genial Equity Research

KLABIN

1Q26 Review: Deleveraging still waiting on EBITDA

LatAm Pulp & Paper

(i) Kraftliner: Shipments of **162Kt** (+4.6% vs. Est.; +13.3% q/q; +30.7% y/y), above expectations driven by stronger export; **price** of **R$3,632/t** (+0.5% vs. Est.; -2.2% q/q), essentially in line, with the q/q compression reflecting geographic diversification; **(ii) Paperboard: Sales** of **195Kt** (+2.2% vs. Est.; -7.3% q/q; +4.1% y/y), modestly above projections, supported by stronger domestic absorption; **price** at **R$5,657/t** (+0.2% vs. Est.; -0.2% q/q), reflecting contract stability; **(iii) Corrugated Boxes**: **Sales** of **226Kt** (+5.3% vs. Est.; -2.5% q/q; +4.4% y/y), above estimates, outpacing broader industry; **price** of **R$6,590/t** (+3.7% vs. Est.; +1.0% q/q), above expectations on stronger mix; **(iv) Industrial Bags**: **Sales** of **33Kt** (-1.8% vs. Est.; -12.5% q/q; -3.9% y/y), modestly below projections reflecting continued tariff pressure on export markets; **price** of **R$9,411/t** (+1.7% vs. Est.; +2.0% q/q), above estimates on higher domestic unit; **(v) BHKP Pulp**: **Shipments** of **290Kt** (-1.7% vs. Est.; -2.0% q/q; +22.1% y/y), marginally below expectations; **price** reached **R$3,058/t** (-0.5% vs. Est.; +4.3% q/q), mirroring FOEX benchmark recovery, partially neutralized by USD/BRL FX rate; **(vi) BSKP + Fluff**: **Shipments** of **111Kt** (flat vs. Est.; +2.8% q/q; +3.4% y/y), in line with estimates; **price** at **R$4,710/t** (-1.1% vs. Est.; -6.7% q/q), below expectations reflecting the natural lag in capturing price adjustments; **(vii) Cash COGS/t ex-stoppages** reported at **R$1,326/t** (+5.6% vs. Est.; +4.1% q/q; +4.6% y/y), above our projection driven by higher fiber costs; **(viii) Adj. EBITDA** reached **R$1.7bn** (-0.7% vs. Est.; -8.9% q/q; -10.2% y/y); **(ix)** As our **de-risk EBITDA growth** assumptions and adopt just a bit more conservative trajectory, combined with a USD/BRL FX rate curve revision to an average of **R$5.10 26E** (vs. R$5.50 previously) and a **weaker FCF print** flowing through our model, reduces our valuation and justifies a **12M Target Price** cut to **R$21.00** (vs. R$23.50 previously), implying an **upside** of **+23%**.

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Company

KLBN11 BZ Equity
Buy

Price: R$ 17.14 (06-May-2026)
Target Price 12M: R$ 21.00

Table 1. Shipments Summary (1Q26 vs. Genial Est.)

(Thousand Tonnes - kt)	Reported	Genial Est.		Reported		Reported	
Summary (Shipments)	**1Q26**	**1Q26E**	**% R/E**	**4Q25**	**% q/q**	**1Q25**	**% y/y**
Kraftliner	162	155	**4.6%**	143	**13.3%**	124	**30.7%**
Paperboard	195	190	**2.2%**	210	**-7.3%**	187	**4.1%**
Corrugated boxes	226	214	**5.3%**	231	**-2.5%**	216	**4.4%**
Industrial Bags	33	33	**-1.8%**	37	**-12.5%**	34	**-3.9%**
BHKP Pulp	290	295	**-1.7%**	296	**-2.0%**	238	**22.1%**
BSKP + Fluff Pulp	111	111	**0.0%**	108	**2.8%**	107	**3.4%**

Source: Genial Investimentos, Klabin

Table 2. Income Statement Summary (1Q26 vs. Genial Est.)

