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Pulp & Paper

2Q26 Results: Operations delivered; cash did not — yet

Pulp & Paper

Q: How did the results compare vs. expectations?

A: It confirmed, it did not beat — and the distinction decides the note. Adjusted EBITDA of R$2.0b carries R$64m from the sale of productive land, an item absent in the year-ago quarter; stripping out the forestry monetisation leaves R$1,898m against the R$1,900m we underwrote, and the clean year-on-year comparison worsens to −7%. There is no operating surprise to celebrate: revenue and volume both came in below our estimate, and the residual deviation originates in Paper, whose EBITDA surpassed our projection by +18%. A caveat on sourcing is due, since segment EBITDA no longer appears in the release and was rebuilt from note 24 of the financial statements: it does not equate to the company's Adjusted EBITDA under CVM 156/22, and the three businesses do not add up to the consolidated figure. As for the reaction, we expect a contained rise — the headline reads well against consensus, and the shares have already recovered +9% since quarter-end.

Q: What were the most noteworthy areas in the results?

A: The highlights were: **(+)** Paper delivered the quarter, with coated board volume advancing +7% y/y and portfolio integration directing kraftliner to packaging, single-handedly sustaining the consolidated result's adherence to our number. **(+)** The recovery in long fibre and fluff continued, with realised price in dollars up +7% q/q, confirming that the cycle has turned in the fibre carrying the wider spread. **(+)** Currency protection gained value and already contributed cash in the quarter, so the appreciation of the real, which erodes export revenue, is partly returned through the hedge — an asymmetry that a direct reading of the exchange rate misses. **(=)** The cash burn of R$236m looks alarming at first sight, but was structural to the period — semi-annual coupon, pre-funding of the Otacílio Costa shutdown and distributions to minorities — and does not denote operating deterioration. **(−)** Cost remains pressured where the comparison bites: in dollars, pulp production cash cost reached US$276/t, +22% y/y, so the pressure is not merely currency, although in reais the clean quarter fell in real terms. **(−)** Deleveraging stalled: leverage in reais rose to 3.2x, and the dollar reading improved only through translation.

Q: Has the outlook ahead changed?

A: The operating outlook did not change; the cash outlook did. The company reiterated its total cash cost guidance of R$3.2–3.3k/t and the arithmetic accommodates it: with the half at R$3.28k/t and a normalised second half, the year closes within the range. We revise 2026 EBITDA to R$7.4b, slightly below the average of market projections. What genuinely changes is the balance sheet, and that is where the thesis is decided: working capital has drained cash for five consecutive quarters, consuming R$791m in the first half alone, and the stake held by non-controlling shareholders doubled over twelve months, to 41% of consolidated equity, with distributions already costing R$142m per quarter. We project cash consumption in the second half as well, so leverage ends the year at 3.3x. The balance sheet is nonetheless supported by liquidity: cash comfortably covers short-term maturities, average debt tenor approaches seven years, and the company approved its first buyback programme with cancellation, a sign that management sees value in the shares at current prices. The next test has a date: 4Q26 must deliver positive free cash flow.

Q: Valuation and recommendation

A: We downgrade to HOLD, with a 12M Target Price of R$20.00, from R$21.00. On 20 July we published that we would revisit the recommendation should the quarter merely confirm — without beating — expectations; we revisited, and the premise survived scrutiny. The company trades at 7.2x EV/EBITDA 26E once the enterprise value includes the stake held by non-controlling shareholders, which accounts for a meaningful share of consolidated EBITDA without belonging to the unit holder; against its own five-year average there is no discount to capture. It is worth noting that the comparable set consists of global packaging converters, which trade structurally above Brazilian pulp and paper names, so the apparent discount against them does not convert into a margin of safety. What sustains our caution deserves stating, and it is not the quarter: leverage fell from 3.7x to 3.2x over twelve months while free cash flow over the same period was negative — deleveraging was funded by selling stakes in forestry assets rather than by generating cash, and the expedient does not repeat indefinitely. We would return to BUY with positive free cash flow in the half and working capital stabilised.

In sum, operations confirmed and cash was left to the second half: HOLD, 12M Target Price of R$20.00, with free cash flow in 2H26 as the test that decides the return to a buy rating.

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COMPANY

KLBN11 BZ Equity
HOLD
Price: R$18.25 (04-Aug-2026)
Target Price 12M: R$20.00 (vs. R$21.00)

MARKET DATA	
Market cap	R$ 22.6b
Free float	65.7%
ADTV (3m)	R$ 91m
52-wk range	16.10–21.25
Net debt	R$ 24,032m
Net debt/EBITDA	3.2x
MULTIPLES	
EV/EBITDA 26E	7.2x
EV/EBITDA 27E	6.6x
Div. Yield 26E	4.9%
Disc. vs. peers 26E	−30%
PERFORMANCE	
YTD	−2.7%
LTM	+1.2%
2Q26 REPORTED	
Net revenue	R$ 5,151m
Adj. EBITDA	R$ 1,962m
EBITDA margin	38.1%
Cash cost	R$3,204/t

