genial Equity Research

SUZANO

Investor Day 2024: A 100-year-old start-up

LatAm Pulp & Paper

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Company

SUZB3 BZ Equity
Buy

Price: R$ 62.42 (13-Dec-2024)
Target Price 12M: R$ 72.00

SUZ US Equity
Target Price 12M: US$ 12.00

Main Takeaways:

In this report, we will detail **(i)** the **new figures outlined** in the company's budget for the coming years and **(ii)** our **impressions of the visit** to the world's largest BHKP pulp plant. **(iii)** Although the **TOD indicator** (cash cost + SG&A and freight + sustaining CAPEX) for **27E** was **revised upwards** vs. the previous expectation for the same year, **the company still maintains a significant reduction vs. current levels.** Additionally, Suzano appears focused on **deleveraging**, as it does not foresee large acquisitions in the future and aims to reap the benefits of the largest investment in its century-long history, with the ramp-up of the **Ribas do Rio Pardo (MS)** plant. **(iv)** although there is some risk of upward revision in the cost guidance, a **higher USD/BRL exchange rate** continues to support the investment thesis. The increase in net revenue driven by the export-oriented nature of **USD-to-BRL conversion** in the P&L is more than sufficient to offset the potential cost increase, maintaining our **positive outlook on Suzano**. We see the company trading at a discount, with a **25E EV/EBITDA of 6.2x** (vs. a historical average of **7x**), not fully reflecting all efficiency gains expected to materialize in costs starting in 2025. This leads us to reiterate our **BUY rating**, with a **12M Target Price** of **R$72.00**, reflecting an **upside of +15.35%**.

On **December 12 and 13**, we joined **Suzano's management team at its 2024 Investor Day**, which we believe was one of the **most significant events in the company's history.** This is because we had the honor of visiting, alongside other investors, the largest investment project ever made globally for BHKP production, already in its ramp-up stage. The **first day** of the event featured a presentation of numbers, market trends, and guidance delivered by Mr. João Abreu (CEO), Mr. Marcos Assumpção (new CFO, replacing Marcelo Bacci), Mr. Leonardo Grimaldi (Commercial VP), Mr. Luis Bueno (Consumer Goods Director), and Mr. Fabio Oliveira (Paper & Packaging Director). On the **second day**, we visited the new plant in **Ribas do Rio Pardo (MS),** commonly known as the **Cerrado Project**, which adds **+2.55Mtpy** capacity to the company (+22% vs. previous capacity).

Investor Day 24: In Detail!

Cost optimization in the Cerrado Project strengthens FCF. We believe the ramp-up of the new plant in Ribas do Rio Pardo (MS) is a crucial catalyst for optimizing Suzano’s FCF generation. The company's projections shared during the presentation indicate a **substantial reduction in cash cost** (cash COGS/t) on a **base of 100**, reaching **R$66/t by 32E** (vs. R$100/t in 24E), reinforcing the company's EBITDA with a decrease of **-R$38/t over 8 years**, approximately **78% of which** is expected to consolidate as **early as 2025.**

Analyzing the composition of total cash costs, we observe that wood contributes 41%, followed by other inputs (mainly chemicals) at 36%, and energy costs at 14%. Among the assumptions in the management's budget are **(i)** Brent oil prices at **US$70/bbl** (vs. US$74.5/bbl currently), which aligns with our projection for 2025, and **(ii)** an exchange rate of **USD/BRL at R$5.35** (vs. R$6.03 currently). The latter appears questionable, given Brazil's fragile fiscal situation and unpromising outlook in this regard.

The USD/BRL exchange rate projection is low and may impact costs. It is worth noting that Suzano was not the only company to use an exchange rate below the current scenario. Other companies we cover, which also held Investor Day events recently, incorporated similar exchange rates (R$5.35–5.50) into their 2025/26 budgets. This seems correlated with the Central Bank of Brazil's Focus report, which remains outdated on USD/BRL exchange rate projections. Generally, companies are obligated to signal market guidance based on official data.

For us, this point could lead Suzano to **eventually revise this cost slowdown curve upwards**. Undoubtedly, the Ribas do Rio Pardo (MS) plant's capacity to lower the company's overall COGS/t is significant. However, we would not be surprised if a slight adjustment in projections were announced later. Still, we believe the cash cost decline will showcase the operational efficiency and competitiveness of the Cerrado Project, positively impacting FCFE. Additionally, the company targets an **increase** in **wood yield to 13% by 34E** (vs. 7% in 3Q24), with a positive NPV of +R$1b m3/ha**.** The **FCF yield** projection is now priced in our model at **12% 25E** (vs. ~8% 24E).