(R$ millions)	Reported	Genial Est.		Reported		Reported	
Income Statement	**1Q26**	**1Q26E**	**% R/E**	**4Q25**	**% q/q**	**1Q25**	**% y/y**
Net Revenue	4,946	4,942	**0.1%**	5,165	**-4.2%**	4,859	**1.8%**
Adjusted EBITDA	1,669	1,681	**-0.7%**	1,831	**-8.9%**	1,859	**-10.2%**
Net Income	(497)	266	-	168	-	446	-

Source: Genial Investimentos, Klabin

Klabin released its **1Q26** results today (**May 6**). The quarter told story of two divisions merging their consequences into an expected **Adj. EBITDA** at **R$1.7bn** (-0.7% vs. Est.; -8.9% q/q; -10.2% y/y), essentially in line with our prediction. **Paper & Packaging** showed a **more positive trend than expected**, although it was affected by the seasonal slowdown in between 4Q-1Qs. On the other hand, **Pulp** division came in **softer** on both **BHKP volume and price**, with BSKP + Fluff prices still lagging the ongoing benchmark recovery.

In the **Paper** segment, **Kraftliner** led the upside with **shipments** of **162Kt** (+4.6% vs. Est.; +13.3% q/q; +30.7% y/y), driven by stronger-than-anticipated export demand consistent with the company's geographic diversification strategy, favored by healthy demand conditions and the supply adjustments. **Paperboard** also exceeded estimates with **sales** at **195Kt** (+2.2% vs. Est.; -7.3% q/q; +4.1% y/y), supported by stronger domestic absorption in the brewing sector (more beer packages sold this summer) and new client penetration in white coated board. On pricing, **Kraftliner** showed some pressure (+0.5% vs. Est.; -2.2% q/q), but due to the anticipated effect of diversifying the product mix geographically to expand sales into new regions with lower average ticket prices.

In the **Packaging** segment, **Corrugated Boxes shipments** totaled **226Kt** (+5.3% vs. Est.; -2.5% q/q; +4.4% y/y), coming in above our projection, with resilient performance across food-adjacent end markets, outpacing broader industry growth (+3.6% y/y vs. +2.3% y/y on Empapel data), reinforcing incremental market share gains. **Pricing** also surprised positively (+3.7% vs. Est.; +1.0% q/q), supported by stronger mix. **Industrial Bags** were the only **volume miss** at **33Kt** (-1.8% vs. Est.; -12.5% q/q; -3.9% y/y), reflecting tariff pressure on export markets and seasonal cement demand weakness, though domestic reallocation progressed well (+13% y/y).

In **Pulp**, total **shipments** reached **401Kt** (-1.2% vs. Est.; -0.7% q/q; +16.3% y/y), marginally below our estimates. Breaking down by fiber, **BHKP shipments** totaled **290Kt** (-1.7% vs. Est.; -2.0% q/q; +22.1% y/y), with **price** reaching **R$3,058/t** (-0.5% vs. Est.; +4.3% q/q; -6.9% y/y), mirroring the recovery in FOEX BHKP references (+9% q/q in China; +12% q/q in Europe), partially neutralized by USD/BRL FX rate (-3% q/q; -10% y/y). **BSKP + Fluff shipments** clocked in at **111Kt** (flat vs. Est.; +2.8% q/q; +3.4% y/y), in line with our estimates, while **price** reached **R$4,710/t** (-1.1% vs. Est.; -6.7% q/q; -15.3% y/y), a bit disappointing, reflecting the natural lag in capturing price adjustments across the portfolio, with RISI Table 5 index prices rising only +1% q/q in both China and Europe.

