genial Equity Research

SUZANO

JV with Kimberly-Clark: Pushing away the overhang

LatAm Pulp & Paper

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Company

SUZB3 BZ Equity
Buy

Price: R$ 52.90 (05-Jun-2025)
Target Price 12M: R$ 65.50

SUZ US Equity
Target Price 12M: US$ 11.70

Main takeaways:

(i) Suzano proposed to acquire **51% of KC's international tissue** division for **US$1.7bn** (based on a 100% valuation of **US$3.4bn**), through the creation of a **JV** with a **call option** for the remaining 49% within 3Y; **(ii)** The multiple to be paid is ~**6.5x EV/EBITDA 2024**, falling to ~**5.0x with synergies** (US$175mn/year), below historical transactions in the sector (**8–9x**), suggesting that the **value is well priced and fair**; **(iii) Net debt/EBITDA** should remain around ~**3.2x** (+0.1x vs. 1Q25), with a possible decline to **3.0x** after synergies; **(iv)** Suzano will be the **parent company of the JV** and will fully consolidate the results, increasing EBITDA (+US$500mn in 24A), with a discount on net income due to the participation of non-controlling shareholders. The company will expand its consumer goods division from **6% to ~30% of net revenue**; **(v)** Management reinforced its **focus on asset integration** and capital discipline, **ruling out new significant acquisitions in the short term** – a move well received by the market (**+6.5% in shares** on trading section today); **(vi)** Reduction in exposure to the pulp cycle and greater weight of **value-added and recurring demand** products; **(vii)** JV includes **22 mills in 14 countries** with **1Mtpy** of capacity; **(viii)** Despite the significant use of **softwood** in the acquired product lines, Suzano is betting on its own **fiber-to-fiber** technology for **hardwood** conversion, reducing costs. However, there is still **skepticism among investors** regarding large-scale application; **(ix)** Estimated **CAPEX** is only **US$100mn**; **(x)** The operation is **broad and complex** but **mitigated on the operational side by KC's** continued **presence as operating partner** and the absence of significant concentration, which reduces **antitrust** risk; **(xi)** Trading at **5.8x EV/EBITDA 25E** vs. **7.0x** on the historical average, we believe that the **implicit rerating** of the transaction adds **~US$410mn (~R$2.4bn)** to the company's value. We reinforce our **BUY rating**, raising the **12M Target Price to R$65.50** (vs. R$63.5 previously), implying an **upside of +23.8%**.

What happened?

Suzano **announced this morning** (June 5) a proposal to pay **US$1.7bn (~R$9.8bn)** for **51% of a joint venture (JV)** with **Kimberly-Clark (KC) International** to cooperatively operate KC's **tissue division**, which includes paper products for consumer goods related to **(i)** tissues, **(ii)** hygiene and home care, **(iii)** hands and face, and **(iv)** bathroom (institutional use). The deal was **already expected by the market.** However, there was **a lot of noise before** the company's official announcement, mainly regarding the structure of the operation, both from a corporate and operational standpoint.

Previous press-outlet news **speculated** that the transaction value would be **between US$3.5-4bn for 100%**. Therefore, we believe that **the market was not anticipating the material possibility of a JV**, with a stake well **below 100%** (although Suzano will get operation control). This ended up raising **investors' good perception of the deal** since it carries a total FCF expenditure lower than initially considered, which implies more tenuous consequences for the company's leverage. Therefore, we already anticipate that **we do not see a significant impact on the company's leverage**, which should **remain basically flat** at ~**3.2x Net debt/EBITDA LTM** in BRL (+0.1x vs. 1Q25). We'll explore this further down.

What is Suzano getting out of it?

The main assets included in the deal are **22 tissue production plants in 14 countries**, with a total annual production capacity of **~1Mt** and sales in more than 70 countries. The deal was structured so that Suzano has the option to **acquire the remaining 49% stake** within **3Y after the closing date of the agreement** (call option), dependent to certain conditions. The transaction is still **subject to approval by regulatory agencies** in each country. The **closing process may take ~12M**, and the integration process up to **+2-3Y.** Regions with manufacturing presence: **EMEA (54%):** United Kingdom, Germany, France, Italy, Spain, Israel, South Africa. **APAC (27%):** Australia, Malaysia, Thailand, Taiwan. **LatAm (19%):** Colombia, Peru, El Salvador.

A fair deal that's been well received.

