Equity Research

SUZANO

1Q25 Preview: Tensions created by M&As and tariffs hinder performance

LatAm Pulp & Paper

Main takeaways:

(i) Pulp **shipments** of **2.9Mt Genial Est.** (-11.0% q/q; +21.7% y/y), with the decline explained by lower demand in China and the longest shutdown cycle in the company's history; **(ii) Realized price** of **BHKP** at **R$3,264/t Genial Est.** (-4.3% q/q; +6.5% y/y), with pressure from the European curve (-2.2% q/q in USD), maintenance of discounts on the curves (46% Europe; 3% China) and backlog limiting the capture of adjustments; **(iii)** Consolidated **Net revenue** estimated at **R$12.0bn Genial Est.** (-15.3% q/q; +26.9% y/y), with a decline in both units on a sequential basis and y/y growth driven by the ramp-up in Cerrado; **(iv) Cash COGS/t ex-stoppages** projected at **R$817/t Genial Est.** (+1.2% q/q; +0.6% y/y), pressured by inputs in USD and lower fixed dilution. **COGS/t including stoppages** should be uplifted to **R$905/t Genial Est.** (+2.8% q/q; +9.4% y/y); **(v) EBITDA** should reach **R$5.3bn Genial Est.** (-18.9% q/q; +15.3% y/y), with the decline explained by lower volumes, pressured prices, and higher costs; **(vi) Net income** of **R$5.6bn Genial Est.**, reversing a loss of -R$6.7bn in 4Q24, driven by positive financial results of +R$5.5bn Genial Est. resulting from the depreciation of the USD/BRL FX rate; **(ix)** The **BHKP curve** should remain **under pressure in 2025**, reflecting global oversupply, tariffs, and still weak demand; a turnaround depends on trade relief between the US and China; **(x)** The **risk of M&As** remains the main **overhang**, with investors cautious about the possibility of deleveraging being compromised by acquisitions of **assets from Kimberly Clark (KC)** or **International Paper (IP)**; **(xi)** Leverage should fall to **3.0x Net Debt /EBITDA in BRL in 1Q25E** (vs. 3.3x in 4Q24), with expectations of reaching 2.7x 25E if no deals occur; **(xii)** Although we have **cut** our **12M Target Price to R$63.50** (vs. R$72.00 previously), the company continues to trade at an attractive multiple of **5.8x EV/EBITDA 25E** (vs. historical average of 7x) and, therefore, we have maintained our **BUY rating**, reflecting an **upside** of **+25.8%**.

Analysts

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

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

Iago Souza
+55 (11) 3206-8244
iago.souza@genial.com.vc

Company

SUZB3 BZ Equity
Buy

Price: R$ 50.50 (05-May-2025)
Target Price 12M: R$ 63.50

SUZ US Equity
Target Price 12M: US$ 11.15

Table 1. Shipments Summary (1Q25 Genial Est.)

(Thousand Tonnes - kt)	Genial Est.	Reported		Reported	
Summary (Shipments)	**1Q25E**	**4Q24**	**% q/q**	**1Q24**	**% y/y**
Pulp	2.922	3.284	**-11,0%**	2.401	**21,7%**
Paper	353	430	**-18,0%**	313	**12,9%**

Source: Suzano, Genial Investimentos

Table 2. Income Statement Summary (1Q25 Genial Est.)

(R$ millions)	Genial Est.	Reported		Reported	
Income Statement	**1Q25E**	**4Q24**	**% q/q**	**1Q24**	**% y/y**
Net Revenue	12.004	14.176	**-15,3%**	9.459	**26,9%**
Adjusted EBITDA	5.257	6.481	**-18,9%**	4.558	**15,3%**
Net Income	5.548	(6.738)	**-**	220	**2418,2%**

Source: Suzano, Genial Investimentos

Suzano will release its **1Q25** results on **May 7**, after the market closes. Regarding the **-19% YTD** drop in the share price, we discuss further down ("Our Take" section) the reasons that have **increased bearish sentiment** among investors, such as the **potential M&As** that the company may carry out now in 2H25, in addition to the convergence scenario between the **tariffs applied** by the Trump administration and a **contraction in BHKP China prices** anticipated by the market. For 1Q25, we project pulp shipments of **2.9Mt Genial Est.** (-11.0% q/q; +21.7% y/y), affected by **lower seasonal demand** and the **longest maintenance shutdown cycle in the company's history**, particularly in Três Lagoas (MS), Mucuri (BA), and Ribas do Rio Pardo (MS). Despite this, the annual base should remain favorable due to the ramp-up of the Cerrado Project, with **net sales estimated** at **+520kt y/y**.

