

# Pulp & Paper

## China Fiber Outlook: Survival Instinct

LatAm Pulp & Paper

### Main takeaways:

We organized a **meeting today** (23/Sep) **with CMPC** (Chilean major), **together with investors**, and took the opportunity to discuss more broadly the current dynamics of the global industry, as we will cover throughout the report. Regarding this week's data, we assess that the pulp market in China remained without relevant triggers, while the low profitability of the paper industry reduced buyers' appetite. The slightly bearish bias of pulp futures contracts also limited the space for increases in the BHKP spot market, resulting in stagnant trading. The absence of a significant improvement in the balance between excess supply and demand, which in turn has not yet kept pace with the increase in capacity, coupled with continued pressure on downstream margins, indicates to us that BHKP prices may continue without much momentum for a more consistent recovery. On the other hand, we believe that the **price curve has already bottomed out in this cycle** when it was at **~US\$490/t**, about 2M ago. We believe that the trend is for prices to be leveled by import costs, considering that there are few players in the market that survive when the curve falls below ~US\$500/t. However, it is worth mentioning that we foresee **slight adjustments** (driven by the majors), and **not a main pulp upward cycle**.

This is the first edition of our **weekly report** on the **Pulp and Paper** sector, focusing on **China**. This series is part of the **"China Fiber Outlook"** sequence for **week 4 of Sep/25**. We believe this set of reports will be essential for monitoring the fundamentals that impact on the investment theses of the companies we cover in the sector (**Suzano and Klabin**).

### CMPC Meeting

**Survival instinct.** We organized a **meeting today** (23/Sep) **with CMPC** (Chilean major), **together with investors**, and took the opportunity to discuss more broadly the current dynamics of the global industry. The company highlighted that the entry of new large-scale projects in South America, especially in Brazil and Chile, has been putting pressure on prices in the short term and reinforcing a crucial point in the sector: in phases of overcapacity, relative profitability is not linked to volume growth, but rather to **positioning on the cost curve**. Our view is that the current environment tends to accentuate the gap between **players with low costs** — who can weather periods of depressed prices **without significant disruptions to FCF** — and less efficient producers who quickly start operating below break-even. Management reinforced a view very close to ours: when the **BHKP** is dragged down to **<US\$500/t**, it causes an adverse reaction for much of the global pulp industry, as many competitors carry out cost structures above this level, resulting in the FCF obliteration.

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### Company

#### SUZB3 BZ Equity

##### Buy

**Price:** R\$ 50.13 (23-Sep-2025)

**Target Price 12M:** R\$ 63.50

#### SUZ US Equity

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

#### KLBN11 BZ Equity

##### Buy

**Price:** R\$ 18.10 (23-Sep-2025)

**Target Price 12M:** R\$ 23.50

This point becomes even more relevant when we cross-reference it with the company's recent efforts, which reported a **reduction in COSG/t of -US\$25/t in 2024** vs. the peak in 2023 and forecast that the slowdown will continue at a pace of **-US\$10-15/t in 25E** vs. 24A (not official guidance), confirming the trend that, in an unbalanced supply vs. demand environment, the most disciplined producer has a relative advantage. Therefore, it is possible to envision a future in which the market shrinks in terms of the number of participants, with consolidation driven by adaptability, where the strongest survive. And in this case, the strongest are those with increasingly lower COGS/t. Therefore, we believe that cuts in old capacity will have marginal effects on raising prices again, which activates companies' **survival instinct** when engaging in **cost-cutting initiatives**, such as the Natureza project (more on this further down).

**Prices capped at ~US\$600/t.** Regarding the **price trajectory**, the company's view is that there is a psychological cap of **~US\$600/t 25E**, a limit above which recovery is unlikely to be sustained, given the fragility of Chinese demand and the elasticity of South American supply. Even so, for 2026-27E, the outlook becomes more constructive: with no announcements of significant new capacity openings beyond Arauco and CMPC itself, the market should gradually converge toward a more stable balance between supply and demand. In this scenario, we believe that the sector is moving towards a phase of **natural consolidation**, in which the most efficient players should capture market share as higher-cost competitors shut down operations.

**Nature Project: inevitable expansion?** The Nature Project, located in Guaíba (RS), is the centerpiece of the company's long-term strategy. With a measured **BHKP capacity of 2.5Mtpy** after ramp-up, with low COGS/t and total **CAPEX of US\$4.6bn** (US\$1,840/t vs. US\$1,690/t for Suzano's Cerrado project), the venture was designed to consolidate the CMPC's position as a structurally efficient producer over the next three decades. It is important to mention that the company already has a 1.75Mtpy unit in Guaíba (RS), and that the Natureza Project will be implemented 30km from this unit, which will lead to the sharing of the same forest and chemical base, in addition to the construction of its own port terminal, which should increase synergies and reduce OPEX.

