

## Suzano Papel e Celulose S.A.

## CEO succession announced amid in-line 4Q23 results

Maintain Rating: BUY | PO: 67.00 BRL | Price: 57.38 BRL

## EBITDA of R\$4.5bn in line, new CEO to take office by July

Suzano reported 4Q23 EBITDA at R\$4.5bn (+22% q/q; -45% y/y), in line with consensus and 3% above our estimates. The modest beat to our numbers was mostly a function of stronger shipments (3.6% above BofAe for pulp and 3.2% above for paper) and higher realized prices for pulp (2% above BofAe), more than offsetting total cash opex/ton 2% above our model for pulp and 5.8% ahead of us for paper. On a y/y basis, numbers were brought down by lower price realization for pulp (-35% y/y) and paper (-5% y/y), partially compensated by lower pulp cash opex (-15% y/y). Separately, Suzano announced that the current CEO Walter Schalka will be replaced on July 1<sup>st</sup>, 2024, by João Alberto Fernandez, currently the CEO of the Brazilian railway company Rumo. They will jointly start the succession process in April, and Mr. Schalka will be nominated to the board of directors (to be voted on April 25<sup>th</sup>) and should integrate the following advisory committees to the board of directors: i) Strategy and Innovation; ii) Management and Finance; iii) People; and 4) Sustainability.

## FCFE strong at R\$2.5bn (ex-Cerrado); Remain at Buy

Suzano's leverage rose 0.4x q/q to 3.0x ND/EBITDA in BRL terms and 3.1x in USD terms. FCFE came in ~R\$338mn mostly given the high capex bill associated with the Cerrado project, despite a R\$810mn working capital release and R\$1,174mn cash influx from derivatives. Excluding Cerrado, we calculate FCFE at around R\$2.528bn, for a ~13.5% annualized yield – particularly strong considering the realized pulp price of US\$568/t, below spot at US\$655/t. We maintain our Buy rating on Suzano and see cash costs/ton continuing to trend lower ahead, while valuation is attractive at 5.8x EV/EBITDA (below LatAm peers at ~6.8x on average) and FCFE yield of 12% in 2025 (based on an average China hardwood price of US\$600/t).

Continued on page 3...

Estimates(Dec) (BRL)	2021A	2022A	2023E	2024E	2025E
EPS	6.40	17.87	10.56	7.40	4.57
EPS Change (YoY)	NM	179.2%	-40.9%	-29.9%	-38.2%
Consensus EPS (Bloomberg)			9.89	4.51	6.01
DPS	0.01	3.17	1.17	1.85	1.14
ADR EPS (BRL)	7.04	19.66	11.62	8.14	5.03
ADR DPS (BRL)	0.01	3.49	1.28	2.03	1.26
<b>Valuation (Dec)</b>					
P/E	9.0x	3.2x	5.4x	7.8x	12.6x
Dividend Yield	0%	5.5%	2.0%	3.2%	2.0%
EV / EBITDA*	6.9x	5.7x	8.8x	8.2x	7.2x
Free Cash Flow Yield*	13.0%	9.2%	-2.4%	-1.3%	11.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

28 February 2024

## Equity

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## Stock Data

Price (Common / ADR)	57.38 BRL / 11.55 USD
Price Objective	67.00 BRL / 14.00 USD
Date Established	24-Jan-2024 / 9-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	37.15 BRL - 59.05 BRL
Market Value (mn)	75,978 BRL
Free Float	58.7%
Average Daily Value	44.56 USD
Shares Outstanding (mn)	1,324.1 / 1,203.7
BofA Ticker / Exchange	XXRTF / SAO
BofA Ticker / Exchange	SUZ / NYS
Bloomberg / Reuters	SUZB3 BZ / SUZB3.SA
ROE (2023E)	35.2%
Net Dbt to Eqty (Dec-2022A)	196.8%

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**Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 28 February 2024 07:40PM EST