We expect the **realized price** of BHKP to be **R$3,264/t Genial Est.** (-4.3% q/q; +6.5% y/y), reflecting the downturn in the European reference curve (-2.2% q/q in USD), its discounts and backlog with China – not incorporating the increase in the Chinese curve (+3.6% q/q in USD). **COGS/t ex-stoppages** should rise to **R$817/t Genial Est.** (+1.2% q/q), pressured by higher USD-denominated inputs that were processed through P&L. **COGS/t including stoppages** is pointed at **R$905/t Genial Est.** (+2.8% q/q) in our model, with the impact on less fixed cost dilution.

Within this context, we project Consolidated **Net Revenue** of **R$12.0bn Genial Est.** (-15.3% q/q; +26.9% y/y), with **Adjusted EBITDA** clocking in at **R$5.3bn Genial Est.** (-18.9% q/q; +15.3% y/y), reflecting the combination of weaker prices and volumes, in addition to cost pressure. Even so, we expect **Net income** of **R$5.6bn Genial Est.**, reversing the loss of -R$6.7bn in 4Q24. The reversal is explained by the **non-cash effect of FX rate variations** on USD-denominated debt and the normalization of results with derivatives, which in 4Q had been heavily affected by the sharp rise in the USD (EoP at R$6.19).

1Q25 Preview: In detail!

Pulp: Shipments should decline sequentially, with stoppages affecting available capacity. We project shipments of 2.9Mt Genial Est. (-11.0% q/q; +21.7% y/y). The decline in the quarterly comparison is due to two factors: **(i)** low season for demand from the paper industry in China, and **(ii)** the impact of scheduled maintenance shutdowns, which should affect ~300Kt of production, covering several of the company's units — notably the Três Lagoas I and II (MS) - 250ktpy, Mucuri I -600ktpy (BA) and Ribas do Rio Pardo itself -2,550ktpy (MS), commonly known as the Cerrado Project —, which is the largest shutdown cycle ever carried out by Suzano.

Despite this, the annual base should benefit from the incorporation of +520Kt Genial Est. in sales y/y, given the +900Kt ramp-up at the Ribas do Rio Pardo (MS) plant in 2H24, changing the comparative base between 1Q25 vs. 1Q24.

Therefore, our estimate reflects the net effect between the seasonal outcome and the increase in production from the Cerrado project — even though the production plant was shut down for a few days for scheduled maintenance. In addition, we have identified isolated signs of higher inventory levels, which boosted sales in 4Q24 and should continue to have an impact this quarter, due to concerns in the Chinese paper industry about the tariffs imposed by the Trump administration (as we will explore in more details).

Pulp: Realized prices will contract, with discounts vs. reference curves. We estimate that realized prices should slow down sequentially to R$3,264/t Genial Est. (-4.3% q/q; +6.5% y/y). This movement tends to reflect the continued correction in international BHKP curves, particularly in Europe, where the benchmark fell -2.2% q/q in USD (US$1,069/t vs. US$1,093/t in 4Q24), continuing its downward trajectory after already accumulating a -20% q/q slowdown in 4Q24. In China, after a sharp -14% q/q drop last quarter, we observed a slight recovery in spot prices (+3.6% q/q in USD in 1Q25). Even so, we believe that the environment remains challenging, with volumes being shipped based on previous pricing contracts and a market operating under greater uncertainty, given the indirect effects of tariffs imposed by the Trump administration in the US and the unresponsiveness of the order book in the Chinese paper sector amid economic uncertainty, immersed in the trade war scenario, after a strong restocking movement.

