

# SUZANO

## 2Q25 Review: Production cuts, CAPEX rises, but FCF holds steady

LatAm Pulp & Paper

### Main takeaways:

(i) **Pulp shipments** totaled **3.3Mt** (+6.3% vs. Genial Est.; +23.3% q/q; +28.5% y/y), exceeding projections with a faster-than-expected operational recovery and inventory replenishment in 1Q25; (ii) **Realized pulp price** was **R\$3,147/t** (-0.4% vs. Genial Est.; -3.1% q/q; -13.3% y/y), virtually in line, with stability in **USD** and **FX** rate pressure on the **BRL** conversion, given the still pressured environment in Asia; (iii) **Net revenue** totaled **R\$13.3bn** (+5.8% vs. Genial Est.; +15.1% q/q; +15.7% y/y), with positive surprises in the **pulp** and **paper** divisions — the latter anchored by deliveries to the **PNLD** and the continued operation of Suzano Packaging US; (iv) **Cash COGS/t ex-strikes** was **R\$832/t** (+2.3% vs. Genial Est.; -3.1% q/q; +0.5% y/y), pressured by higher wood consumption, frustrating our more optimistic expectation regarding cost dilution; (v) **Adjusted EBITDA** of **R\$6.1bn** (+4.2% vs. Genial Est.; +25.1% q/q; -3.2% y/y), exceeding estimates with a significant contribution from the paper unit with R\$709mn (+28% vs. Genial Est.), while the pulp division reached R\$5.4bn (+1.6% vs. Genial Est.); (vi) **FCF** reached **R\$2.6bn** (+8.3% vs. Genial Est.), benefiting from lower interest expenses (-R\$652mn vs. -R\$1.6bn Genial Est.), which offset **WC consumption** (-R\$864mn); **CAPEX** totaled **R\$3.2bn** (flat vs. Genial Est.), with a significant decrease of -26% y/y, remaining below the peak of **4Q24**; (vii) The **leverage, in BRL**, fell to **3x** (flat vs. Genial Est.), driven by a higher cash position (+23% q/q), while in **USD** it rose to **3.1x** (flat vs. Genial Est.), reflecting a lower EBITDA base y/y (USD), as projected; (viii) Despite the **3.5% cut in pulp production** for the **next 12M**, we kept our price curve unchanged at **~R\$620/t in 2H25**, adopting a conservative stance; we incorporated the **increase in 25E CAPEX to R\$13.3bn**, which **marginally reduced the 25E FCF yield** by **-1p.p.**, to **16%** — still at a healthy level and consistent with an attractive thesis based on robust FCF generation and discounted valuation; Given this, trading at a **25E EV/EBITDA** of **6x** (vs. historical average of 7x), we reiterate our **BUY** rating, with a **12M Target Price** of **R\$63.50**, implying an **upside** of **+23.0%**.

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### Company

**SUZB3 BZ Equity**  
**Buy**

**Price:** R\$ 51.62 (6-Aug-2025)  
**Target Price 12M:** R\$ 63.50

**SUZ US Equity**  
**Target Price 12M:** US\$ 11.15

**Table 1. Shipments Summary (2Q25 vs. Genial Est.)**

(Thousand Tonnes - kt)	Reported	Genial Est.		Reported		Reported	
Summary (Shipments)	2Q25	2Q25E	% R/E	1Q25	% q/q	2Q24	% y/y
Pulp	3,269	3,075	6,3%	2,651	23,3%	2,545	28,5%
Paper	411	398	3,3%	390	5,4%	333	23,5%

Source: Suzano, Genial Investimentos

**Table 2. Income Statement Summary (2Q25 vs. Genial Est.)**

(R\$ millions)	Reported	Genial Est.		Reported		Reported	
Income Statement	2Q25	2Q25E	% R/E	1Q25	% q/q	2Q24	% y/y
Net Revenue	13,296	12,572	5,8%	11,552	15,1%	11,495	15,7%
Adjusted EBITDA	6,087	5,844	4,2%	4,866	25,1%	6,288	-3,2%
Net Income	5,012	4,835	3,7%	6,347	-21,0%	(3,764)	-233,1%