Consolidated **Net Revenue** totaled **R$4.9bn** (+0.1% vs. Est.; -4.2% q/q; +1.8% y/y), essentially in line, as Paper & Packaging outperformance, with Paper at R$1.7bn (+3.4% vs. Est.) and Packaging at R$1.8bn (+7.5% vs. Est.), more than offset a Pulp miss at R$1.4bn (-1.8% vs. Est.). On **costs**, **pulp COGS/t ex-stoppages** reached **R$1,326/t** (+5.6% vs. Est.; +4.1% q/q; +4.6% y/y), higher than anticipated, primarily reflecting higher fiber/wood costs (+11% y/y), but with the **including stoppages** reaching **R$1,473/t** (-0.4% vs. Est.; -2.5% q/q; +16.1% y/y), as the Monte Alegre (PR) downtime impact came in at R$146/t (-34% vs. Est.). As a result, as we already mentioned, **Adj. EBITDA** totaled **R$1.7bn** (-0.7% vs. Est.; -8.9% q/q; -10.2% y/y), in line with estimates, as y/y decline mainly attributable to USD/BRL FX rate effect on exports pricing (-10% y/y) and the maintenance calendar asymmetry vs. a stoppage-free in 1Q25, with **margin** reaching **33.7%** (-0.3p.p. vs. Est.; -1.7p.p. q/q; -4.5p.p. y/y).

Finally, the company reported a bottom line with a **Loss** of **-R$497mn** (vs. R$266mn Genial Est.), reversing profit of +R$168mn in 4Q25 and +R$446mn in 1Q25, primarily driven by a **non-cash negative fair value variation** of biological assets.

1Q26 Review: In detail!

Kraftliner: Volume beats; Price follows lower geographic mix. Containerboard (Kraftliner + recycled) shipments totaled 162Kt (+4.6% vs. Genial Est.), growing +13.3% q/q and +30.7% y/y, coming in above our prediction. We assess the positive deviation was mainly explained by stronger-than-anticipated export demand, consistent with the company's ongoing geographic diversification strategy, by increasing penetration into underexplored markets such as China, India, and Ecuador, combined with the operational flexibility of PM28 continuing to redirect production capacity toward the Kraftliner segment, favored by healthy demand conditions (vs. paperboard) and the supply adjustments carried out throughout 2025. The sequential recovery confirms a back-to-normal trend after the softer 4Q25, while the y/y expansion reflects the ramp-up of PM28.

The realized price reached R$3,632/t (+0.5% vs. Genial Est.), declining -2.2% q/q and -13.2% y/y, essentially in line with our projection. The sequential compression can be explained by the upscaling sales in emerging markets with lower average ticket prices, as we already quoted in other reports. The y/y decline reflects the same mix effect compounded by USD/BRL FX rate downtrend (-10% y/y), which weighed BRL-translated export revenues.

Paperboard: Domestic strength offsets export seasonality. Sales clocked in at 195Kt (+2.2% vs. Genial Est.), down -7.3% q/q but advancing +4.1% y/y, modestly above our forecast, appearing to be explained by stronger domestic absorption than previously modeled, driven by growth in the brewing sector (more beer packages sold this summer) and increased penetration of new clients in white coated board. While there was a time when we took a more critical stance regarding a potential delay in the approval of more specific grades (such as the LPB) under PM28, it seems to us that the process was indeed complex and has now been completed, with much of the work already done to facilitate shipments, which may help to gradually support the volume moving forward. Despite continued competitive pressure from Asian imports, domestic demand proved more resilient than our base case.

On the price side, the company reported a realization of R$5,657/t (+0.2% vs. Genial Est.), almost flat sequentially (-0.2% q/q) but advancing +0.6% y/y, essentially in line with our expectations, reflecting contract stability across the portfolio, partially neutralized by USD/BRL FX rate downtrend (-3% q/q; -10% y/y) weighing on export price realizations in BRL terms. Exports account for ~40% of the paperboard's total volume.

Corrugated Boxes: Market share gains; Price upwards. The division reported shipments of 226Kt (+5.3% vs. Genial Est.), declining -2.5% q/q but up +4.4% y/y, coming in above our prediction, with **(i)** stronger-than-anticipated performance across resilient end markets (processed foods, personal care & cleaning, and fruits), as well as **(ii)** an incremental contribution from durable goods packaging, notably televisions (It's a Soccer World Cup year, providing a boost to this segment), factors that appear to have helped soften the typical 1Q seasonal deceleration.