2Q26 reported vs. Genial Est. · IFRS, R$ m

KLBN11	2Q26	2Q26E	Rep./Est.	1Q26	2Q25	q/q	y/y
SUMMARY INCOME STATEMENT (R$ m)							
Net revenue	5,151	5,182	−1%	4,946	5,247	+4%	−2%
Gross profit	1,747	1,776	−2%	504	2,150	+247%	−19%
Adjusted EBITDA	**1,962**	**1,900**	**+3%**	**1,669**	**2,041**	**+18%**	**−4%**
(−) forestry monetisation	64	0	—	64	0	−1%	—
Recurring Adj. EBITDA	**1,898**	**1,900**	**+0%**	**1,604**	**2,041**	**+18%**	**−7%**
Recurring Adj. EBITDA margin	36.8%	36.7%	+0.2pp	32.4%	38.9%	+4.4pp	−2.0pp
EBIT	1,036	1,063	−3%	(190)	1,286	n/a	−19%
Financial result	(523)	(519)	+1%	(570)	(566)	−8%	−8%
Non-controlling interests	109	—	—	33	13	+231%	+723%
Net income attributable	277	331	−16%	(530)	572	n/a	−52%
BUSINESS PERFORMANCE							
Total volume ex-wood (kt)	1,018	1,040	−2%	1,016	1,011	+0%	+1%
Pulp — volume (kt)	386	407	−5%	401	395	−4%	−2%
Pulp — third-party revenue	1,446	1,424	+2%	1,409	1,587	+3%	−9%
Pulp — EBITDA[1]	**704**	**751**	**−6%**	**673**	**864**	**+5%**	**−19%**
Paper — volume (kt)	359	360	+0%	356	345	+1%	+4%
Paper — third-party revenue	1,714	1,694	+1%	1,689	1,715	+1%	+0%
Paper — EBITDA[1]	**1,034**	**873**	**+18%**	**830**	**964**	**+25%**	**+7%**
Packaging — volume (kt)	273	274	+0%	258	272	+6%	+0%
Packaging — third-party rev.	1,915	1,903	+1%	1,794	1,860	+7%	+3%
Packaging — EBITDA[1]	**212**	**237**	**−11%**	**190**	**210**	**+11%**	**+1%**
CASH AND BALANCE SHEET							
Cash cost (R$/t)	3,204	3,155	+2%	3,342	3,177	−4%	+1%
Capex	657	802	−18%	839	649	−22%	+1%
Free cash flow	**(236)**	**(326)**	**−28%**	**(404)**	**134**	**−42%**	**n/a**
Net debt	24,032	—	—	24,041	27,951	+0%	−14%
Net debt/EBITDA	3.2x	—	—	3.1x	3.7x	+0.1x	−0.5x

Relative multiples — KLBN11 vs. peers (BBG EQRV, Aug 4)

Company	EV/EBITDA 26E	27E	Div. Yield
Klabin (KLBN11)	7.3x	6.8x	7.7%
International Paper	10.4x	7.5x	4.4%
Packaging Corp	12.7x	11.1x	2.1%
Ball Corp	11.2x	10.5x	1.3%
Crown Holdings	9.1x	8.8x	1.0%
Peer median	10.4x	8.8x	2.1%

[1] Segment EBITDA rebuilt from note 24 of the financial statements (segment operating profit before finance result + depreciation); it does not equate to the company's Adjusted EBITDA and the three businesses do not add up to the consolidated figure. Segment margin omitted because a third-party revenue denominator disregards inter-segment sales. Estimated free cash flow per the recalibrated bridge overleaf. Net debt and leverage are absent from the estimate column because our model does not project them.
[2] Multiples from the BBG screen, whose enterprise value includes non-controlling interests and leases — the same basis for all names, which preserves comparability. Peer set of global packaging converters, which trade structurally above Brazilian pulp and paper names.

2Q26 reported vs. Bloomberg consensus

R$ m	Reported	Consensus	Δ
Net revenue	5,151	5,244	−2%
Adjusted EBITDA	1,962	1,848	+6%
EBIT	1,036	908	+14%

Free cash flow bridge — reported vs. Genial Est. and vs. 2Q25

Free cash flow bridge (R$ m)	2Q26	2Q26E	Δ vs. Est.	2Q25	Δ y/y
Adjusted EBITDA	1,962	1,900	+62	2,041	−79
Capex	(657)	(802)	+145	(649)	−7
Leases — IFRS 16	(86)	(71)	−15	(96)	+10
Interest paid/received	(641)	(650)	+9	(652)	+11
Income tax	(50)	(55)	+5	(39)	−11
Working capital	(358)	(300)	−58	(124)	−234
Dividends and IOC	(278)	(278)	+0	(279)	+1
Dividends to SPVs and SCPs	(142)	(70)	−72	(72)	−70
Others	13	0	+13	4	+9
Free cash flow	(236)	(326)	+90	134	−370

Annual Projections (Genial Est.) · R$ m

R$ m	2025A	2026E	2027E	2028E	2029E
Net revenue	20,698	20,900	22,100	23,000	24,000
Adjusted EBITDA	7,849	7,400	8,050	8,600	9,000
EBITDA margin	37.9%	35.4%	36.4%	37.4%	37.5%
Net debt	27,567	24,500	22,900	20,900	18,400
Net debt/EBITDA	3.5x	3.3x	2.8x	2.4x	2.0x

Bloomberg consensus (screen of Aug 4); there was no consensus compiled by the company this quarter. The free cash flow consensus was omitted as it carries a single contributor, against eleven for revenue and EBITDA.
The bridge follows the order published by the company; delta in value rather than in percentage terms, since several lines change sign. The 2Q26E column carries our recalibrated estimate: five lines were corrected for identifiably mistaken assumptions — interest is concentrated in the 2nd and 4th quarters, the quarter preceding a shutdown builds inventory, distributions to minorities were not projected, current tax ran near zero against actual disbursement, and the dividend is a declared amount rather than an estimate. Our 20 July preview projected generation of R$171m.

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Buy	Expected return above +10% in relation to the Company's sector average	**49%**
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under Review	Under review	**5%**

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