Source: Suzano, Genial Investimentos

Suzano released its **2Q25 results** yesterday, **August 6**, after the market closed. We believe that both **EBITDA** operating results (+4.2% vs. Genial Est.; +2.5% vs. BBG consensus) and **FCF generation** (+8.3% vs. Genial Est.) were **positive**. It is worth noting, however, that **negative stock performance** is possible in today's trading session, related to the **CAPEX 25E** adjustment to **R\$13.3bn** (+7% vs. previous), given investors' short-term bias toward the impact on the deleveraging trajectory. However, although FCF does indeed decline (with the other assumptions remaining unchanged), when we update our model with the new CAPEX guidance, we observe **marginal pressure of -1p.p. on the 25E FCF yield**, which fell to **16%** (vs. 17% previously) and remains at a very healthy level. In other words, even without considering any pulp price pass-throughs resulting from the **production cut** also announced alongside the results (-3.5% of nominal annual capacity), we believe that the **attractiveness of the equity story remains high** from an FCF generation perspective, with the market valuation well below what fundamentals suggest.

Returning to operations, **pulp** shipments totaled **3.3Mt** (+6.3% vs. Genial Est.), marking a significant increase of **+23.3% q/q** and **+28.5% y/y**, in a stronger-than-expected performance, explained by the faster resumption of operations after the maintenance shutdown cycle in 1Q25. We highlight the following factors contributing to this performance: **(i)** the strong ramp-up of the Ribas do Rio Pardo (MS) plant — commonly known as the Cerrado project — in addition to **(ii)** the replenishment of inventories completed in the previous quarter and **(iii)** higher-than-expected absorption of volumes in the Asian and North American markets. The **realized price** was **R\$3,147/t** (-0.4% vs. Genial Est.), down -3.1% q/q and -13.3% y/y, in line with our expectations, reflecting US\$555/t (flat q/q), but negatively affected by the softening of the average USD/BRL FX rate (-3% q/q).

The **paper** segment recorded **sales** of **411Kt** (+3.3% vs. Genial Est.), up +5.4% q/q and +23.5% y/y, exceeding our expectations mainly due to stronger performance in the domestic market, driven by deliveries to the PNLD, institutional and graphic channels, in addition to a weaker impact than we had expected from the maintenance shutdown at Pine Bluff (AR), in Suzano Packaging US's consolidated assets. The **realized price** was **R\$7,319/t** (+2.1% vs. Genial Est.), with a compression of -2.9% q/q and acceleration of +7.8% y/y, also above estimates, due to the higher share of grades with higher added value, such as paperboard.

In the consolidated view, **Net revenue** reached **R\$13.3bn** (+5.8% vs. Genial Est.), marking an increase of **+15.1% q/q** and **+15.7% y/y**, with both operating divisions contributing to the positive deviation from our estimates. The result reflected the significant recovery in pulp shipments, in addition to continued demand in the international market. On the paper side, performance was above expectations in both volume and price, supported by the resilience of the domestic market and the continued importance of the US operation.

On the **cost** side, **COGS/t ex-shutdowns** totaled **R\$832/t** (+2.3% vs. Genial Est.), down **-3.1% q/q**, but a slight increase of **+0.5% y/y**, reflecting persistent pressure on chemical inputs (such as caustic soda) and higher specific wood consumption, which ultimately limited the expected dilution after the resumption of shipments with more volumes available after last quarter's maintenance shutdowns.

Considering the impact of **+R\$6/t** related to **NR-13 requirements** (considered as if it were a maintenance shutdown) an item not included in our assumptions — **COGS/t** reached **R\$838/t** (+3% vs. Genial Est.), still with a significant decline in the sequential base of **-13% q/q** and **-1.4% y/y**.

Adjusted **EBITDA** reached **R\$6.1bn** (+4.2% vs. Genial Est.), with a significant increase of **+25.1% q/q**, but declining **-3.2% y/y**. In the sequential movement, we believe that performance was driven both by the recovery in pulp sales and by the positive surprise in paper — the latter accounting for most of the deviation from the estimate. Although the company is shipping a more prominent volume of pulp, up **+28.5% y/y**, the price decline still had a stronger impact on the annual basis, with a **-13.3% y/y** contraction in BHKP explaining the softening of EBITDA (-3.2% y/y).