On a y/y basis, we note that the company outpaced the broader market (+3.6% y/y vs. +2.3% y/y on Empapel data), reinforcing that the result reflects incremental market share gains rather than a purely cyclical demand effect. Domestic demand proved more resilient than our base case despite still-restrictive credit conditions.

The realized price reached R$6,590/t (+3.7% vs. Genial Est.), advancing +1.0% q/q and +4.8% y/y, also above our projection, since we had expected a worse mix following the end of the year-end festivities (transition from 4Q-1Q). It is also important to highlight that maturation of the Figueira Project (SP) has been increasing conversion flexibility and premium product penetration across higher value-added packaging grades.

Industrial Bags: Export restrictions persist. The company reported shipments of 33Kt (-1.8% vs. Genial Est.), declining -12.5% q/q and -3.9% y/y, modestly below our forecast, reflecting the **(i)** rainy season suppressing bagged cement consumption, combined with **(ii)** continued pressure from tariff measures on key export markets. We observe exports declining (-39% y/y) as the company redirected volumes toward the DM. Although we recognize that domestic reallocation progressed well, with sales advancing (+13% y/y), supported by Minha Casa Minha Vida (MCMV)-driven cement demand, the shift was not sufficient to fully offset the export shortfall, explaining the modest gap.

The realized price reached R$9,411/t (+1.7% vs. Genial Est.), accelerating +2.0% q/q but declining -4.4% y/y, above our prediction, due to push-up from domestic market reallocation at higher prices and greater penetration in construction-related applications, which carry a more favorable average ticket vs. export-oriented volumes. The y/y decline reflects the sales mix shift away from higher-priced export destinations with USD/BRL FX rate at way softer levels nowadays (-10% y/y).

Pulp: BHKP miss estimates; BSKP+Fluff lag in capturing hikes. Total pulp shipments reached 401Kt (-1.2% vs. Genial Est.), declining -0.7% q/q but advancing +16.3% y/y, coming in marginally below our prediction, but basically keeping things flat sequentially even in with downtimes. The back-to-normal level following the significant operational constraints that affected 1Q25 (particularly at Ortigueira-PR) largely explains the y/y expansion.

Breaking down by fiber, BHKP shipments totaled 290Kt (-1.7% vs. Est.), declining -2.0% q/q but accelerating +22.1% y/y, below our expectations, reflecting a slightly lower production than anticipated, with the realized price reaching R$3,058/t (-0.5% vs. Est.), advancing +4.3% q/q but declining -6.9% y/y, given it mirrors the recovery in FOEX BHKP references (+9% q/q in China; +12% q/q in Europe), partially neutralized by USD/BRL FX rate (-3% q/q; -10% y/y).

Conversely, BSKP + Fluff shipments clocked in at 111Kt (flat vs. Est.), advancing +2.8% q/q and +3.4% y/y, in line with our estimates, consistent with our prediction that fluff volumes would be modestly above 4Q25 levels. The realized price reached R$4,710/t (-1.1% vs. Genial Est.), down -6.7% q/q and -15.3% y/y, below our estimates, although we were already bearish on residual weakness in long fiber markets, to which fluff pricing remains perceptually linked despite the fundamentally different demand profile.

We believe the weaker performance likely reflects the natural lag in capturing price adjustments across the portfolio (RISI Table 5 index prices rising only +1% q/q in both China and Europe), signaling a positive inflection but not yet flowing through into realized BRL prices, further compressed by USD/BRL FX rate.

Net Revenue: Paper & Packaging balancing Pulp poor performance. Consolidated Net Revenue totaled R$4.9bn (+0.1% vs. Genial Est.), declining -4.2% q/q and advancing +1.8% y/y, with a stronger-than-expected performance in Paper & Packaging balancing a modest miss in Pulp division and a shortfall in Wood sales. In Paper, Net Revenue reached R$1.7bn (+3.4% vs. Est.), declining -1.8% q/q but advancing +7.6% y/y, above our estimate, chiefly driven by the volume beat in Kraftliner and still resilient Paperboard domestic absorption.