# iQprofile<sup>SM</sup> Suzano Papel e Celulose S.A.

## iQmethod<sup>SM</sup> – Bus Performance\*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	16.1%	17.9%	9.3%	8.1%	8.1%
Return on Equity	77.4%	97.2%	35.2%	19.9%	11.0%
Operating Margin	44.4%	44.6%	29.3%	28.0%	31.0%
Free Cash Flow	9,864	7,012	(1,791)	(957)	9,046

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.9x	1.0x	1.2x	1.6x	3.2x
Asset Replacement Ratio	0.9x	2.2x	2.5x	2.0x	1.2x
Tax Rate	NM	NM	4.1%	15.0%	25.0%
Net Debt-to-Equity Ratio	438.0%	196.8%	165.7%	146.5%	127.1%
Interest Cover	4.3x	4.8x	2.5x	2.5x	3.0x

## Income Statement Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Sales	40,965	49,831	39,251	41,288	45,259
% Change	34.5%	21.6%	-21.2%	5.2%	9.6%
Gross Profit	20,350	25,010	14,812	15,664	18,439
% Change	77.0%	22.9%	-40.8%	5.8%	17.7%
EBITDA	23,471	28,195	18,364	19,824	22,315
% Change	57.0%	20.1%	-34.9%	7.9%	12.6%
Net Interest & Other Income	(9,347)	6,433	5,817	(325)	(6,185)
<b>Net Income (Adjusted)</b>	<b>8,636</b>	<b>23,395</b>	<b>13,618</b>	<b>9,540</b>	<b>5,891</b>
<b>% Change</b>	<b>NM</b>	<b>170.9%</b>	<b>-41.8%</b>	<b>-29.9%</b>	<b>-38.2%</b>

## Free Cash Flow Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	8,833	28,656	16,596	9,540	5,891
Depreciation & Amortization	7,042	7,408	7,473	8,275	8,275
Change in Working Capital	(3,317)	(1,249)	1,220	(929)	1,667
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	3,648	(11,492)	(8,584)	(1,344)	3,197
Capital Expenditure	(6,342)	(16,311)	(18,495)	(16,500)	(9,985)
<b>Free Cash Flow</b>	<b>9,864</b>	<b>7,012</b>	<b>-1,791</b>	<b>-957</b>	<b>9,046</b>
<b>% Change</b>	<b>37.1%</b>	<b>-28.9%</b>	<b>NM</b>	<b>46.6%</b>	<b>NM</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(10)	(4,151)	(1,502)	(2,385)	(1,473)
Change in Debt	942	(1,227)	6,488	1,000	0

## Balance Sheet Data (Dec)

(BRL Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	13,591	9,506	2,957	615	8,188
Trade Receivables	6,531	9,607	7,333	8,199	7,543
Other Current Assets	13,981	18,010	26,086	26,797	26,277
Property, Plant & Equipment	66,453	80,482	82,573	90,798	92,507
Other Non-Current Assets	18,419	15,594	23,022	23,022	23,022
<b>Total Assets</b>	<b>118,975</b>	<b>133,198</b>	<b>141,970</b>	<b>149,430</b>	<b>157,537</b>
Short-Term Debt	3,656	3,335	4,489	4,469	4,657
Other Current Liabilities	7,896	11,158	8,984	9,632	10,124
Long-Term Debt	75,973	71,240	71,856	71,532	74,541
Other Non-Current Liabilities	16,375	14,405	12,353	12,353	12,353
<b>Total Liabilities</b>	<b>103,900</b>	<b>100,137</b>	<b>97,682</b>	<b>97,986</b>	<b>101,675</b>
<b>Total Equity</b>	<b>15,075</b>	<b>33,061</b>	<b>44,288</b>	<b>51,443</b>	<b>55,862</b>
<b>Total Equity &amp; Liabilities</b>	<b>118,975</b>	<b>133,198</b>	<b>141,970</b>	<b>149,430</b>	<b>157,537</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Pulp

## Company Description

Having completed the acquisition of Fibria, Suzano is the largest market pulp producer in the world with capacity approaching 11Mtpa. It is also the leading producer of graphic paper in Brazil with over 1Mt of capacity.