Finally, **net income** was reported at **R\$5bn** (+3.7% vs. Genial Est.), representing a **-21% q/q** decline and a reversal of the accounting loss on an annual basis, supported by **net financial income of +R\$4.4bn** — benefiting from **non-cash effects** related to the depreciation of the USD/BRL FX rate EoP (-5% q/q) and positive adjustments in the derivatives line, albeit to a lesser extent than in the previous quarter. We remind investors that the company's bottom line **is not usually a driver for the perception of results**, given the various dynamics involving hedges with pure accounting and non-cash effects.

## 2Q25 Review: In detail!

**Pulp: Shipments rise sharply, with faster operational recovery.** Pulp sales reached 3.3Mt (+6.3% vs. Genial Est.), representing a considerable increase of **+23.3% q/q** and **+28.5% y/y**. Shipments were above our projections, reflecting a faster and more robust operational recovery than anticipated, with volumes picking up as industrial units became fully available after the maintenance shutdown cycle in the previous quarter.

We believe that the positive surprise was driven by three main factors: **(i)** a faster return of the Ribas do Rio Pardo plant (Cerrado Project), which already operated close to its nominal capacity throughout the quarter; **(ii)** inventory replenishment completed in 1Q25, releasing volumes for sale; and **(iii)** recovery in international demand, particularly in Asia and North America, which absorbed volumes that had been held back at the beginning of the quarter after orders were temporarily postponed due to the uncertain geopolitical scenario generated by “Liberation Day.” It is worth noting that, although we had already incorporated the contribution of the ramp-up of the Cerrado Project (MG) in our estimates, the intensity of the operational recovery process exceeded expectations, reinforcing the robustness of the recovery in the period.

**Pulp: Flat price q/q, in line with estimates.** The realized price of pulp was recorded at R\$3,147/t (-0.4% vs. Genial Est.), marking a decline of **-3.1% q/q** and a more intense decline in the annual comparison of **-13.3% y/y**. The performance was practically in line with our projections, reflecting stability in USD realizations — marked at US\$555/t (flat q/q) and the softening of the average USD/BRL FX rate for the period (-3% q/q). The slight negative deviation from the estimate was mainly due to a marginally more intense impact of FX rate variation on actual shipments in the quarter, even though the expectation that the adjustments made at the beginning of the year would be passed on was partially realized.

The price in USD remained sustained not by the curve itself — with the PIX/FOEX of BHKP China down -3.7% q/q on average — but by the full incorporation of the contractual adjustments made at the beginning of the year, which only began to be effectively reflected in shipments as of May. By April, the company had carried out four rounds of adjustments of +US\$20/t each.

As already anticipated, shipments made during May-June captured more favorable contractual conditions, but we believe that the gain was limited by the failure to fully adhere to the latest adjustment announced in March, given a commercial environment still pressured by geopolitical uncertainties (tariff environment between China and the US), in addition to excess inventories in Asia. In addition, discount levels applied to reference indices in Europe remained high (48%), restricting the ability to capture the increases observed in the PIX/FOEX curve for BHKP Europe. Thus, even with marginal support from USD pricing, FX rate pressure prevailed as the main factor compressing BRL realizations.

**Paper: Volume exceeds expectations; prices resilient due to US operations.**

Paper sales totaled 411Kt (+3.3% vs. Genial Est.), marking an expansion of +5.4% q/q and +23.5% y/y. Volume came in slightly above our projections, sustained by robust performance in the domestic market — driven by **(i)** deliveries to the National Textbook Program (PNLD); **(ii)** institutional sales; **(iii)** and higher demand in the graphic and cut-size channels — in addition to the continued operation of the paperboard business in the US (Suzano Packaging US), with the consolidation of assets in Pine Bluff (AR), which despite the maintenance shutdown in April, maintained a significant share in the consolidated mix. The annual growth also reflected the lower basis of comparison with the same period last year, as it was impacted by a higher concentration of shipments of coated paper in the context of the presidential elections in Brazil. As a result, portfolio and channel diversification proved to be an important driver of operational resilience in this quarter.

The realized price reached R\$7,319/t (+2.1% vs. Genial Est.), down -2.9% q/q, but still showing an acceleration of +7.8% y/y, demonstrating greater resilience compared to domestic market prices, which remained stable, combined with the gradual resumption of US operations after the scheduled maintenance shutdown. Despite sequential compression, mainly explained by the export mix and the softening of the USD/BRL FX rate, the price remained above expectations, supported by a higher share of higher value-added grades (especially paperboard), in addition to progress in channels with a more robust average ticket.