Packaging clocked in at R$1.8bn (+7.5% vs. Est.), down -3.2% q/q but accelerating +6.0% y/y, reflecting the combination of stronger Corrugated Boxes shipments, above-anticipated pricing across the segment and in Industrial bags. The Pulp business posted net revenue of R$1.4bn (-1.8% vs. Est.), almost flat sequentially (-0.3% q/q) and advancing +2.3% y/y, but below our projection, as both BHKP volume and price miss estimates, with BSKP + Fluff price also not showing expected results despite volumes landing in line.

Table 3. Net Revenue Klabin (1Q26 vs. Genial Est.)

(R$ Millions)	1Q26 Reported	1Q26E Genial Est.	% R/E	4Q25 Reported	% q/q	1Q25 Reported	% y/y
Net Revenue	**4,946**	**4,942**	**0.1%**	**5,165**	**-4.2%**	**4,859**	**1.8%**
Paper	1,689	1,634	3.4%	1,720	-1.8%	1,570	7.6%
Packaging	1,794	1,669	7.5%	1,854	-3.2%	1,693	6.0%
Pulp	1,409	1,435	-1.8%	1,413	-0.3%	1,378	2.3%
Wood	173	214	-19.2%	222	-22.1%	226	-23.5%
Others	(119)	(10)	1064.7%	(44)	170.7%	(8)	1357.0%

Source: Genial Investimentos, Klabin

Pulp COGS/t: Ex-stoppages up due to wood costs. Cash COGS/t ex-stoppages was reported at R$1,326/t (+5.6% vs. Genial Est.), accelerating +4.1% q/q and +4.6% y/y, coming in worse than estimate, reflecting higher price of fiber and wood costs (+11% y/y) being destocked, driven by logistics and operational pressures stemming from climatic events that impacted forestry operations throughout last year. We believe this was partially neutralized by stronger energy sales (+92.5% y/y), benefiting from a elevated spot energy price (PLD), and a greater dilution of fixed costs (-11% y/y), due to an increase in the volume produced.

When including stoppages, pulp cash COGS/t reached R$1,473/t (-0.4% vs. Genial Est.), declining -2.5% q/q and rising +16.1% y/y, in line with our estimate, as the Monte Alegre (PR) downtime impact came under to our modeled figure at R$146/t (-34% vs. Est.) despite being the first scheduled maintenance event at that unit since 4Q24. On a y/y basis, the sharp increase is almost entirely explained by the maintenance calendar asymmetry, with no stoppage in 1Q25 vs. Monte Alegre in 1Q26.

EBITDA: Down on seasonality q/q and FX y/y. Consolidated Adj. EBITDA totaled R$1.7bn (-0.7% vs. Genial Est.), declining -8.9% q/q and -10.2% y/y, experiencing normal pressure on sequential movement due to a seasonal decline in volumes in the Paper & Packaging segment (except for Kraftliner). On a y/y basis, we attribute the decline to **(i)** USD/BRL FX rate downtrend (-10% y/y), weighing on BRL-translated export revenues across segments; and **(ii)** the scheduled maintenance stoppage at Monte Alegre (PR) affecting COGS/t, with the combination erasing the positive contribution from higher sales volumes across all business segments.

The margin reached 33.7% (-0.3p.p. vs. Est.; -1.7p.p. q/q; -4.5p.p. y/y). In our forward-looking, the margin trajectory should benefit from the absence of scheduled stoppages in 2Q26E and a gradual recovery in pulp price realizations as BSKP + Fluff adjustments flow through the portfolio with the typical contractual lag.

Net Income: Loss derived from biological asset fair value. The company reported a Loss of -R$497mn (vs. +R$266mn Genial Est.), reversing from R$168mn in 4Q25 and R$446mn in 1Q25, materially below our projection, primarily driven by a non-cash negative fair value variation of biological assets of -R$581mn (vs. R$424mn Est.), reflecting the revision of valuation assumptions (including wood price, discount rate, and forest harvest plan).