## Investment Rationale

We rate Suzano shares Buy as we see considerable upside as the company delivers its state of the art Cerrado project. Although pulp prices could remain pressured on the back of incoming capacity, a more depreciated BRL could offer some support and Suzano's cost position supports profitability even at bear prices. In addition, we believe that SUZB multiples could re-rate over time as it delivers on growth and ESG-related factors.

## Stock Data

Average Daily Volume	3,848,563
Shares / ADR	1.10

## Quarterly Earnings Estimates

	2022	2023
Q1	7.64A	4.01A
Q2	0.14A	3.93A
Q3	4.16A	-0.57A
Q4	5.70A	3.12E

## Operational highlights

Pulp EBITDA of R\$3,756mn (+29% q/q; -48% y/y) beat our forecasts by 5.4% driven by the combination of higher-than-expected pulp volumes and prices and lower costs. Total pulp volumes of 2,761Kt were 3.6% above our estimates and up 11.1% q/q. Realized pulp prices of US\$568/t were 1.8% above our forecast and up 4.4% q/q. All in, pulp revenue of R\$7.8bn rose 17.6% q/q and beat us by 5.5%. Pulp cash costs/t at R\$816/t was 0.8% below ours and down 12.7% q/q, given a 5% drop q/q benefitting from no maintenance expenses this quarter, and lower fiber, input and fixed costs. Meantime, paper EBITDA of R\$748mn dropped 4.4% q/q and missed our model by 7.2% on higher paper opex/t, despite the top-line beat.

## Suzano 4Q23 review

### Exhibit 1: Suzano 4Q23 review (R\$mn)

EBITDA of R\$4,505mn was in line with consensus and 3.1% above BofAe

	4Q23A	3Q23A	q/q	4Q22A	y/y	BofAe	Act vs Est	Cons	Act vs Cons
Revenue (R\$mn)	10,372	8,948	15.9%	14,370	-27.8%	9,867	5.1%	9,868	5.1%
Adj. EBITDA (R\$mn)	4,505	3,695	21.9%	8,175	-44.9%	4,371	3.1%	4,546	-0.9%
EBITDA Margin	43%	41%	210bps	57%	-1350bps	44%	-90bps	46%	-260bps
Adj. Net Income (R\$mn)	4,515	(729)		7,459	-39.5%	4,026	12.1%	3,477	29.8%

Source: BofA Global Research estimates, company reports, Bloomberg

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### Exhibit 2: Suzano 4Q23 operational review

The modest beat to our numbers was mostly a function of stronger shipments (3.6% above BofAe for pulp and 3.2% above for paper) and higher realized prices for pulp

	4Q23A	3Q23A	q/q	4Q22A	y/y	BofAe	Act vs Est
Revenues (R\$mn)	10,372	8,948	15.9%	14,370	-27.8%	9,867	5.1%
Pulp	7,770	6,605	17.6%	11,975	-35.1%	7,363	5.5%
Paper	2,602	2,343	11.1%	2,395	8.7%	2,503	3.9%
EBITDA (R\$mn)	4,505	3,695	21.9%	8,175	-44.9%	4,371	3.1%
Pulp	3,756	2,912	29.0%	7,274	-48.4%	3,564	5.4%
Paper	748	783	-4.4%	901	-17.0%	806	-7.2%
Volume (Kt)	3,147	2,818	11.7%	3,097	1.6%	3,039	3.6%
Pulp	2,761	2,486	11.1%	2,759	0.1%	2,665	3.6%
Paper	386	332	16.4%	338	14.1%	374	3.2%
Price (R\$/t)							
Pulp	2,814	2,658	5.9%	4,342	-35.2%	2,764	1.8%
Paper	6,732	7,085	-5.0%	7,079	-4.9%	6,694	0.6%
FOEX BHKP China (US\$/t)	620	532	16.4%	860	-27.9%	620	0.0%
Pulp Prices (US\$/t)	568	544	4.4%	826	-31.2%	558	1.8%
Pulp Cash COGS (R\$/t)	816	935	-12.7%	976	-16.4%	823	-0.8%

Source: BofA Global Research estimates, company reports

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## Price objective basis & risk

### Suzano (XXRTF / SUZ)

Our R\$67 (\$14/ADR) PO is based on an average of (a) a discounted cash flow (DCF) model, which uses a 9.4% WACC, 2.5% growth rate in perpetuity, and our forecasts through 2028E, and (b) an EV/EBITDA multiple of 7.0x 2024E, fairly in line with its average multiple over the past couple years.