**Net Revenue: Positive surprise, rising double digits.** Consolidated net revenue was recorded at R\$13.3bn (+5.8% vs. Genial Est.), expanding to +15.1% q/q and +15.7% y/y, with both divisions contributing to the positive difference vs. projections. The better-than-expected performance reflected the sharp increase in shipments, both in pulp and paper, as well as the resilience of prices, especially in the paper segment. The pulp division totaled R\$10.3bn (+5.8% vs. Genial Est.), driven by significant growth in sales, in line with the operational recovery of the plants after the intense cycle of maintenance shutdowns in 1Q25.

We highlight the importance of the Ribas do Rio Pardo (MS) unit, commonly known as the Cerrado Project, which contributed more shipments than we had anticipated. Revenue from the paper segment reached R\$3.0bn (+5.5% vs. Genial Est.), up +2.3% q/q and +33.1% y/y, sustained by higher-than-expected volumes and prices, reflecting continued PNLD deliveries, a higher share of institutional and graphic channels in the domestic market, and the presence of the paperboard operation in the US (Suzano Packaging US), which remained relevant in the mix even with the shutdown in April.

**Table 3. Revenue Suzano (2Q25 vs. Genial Est.)**

(R\$ millions)	2Q25		% R/E	1Q25		2Q24	
	Reported	Genial Est.		Reported	% q/q	Reported	% y/y
<b>Net Revenue</b>	<b>13.296</b>	<b>12.572</b>	<b>5,8%</b>	<b>11.552</b>	<b>15,1%</b>	<b>11.495</b>	<b>15,7%</b>
Pulp	10.288	9.720	5,8%	8.610	19,5%	9.236	11,4%
Paper	3.008	2.852	5,5%	2.941	2,3%	2.259	33,1%

Source: Suzano, Genial Investimentos

**COGS/t: Lower than expected decline, but we were extremely bullish.** Cash COGS/t ex-strikes was reported at R\$832/t (+2.3% vs. Genial Est.), down -3.1% q/q, but up +0.5% y/y, a performance that mainly reflected: **(i)** residual pressure from chemical inputs, such as caustic soda and natural gas, still above projections, due to the appreciation of the USD/BRL FX rate accumulated in previous quarters, the effect of which is lagged in the P&L; and **(ii)** higher specific wood consumption, which partially offset the benefits from a more efficient average radius, better plant mix, and lower diesel costs in forestry operations. We highlight, however, that our expectation was significantly more optimistic regarding the dilution of the fixed cost structure in the quarter, given the resumption of operations after maintenance shutdowns carried out last quarter—especially considering that the volume sold exceeded estimates, which, in theory, should have enhanced the operating leverage effect.

Cash COGS/t including shutdowns reached R\$838/t (+3% vs. Genial Est.), marking a significant reduction of -13.0% q/q and a decline of -1.4% y/y. The positive deviation from the projection stems from an additional impact of +R\$6/t, arising from the application of regulatory standard 13, which requires technical washing of recovery and auxiliary boilers — procedures carried out at the Jacareí (SP) and Limeira (SP) units, albeit in a quarter without scheduled maintenance. This activity, which was not included in our assumptions, generated one-off pressure on the cost structure, comparable to the typical effects of shutdowns.

**EBITDA: Positive surprise driven by the paper unit.** Consolidated adjusted EBITDA totaled R\$6.1bn (+4.2% vs. Genial Est.), marking a significant increase of +25.1% q/q, although still down -3.2% y/y. The result exceeded our projections, with positive contributions from both operating divisions, but with a significant highlight for the paper unit, which accounted for most of the positive deviation from the estimate. In the paper division, EBITDA was reported at R\$709mn (+28% vs. Genial Est.), growing +15.9% q/q and declining -5.5% y/y.

The performance, which was well above expectations, reflected a combination of factors: **(i)** higher-than-expected sales volume, driven by resilient demand in the domestic market—particularly the National Textbook Program (PNLD), institutional channels, and graphic arts—in addition to the continued importance of the US operation even after the scheduled shutdown in Pine Bluff (AR); **(ii)** higher-than-expected realized prices, sustained by the higher share of value-added grades (especially paperboard) and the gradual recompositing of the export mix; and **(iii)** a more benign cost structure in Brazil, favored by the absence of shutdowns and better operational dilution at local plants. These factors more than offset the adverse FX rate effect and the residual impact of the integration of Suzano Packaging US.