In addition, we believe that realized prices should incorporate discounts applied to the reference curves—estimated at 46% on the PIX Europe and 3% on the PIX China. This pricing structure, coupled with the contractual lag of ~1M, tends to partially soften the immediate impact of the decline in the European reference curve, although not enough to prevent quarterly price compression, as well as restricting the company from achieving higher prices associated with the rounds of price increases it promoted for BHKP China. With lower trading intensity—especially in the Chinese market—and more limited visibility for implementing adjustments, we expect a quarter of pressured realization compared to 4Q24. On an annual basis, the increase is correlated with the average USD/BRL FX (5.85 in 1Q25 vs. 4.95 in 1Q24).

Paper: Seasonality implies q/q decline in volume, but Pine Bluff sustains y/y. For the paper business unit, our model points to sales of 353Kt Genial Est. (-18.0% q/q; +12.9% y/y). The deterioration in the quarterly comparison should reflect the segment's seasonality at the beginning of the year, after a typically stronger 4Q, in addition to a high base influenced by initial shipments from Suzano Packaging US's operation in Pine Bluff (AR), with the consolidation of Pactiv Evergreen's assets at the end of last year. On the other hand, the annual base should continue to be favored by the incorporation of volumes from this same unit, which added paperboard production to the company's portfolio. The realized price should reach R$6,990/t Genial Est. (+0.9% q/q; +4.1% y/y).

We believe that the stability in the sequential comparison is due to a combination of a less favorable product mix—with a higher share of exported lines—which should be offset by the prices achieved by the US Packaging unit, which has higher added value than the Brazilian operation average, helping to sustain flat prices.

Net revenue compressed q/q, but up due to the ramp-up of Cerrado y/y. We project Consolidated Net Revenue of R$12.0bn Genial Est (-15.3% q/q; +26.9% y/y). Performance should reflect a homogeneous dynamic between the company's two operating segments, with both contributing to the sequential contraction but sustaining growth in the annual comparison. In the case of the pulp business division, we estimate revenue of R$9.5bn Genial Est. (-14.8% q/q; +29.6% y/y). The decline compared to last quarter is mainly due to the -4.3% q/q decay in the realized price in BRL, combined with the -11.0% q/q shipments deceleration. Even so, the y/y comparison should remain quite robust, driven by the entry of incremental volume from the new plant in Ribas do Rio Pardo (MS), which, even in the face of a shutdown for scheduled maintenance, still brings a good volume surplus.

The paper unit is expected to report revenue of R$2.5bn Genial Est. (-17.2% q/q; +17.6% y/y). The quarterly decline should have resulted from a lower volume base (-18.0% q/q), reflecting the weaker seasonality typical of the 1Qs, in addition to a high base in 4Q24, when initial volumes from the plant in Pine Bluff (AR-US) were recorded. On the other hand, the +12.9% y/y increase in shipments and the FX appreciation sustaining the average price in BRL (+0.9% q/q; +4.1% y/y) should justify the annual expansion in the segment's revenue.

Table 3. Revenue Suzano (1Q25 Genial Est.)

(R$ millions)	1Q25E Genial Est.	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Net Revenue	**12.004**	**14.176**	**-15,3%**	**9.459**	**26,9%**
Pulp	9.537	11.194	-14,8%	7.360	29,6%
Paper	2.467	2.981	-17,2%	2.099	17,6%

Source: Suzano, Genial Investimentos

COGS/t is going to be affected by higher input costs and stoppages. Our model points to a Cash COGS/t ex-stoppages of R$817/t Genial Est. (+1.2% q/q; +0.6% y/y). The marginal increase, even with the Ribas do Rio Pardo (MS) ramp-up, should result from a combination of lower fixed cost dilution — due to weaker seasonality at the beginning of the year — and price increases in strategic inputs, coupled with a higher USD/BRL FX implying greater cost variation. Among the pressure vectors, we highlight **(i)** increased spending on chemical inputs, such as caustic soda priced in USD, which rose significantly in BRL; **(ii)** and the still persistent adjustment in the cost of wood, whose structural normalization tends to occur only later, given that the cutting cycle in the planted area around the Cerrado reaching maturity further ahead and reducing the average radius.