TOD revised upwards vs. prior expectation. Not good news, but the impact is limited. The TOD indicator (cash cost + SG&A and freight + sustaining CAPEX) for **27E** was **revised upwards** to **R$1,900/t** (vs. R$1,753/t for 27E previously). However, there is still a reduction compared to R$2,213/t in 3Q24, **(i)** reflecting **efficiency gains** (+R$364/t), **(ii)** increased forestry activities (a ~40% reduction in intensive labor usage), and **(iii)** a reduction in third-party wood usage (17% in 27E vs. 29% in 3Q24), factors expected to offset **(iv) inflationary pressures and USD/BRL exchange rate** (+R$81/t). In USD, operating expenses should fall to **US$355/t in 27E** (vs. US$422/t in 3Q24), positioning Suzano advantageously against global peers far higher on the cost curve.

It is important to note that the **guidance** is in **real terms for 2025**, meaning it includes only 2024 inflation projections (IPCA 4.3%). Thus, even deflating 2024 when comparing the same base for the new 2027 figure with the old one (from 2023 targeting 2027), it is evident that there was a real increase across all lines (cash cost, SG&A and freight, sustaining CAPEX). However, the reduction compared to current levels remains clear, with **cash COGS/t inc. downtimes,** decreasing to **R$746/t in 27E** (-14% vs. current levels), aligning with our proprietary model.

Structural transition to BHKP reinforces operating margins. The BHKP market presents solid growth prospects, with projected sales reaching **46Mt in 26E** (+12% vs. 2023). The growing consumption demand, especially in tissue (+3.3% y/y), and the increased conversion from BSKP to BHKP for paperboard (+3.0% y/y) through **fiber-to-fiber** technology enhance the predictability of demand. This holds true even as Suzano adds **2.55Mtpy** of additional capacity to the supply system, with the **ramp-up** of the Ribas do Rio Pardo (MS) plant, equivalent to **~22%** more production compared to pre-Cerrado capacity.

Why does management believe in the transition from BSKP to BHKP? According to information shared during the presentation, the transition from BSKP to BHKP, particularly through **fiber-to-fiber**, has seen a considerable evolution in its share of global consumption, reaching **63% in 24E** (vs. 55% in 2013). This transition has been driven by an average annual increase of **+1.3p.p** between **22-24E** (vs. +0.6p.p between 2013-2021). Indeed, we assess that many players in the paper industry favor migration due to the cost reductions offered by BHKP, mainly due to the shorter growth cycle of eucalyptus, which adapts better to various climate conditions compared to pine, which predominates in colder environments.

The transition is occurring even in **paperboard**, which historically could only be made with BSKP due to its specific properties. These properties are now almost entirely replicated in the **fiber-to-fiber** process. For Suzano's management, this progress reinforces the pivotal role of **BHKP** in achieving **economies of scale**, mitigating price volatility risks, and enabling a strategic approach for maximizing the intrinsic value of its assets, establishing Suzano as the world's largest **BHKP player**.

Price spread between BHKP and BSKP is now 2x higher vs. historical average. The price spread between BHKP and BSKP is expected to reach **US$226/t in 24E** (vs. US$115/t on average over the past decade). This elevated level reflects the high production cost of BSKP, reducing producer margins and incentivizing capacity closures, which have not been offset by new assets since 2020. With reduced supply, the spread is likely to remain elevated. However, producer margins will remain tighter in BSKP due to high costs, further encouraging the migration from BSKP to BHKP over the coming years. Initiatives like Biopulp Solutions, aimed at education and application development, accelerate BHKP adoption, with high penetration in North America (80%) and Asia (70%).

Supply and demand balance to remain stable even with capacity additions. Besides the Cerrado, other projects like Liansheng in Fujian and Arauco's Sucuriú are expected to add up to **6.3Mt of BHKP capacity by 28E**, considering conversions (Bracell and Altri Biotek to soluble pulp, Suzano Limeira to fluff pulp). Although the addition of significant new capacity represents a risk to the supply-demand balance, we evaluate that high production costs and operational challenges in Fujian present competitive barriers that favor efficient players like Suzano. Even with this expansion, according to the company's perspective, the supply-demand ratio should remain almost flat (**91% in 28E vs. 89% in 24E**), ensuring price sustainability.

With China's spot BHKP price at **US$545/t**, about **2.9Mt** of capacity, or **~8% of global supply**, remains submerged under the marginal cost, highlighting the vulnerability of less efficient players. Suzano, on the other hand, capitalizes on its competitive position through optimization initiatives and go-to-market strategies, as evidenced by EBITDA growth to R$2,167/t in 24E (vs. R$1,040/t in 2019).