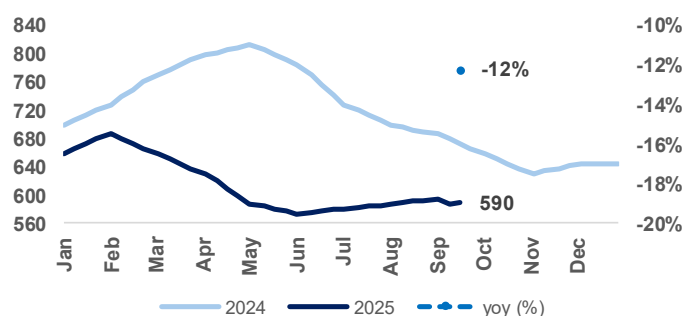
The final investment decision, however, is **scheduled for June 26** (to be judged by the board of directors), although management has signaled strong confidence in its approval, based not on cycle arbitrage, but on a vision of long-term strategic positioning. Therefore, the Natureza Project can be seen not only as a capacity expansion, but also as the consolidation of the thesis that, in a sector subject to recurring oversupply, true protection lies in systematically operating at low cost — a condition that ensures survival during periods of low prices and captures value during periods of normalization of pulp reference curves.

## Pulp Market

**BHKP: Slight price increases do not mean a bullish cycle.** In mid Sep, the price of imported **BHKP** in China was **~US\$590/t** (+0.4% m/m; -12.0% y/y). The slight monthly increase also reflects the effect of the **passthroughs announced** since the beginning of **Aug until now** by foreign producers (including Suzano) and domestic producers in China (there were three rounds of +US\$20/t each).

However, as mentioned above, our assessment is that — although there are slight price increases — we should not consider these adjustments as a consistent upward cycle in pulp prices. This is because tight margins in the paper sector have reduced input purchasing appetite, while arrival costs have remained below the spot reference, signaling little willingness for further increases in pulp prices ahead. This scenario was reinforced by the downward bias of the futures curve, which discouraged additional negotiations. As a result, volatility also narrowed: in the first half of this month, the difference between the max-min was only ~US\$2/t, well below the ~US\$9/t in Sep/24, indicating that the market has entered on a stagnation state, operating in a very narrow range and without triggers for more significant movements.

**Graph 1. China-imported BHKP price (US\$/t)**



Source: SCI, Genial Investimentos

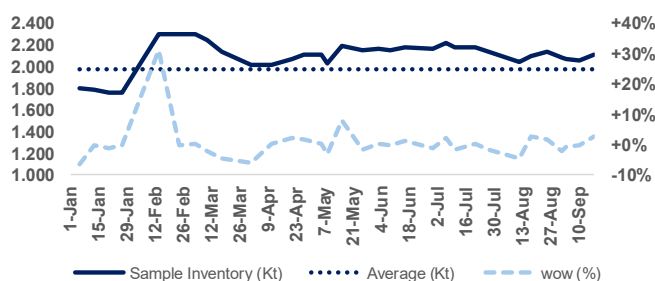
**Paper industry with margin compression.** The pulp market remained unbalanced between supply and demand, reinforcing our belief that recent price pass-through rounds will have limited effects. On the supply side, pulp exports to China grew +10.2% m/m in July, which should be reflected in an +11.2% m/m increase in imports in Sep. In addition, the resumption of production at Chenming and the ramp-up of new domestic capacity increased domestic supply by +5.4% m/m. On the demand side, even though it is traditionally a peak month for the paper industry, consumption grew by only +2.3% m/m, driven by the entry of new lines in the tissue segment. As a result, the **supply-demand gap** widened by **+4.6p.p. vs. Aug**, limiting any room for more significant price increases and reinforcing our view that we are not witnessing a strong upward cycle.

We observed that prices for most paper categories continued to decline. Until 17/Sep, the average gross margin for **(i)** coated paper fell by -3.5p.p., with **(ii)** a contraction of -2.7p.p. for uncoated (A4), **(iii)** a slowdown of -0.2p.p. for cardboard (Ivory), and **(iv)** virtually stable for tissue (-0.0p.p.), all vs. Aug. We believe that these margin compressions reduced the production attractiveness and, consequently, discouraged the Chinese paper industry from rebuilding its pulp stocks inside mills. With traders less eager to make new purchases, the effect was additional pressure on the future price curve, even with the rounds of increases that have been occurring since Aug.