In addition, we believe that **(iii)** the effect of the USD/BRL EoP FX for 4Q24 (6.19) on USD-denominated input inventories — which affects accounting recognition in the P&L with a lag — should also contribute to keeping costs under pressure in this quarter.

When we incorporate the effect of scheduled maintenance, we project Cash COGS/t including stoppages of R$905/t Genial Est. (+2.8% q/q; +9.4% y/y). We note that this would be the largest maintenance cycle in recent years, negatively impacting units with a lot of capacity of fixed cost dilution, such as Três Lagoas (MS), Mucuri (BA), and Ribas do Pardo (MS). We believe that the influence on higher costs should go beyond the volume not produced, not only affecting dilution capacity, but also assuming that there is a loss of efficiency in the post-resumption period, when plants operate below the ideal pace. For now, the expectation is that the most consistent reductions will occur starting in 2Q25, as the Cerrado plant progresses in its operational regulation.

EBITDA to be contracted q/q due to price, volume, and COGS/t. In the consolidated view, we project Adjusted EBITDA totaling R$5.3bn Genial Est. (-18.9% q/q; +15.3% y/y), cooling in the quarterly comparison mainly due to the pulp segment. This division, in turn, is estimated with EBITDA of R$4.5bn Genial Est. (-20.7% q/q; +16.5% y/y), pressured by **(i)** contraction in realized prices (-4.3% q/q), **(ii)** sequential decline in shipped volume (-11.0% q/q) and **(iii)** acceleration in COGS/t including stoppages (+2.8% q/q; +9.4% y/y). On an annual basis, the ramp-up of the Ribas do Rio Pardo (MS) plant remains the main driver of growth, via economies of scale and higher operating volume. For the paper business unit, we expect EBITDA of R$710mn Genial Est. (-5.5% q/q; +8.4% y/y).

Table 4. EBITDA Suzano (1Q25 Genial Est.)

(R$ millions)	1Q25E Genial Est.	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Adjusted EBITDA	**5.257**	**6.481**	**-18,9%**	**4.558**	**15,3%**
Pulp	4.546	5.730	-20,7%	3.902	16,5%
Paper	710	751	-5,5%	656	8,4%

Source: Suzano, Genial Investimentos

Net income trending strongly upward due to non-cash effects. We estimate Net income of R$5.6bn Genial Est., reversing the accounting loss of -R$6.7bn in 4Q24 and representing a sharp increase compared to the R$220mn profit in 1Q24. The main cause of this recovery is the financial result, which should end the quarter with a positive balance of R$5.5bn Genial Est. This is largely justified by the depreciation of the USD/BRL FX rate to R$5.74 EoP, compared to the loss of -R$15.5bn reported in the previous quarter, when the surge in the FX rate (R$6.19 at EoP) amplified the impact of the company's USD-denominated debt.

Although operating performance shows sequential compression, with EBITDA falling -18.9% q/q, the bottom line should benefit from **(i)** the effects of the decline in the USD/BRL FX rate EoP (R$5.74 vs. R$6.19 in 4Q24) on the amount of gross debt issued in USD (~83% of the total), added to **(ii)** normalization of the derivatives line, which should also report substantial gains with the cooling of the exchange rate. As a result, we expect a robust reversal of the bottom line, driven by an extraordinarily positive financial effect in the quarter. We emphasize, as usual, that the effects are non-cash and should not reflect investors' perception of the result.

Table 5. Income Statement Suzano (1Q25 Genial Est.)

(R$ millions)	1Q25E Genial Est.	4Q24 Reported	% q/q	1Q24 Reported	% y/y
Net Revenue	**12.004**	**14.176**	**-15,3%**	**9.459**	**26,9%**
COGS	(7.273)	(8.761)	-17,0%	(5.700)	27,6%
Adjusted EBITDA	**5.257**	**6.481**	**-18,9%**	**4.558**	**15,3%**
EBITDA Margin (%)	43,8%	45,7%	-1,9p.p	48,2%	-4,4p.p
EBIT	**3.275**	**4.414**	**-25,8%**	**2.552**	**28,3%**
EBIT Margin (%)	27,3%	31,1%	-3,9p.p	27,0%	0,3p.p
D&A	(1.982)	(2.810)	-29,5%	(1.982)	0,0%
Financial Result	5.465	(15.556)	-	(3.040)	-
Net Income	**5.548**	**(6.738)**	**-**	**220**	**2418,2%**
Net Margin (%)	46,2%	-47,5%	-	2,3%	43,9p.p