In the pulp division, EBITDA reached R\$5.4bn (+1.6% vs. Genial Est.), representing a +26.4% q/q increase, although still -2.9% y/y. The figure was slightly above expectations, mainly sustained by the strong recovery in shipments, which exceeded our estimates due to the faster ramp-up of the Ribas do Rio Pardo (MG) plant and the full recovery of operations after the maintenance shutdown cycle, with greater availability of volumes without the need for inventories. As a result, the segment's contribution was significant, although with a marginal impact on the consolidated deviation.

**Table 4. EBITDA Suzano (2Q25 vs. Genial Est.)**

(R\$ millions)	1Q25	1Q25E	% R/E	4Q24	% q/q	1Q24	% y/y
	Reported	Genial Est.		Reported		Reported	
<b>Adjusted EBITDA</b>	<b>4.866</b>	<b>5.257</b>	<b>-7,4%</b>	<b>6.481</b>	<b>-24,9%</b>	<b>4.558</b>	<b>6,8%</b>
Pulp	4.254	4.546	-6,4%	5.730	-25,8%	3.902	9,0%
Paper	612	710	-13,9%	751	-18,6%	656	-6,7%

Source: Suzano, Genial Investimentos

**Net income above expectations despite lower operating contribution** Net income totaled R\$5bn (+3.7% vs. Genial Est.), falling -21% q/q, but reversing the accounting loss of -R\$3.8bn reported in 2Q24. Despite the sequential decline, the result was slightly above our projections, supported by a still robust financial performance, which offset the weaker EBIT performance. On the operating side, adjusted EBIT was R\$2.9bn (-19.3% vs. Genial Est.), pressured by higher-than-expected depreciation and amortization expenses (+24.4% vs. Genial Est.) explained by the capitalization of assets related to the Cerrado Project. The combination of still pressured production costs and higher operating expenses limited the conversion of EBITDA to EBIT, creating the main headwind for the bottom line.

On the other hand, financial income, although lower vs. 1Q25, totaled R\$4.4bn (+10% vs. Genial Est.), remaining an important support for the quarter's accounting profit. The performance deviation from expectations was driven by non-cash effects related to the depreciation of the USD vs. BRL EoP (-5% q/q), which generated accounting gains on the relevant portion of foreign currency debt. In addition, the derivatives line returned to a positive contribution, albeit to a lesser extent than in the previous quarter. These effects were partially offset by higher financial expenses in local currency, given the higher balance of debt in BRL and the increase in the average CDI rate.



The analysis reinforces that the variation in net income for the period was mainly **explained by accounting and non-cash factors**, with no adverse structural operating impacts.

**Table 5. Income Statement Suzano (2Q25 vs. Genial Est.)**

(R\$ millions)	2Q25 Reported	2Q25E Genial Est.	% R/E	1Q25 Reported	% q/q	2Q24 Reported	% y/y
<b>Net Revenue</b>	<b>13.296</b>	<b>12.572</b>	<b>5,8%</b>	<b>11.552</b>	<b>15,1%</b>	<b>11.495</b>	<b>15,7%</b>
COGS	(8.608)	(7.666)	12,3%	(7.729)	11,4%	(6.093)	41,3%
<b>Adjusted EBITDA</b>	<b>6.087</b>	<b>5.844</b>	<b>4,2%</b>	<b>4.866</b>	<b>25,1%</b>	<b>6.288</b>	<b>-3,2%</b>
EBITDA Margin (%)	45,8%	46,5%	-0,7p.p	42,1%	3,7p.p	54,7%	-8,9p.p
<b>EBIT</b>	<b>2.875</b>	<b>3.562</b>	<b>-19,3%</b>	<b>2.258</b>	<b>27,3%</b>	<b>4.615</b>	<b>-37,7%</b>
EBIT Margin (%)	21,6%	28,3%	-6,7p.p	19,5%	2,1p.p	40,1%	-18,5p.p
D&A	(2.839)	(2.282)	24,4%	(2.497)	13,7%	(2.129)	33,4%
Financial Result	4.425	4.020	10,1%	7.696	-42,5%	(11.074)	-
<b>Net Income</b>	<b>5.012</b>	<b>4.835</b>	<b>3,7%</b>	<b>6.347</b>	<b>-21,0%</b>	<b>-3.764</b>	<b>-</b>
Net Margin (%)	37,7%	38,5%	-0,8p.p	54,9%	-17,2p.p	-32,7%	-