**Port inventories continue to rise.** On the port supply side, upward pressure from Chinese inventories remains high, counterbalancing stable price references. At the end of last week, **consolidated inventory** reached **2.1Mt** (+2.4% w/w) in China's main pulp ports. In Qingdao, volume showed marginal accumulation, with no significant change in the shipments pace. In Changshu, there was a more evident increase, with movement close to +100Kt w/w. In other ports, stocks remained within normal levels, with low volatility.

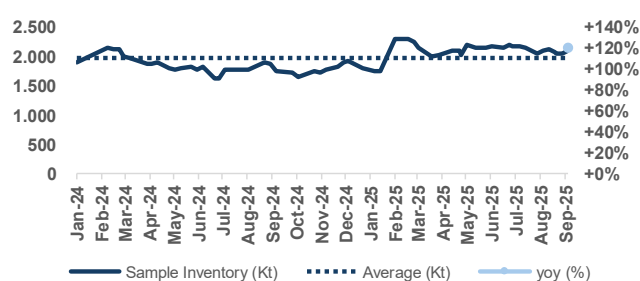
The composition indicates a **higher concentration of BSKP in warehouses**, reinforcing the scenario of excess supply in the short term. On the **cargo removal side**, Sep marks the transition from the traditional seasonal high in the paper industry to a period of lower activity, with pulp negotiations remaining weak. The price fluctuation range narrowed, reflecting a market in a holding pattern. Appetite for pre-holiday stocks for the military parade (3/Sep) was low, with **purchases limited to small essential volumes**. We believe that, despite marginal cost support guiding the price curve in a more stretched direction, expectations of increased production in the paper downstream sector did not materialize. As a result, acceptance of pulp at high prices remains limited. Thus, we believe that effective pulp absorption in the domestic market may fall short of expectations in the near term.

Graph 2. Chinese port inventory 2025 (Kt)



Source: SCI, Genial Investimentos

Graph 3. Chinese port inventory (Kt)



Source: SCI, Genial Investimentos

**Pulp supply is expected to grow 2x as fast as demand.** We believe that pulp supply will continue to expand. A **new capacity of 350Ktpy of BHKP** is expected to come online by the end of Sep in China, in addition to the ramp-up of plants that began operating at the beginning of the year. In addition, imports are expected to grow slightly (+6% m/m Est.), supported by contracts signed in Aug, which increases availability in the domestic market. On the demand side, we believe **that consumption will continue to grow at a rate ½ that of supply**, driven by the tissue sector, but still limited by the low structural profitability of the paper base market, which restricts the transfer to other segments such as printing & writing and ivory board.

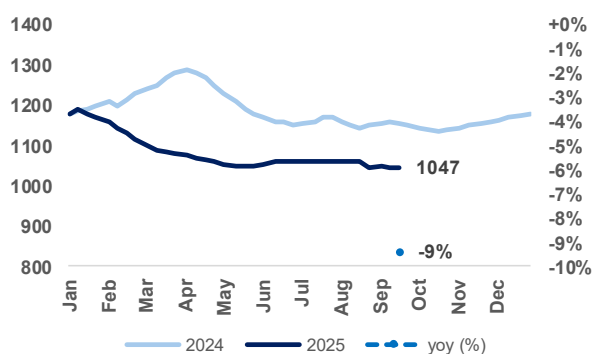
In terms of costs for the paper industry, the price of BHKP imports rose by +US\$20/t in Aug, in the first of three rounds of passthroughs made until mid-Sept, raising the theoretical cost of volume entry in China by +4.0% m/m. This pressure may lead sellers to hold spot prices at a level above marginal cost (~US\$500/t).

However, we still believe that the data suggests a continued downward bias due to the combination of higher supply and depressed margins in the downstream, even though there is support in costs and the defensive stance of sellers, which in turn should curb pressure on prices.

**Sentiment stable vs. last week.** The SCI index, which measures sentiment in the Chinese pulp market, closed last week at **1,047pts** (flat w/w; -9% y/y). Spot prices showed mixed performance. The price of BSKP slowed to US\$784/t (-0.4% w/w), following the movement of contracts on the Shanghai Futures Exchange (SHFE), putting pressure on the spot reference. In contrast, the price of **BHKP** remained basically stable at **US\$589/t** (flat w/w), sustained by the entry of volume after exporters had already adjusted, raising the perception of future costs for the paper industry, which encouraged higher resale prices. UKP (~US\$690/t) and CMP (~US\$537/t) remained stable w/w, as there seems to be no room to unlock sales even with additional discounts.