Source: Suzano, Genial Investimentos

Our take on Suzano

Pulp: Bearish outlook for BHKP prices. In April, **the Chinese BHKP market came under strong downward pressure** due to the effects of (**i**) “reciprocal tariffs” imposed by the US; (**ii**) high inventories in Chinese ports; and (**iii**) weak seasonal demand in the paper industry, resulting in a **spot price for BHKP** at the end of April of **US$633/t** (**-3.7% m/m**), below the monthly average. For **May**, we expect **available supply** to increase **+4.5% m/m**, stimulated by (**iv**) the end of maintenance at domestic mills and (**v**) the arrival of record volumes of BHKP from Brazil and Chile (which together account for >60% of Chinese imports), while consumption should remain modest as it is **off-season for the Chinese paper industry**.

Thus, we believe that both forces corroborate a **likely scenario of convergence toward deflationary pressure on the BHKP curve** due to this opening of the gap between supply and demand. However, a **support point** is found in the **import cost offered by Chinese buyers** in May (~US$900/t), which has been falling since December, in line with the increase in supply. We believe this could create a **temporary bottom**, given the large difference vs. **the industry's resale price**. We believe it is difficult not to have a softening tendency of resale going forward, which would in turn lead to a **deceleration in the reference curve**.

On the macro front, trade and geopolitical uncertainties—especially the continuation of US-China tariffs and competition from global suppliers for space in the Chinese market—are maintaining **short sentiment**, leading the paper industry to **reduce operating rates**, which could further hamper the recovery of the BHKP reference price (via reduced demand and stabilization of the order book of market pulp players).

The overhang in capital allocation remains. We believe that the high immediate FCF outlay — potentially **~US$4bn (R$22.75bn)** for Kimberly-Clark's (KC) **tissue division** or **International Paper's (IP) US pulp assets —** 2.3Mtpy BSKP+Fluff capacity and US$2.8bn in net revenue in 2024 — should generate caution. Although we do not have a number being reported in the press on the possible deal with IP, we still believe that the valuation is close to **US$2bn or ~R$11.5bn** (a figure lower than the possible purchase of KC's assets). In an environment of high interest rates and pressure from investors for the company not to deviate from its deleveraging path, a more prominent cash flow outlay in the short term with M&As could overshadow future EBITDA gains from the Ribas do Rio Pardo (MS) operation, leading to a negative reaction in the share price. We anticipate that the **voracity with which investors would discount the shares** would be proportional to **the value** of the **deal.** Therefore, it seems to us that the market tends to view the purchase of **IP's pulp division** as **less negative**.

The perception of greater financial risk, especially if the leverage ratio hits acceptable levels that would still leave the company within the Investment Grade rating (below ~4.8x Net Debt/EBITDA), may impose a discount vs. peers. In addition, **investors have difficulty understanding the synergies**, especially in the **deal with KC.** Although it is in tissue, a segment in which Suzano already operates, the geographies are very diverse—which would make the digestion of the operation too complex—and the level of profitability of the assets is doubtful (an opinion shared by many investors with whom we are in contact).

On the other hand, in conversations we had with KC a few months ago, we got the impression that the company would be willing to sell only the geographic regions of the tissue segment that would make sense for an integrated player to operate. This, in turn, might make the assets more attractive to a buyer such as Suzano. In addition, arrangements could be drawn up, such as Suzano entering the bid together with a partner, winning a lot of assets, and each operating a different geographical region. In any case, the **uncertainty keeps investors somewhat away from the equity story**, with more modest long positions than they would have if there were no risk of the deal materializing.