Source: Suzano, Genial Investimentos

## Our take on Suzano

**Satisfactory FCF, with relief in interest paid.** The company reported **FCF of R\$2.6bn** (+8.3% vs. Genial Est.), slightly above our projections, representing an increase of +5% q/q and +36% y/y, reflecting lower interest expenses, which totaled -R\$652 million (vs. -R\$1.6bn Genial Est.). In our view, we had projected sequential stability, given the bond payment schedule and the still high level of gross debt in local currency. However, the positive impact came from three fronts: **(i)** the significant drop-in foreign currency interest rates, reflecting the decline in the USD/BRL EoP FX rate (-5% q/q); **(ii)** lower pressure from monetary restocking on tax credits (which eased other financial expenses); and **(iii)** the seasonality of bond payments, which reduced financial outlays vs. 1Q25.

These factors offset the **consumption of working capital (WC)**, which reached -**R\$864mn** (vs. an expected release of +R\$720m Genial Est.), reflecting the decline in programs for the advance payment of receivables backed by letters of credit from China, as we had already been monitoring. In addition, the increase in sales volume, which naturally puts pressure on accounts receivable, also had an impact on WC. Finally, **CAPEX** was reported at **R\$3.2bn** (fully in line with Genial Est.), with a slight increase of +4% q/q, but still well below the peak observed in 4Q24 (-26% y/y). Under these terms, we maintained our **FCF yield** forecast at **~16% 25E**, which should benefit the company's deleveraging story, which remains on track.

**Leverage declines in BRL and advances in USD, nothing out of the ordinary.** The leverage indicator measured by **Net Debt/EBITDA** closed at **3x** (BRL), marking a **slight reduction** of **-0.1x q/q**, exactly in line with our estimate.

We believe that the decline was sustained by the **R\$3.4bn decrease in net debt**, resulting from **(i)** the appreciation of the BRL against the USD at the end of the quarter, which reduced the value of foreign currency debt in nominal terms to **R\$69.8bn** (-4% q/q); and **(ii)** the expansion of the cash position, which advanced to **R\$21bn** (+23% q/q), driven by solid FCF generation and lower interest payments — which were below our expectations — contributing to FCF slightly above our estimate (R\$2.6bn vs. R\$2.5bn Genial Est.). This combination more than offset the effect of the **-3.2% y/y decline in EBITDA** affecting the LTM base. In USD terms, leverage rose slightly to 3.1x (+0.1x q/q), also in line with our forecast, driven mainly by the contraction in EBITDA y/y (USD), as net debt in USD remained stable sequentially at ~US\$13bn.

**US vs. Brazil: List of tariff exemptions removes concerns.** Although ~40% of the company's BHKP shipments are destined for Asia (especially China), the US still accounts for a significant portion of net revenue, estimated at ~15% of the total. At first glance, the **50% tariff imposed by the US** — scheduled to take effect on August 1 — raised investor concerns about the impact on Brazilian pulp exports. However, the publication of the **list of tariff exemptions** on July 30, covering ~700 items, **including pulp specifically**, brought relief to the sector. The exemption significantly reduces the risk of trade disruption and, at least for now, removes the need to redirect volumes to other markets, which would be particularly challenging given the still depressed global demand, especially in China.

**CAPEX revised upward, production cut amid oversupplies.** The company announced an **upward revision** of its **guidance for CAPEX 25E** to **R\$13.3bn** (+7% vs. previous), reflecting the signing of a **biological asset swap** agreement with Eldorado. The transaction involves the exchange of **18 million m<sup>3</sup> of standing timber**, with the mature volume to be harvested between 2025-27, and the delivery of an equivalent volume of immature timber for harvest between 2028-31. As part of the agreement, the company will also make a payment of R\$1.3bn, of which **67%** will be **25E** — a factor that explains a gross up in CAPEX in the “lands and forests” line to R\$3.1bn (vs. R\$2.2bn previously). From a strategic standpoint, the initiative reinforces the company's commitment to the efficiency of its forest base in regions close to the new Ribas do Rio Pardo (MS) plant, reducing the average radius and making the company less dependent on third-party purchases, considering the high demand for wood linked to the supply of 2.55 Mtpa capacity.