The financial result also contributed negatively, reaching -R$570mn (4.4% worse vs. Est.), reflecting higher financial expenses, partially offset by the USD/BRL EoP FX rate downtrend (-6% q/q) on interest rates of USD-denominated debt and positive results from the settlement of cash flow hedge instruments. As was the case in prior quarters, we emphasize that bottom-line dynamics are heavily influenced by non-cash biological asset valuation and financial instruments mechanisms.

Table 4. Income Statement (1Q26 vs. Genial Est.)

(R$ Millions)	1Q26 Reported	1Q26E Genial Est.	% R/E	4Q25 Reported	% q/q	1Q25 Reported	% y/y
Net Revenue	**4,946**	**4,942**	**0.1%**	**5,165**	**-4.2%**	**4,859**	**1.8%**
COGS	(3,861)	(3,907)	-1.2%	(4,027)	-4.1%	(3,612)	6.9%
Adjusted EBITDA	**1,669**	**1,681**	**-0.7%**	**1,831**	**-8.9%**	**1,859**	**-10.2%**
EBITDA Margin (%)	33.7%	34.0%	-0.3p.p	35.4%	-1.7p.p	38.3%	-4.5p.p
EBIT	**(190)**	**886**	**-**	**911**	**-**	**926**	**-**
EBIT Margin (%)	-3.8%	17.9%	-	17.6%	-	19.1%	-
D&A	(1,162)	(1,218)	-4.6%	(1,244)	-6.6%	(1,299)	-10.5%
Financial Result	(570)	(546)	4.4%	(707)	-19.5%	(158)	259.5%
Net Income	**(497)**	**266**	**-**	**168**	**-**	**446**	**-**
Net Margin (%)	-10.0%	5.4%	-	3.3%	-	9.2%	-

Source: Genial Investimentos, Klabin

Our Take on Klabin

FCF: Burn driven by WC use and CAPEX. The company reported **FCF burn** of **-R$404mn** (32% worse vs. Est.), improving 37% q/q, but reversing from the +R$492mn in 1Q25, coming in below our prospects, mainly driven by **(i)** Working Capital (**WC**) consumption of **-R$433mn** (+39% vs. Est.; +59% q/q; reversing from R$164mn in 1Q25), explained by the concentration of payments to suppliers related to the stoppages at Monte Alegre-PR(Jan/26) and Ortigueira-PR (Nov/25); and **(ii)** a greater **CAPEX** of **-R$839mn** (+4% vs. Est.; -18% q/q; +39% y/y), slightly above our estimate, reflecting the scheduling of investments in 1Q26 and expenses related to the modernization of the Monte Alegre (PR) boiler.

These effects were partially offset by **(iii)** lower **interest payments** of **-R$422mn** (-11% vs. Est.; -34% q/q; +11% y/y), reflecting higher financial income related to cash balance and the positive impact of liability management initiatives implemented throughout 2025. On a **q/q basis**, we have observed that the slowdown in FCF burn, even with a slight decline in EBITDA, is linked to lower CAPEX and interest payments. On a **y/y basis**, the reversal from generation to burn reflected a WC swinging from a release to a consumption, higher CAPEX and lower EBITDA, only partially compensated by lower interest payments.

Deleveraging on track due to FX. The company reported a **Net Debt/EBITDA LTM** at **3.1x** in **BRL** (flat vs. Est.; -0.2x q/q), converging as expected, with the improvement driven by a meaningful reduction in gross debt, which reached **R$32.9bn** (-R$3.9bn q/q), explained by **(i)** prepayments and amortizations of R$1.7bn, with emphasis on the early redemption of the 2027 Green Bonds at US$230mn (R$1.2bn); **(ii)** USD/BRL EoP FX rate softening (-6% q/q) generating a favorable **+R$1.6bn** revaluation effect on USD-denominated debt; and **(iii)** a positive mark-to-market impact of **+R$700mn** from swap instruments. In **USD terms**, leverage stood at **3.3x** (unchanged q/q), indicating that the most significant reduction came from FX effects rather than organic deleveraging, such as EBITDA y/y contraction (-10.2% y/y) affecting the LTM base.