As we mentioned, the company formalized the creation of a global joint venture (JV) with Kimberly-Clark (KC), acquiring 51% of the new company ("NewCo") for US$ 1.7bn, based on a total valuation of US$3.4bn (100% stake), representing an **~6.5x EV/EBITDA 24A** ratio. The transaction represents the company's most significant entry into consumer goods, which currently accounts for ~6% of Net revenue (and 4% of EBITDA), reaching ~30% (and 14% of EBITDA) after the consolidation of the JV within Suzano's balance sheet, as it will be the parent company of NewCo. Furthermore, considering the implied multiple, both before synergies and **after synergies** of **~5x EV/EBITDA**, we consider the **valuation to be paid quite attractive**, especially vs. the historical **8-9x EV/EBITDA** observed in **comparable transactions in the tissue** segment and **6-7x EV/EBITDA** for the **Pulp & Paper business in general** (vs. Suzano's 5.8x EV/EBITDA 25E today), indicating that the company would be paying a fair price (or even below that) for the transaction.

In addition, we believe that the **tone adopted** by management **in the conference call** with analysts was well **received by investors,** with the **share price rising +6.5% in trading section today**, while there was **(i)** emphasis on capital allocation discipline and **(ii)** a priority focus on asset integration. This reduces concerns about new acquisitions (M&As) in the short term.

Pushing away the overhang, as a path with no further M&As lays ahead.

In our view, the communication made by management during the conference call reinforces investors' understanding of the commitment to a **more rational capital allocation agenda**, especially after the market's fears of a deal similar in size to the attempted acquisition of all International Paper (IP) assets in May last year, which would have diverted the company from the deleveraging path it has been pursuing, when the Cerrado project's investment cycle peaked in 1Q24, reaching 3.5x Net debt/EBITDA in USD vs. 3.0x in 1Q25 (**-0.5x in 12M**). At the time, the offer was possibly US$15bn or ~R$83bn for the IP assets. In other words, today's bid to purchase the stake in the JV corresponds to **~12% of the value considered for the IP assets**, a negotiation that was unsuccessful last year (to the delight of many investors, who would not like to see the operation go ahead). As we have already stated in other reports, **the risk of capital allocation was still an overhang** and contributed in part — to the discount we witness (a -20% YTD decline in the share price before the opening of today's trading session).

Although there is no denying that the transaction is significant, we believe that **the message conveyed** after the announcement **was even more decisive for the equity story**. The company **had been facing some skepticism** from investors regarding its capital allocation strategy, with part of the market fearing that the **US$3bn limit** established in the 1Q25 result’s conference call for **M&As until 2026** could be exceeded. However, the communication during this morning's call was crystal-clear: **there are no plans for new acquisitions in the coming years** (up to 2026 at least). The company will focus entirely on **(i)** integrating the JV's assets and **(ii)** capturing the potential synergies (+US$175mn/year). The company itself acknowledged the operational complexity involved in the transaction and demonstrated a pragmatic and realistic stance in the face of challenges.

Table 1 – Details of the deal

Key Points	Detail
Suzano's share	51% (with control of the JV)
Deal value	US$1.7 billion (51%) – US$3.4 billion (100%) with EV/EBITDA 24A of ~6.5x
Call option	Regarding the remaining 49% in 3 years, with conditions and implied multiple of ~5-6x EBITDA
Closing	2Q26, after regulatory approvals
JV	CEO, CFO and 3 of the 5 board members will be appointed by Suzano
Initial JVs Debt	Zero (debt-free structure)

Source: Suzano, Genial Investimentos

It's a big operation but no major increase in leverage.

We understand that, even with the payment of **~US$1.7bn (~R$9.8bn)**, the company's **Net debt/EBITDA ratio should remain ~3x** (basically flat vs. 1Q25), as the JV's EBITDA (~US$500mn or ~R$2.9bn in 2024) will be fully consolidated, since the company will control the operation. As is common in this type of situation, there will be a discount on the bottom line, because net income will be reduced by the portion attributed to non-controlling shareholders (in this case, Kimberly-Clark).

In addition, we understand that the **debt-free structure of NewCo** should allow, in the future, the **taking on of debt** to **optimize the capital structure** (up to ~US$1bn – target of 2x Net debt/EBITDA for the JV) – according to management, but by then, Suzano will already be further ahead in its deleveraging trajectory. It is important to note that the company does not rule out selling part of the asset portfolio in the future, but that this is not the focus right now. The priority is the integration of the acquired assets.