As we have been pointing out for some time, COGS/t could decompress more quickly, but the **still insufficient penetration of timber in the cutting phase** within the vast area planted around the Cerrado project did not represent a short-term reduction effect. On the contrary, the average radius was still higher than other company assets, considering the weighting by volume, which slowed the pace of cost reduction. Therefore, we understand the rationale and **agree with the approach** of the swap with Eldorado. Even so, we believe that **investors' perception may be negative upon the announcement**, given the direct impact on the FCF disbursement structure, especially in a context of attention to the deleveraging trajectory.



**Pulp: Reduction in COGS/t in China puts pressure on supply control in Europe.**

The scenario in China remains bleak, with **investor sentiment still bearish**, as the market is conditioned by a perception of **oversupply**, hindering a consistent turnaround in the pulp cycle in the short term. We estimate that the Chinese paper industry's lower propensity to restock is anchored in two main factors: **(i)** port inventories remain high in BHKP (2.2Mt, +21% YTD), which maintains the feeling of immediate availability; and **(ii)** growing local production capacity, which reduces appetite for imports in the short term.

Among new projects, we highlight the commissioning last year of **Liansheng** (1.6Mtpa, 50% of integrated capacity), in addition to BHKP capacity coming online in the coming months, such as **Huatai** (600 Ktpa); **Xianhe Co.** (400Ktpa); **Nine Dragons Paper** (650Ktpa) and **Shandong Huatai** (700Ktpa) still in 2025. It is worth noting that the new **Sun Paper** plant in Yandian (600Ktpa) remains on an uncertain schedule, with start-up considered for 4Q26. However, we estimate that the **cash COGS/t** of local producers in **southern China** is currently estimated at **US\$450–500/t** (vs. above US\$550/t in 24A), resulting in a **US\$50-100/t margin** currently, as new capacities are more efficient.

In addition, pulp inventories at ports are above normal, indicating that immediate supply is feasible. Consequently, the paper industry benefits from postponing pulp inventory replenishment for as long as possible. Therefore, the cycle inflection point is pushed forward. In this context, we believe that any **supply rebalancing** — with capacity shutdowns — is more likely to **come from Europe**, where some producers are operating at ~95% utilization rates, but with **margins close to zero**.

**Pulp: Exports continue to rise.** In the specific case of BHKP, the **growth in exports** was even more significant, registering an increase of **+8% y/y in 1H25**. A significant part of this increase came from Brazil and Chile, reflecting the **entry of significant new capacity**, such as the Cerrado Project through Suzano's own plant in Ribas do Rio Pardo (MS). On the other hand, monitored demand data point to a **weakening of Chinese domestic demand**, with apparent consumption in 1H25 falling **-3.2% y/y**, signaling difficulties in selling the additional volume. The combination of growing supply and sluggish demand resulted in a significant accumulation of port inventories in China, which reached record levels in a five-year period — 2.2Mt at the end of July (+22% YTD). As a result, the **price of BHKP** has fallen **22% since January**, reflecting the persistent imbalance between supply and demand in the international market, especially in Asia.

**Pulp: Only partial absorption of increased supply.** On the positive side, the Chenming plant, an important supplier of paperboard with an estimated total capacity of up to 6Mt, remains out of operation, which temporarily opens up room for greater market share absorption by exporters. We are also monitoring **Bracell's** movements in its asset in **Lençóis Paulista** (SP), which has been running **Dissolving Wood Pulp** (DWP) production campaigns. It is important to mention that **the plant is flexible** (1.5Mtpa of DWP vs. 3Mtpa of BKP). There are signs that the company could direct up to 80% of the asset's total capacity to this segment by the end of 2025. If this is confirmed, the increase in DWP availability would in turn reduce BHKP production, representing a temporary relief in the supply to be exported.

Even so, it seems to us that the situation is pointing to the fact that, in the short term, the pace of supply will continue to outstrip demand growth. The latest data on the Chinese paper industry suggest only partial absorption of the additional supply. We estimate production capacity growth in the paper industry at +5Mtpa 25E. In this context, we are working with two scenarios for the **behavior of BHKP prices**. In **scenario (i)**, there may be a slight recovery in demand for pulp, mainly in view of a **trade agreement between the US and China** on general tariffs (we are working with the possibility of 40-50% tariffs). The agreement is likely to reduce domestic uncertainty in China and unlock paper consumption. In **scenario (ii)**, if the pace of expansion of installed pulp capacity proves disproportionate to the evolution of final demand and a trade agreement on tariffs is postponed, the risk of oversupply tends to intensify in the short term.