Expansion projects support future growth. The company's expansion plans include **(i)** the Cerrado project, through the ramp-up of the Ribas do Rio Pardo (MS) plant, with **R$900mn** in **CAPEX** still to be spent in **25E**, reaching a total of **R$22.2bn** - the largest growth project in Suzano's century-long history. Additionally, in July, the company announced **(ii)** the acquisition of two plants in **Pine Bluff (KS)** and **Waynesville (NC)**, assets in the U.S. acquired from **Pactiv Evergreen** for **US$80mn** (~R$480mn), adjusted for **+US$30mn** (~R$180mn) in **working capital**, with an integrated pulp capacity of 420ktpy. The region's larger extrusion capacity allows growth in cupstock and food service, as these plants focus on producing paperboards for liquid packaging and paper cups.

Packaging segment is a key focus for the company. Divided into three phases, management outlined a plan to focus on pricing, increase product mix, and avoid the cyclical movements of BHKP. In phase **(i)**, expected to take up to two years, the company aims to enhance operational capacity at the acquired **Pactiv assets**, reducing cash costs and renegotiating long-term LPB contracts (with higher added value). In phase **(ii)**, with a three-year horizon, the company intends to implement more structural cost-reduction projects and further explore **fiber-to-fiber** opportunities, migrating a larger share of **BSKP production to BHKP**. Lastly, phase **(iii)**, projected within five years, involves expanding new pulp and/or paper lines (likely brownfield expansions) using local wood and low energy costs.

Other projects include Limeira conversion and tissue line in Aracruz. The company already produces 100Ktpy of Eucafluff, the world's first BHKP-derived fluff pulp. A new transformation for Eucafluff production is underway at the **Limeira (SP)** unit. The **CAPEX** for dryer conversion will be **~R$300mn**, shifting current production from 100% BHKP as market pulp (~400Ktpy) to a total production of 340Ktpy with flex capacity (fluff or market BHKP), representing ~77% of installed capacity, with **start-up** in **4Q25**. Besides the higher added value of fluff pulp, management indicated a reduction of **-R$30/t** in **COGS**, combined with a -25Kt CO_2/year cut, generating an NPV of R$400mn and IRR of ~13%.

The new tissue line in **Aracruz (ES)** adds +60Ktpy (+20% vs. previous capacity), with IRR>18%, optimizing distribution costs and strengthening the portfolio of higher-margin products such as Neve toilet paper (priced 40% above similar brands) and paper tissues (4.7x more contribution margin than toilet paper). Operations are scheduled to **start** in **4Q25** (vs. 1Q26 previously).

Visit to Ribas do Rio Pardo (MS) plant

Innovations in the nursery accelerate planting. Suzano's nursery adjacent to the plant produces 35 million seedlings/year, with 17 genetic materials being tested and 15 already operational. Forest activities consolidate **340 thousand seedlings planted daily** around the Ribas do Rio Pardo (MS) unit within the 600 thousand ha owned by the company. This supports the demand for over 10 million m3 of wood for pulp production. Additionally, the forestry operation will also supply the Três Lagoas (MS) unit, reaching nearly 20 million m3/year in total wood consumption. The genetic improvement strategy includes the use of the FJ460 clone, the flagship of operations in Mato Grosso do Sul since 2020, for its high productivity in volume and density. Advancements like speedreading, which reduces breeding time from 18 to 2 years, and transition nurseries gradually accelerate efficiency gains by +1.5% annually.

Forest management is being boosted by advanced equipment. Forest management involve **68 harvesters** and **25 forwarders** operating daily, guided by a fully proprietary workforce of ~700 employees, alongside over 200 mechanics, 60% of whom were trained locally by Suzano, contributing to the social and economic legacy of the Cerrado project in Ribas do Rio Pardo (MS). Even with a significant number of forest management workers, given the size of the planted area and factory demand (Ribas + Três Lagoas), using **high-automation equipment** has been essential not only to lower costs but also to address labor shortages when building such a large-scale operation in a town of just 21 thousands inhabitants.

An extremely cost-related competitive project. The process of shipping wood to the plant is often the most expensive component of forest cash costs. However, we evaluate this unit's design as highly competitive in reducing these expenses. Key factors include **(i)** eucalyptus plantations within a **65 km average radius** of the production plant, likely the **lowest in the market**. This will reduce Suzano's consolidated **average radius to 173 km by 25E** (vs. 186 km today), continuing to decline until reaching 150 km between 2029-2032, representing an average incremental EBITDA of **+R$480mn**. Additionally, we observed **(ii)** 50% of operations using **6-axle trailers**, with a load capacity of **~180m3 of wood per trip**, nearly 3x that of a 3-axle, consuming 20% less diesel oil/m3. Few companies could replicate this, as the forest base would need to be structured for such vehicles, including crane size and discharge configurations.