Cash and equivalents ended the period at **R$8.9bn** (-R$2.0bn q/q), reflecting the prepayments and amortizations made during the quarter combined with the **negative FCF**, partially offsetting the gross debt reduction at the net debt level. Additionally, our **Dividend Yield 26E** is at **5% Est.** (-1p.p. y/y), given that the company already disclosed distribution of interim dividends totaling **R$1.1bn in 2026** (four equal installments of R$278mn each).

BSKP softens further while BHKP holds firm. 1Q26 saw a persistent **supply-demand imbalance in the BSKP market in China**. Overseas mills operated normally throughout the quarter, with continuous cargo arrivals gradually lifting port inventory pressure. We note that downstream demand offered no offset, as paper industry profitability remained depressed, driving mills to substitute away from imported BSKP to control raw material costs, and the Spring Festival shutdown in Jan slowed consumption further. With no relief on either side, BSKP spot prices trended steadily lower, closing at **US$734/t** as of **01/Apr** (-3% vs. early Mar/26).

BHKP told a different story: major global exporters announced **(i)** output cuts; **(ii)** scheduled maintenance; **(iii)** controlled shipment volumes, tightening supply; **(iv)** rising energy and freight costs added to **overseas production pressure**. In addition, Post-Spring Festival recovery in downstream operating rates supported essential buying. BHKP closed at **US$662/t** as of **01/Apr** (+0.3% vs. early Mar/26), with the BSKP/BHKP spread narrowing to just **US$71/t** (the tightest in recent years).

Pulp: We expect prices to decline at 2H26E. Our thought is that the **2Q26E** outlook should sustain the **weak BSKP/firm BHKP structure**. 2Q26E is a traditional **off-season** for pulp and paper, and our forecasts indicates a **decline in downstream operating rates** by end-2Q26E in China all-across the board, with **(i)** tissue (-6% Est. m/m), **(ii)** coated paper (-1.5% Est. m/m), **(iii)** ivory board (-3% Est. m/m) and **(iv)** uncoated woodfree (-0.5% Est. m/m), a broad-based demand drag that limits any meaningful pulp market recovery. Mills are widely adopting dip-buying and hand-to-mouth procurement, and sustained contraction in total pulp demand **reinforces strong upward resistance for both grades**.

The supply-demand divergence between BSKP (oversupplied and facing substitution pressure) and BHKP (supply-controlled in the short term with downward demand) is expected to **persist through 2Q26E**, with the **price spread** likely ranging between **US$55–75/t Est.** (vs. US$71/t current), and **both fibers** with a **price decline** expectation **through 2H26E**. Key variables to monitor include overseas shipment pace, mill maintenance and shutdown announcements, domestic port inventory changes and downstream restocking conditions.

Supply tailwinds meet domestic pivot; two variables to watch. On **paper, kraftliner** should benefit from a **supportive supply environment** — US utilization rate at 92% post-capacity cuts and European producers structurally pressured by energy costs — with the company guiding a **+US$60/t** price increase for **May** and further upside into 2Q26E as PM27/PM28 volumes scale into a broadening geographic footprint. **Coated board** may face more **persistent structural headwinds**, with improvement expected through **mix** and **gradual white-label homologation** conversions rather than headline price hikes. The Tetra Pak LPB qualification resolution removes a prior flexibility constraint. For **packaging**, **industrial bags** should be **pivoting domestically** as tariff disruptions weigh on US/Mexico export flows, with MCMV-driven construction demand providing a durable offset, as of a gradual rebalancing rather than structural impairment.

Beyond near-term results, the company flagged **freight** and **fuel costs** as the primary macro **risk to the cost structure**, quantifying sensitivity at **+R$30m** per **+US$10/t** move in **freight rates**, an exposure set to become more visible from 2Q26E onward as **geopolitical disruptions** work through global supply chains. USD/BRL appreciation (-3% q/q; -10% y/y) should represent a headwind for USD-denominated export revenues, mainly across pulp and kraftliner, but partially offset by lower USD-indexed input costs.

