

SUZANO

4Q24 Preview: The first quarter of a new era!

LatAm Pulp & Paper

(i) Pulp sales will **increase** with the entry of **Cerrado**, despite a **4%** capacity cut; (ii) We expect the incorporation of **~675kt** from the **Ribas do Rio Pardo** ramp-up, offsetting cuts and driving shipments to **~2.9Mt Genial Est.** (+10.7% q/q; +5.7% y/y); (iii) The **realized pulp price** will be the weak point of the quarter, with a **-14.8% q/q** drop (**US\$572/t**), despite the appreciation of the **BRL** (+5.2% q/q); (iv) Paper sales are expected to reach **~378kt Genial Est.** (+4.9% q/q; -2.3% y/y), driven by the domestic market and exports; (v) We expect consolidated net revenue of **~R\$12.4bn Genial Est.** (+0.9% q/q; +19.4% y/y), supported by a favorable exchange rate and higher volumes; (vi) **COGS/t** is expected to fall to **R\$771/t** (-5.6% q/q; -10.7% y/y), with a **positive effect** from the **Cerrado ramp-up** and the **Brent** price drop (-6% q/q); (vii) We project an adjusted **EBITDA** of **R\$6.1bn Genial Est.** (-5.8% q/q; +44.8% y/y), impacted by the downward trend in the BHKP prices, but supported by efficiency gains; (viii) We expect an accounting loss of **-R\$2.3bn**, due to currency **hedge losses** (-R\$375mn) and the impact of currency fluctuations on gross debt; (ix) The **BHKP** curve is expected to remain near current levels in **2025**, even with the entry of new capacities; (x) **Suzano** is trading at an **EV/EBITDA 25E** of **6.2x** (vs. a historical average of **7x**), maintaining a **BUY** rating with a **12M Target Price** of **R\$72.00**, indicating an **upside** of **+20,96%**.

Analysts

Igor Guedes
+55 (11) 3206-8286
igor.guedes@genial.com.vc

Luca Vello
+55 (11) 3206-1457
luca.vello@genial.com.vc

Isabelle Casaca
+55 (11) 3206-8244
isabelle.casaca@genial.com.vc

Company

SUZB3 BZ Equity
Buy

Price: R\$ 59.52 (07-Feb-2025)
Target Price 12M: R\$ 72.00

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

Suzano will release its **4Q24 results** on **February 13**, after market close. We expect an **acceleration** in **pulp shipments**, reaching **2.9Mt Genial Est.** (+10.7% q/q; +5.7% y/y). We also forecast a reduction in **COGS/t ex-stoppages** to **R\$771/t Genial Est.** (-5.6% q/q; -10.7% y/y), reflecting higher operational efficiency with the ramp-up of the Ribas do Rio Pardo (MS) plant. We believe the additional volume will generate a **net capacity gain**, already accounting for the **-4% cut in ex-Cerrado production**. As a result, the **market continues to price in an excess of BHKP supply**, which has pressured the benchmark price, dropping to **~US\$550/t in China** in December.

Table 1. Shipments Summary (4Q24 Genial Est.)

(Thousand Tonnes - kt)	Genial Est.				
Summary	4Q24E	3Q24A	% q/q	4Q23A	% y/y
Pulp Shipments	2.917	2.635	10,7%	2.761	5,7%
Paper Shipments	378	360	4,9%	386	-2,3%

Source: Suzano, Genial Investimentos

Table 2. Income Statement Summary (4Q24 Genial Est.)

(R\$ millions)	Genial Est.				
Income Statement	4Q24E	3Q24A	% q/q	4Q23A	% y/y
Net Revenue	12.381	12.274	0,9%	10.372	19,4%
Adjusted EBITDA	6.147	6.523	-5,8%	4.505	36,5%
Net Income	(2.526)	3.238	-	4.515	-

Source: Suzano, Genial Investimentos

The **BHKP price decline** averaged **-14% q/q** over the quarter. The **stronger USD/BRL exchange rate** should help mitigate the contraction effect on realized prices in **BRL**, which we estimate at **R\$3,340/t Genial Est.** (-10.3% q/q; +18.6% y/y). Within this dynamic, we project **consolidated Net revenue** of **R\$12.4bn Genial Est.** (+0.9% q/q; +19.4% y/y), with an **adjusted EBITDA** of **R\$6.1bn Genial Est.** (-5.8% q/q; +44.8% y/y). We expect a **substantial accounting loss** of **-R\$2.3bn Genial Est.**, due to **hedge operations** and the **negative FX impact** on gross debt. Both situations are non-cash and should not concern investors.