Value creation is clearer than anticipated.

We understand that the implicit rationale behind the deal is to **reduce exposure to the volatility of the pulp market cycle**, thereby increasing the weight of higher value-added and recurring products, such as tissue paper and professional solutions. The transaction allows the company to scale its tissue operation, lifting it to **8th place among the largest global** producers in the segment. In addition, the incorporation of globally recognized brands such as Kleenex, Scott, and Scottex, without the need to pay royalties for a period of +30 years, is considered highly advantageous.

Another point we believe is important to highlight is that the transaction payment will not be for total stake, so that the **other 49% will remain with KC**, which already operates the assets and knows them thoroughly, **thus reducing the complexity of the transaction** due to Suzano's potential inability to operate the plants in so many countries where it does not have know-how, putting down the scenario designed by the previous news flow as a 100% stake.

In addition, management quoted **+US$175mn/year in synergies**, as it is expected operating gains via industrial, logistics, SG&A, and supply which are projected to be captured **within 3Y.** The **unlevered IRR** should be **~15.5%** in **USD** – which we considered a **satisfactory value**. Finally, the company also clarified that the project should require a **CAPEX** of **~US$100mn** (~1/5 of the EBITDA generated by the assets, which seems quite low), including sustaining, in addition to IT integration. It is also worth noting that the company has already successfully integrated the tissue assets acquired from KC Brazil in 2022. The Mogi plant saw significant gains in cost (-46% in cash COGS) and volume (+22% vs. pre-deal), which reinforces the company's ability to generate operational value.

Table 2 –Strategic comparison and benchmarking

Operation	Share	Value (US$)	Multiple	Capacity	Synergies
JV Global (2025)	51%	~1,7bn	~6,5x	~1,0Mtpy	US$175m/year
K-C Brasil (2022)	100%	~175mn	NA	~0,1Mtpy	Captured
IP Higienics (2024)	100%	~2,8bn	~7,0x	~0,9Mtpy	NA

Source: Suzano, Genial Investimentos

Leverage analysis: flattish impact.

Our proforma leverage ratio analysis following the acquisition reveals a **very controlled financial impact**, reinforcing the **positive market perception of the announcement**. Considering the disbursement of ~R$10.0bn (~US$1.7bn) and the consolidation of the JV's EBITDA of R$2.9bn (~US$500mn), the proforma **Net debt/EBITDA ratio proforma** would **rise marginally to 3.2x** (+0.1x vs. 1Q25) in a conservative scenario, without capturing synergies, **almost flat**.

With the gradual integration of estimated **operating synergies of ~R$1.0bn** (~US$175mn) **over 2-3Ys**, the proforma Net debt/EBITDA ratio would **fall to 3.0x** (-0.1x vs. 1Q25). This result highlights the company's financial discipline and mitigates fears of a deterioration in its credit profile, especially after market speculation about a full acquisition of the assets. In our view, the transaction staggered structure, combined with incremental FCF generation and low impact on leverage, strengthens the thesis that the move **was conducted with accountability**, and it was **strategically timely**. In fact, the main rating agencies (Moody’s and S&P, for example) have already been consulted and have demonstrated alignment with the transaction.

Table 3 – Proforma analysis of Leverage in BRL

Step	Description
1. Suzano's LTM EBITDA (1Q25)	LTM EBITDA = **R$24.1bn**
2. JV EBITDA for BRL	EBITDA JV: **US$500mn**, converted at an FX rate of R$5,74 → **R$ 2.9bn**
3. Synergies	Synergies: **US$175mn**, converted with the same FX → **R$1.0bn**
4. Proforma EBITDA	**Base scenario:** R$24.1bn+ R$2.9bn = **R$27.0bn; With synergies :** R$27.0bn + R$1.0bn **= R$28.0bn**
5. Acquisition consideration	Acquisition of 51% of the JV for US$1.7bn , converted at R$5.74 = **~R$10.0bn**
6. Suzano's new Net debt	Previous net debt: **R$74.2bn** + JV payment = **R$84.2bn**
7. Proforma Net debt/EBITDA	**Base scenario**: R$84.2/R$27.0 = **3.2x**; **With synergies**: R$84.2/R$28.0 = **3.0x**

Source: Suzano, Genial Investimentos

Our take on Suzano

Great deal, with just one caveat.