Overall, final demand remained weak: we believe that low profitability in the paper sector kept restocking subdued and reduced the occurrence of pulp contract negotiations at higher levels. This context explains why, despite cost pressures in the upstream and some attempts by exporting companies to raise BHKP prices, the pulp market remains stuck in a dynamic of **stability with a fragmented bias**, in which only marginal adjustments are observed.

**Graph 4. SCI Index- Market Sentiment (Pts.)**



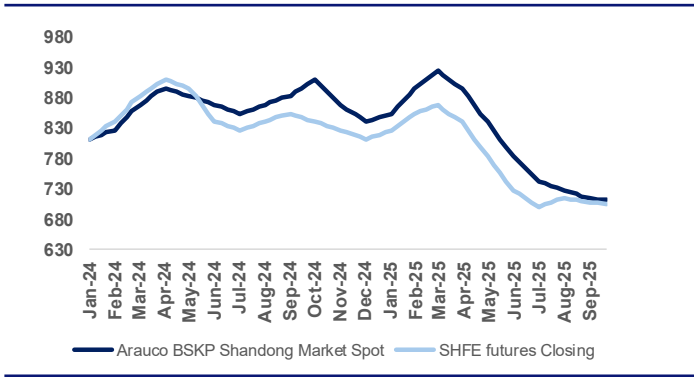
Source: SCI, Genial Investimentos

**BSKP: Futures market reflects wait-and-see attitude.** The dominant **BSKP futures** contract on the Shanghai Futures Exchange (**SHFE**) ended the week at **~US\$702/t** (+0.1% w/w). During the period, the price ranged between ~US\$715-695/t (Max-Min), reflecting a moderate fluctuation band. On the physical side, receipts registered in delivery warehouses and factories totaled ~245Kt on 18/Sep, remaining at a high level and limiting room for more consistent appreciation of contracts.

Thus, what we can draw up is that the market remains in a **waiting mode**, with prices held back by three factors: **(i)** growing supply of BHKP, which may replace BSKP through the fiber-to-fiber process, but only down the road, while prices fluctuate in the near term; **(ii)** weak demand and depressed margins for paper industry, and **(iii)** costs acting as the only real support for pulp prices.

The short-term trend is for stability with a **slightly bearish bias**, where prices should have already bottomed out, with slight increases backed only by marginal cost support, but without clear triggers for consistent recovery until there is an improvement in demand or significant cuts in supply from old capacities.

Graph 5. China-imported BSKP price (US\$/t)



Source: SCI, Genial Inverimentos

## 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)
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<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>

## Appendix: Klabin

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

Income Statement	2025E	2026E	2027E	2028E
<b>Net Revenue</b>	<b>21.053</b>	<b>22.264</b>	<b>22.678</b>	<b>22.998</b>
(-) COGS	(14.984)	(15.043)	(14.853)	(14.873)
<b>Gross Profit</b>	<b>7.140</b>	<b>7.991</b>	<b>8.561</b>	<b>8.714</b>
(-) Expenses	(2.875)	(3.056)	(3.131)	(3.192)
<b>Adjusted EBITDA</b>	<b>8.402</b>	<b>8.881</b>	<b>9.149</b>	<b>9.044</b>
(-) D&A	(4.137)	(3.945)	(3.720)	(3.522)
<b>EBIT</b>	<b>4.265</b>	<b>4.936</b>	<b>5.429</b>	<b>5.522</b>
(+/-) Financial Result	(2.225)	(2.043)	(2.046)	(1.938)
(-) Taxes	(404)	(584)	(415)	(422)
<b>Net income</b>	<b>1.851</b>	<b>2.324</b>	<b>2.983</b>	<b>3.176</b>
<b>Profitability</b>				
Net margin (%)	8,8%	10,4%	13,2%	13,8%

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

Cash Flow (FCFF)	2025E	2026E	2027E	2028E
<b>Net Revenue</b>	<b>21.053</b>	<b>22.264</b>	<b>22.678</b>	<b>22.998</b>
(-) COGS	(14.984)	(15.043)	(14.853)	(14.873)
<b>Adjusted EBITDA</b>	<b>8.402</b>	<b>8.881</b>	<b>9.149</b>	<b>9.044</b>
<b>EBIT</b>	<b>4.265</b>	<b>4.936</b>	<b>5.429</b>	<b>5.522</b>
(-) Taxes	(404)	(584)	(415)	(422)
(+) D&A	4.137	3.945	3.720	3.522
(+/-) Δ WK	(490)	(66)	(77)	(37)
(-) Capex	(3.098)	(2.670)	(2.658)	(2.412)
<b>FCFF</b>	<b>4.411</b>	<b>5.562</b>	<b>5.999</b>	<b>6.172</b>



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