4Q24 Preview: In detail!

Pulp sales increase despite old capacity cuts. In September last year, Suzano announced a -4% cut in ex-Cerrado annual pulp production (10.9Mt), reducing supply by ~435kt for the year. As this impacted 2H24, part of the effect was already considered in the previous quarter. However, we expect 4Q24 to reflect a stronger impact from this capacity restriction on old machinery, given the more depreciated BHKP price (US\$553/t vs. US\$643/t in 3Q24) and a likely trend of rebalancing prices by cutting old capacity, encouraging peers to follow suit and expunge part of the excess supply.

On the other hand, we anticipate an additional +675kt this quarter, the remaining volume from the +900kt ramp-up of the Ribas do Rio Pardo (MS) plant in 2H24. We expect this increase to more than offset the old capacity cuts. Thus, we project pulp shipments of 2.9Mt Genial Est. (+10.7% q/q; +5.7% y/y), reflecting a recovering Chinese demand and increased net installed capacity.

Realized pulp price will be the weak spot. Over the quarter, BHKP benchmark prices fell sharply, down -20% q/q in Europe (US\$1,093/t 4Q24 avg.) and -14% q/q in China (US\$553/t 4Q24 avg), which will pressure realized prices. However, a partial offset comes from the +5.2% q/q appreciation of the USD/BRL average exchange rate to R\$5.84 (vs. R\$5.55 in 3Q24). We estimate a realized pulp price of US\$572/t (-14.8% q/q; +0.7% y/y), equivalent to R\$3,340/t Genial Est. (-10.3% q/q; +18.6% y/y).

Slight increase in both paper volume and price. We project paper sales of 378kt Genial Est. (+4.9% q/q; -2.3% y/y), driven by growth in both domestic and export markets, benefiting from year-end seasonality. Additionally, volume was boosted by paperboard production at Pine Bluff (KS), USA, which operated for 2/3 of the quarter (420ktpy capacity). We should see the realized paper price with a slight sequential decline in USD (-3% q/q), mainly due to the mix, but will reach R\$7,011/t Genial Est. (+2.1% q/q; +4.1% y/y), partially supported by the stronger USD/BRL exchange rate.

FX rate and volume increase to support flat revenue. We project consolidated Net revenue of R\$12.4bn Genial Est. (+0.9% q/q; +19.4% y/y). Despite the old capacity cut, the Ribas do Rio Pardo (MS) ramp-up should generate a shipment surplus. Our model estimates pulp segment net revenue at R\$9.7bn Genial Est. (-0.7% q/q; +25.3% y/y), remaining stable sequentially.

This flat revenue is also supported by a stronger USD/BRL, partially offsetting the sharp decline in BHKP realized prices in USD. For the paper business, we estimate net revenue clocking in at R\$2.6bn Genial Est. (+1.8% q/q; +7.2% y/y), driven by high utilization rates for Kimberly-Clark's assets and typical 4Q seasonality.

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

(R\$ millions)	4Q24E	3Q24A	% q/q	4Q23A	% y/y
	Genial Est.	Reported		Reported	
Net Revenue	12.381	12.274	0,9%	10.372	19,4%
Pulp	9.734	9.803	-0,7%	7.770	25,3%
Paper	2.648	2.471	7,2%	2.602	1,8%

Source: Suzano, Genial Investimentos

COGS/t pressure from FX, but Cerrado efficiency should compensate. In last quarter we saw exceptionally high costs due to the Ribas do Rio Pardo (MS) plant start-up in July, with one-off expenses and low volumes far below its 2.55Mtpy installed capacity, preventing fixed cost dilution. Therefore, the sequential comparison suggests a considerable COGS/t decline as operations stabilized through 4Q24. However, the higher USD/BRL FX rate should impact some USD-denominated inputs, such as chemicals. We project input costs rising +8% q/q and wood +4.2% q/q. To offset this, we expect a sequential cost drop driven by **(i)** Cerrado ramp-up improving fixed cost dilution and **(ii)** a -6% q/q decline in Brent crude oil prices, which should ease wood transportation costs per km.

We estimate COGS/t ex-stoppages at R\$771/t Genial Est. (-5.6% q/q; -10.7% y/y). Including scheduled maintenance at Imperatriz (MA), Jacaréí (SP), and Mucuri Line 2 (BA), total COGS/t should reach R\$850/t Genial Est. (-6.2% q/q; +4.1% y/y). For the paper business, COGS/t should see a slight increase (+2.8% q/q) due to higher production costs at Pine Bluff (KS).