End-to-end pulp logistics planning. A total of 93 trucks transport pulp to the **Inocência (MS) rail terminal**, built by Suzano specifically for this operation, covering ~24 thousand m2, 85% of which is warehouse space, located **~300 km from the production plant**. Approximately **6Kt/day** of pulp will be transported across 136 trips. Suzano has formed an exclusive logistics partnership with **JSL** for this road operation. Furthermore, 498 railcars pulled by 18 locomotives (acquired by Suzano) will transport pulp from the **Inocência terminal (MS)** to the **Santos port (SP)**. The total transit time (production plant to port) is **2.7 days**.

In early **2024**, the company received the Green Santos, the world's largest pulp-dedicated vessel (72Kt capacity), to handle the increased export volume from the Ribas do Rio Pardo (MS) plant ramp-up.

Our take on Suzano

Disciplined capital allocation safeguards shareholders' security. Management emphasized that the company balances **M&A (67%)** with organic growth (33%), prioritizing value creation and maintaining investment-grade status. Since the Cerrado Project (3Q21), leverage has been reduced to **3.1x Net Debt/EBITDA in 3Q24** (vs. **4.9x in 4Q19**), with a **24E target of 3.0x**. Alternative sources, such as Panda Bonds and agreements with the **IFC**, have increased alternative funding from 9% (3Q21) to 13% (3Q24), reinforcing financial resilience.

We remind investors that the pricing scenario is challenging, but Suzano demonstrates resilience. On the supply side, recent BHKP capacity additions, including **(i)** the Cerrado Project (Suzano), **(ii)** the Oki II project (APP) in Indonesia, **(iii)** the ramp-up of the MAPA project (Arauco) in Chile, and **(iv)** the Paso de los Toros project (UPM) in Uruguay, intensify market fear of oversupply. These additions are expected to introduce **+6.3Mtpy by 2028**, signaling continued pressure on BHKP pulp prices in the medium term. Despite this more challenging pricing environment for the sector, we believe Suzano sets itself apart with its ability to reduce production costs, maintaining resilience by surpassing the industry's marginal cost (~US$550/t).

For demand, favorable and adverse winds coexist. Looking at demand, Suzano appears optimistic about the continued **fiber-to-fiber** substitution, benefiting **BHKP demand**. The company also highlighted demand growth driven by urbanization in **tier II and III cities in China** (despite demographic decline) and the potential of other Asian countries, based on **GDP** and population growth forecasts. According to management, these factors should result in an increase of **+4.8Mt in global BHKP demand by 28E**, with the **Tissue** segment as the main destination.

However, we believe the scenario still requires caution due to headwinds, including the continuation of China's integration strategy, which aims to reduce the country's reliance on imported pulp and minimize margins volatility in downstream paper products. While we view this trend as a relevant **downside risk**, we foresee some relief in recognizing that integrations may face obstacles, such as **(i) high wood prices** due to limited supply to meet this industry's needs, **(ii)** higher-than-expected **integration costs**, indicating difficulties for this industry to position itself competitively in terms of cash costs, and **(iii) higher U.S. import tariffs**, which could compromise the subsequent sale of paper and packaging products.

A 100-year-old start-up. Although the **TOD indicator** (cash cost + SG&A and freight + sustaining CAPEX) for **27E** was revised upwards vs. previous expectation for the same year, the company still maintains a significant reduction compared to current levels, as explained throughout the report. Additionally, Suzano seems focused on **deleveraging**, as it does not foresee large acquisitions in the future and is positioned to reap the benefits of the largest investment in its century-long history with the **ramp-up of the Ribas do Rio Pardo (MS)** plant, better known as the **Cerrado Project**. Filled with innovations and technology, the facilities we visited represent **state-of-the-art for pulp production and logistics**. Thus, the event strengthened our perception of the company's **responsible capital allocation**. It is indeed a **100-year-old start-up**, consistently bringing innovation to overcome barriers in a commoditized sector.

Moreover, although there is some risk of upward revision in the cost guidance, a **higher USD/BRL exchange rate** continues to support the investment thesis. The increase in net revenue driven by the export-oriented nature of **USD-to-BRL conversion** in the P&L is more than sufficient to offset the potential cost increase, maintaining our **positive outlook on Suzano**. We see the company trading at a discount, with a **25E EV/EBITDA of 6.2x** (vs. a historical average of **7x**), not fully reflecting all efficiency gains expected to materialize in costs starting in 2025. This leads us to reiterate our **BUY rating**, with a **12M Target Price** of **R$72.00**, reflecting an **upside of +15.35%**.

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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	Definition	Coverage
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under Review	Under review	**5%**

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