Deleveraging still waiting on EBITDA. The 1Q26 print brought a mixed read on the deleveraging trajectory. Leverage declined to **3.1x** Net Debt/EBITDA **in BRL** (-0.2x q/q), converging as expected on the surface, but the improvement was driven **primarily by FX tailwinds** and liability management initiatives, including the early redemption of the 2027 Green Bonds, **rather than by organic EBITDA expansion**. In **USD** terms, **leverage held flat** at **3.3x**, a reminder that the underlying deleveraging case still rests on what comes next rather than what has already been delivered. In addition, **FCF** clocked at **with a burn** of **-R$404mn** (32% worse vs. Est.), **reversing from generation to burn on y/y basis**, reflecting a WC swinging from a release to a consumption, higher CAPEX and lower EBITDA, only partially compensated by lower interest payments.

The **execution debate**, however, has **become harder to dismiss** among investors. The path to management's **~2.5x target** within **18–24M** still requires meaningful EBITDA expansion. We believe this a bar that the PM27/PM28 ramp-up and ongoing LPB and other specific grades homologations are designed to clear, but one that the **LTM EBITDA contraction in 1Q26** (-10.2% y/y) **did not support**. Starting from this base, and with leverage reduction having been driven by FX rather than operational improvement, we assume it is prudent to **de-risk our EBITDA growth** assumptions and adopt just a bit more conservative trajectory. This, combined with a USD/BRL FX rate curve revision to an average of **R$5.10 26E** (vs. R$5.50 previously) and a **weaker FCF print** flowing through our model, reduces our valuation and justifies a **12M Target Price** cut to **R$21.00** (vs. R$23.50 previously), implying an **upside** of **+23%**.

Even so, the **valuation discount remains compelling**. With stock trading at **5.9x EV/EBITDA 26E** (vs. historical ~7x), a predictable **Dividend Yield 26E** at **5%**, supported by R$1.1bn in interim dividends already disclosed for 2026, and the fact that the shares have already dropped **-10.5% YTD** (mostly given this weak USD/BRL FX rate at R$4.92 at current levels), the risk–reward balance still favors a constructive stance. Therefore, we maintain our **BUY rating**.

Appendix: Klabin

Figure 1. Klabin – Income Statement in R$ Millions (Genial Est. 2026-2029)

Income Statement	2026E	2027E	2028E	2029E
Net Revenue	**21,736**	**22,882**	**23,067**	**23,578**
(-) COGS	(14,344)	(14,747)	(14,094)	(13,924)
Gross Profit	**7,391**	**8,136**	**8,973**	**9,654**
(-) Expenses	(2,756)	(2,901)	(2,944)	(3,023)
Adjusted EBITDA	**7,615**	**7,829**	**8,339**	**8,645**
(-) D&A	(4,766)	(4,485)	(4,236)	(3,987)
EBIT	**4,635**	**5,234**	**6,029**	**6,631**
(+/-) Financial Result	(2,445)	(2,332)	(2,151)	(1,970)
(-) Taxes	(479)	(633)	(845)	(1,015)
Net income	**1,711**	**2,270**	**3,033**	**3,646**
Profitability				
Net margin (%)	7.9%	9.9%	13.1%	15.5%

Figure 2. Klabin– Cash Flow in R$ Millions (Genial Est. 2026-2029)

Cash Flow (FCFF)	2026E	2027E	2028E	2029E
Net Revenue	**21,736**	**22,882**	**23,067**	**23,578**
(-) COGS	(14,344)	(14,747)	(14,094)	(13,924)
Adjusted EBITDA	**7,615**	**7,829**	**8,339**	**8,645**
EBIT	**4,635**	**5,234**	**6,029**	**6,631**
(-) Taxes	(1,159)	(1,309)	(1,507)	(1,658)
(+) D&A	4,766	4,485	4,236	3,987
(+/-) Δ WK	163	194	288	413
(-) Capex	(3,300)	(2,800)	(2,500)	(2,500)
FCFF	**3,319**	**3,915**	**4,620**	**4,899**

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Neutral	Expected return between +10% and -10% relative to the Company's industry average	**41%**
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under Review	Under review	**5%**

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