Although the transaction with KC represents a strategic move toward diversification and value addition, **our only caveat concerns the fiber composition of the acquired production line**. We note that a significant portion of the new JV's portfolio—such as Cottonelle and Andrex toilet paper (a premium brand in the UK, like the Neve brand in Brazil), Scott and WypAll paper towels, Kleenex and Huggies facial and wet wipes—is wholly or partly produced using **fluff derived from softwood pulp**. This input is preferred for its long fibers, which provide greater strength, absorption, and softness.

In this context, it is important to note that Suzano is globally recognized for its **excellence in the production of BHKP** (hardwood pulp), whose **cost structure is lower than BSKP** (softwood pulp), but physical properties require technological adjustments for applications in premium tissue.

Suzano has already developed the technology to manufacture fluff from BHKP. Therefore, in response to this limitation, the company highlighted its mastery of proprietary **"fiber-to-fiber" technology**, capable of modifying hardwood to take on physical and functional properties like those of softwood, enabling its application in the products — and thereby **significantly reducing production costs**.

Despite the potential of this approach, **several investors** with whom we are in contact **remain skeptical about the large-scale application of the fiber-to-fiber** process. Thus, we believe that the successful gradual replacement of BSKP with BHKP will be one of the critical drivers of value creation for the JV and should be closely monitored. When asked at the conference about the **percentage of BHKP and BSKP use** in the acquired portfolio and **how much it expected to convert from softwood to hardwood**, management said it **would not disclose these figures to the market** at this stage. For us, **this was not a positive sign**, since, as a priori, if the company had greater confidence in the process, there would probably have been a little more depth in the company's comments regarding this matter.

Table 4 –Fiber composition by Product Category – Joint Venture

Category	Include Brands	Fiber Composition
Bath Tissue	Scott, Scottex, Andrex, Suave, Cottonelle, Delsey	Mixture of softwood (strength) and hardwood (softness)
Household Care	Viva, Scottex	Predominance of softwood due to high absorption and strength
Hands & Face	Kleenex	Variable mixture; premium products tend to have more softwood
Washroom	Scott Professional, Kleenex Professional	Softwood predominates due to moisture resistance
Wipers	WypAll, Kimberly-Clark Professional	Heavily dependent on softwood for durability and absorption

Source: Suzano, Genial Investimentos

Taking weight off the overhang, stitching a JV that makes sense.

In summary, the joint venture with KC represents a **disciplined capital allocation**, aligned with the growth strategy of lower volatility and greater value addition. Suzano reinforces its ambition to be a **global leader in pulp products**, leveraging its competitive advantage in eucalyptus to expand into resilient markets. The JV structure with control, attractive multiple, clear synergies, and low leverage make the transaction not only financially sound, but also strategically transformational.

It is worth noting that our understanding is that **approval by the antitrust authorities** in each country is **likely to be lengthy** (closing expected in 12M) **due the transaction complexity**, but at the same time, **we see no reason to expect any significant remedies**. This is because KC would continue within the JV, added to the fact that Suzano would not incur in any risk of monopolistic stance as it does not have consumer goods production operations in these respective countries.

Table 5 – Upside on consolidated operations

Scenario	EBITDA LTM (US$)	Multiples	EV (US$)	Equity Value (100%)	Suzano (51%)	Valuation (US$)	Upside
Valuation	525mn	6,5x	3,4bn	3,4bn	51%	**1,7bn**	-
***Rerating* 1**	525mn	8,0x	4,2bn	4,2bn	51%	**2,1bn**	**+410mn**
***Rerating* 2**	525mn	9,0x	4,7bn	4,7bn	51%	**2,4bn**	**+676mn**

Source: Suzano, Genial Investimentos

From a valuation point of view, the stock is trading at an **attractive multiple** of **~5.8x EV/EBITDA 25E** vs. 7.0x in the historical average, with limited downside risk (pulp market with excess supply already priced in) and **significant upside potential ahead**. We are strengthening our **BUY rating**, as the scenario addition we have stipulated with a **rerating 1** – more conservative – of **+ R$2.4bn** (US$410mn) on the **company's implied market value** led us to adjust our **12M Target Price** to **R$65.50** (vs. R$63.50 previously), implying an **upside** of **+23.8%.**

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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under Review	Under review	**5%**

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