For now, we have a **more bearish** bias for **BHKP prices** in China. The general market expectation is still for an acceleration in 2H25, with the December futures contract trading at US\$565/t (+12% vs. current price). However, we believe that the price should end up **contracting a little more** as supply outpaces demand. Our estimate is that it will reach US\$495/t in **3Q25E** (vs. US\$500/t currently). Furthermore, the -8% m/m decline in prices reinforces the perception that this combination of excess production capacity and still high port inventories continues to limit any more consistent recovery.

**Production cuts, CAPEX rises, but FCF holds steady.** Even after the announcement of a cut in market pulp production for the next 12M — representing a reduction of -3.5% vs. the company's nominal capacity — we have opted to adopt a conservative stance in our model, keeping our price curve for BHKP unchanged at ~R\$620/t (2H25, average). Although we understand that the company's decision tends to favor a gradual balance between global supply and demand, especially given the excess pulp inventories in China, we prefer to wait for greater visibility on the reaction of the PIX/FOEX curve before revising our price assumptions. In addition, we have incorporated into our model the upward revision of CAPEX 25E to R\$13.3bn (+7% vs. previous guidance), due to the forest swap agreement signed with Eldorado.

Although FCF does indeed decline (with all other assumptions unchanged), we see **marginal pressure of -1 p.p. on 25E FCF yield**, which fell to **16%** (vs. 17% previously) and remains at a very healthy level. In other words, even without considering any price passes on pulp derived from the **production cut** also announced alongside the results (-3.5% of nominal annual capacity), we believe that the **attractiveness of the equity story remains high** from an FCF generation perspective, with the market valuation well below what fundamentals suggest. Given this, trading at a **25E EV/EBITDA of 6x** (vs. historical average of 7x), we reiterate our **BUY** rating, with a **12M Target Price of R\$63.50**, implying an **upside of +23.0%**.

## Appendix: Suzano

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

Income Statement	2025E	2026E	2027E	2028E
<b>Net Revenue</b>	<b>37.046</b>	<b>55.139</b>	<b>53.851</b>	<b>54.655</b>
(-) COGS	(23.092)	(33.294)	(34.166)	(35.024)
<b>Gross Profit</b>	<b>13.954</b>	<b>21.845</b>	<b>19.685</b>	<b>19.631</b>
(-) Expenses	(4.148)	(6.622)	(6.626)	(6.726)
<b>Adjusted EBITDA</b>	<b>16.881</b>	<b>26.008</b>	<b>24.067</b>	<b>24.086</b>
(-) D&A	(7.211)	(10.785)	(11.007)	(11.182)
<b>EBIT</b>	<b>9.670</b>	<b>15.223</b>	<b>13.060</b>	<b>12.904</b>
(+/-) Financial Result		(8.639)	(2.890)	(7.570)
(-) Taxes	(6.355)	(2.386)	(3.685)	(1.933)
<b>Net income</b>	<b>7.343</b>	<b>4.198</b>	<b>6.485</b>	<b>3.401</b>
<b>Profitability</b>				
Net margin (%)	19,8%	7,6%	12,0%	6,2%

**Figure 2. Suzano– Cash Flow in R\$ Millions (Genial Est. 2025-2028)**

Cash Flow (FCFF)	2025E	2026E	2027E	2028E
<b>Net Revenue</b>	<b>37.046</b>	<b>55.139</b>	<b>53.851</b>	<b>54.655</b>
(-) COGS	(23.092)	(33.294)	(34.166)	(35.024)
<b>Adjusted EBITDA</b>	<b>16.881</b>	<b>26.008</b>	<b>24.067</b>	<b>24.086</b>
<b>EBIT</b>	<b>9.670</b>	<b>15.223</b>	<b>13.060</b>	<b>12.904</b>
(-) Taxes	(6.355)	(2.386)	(3.685)	(1.933)
(+) D&A	7.211	10.785	11.007	11.182
(+/-) Δ WK	(2.018)	(26)		(142)
(-) Capex	(10.903)	(12.375)	(12.132)	(12.259)
<b>FCFF</b>	<b>(2.395)</b>	<b>11.222</b>	<b>8.379</b>	<b>9.753</b>

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