EBITDA cooling down q/q but up double digits y/y. Our model estimates an Adjusted EBITDA of R\$6.1bn Genial Est. (-5.8% q/q; +44.8% y/y), cooling down sequentially, mainly due to the pulp segment. We estimate pulp EBITDA clocking in at R\$5.2bn (-7.6% q/q; +51.7% y/y), pressured by the lower BHKP benchmark price. On an annual basis, efficiency gains and volume growth from Ribas do Rio Pardo (MS) ramp-up should drive results. For the paper business, we expect an EBITDA of R\$883mn (+7.0% q/q; +10.3% y/y).

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

(R\$ millions)	4Q24E	3Q24A	% q/q	4Q23A	% y/y
	Genial Est.	Reported		Reported	
Adjusted EBITDA	6.147	6.523	-5,8%	4.505	44,8%
Pulp	5.264	5.697	-7,6%	3.756	51,7%
Paper	883	825	7,0%	748	10,3%

Source: Suzano, Genial Investimentos

Strong accounting loss expected from hedge and FX impact on debt. We estimate an accounting loss of -R\$2.3bn Genial Est., reversing profits both q/q and y/y. The bottom line should be mainly impacted by (i) FX hedge losses, estimated at -R\$375mn, and (ii) a strong negative FX impact on Suzano's gross debt. Notably, 85% of the company's debt is USD-denominated. When the USD/BRL EoP exchange rate rises, the balance sheet reflects an increase in debt, impacting P&L but with no cash flow effect, similar to what happened in 2Q24. The 4Q24 EoP exchange rate reached R\$6.19 (vs. R\$5.45 in 3Q24), a +13.7% q/q surge, amplifying FX exposure effects.

Table 5. Income Statement Suzano (4Q24 Genial Est.)

(R\$ millions)	4Q24E	3Q24A	% q/q	4Q23A	% y/y
	Genial Est.	Reported		Reported	
Net Revenue	12.381	12.274	0,9%	10.372	19,4%
COGS	(7.081)	(6.848)	3,4%	(6.776)	4,5%
Adjusted EBITDA	6.147	6.523	-5,8%	4.505	36,5%
EBITDA Margin (%)	49,6%	53,1%	-3,49p.p	43,4%	6,22p.p
EBIT	3.753	4.110	-8,7%	3.158	18,8%
EBIT Margin (%)	30,3%	33,5%	-3,17p.p	30,4%	-0,14p.p
D&A	(2.394)	(2.303)	3,9%	(1.788)	33,9%
Financial Result	(6.279)	868	-	2.269	-
Net Income	(2.526)	3.238	-	4.515	-
Net Margin (%)	-20,4%	26,4%	-	43,5%	-

Source: Suzano, Genial Investimentos

Our take on Suzano

Fiber-to-Fiber: An underappreciated opportunity. We believe that the substitution of long fiber (BSKP) with short fiber (BHKP) has proven to be a great opportunity for the company, but **it still faces skepticism** regarding the real competitive advantage of BHKP producers, requiring a customer persuasion process. The process has already proven **successful in the tissue segment** and is being studied for **application in packaging**, driven by various closures of **BSKP** production capacity in the Northern Hemisphere due to **higher production costs and lower softwood availability**. Strategically, the company is signaling to investors that there is potential for **small M&As** aimed at international expansion, with acquisitions of **BSKP** assets in the U.S. This would align with the fiber-to-fiber thesis.

M&A pipeline seems like a constant overhang. M&A rumors continuing to be a major source of volatility for the investment thesis, as evidenced by speculation about the acquisition of **Clearwater (US\$110mn** or less than **1%** of Market Cap.) and **Kimberly-Clark's** international tissue segment (~**US\$3.5bn** or ~**27%** of Market Cap.).

Despite this news flow, the company has consistently reaffirmed its commitment to disciplined capital allocation. There is a discourse about avoiding transformational deals while keeping an eye on smaller strategic opportunities that would not compromise leverage, respecting a **Net debt/EBITDA** cap of **3.5x** for normal conditions and **4.0x** for stressful pulp cycle scenarios. It is worth mentioning that as Suzano increases its presence in Paper & Packaging, bringing something more stable to the consolidated business, its cash flow will tend to become more predictable, and it could **commit to more consistent** leverage targets.

What's next? We believe that the capital allocation in the next phase of expansion in the post-**Cerrado** era will be decisive for **investor appetite for the company's shares**. As clearly shown by the failed attempt to acquire International Paper (IP) last year, investors would react negatively to larger M&As that deviate the company from its natural deleveraging path. For this year, we project further easing to **2.8x Net debt/EBITDA 25E**, sustained by **(i)** higher cash flow generation (**15% FCF yield 25E**), driven by **lower COGS/t** with the ramp-up in **Ribas do Rio Pardo (MS)**, and **(ii)** inferior CAPEX, with only a residual of +R\$900mn related to the Cerrado project (vs. R\$22.2bn in total).

