By reducing the dividend target**, the company is moving towards reducing leverage**, by safeguarding in the cash flow the portion that would be earmarked for this payment.

An incremental volume of +200Kt is expected by 2025. Reinforced by management during the Investor Day, the company should benefit from a significant increase in production volumes in 2025, driven by the following factors: **(i)** ramp-up of PM27 and PM28, which will bring incremental production of ~88kt between 2024 and 2025; in addition to **(ii)** the absence of scheduled maintenance at some plants, such as Monte Alegre (PR) and **(iii)** normalization of bottlenecks at Ortigueira (PR), which impacted production in 2024.

We would also highlight the **(iv)** market recovery in kraftliner demand, which fell significantly in 2023 and picked up again in 2024, and led the company to reactivate Monte Alegre (PR) in 1Q24 and Goiana (PE) in 2Q24. Due to demand forecasts for next year, Klabin will reactivate Paulínia (SP), which is expected to be completed in 2Q25, completing the reactivation of the last stalled plants. These points will lead to an incremental volume of +200kt for 25E vs. 2024. On the demand side in the domestic market, factors such as unemployment at an all-time low and considering the outlook that the packaging segment will grow above GDP, should help strengthen this increase in supply as being fully reversed into sales.

Total cash cost guidance maintains resilience vs. inflation. The company gave a **total cash cost guidance** of **R$3.1-R$3.2 thousand/t** (including stoppages) for **24E** and **25E**, which would indicate an y/y reduction in total cash cost in real terms (R$3.2 thousand/t in 2023). In other words, as the values stipulated as targets for 2024 and 2025 were set in nominal terms (containing inflation), and both remain stable vs. 2023, this indicates that the company would be achieving a real cost reduction of the same intensity as the projected inflation (IPCA 24E of 4.84%).

Some components are denominated in USD, and the company has signaled that it has not considered the recent upward revisions in the projections for the **USD/BRL exchange rate**, using as a reference the Focus bulletin from earlier this week at R$5.43, which is still **quite out of date compared to the spot rate**, which is at ~R$6.00. We therefore believe that **there is a certain risk that this guidance will not be met**. Another point worth mentioning is the pressure of maritime freight costs, especially in operations that require the use of containers.

The higher USD/BRL rate should not compromise EBITDA. Despite having cash costs and CAPEX pegged to the USD, adding up to an exposure of ~15% to the USD/BRL exchange rate, our preliminary understanding is that, although the company has not been conservative in using the Focus bulletin (which is out of date), causing a possible risk of not meeting the cost guidance, **this should not impact EBITDA**, since there is a **counterpart** in **net revenue**, as Klabin benefits itself by the BRL/USD devaluation scenario through exporting, mainly of products such as Kraftliner and market pulp. According to management, 10 cents more in USD/BRL corresponds to +R$160mn in EBITDA.

CAPEX guidance decreases in 2025 and increases for other years vs. previous estimates. The composition of the company's **CAPEX** is delineated by ~60% for maintenance - operational and forestry - 25% of which is denominated in USD. There is an intensification of vulnerability associated with the increase in the USD/BRL exchange rate vs. the current outlook of the Focus bulletin, used by the company as assumption to proper calculate its budget. However, the **CAPEX 25E guidance** of **R$3.3bn** (-8.3% vs. Genial Est.) not only indicates greater commitment in terms of capital allocation, but also compensation for the subsequent increase in **CAPEX 26E-30E** (+11% vs. Genial Est.), under the premises of discounts approached via NPV, thus resulting in a practically null net effect on FCF. Therefore, the **new guidance did not imply any changes to** the Target Price in our proprietary model.

Our Take on Klabin

Why did some investors dislike Klabin? We assess that a portion of the investors we deal with usually criticize Klabin for its low generation of FCFE, due to **(i)** high debt levels (Net Debt/EBITDA at 3.9x), **(ii)** substantial CAPEX (R$3.3bn or ~45% of EBITDA) and **(iii)** costs associated with vertical integration. Although we have always disagreed with a more dismissive approach to the investment thesis, having spent much more time of our coverage with a Buy rating (rather than Neutral or Sell, as other sell-side firms did in the same period), because we saw that a lower level of FCFE could be tolerated in order to achieve more growth, on the other hand, we also recognized that this fact weighed on investors' decisions, where some ended up avoiding forming long positions.

But things are changing... It's time to reap the harvest! Even having listed these 3 points above, we see that **Klabin is making progress on these fronts** and is starting to **reap the benefits** of its growth investments, including: **(i)** a shift in PM28 production to paperboard, which should increase prices due to its higher added value, with LPB homologation planned to be finalized in 1Q25; **(ii)** the completion of the PM27 and PM28 ramp-up by 2025; and **(iii)** a better sales mix with more corrugated box conversion optionality through the Figueira Project.

In addition, the **(iv)** cost reductions on a real basis are noteworthy, with new guidance for cash COGS indicating absorption of inflation by keeping the nominal figure flat. As for CAPEX, the updated guidance for 2025 is also stable compared to the previous year, even after accounting for an additional +R$800mn for a new boiler at the Monte Alegre (PR) unit, with a projected reduction of -12% in 26E.

Last but not least, **(v)** management reaffirmed its commitment to deleveraging as the company will receive the R$1.8bn (+R$900mn add in potential) in FCF from the **Plateau Project** and will experience **EBITDA growth**, stemming from the **good fundamentals** we commented on throughout the report for 2025. Our projection is that this strategy will reduce the **25E Net Debt/EBITDA** to **3x** vs. 3.9x in 3Q24. We therefore reiterate our **BUY rating**, given an **EV/EBITDA 25E of 6.5x** (below the historical average of ~7x), with a **12M Target Price** of **R$27.00**, indicating an **upside** of **+16.63%**.

Appendix: Klabin

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	**19.341**	**20.440**	**21.627**	**21.924**	**22.142**
(-) COGS	(11.969)	(12.253)	(12.584)	(12.927)	(13.079)
Gross Profit	**7.690**	**9.118**	**10.025**	**9.496**	**9.213**
(-) Expenses	(3.562)	(5.046)	(5.065)	(4.552)	(4.273)
Adjusted EBITDA	**7.411**	**7.673**	**7.808**	**7.866**	**8.279**
(-) D&A	(3.715)	(4.833)	(3.830)	(3.421)	(3.489)
EBIT	**4.122**	**4.072**	**4.960**	**4.944**	**4.941**
(+/-) Financial Result	(1.173)	(904)	(573)	(491)	(244)
(-) Taxes	(903)	(981)	(1.381)	(1.089)	(1.125)
Net income	**2.061**	**2.202**	**3.020**	**3.378**	**3.587**
Profitability					
Net margin (%)	10,66%	10,77%	13,97%	15,41%	16,20%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
Net Revenue	**19.341**	**20.440**	**21.627**	**21.924**	**22.142**
(-) COGS	(11.969)	(12.253)	(12.584)	(12.927)	(13.079)
Adjusted EBITDA	**7.411**	**7.673**	**7.808**	**7.866**	**8.279**
EBIT	**4.122**	**4.072**	**4.960**	**4.944**	**4.941**
(-) Taxes	(903)	(981)	(1.381)	(1.089)	(1.125)
(+) D&A	3.715	4.833	3.830	3.421	3.489
(+/-) Δ WK	(318)	(192)	(153)	(56)	(3)
(-) Capex	(3.368)	(3.086)	(2.972)	(2.510)	(2.075)
FCFF	**3.248**	**4.647**	**4.285**	**4.710**	**5.226**

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under Review	Under review	**5%**

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