Without any major M&As, leverage is expected to slow down. As all of the scenarios outlined above are hypothetical, we continue to believe that leverage will decline, falling to **3.0x Net Debt /EBITDA** in **BRL** in **1Q25E** (vs. 3.3x in 4Q24), given the combination of (**i**) the effect of the USD/BRL FX rate depreciation on debt issued in USD and (**ii**) the +15% y/y EBITDA growth expected to enter the LTM base.

Excluding exchange rate variations, we believe that the downward trend in leverage should be less pronounced, reaching **2.8x in USD** (-0.1x q/q)**.** For 2025, if no deal is concluded – whether the spin-off of Kimberly-Clark's (KC) **tissue business or International Paper's (IP) US pulp assets,** a scenario we consider unlikely **–** we believe it is plausible to assume a downward trajectory for the **Net Debt /EBITDA** ratio in **BRL** to **2.7x 25E.**

Tensions created by M&As and tariffs hinder performance. If an agreement is reached, with the prospect of **tariff cuts** in the context of the **trade war between the US and China**, we believe that the **wait-and-see sentiment in the paper industry would be eliminated**, raising plant operating rates in China and reducing the inventory that has accumulated during the conflict. We consider that this increase in absorption, although modest in the short term, tends to narrow the **gap between excess supply and demand**, mitigating a more abrupt decline in the BHKP benchmark index. A less hostile foreign trade environment seems to act as a catalyst to **soften the decline in the BHKP curve**, rather than a more intense downturn following the import peaks, and as a result, the market may experience more **gradual accommodation of spot prices**.

Nevertheless, we believe that the current environment has led to a **bearish view among investors**, converging on a sharp compression of **-19% YTD** in share prices. **Although we do not agree with the entire decline level**, as we commented in our Klabin report, the **fundamentals have softened somewhat** amid **(i)** expectations of a **possible flattening of the BHKP curve** and **(ii)** a slowdown in the **USD/BRL** FX rate (6.19 in January vs. 5.69 currently) – factor that may mitigate the **conversion of revenue into BRL** in the short term – leading us to **change our model assumptions**. Given this scenario, we have cut our **12M Target Price** to **R$63.50** (vs. R$72.00 previously), even though we continue to believe that the **stock remains excessively penalized** by the market as it is trading at a **25E EV/EBITDA** of **5.8x** (vs. a historical average of 7x). Therefore, reiterating our **BUY rating** and implying an **upside** of **+25.8%**.

Appendix: Suzano

Figure 1. Suzano – Income Statement in R$ Millions (Genial Est. 2025-2028)

Income Statement	2025E	2026E	2027E	2028E
Net Revenue	**52.239**	**57.232**	**55.778**	**56.601**
(-) COGS	(30.443)	(32.046)	(31.886)	(32.040)
Gross Profit	**21.796**	**25.186**	**23.892**	**24.560**
(-) Expenses	(6.122)	(6.864)	(6.850)	(6.952)
Adjusted EBITDA	**24.735**	**27.775**	**26.567**	**27.168**
(-) D&A	(9.062)	(9.452)	(9.525)	(9.560)
EBIT	**15.674**	**18.322**	**17.042**	**17.609**
(+/-) Financial Result	(5.456)	(9.835)	(3.808)	(8.543)
(-) Taxes	(3.854)	(3.100)	(4.834)	(3.311)
Net income	**6.363**	**5.387**	**8.401**	**5.754**
Profitability				
Net margin (%)	12,2%	9,4%	15,1%	10,2%

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

Cash Flow (FCFF)	2025E	2026E	2027E	2028E
Net Revenue	**52.239**	**57.232**	**55.778**	**56.601**
(-) COGS	(30.443)	(32.046)	(31.886)	(32.040)
Adjusted EBITDA	**24.735**	**27.775**	**26.567**	**27.168**
EBIT	**15.674**	**18.322**	**17.042**	**17.609**
(-) Taxes	(3.854)	(3.100)	(4.834)	(3.311)
(+) D&A	9.062	9.452	9.525	9.560
(+/-) Δ WK	(73)	(206)		(146)
(-) Capex	(12.772)	(10.109)	(9.766)	(9.787)
FCFF	**8.037**	**14.360**	**12.133**	**13.924**

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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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