Despite the opportunistic rise, the BHKP curve is expected to remain stable. We highlight that Suzano's recent announcement of BHKP price increases of +US\$20/t for Asia and +US\$100/t for Europe and North America was due to an **opportunistic moment** and does not indicate a structural shift in the **supply and demand balance**. The momentary favorability was driven by **(i)** the shutdown of Cheming, which improved the profitability of the Chinese paper industry, as well as **(ii)** expected seasonal disruptions in 1Q25, and **(iii)** the temporary 300kt cut from Bracell. Thus, **we do not expect a strong price shift** for 2025. We maintain the view that the **supply vs. demand balance** will remain stable, even with capacity additions and the trend of Chinese integrations (as we've mentioned here). Therefore, we believe that the low point of this cycle was the US\$550/t marked in December.

Cycles are becoming shorter. We have probably already passed the lowest point of this one. We do not believe that BHKP market prices will depress further, as they will be supported by several factors: **(i)** pulp is already trading below the marginal cost of Hemispheric Northern players; **(ii)** logistical challenges and maintenance shutdowns frequently cause delivery delays and impact supply; **(iii)** demand is expected to heat up in 2H25; **(iv)** we will not see new capacity additions beyond what is already on the radar; **(v)** we should expect capacity adjustments with plant closures by the majors, and **(vi)** the advancement of fiber-to-fiber substitution, which keeps BHKP demand heated, with expected capacity closures for BSKP. We remain attentive to the absorption of additional supply with the entry of the Cerrado Project and the Lienshang Project, adding +3.9Mt to the market in 2025.

The first quarter of a new era! We see the ramp-up of the new Ribas do Rio Pardo (MS) plant as a **key catalyst** for optimizing Suzano's FCF generation. The company's projections indicate a substantial **reduction in cash COGS/t**, in a 100-base, reaching **R\$66/t by 32E** (vs. R\$100/t in 24E), reinforcing the company's EBITDA with a **-R\$38/t decline** over 8Y, with **~78%** of this reduction expected to be consolidated by 2025.

Although there is some risk of an upward revision in the cost guidance, the expected **BRL depreciation** for the year remains a positive factor, with the impact of export revenues conversion more than offsetting any inflationary pressures. We see Suzano trading at an **EV/EBITDA 25E** of **6.2x** (vs. historical average of 7x), a discount that does not fully reflect the expected efficiency gains for 2025. Therefore, we maintain our **BUY rating**, with a **12M target price** of **R\$72.00**, implying a **+20.96% upside**.

Appendix: Suzano

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

Income Statement	2024E	2025E	2026E	2027E	2028E
Net Revenue	45.609	54.797	56.976	58.213	59.341
(-) COGS	(25.722)	(25.494)	(24.369)	(23.563)	(23.055)
Gross Profit	19.887	29.303	32.607	34.650	36.286
(-) Expenses	(5.259)	(6.448)	(6.741)	(6.901)	(7.267)
Adjusted EBITDA	23.838	32.682	29.428	30.358	33.250
(-) D&A	(8.808)	(9.828)	(9.256)	(9.529)	(9.203)
EBIT	15.030	22.854	20.172	20.829	24.047
(+/-) Financial Result	(19.525)	(2.871)	(3.660)	(2.049)	(821)
(-) Taxes	(1.495)	(9.287)	(6.888)	(7.918)	(9.752)
Net income	(5.990)	10.696	9.624	10.862	13.474
Profitability					
Net margin (%)	-13,13%	19,52%	16,89%	18,66%	22,71%

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

Cash Flow (FCFF)	2024E	2025E	2026E	2027E	2028E
Net Revenue	45.609	54.797	56.976	58.213	59.341
(-) COGS	(25.722)	(25.494)	(24.369)	(23.563)	(23.055)
Adjusted EBITDA	23.838	32.682	29.428	30.358	33.250
EBIT	15.030	22.854	20.172	20.829	24.047
(-) Taxes	(1.495)	(9.287)	(6.888)	(7.918)	(9.752)
(+) D&A	8.808	9.828	9.256	9.529	9.203
(+/-) Δ WK	(2.498)	(550)	(996)	341	(738)
(-) Capex	(13.300)	(11.034)	(7.470)	(7.178)	(7.316)
FCFF	6.545	11.811	14.074	15.603	15.444

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under Review	Under review	5%

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