Risks: (1) Global cycle trends, particularly in N America, Europe, and Asia, (2) global cycle trends in key products' pricing, particularly (though not limited to) hardwood pulp pricing to China, (3) potential volatility in the Brazilian economy and the Brazilian Real [BRL], (4) various operational risks associated with Suzano's large fleet of pulp and paper mills, (5) various merger-related integration and other risks associated with the Fibria combination, (6) capital-allocation, cycle, balance sheet/leverage and operating risks associated with large investment projects, such as (but not limited to) new pulp mills, (7) paper/board and pulp sector volatility & demand/pricing trends, (8) demand, supply-chain and other risks created by the COVID-19 pandemic.

As with all our paper/forest/packaging companies, fundamental trends (volumes, pricing, inflation, macro trends) may wind up better or worse than expected.

## Analyst Certification

We, Caio Ribeiro, Guilherme Rosito and Leonardo Neratika, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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### Latin America - Natural Resources Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	3R Petroleum	XPXXF	RRRP3 BZ	Leonardo Marcondes
	Alpek SAB de CV	ALPKF	ALPEKA MM	Leonardo Marcondes
	CSN	SIDHF	CSNA3 BZ	Caio Ribeiro
	CSN	SID	SID US	Caio Ribeiro
	Dexco SA	DURXF	DXCO3 BZ	Leonardo Neratika
	Empresas CMPC SA	XEMCF	CMPC CI	Leonardo Neratika
	Enauta Participacoes S.A.	QGEPF	ENAT3 BZ	Leonardo Marcondes
	Orbia	MXCHF	ORBIA* MM	Leonardo Marcondes
	Petro Rio	HRTPF	PRI03 BZ	Caio Ribeiro
	Petrobras	PBRQF	PETR3 BZ	Caio Ribeiro
	Petrobras	PBR	PBR US	Caio Ribeiro
	Petrobras PN	PBRA	PBR/A US	Caio Ribeiro
	Petrobras PN	PTRBF	PETR4 BZ	Caio Ribeiro
	PetroReconcavo	XPXYF	RECV3 BZ	Leonardo Marcondes
	Suzano	XXRTF	SUZB3 BZ	Caio Ribeiro
	Suzano S.A.	SUZ	SUZ US	Caio Ribeiro
	Ternium	TX	TX US	Caio Ribeiro
	Usiminas SA	USNZY	USNZY US	Caio Ribeiro
	Usiminas SA	USSPF	USIM5 BZ	Caio Ribeiro
	Vale	VALE	VALE US	Caio Ribeiro
	Vale	VALEF	VALE3 BZ	Caio Ribeiro

## Latin America - Natural Resources Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Vibra Energia SA	XUBRF	VBBR3 BZ	Leonardo Marcondes
<b>NEUTRAL</b>				
	Bradespar	BRDQF	BRAP4 BZ	Caio Ribeiro
	Companhia Brasileira de Alumínio	XZUDF	CBAV3 BZ	Leonardo Neratika
	CSN Mineracao	XZRAF	CMIN3 BZ	Caio Ribeiro
	Ecopetrol S.A.	XESSF	ECOPETL CB	Caio Ribeiro
	Ecopetrol S.A.	EC	EC US	Caio Ribeiro
	Gerdau S. A.	GGBUF	GGBR4 BZ	Caio Ribeiro
	Gerdau S.A.	GGB	GGB US	Caio Ribeiro
	Metalurgica Gerdau	MZGPF	GOAU4 BZ	Caio Ribeiro
	Ultrapar	XLRUF	UGPA3 BZ	Leonardo Marcondes
	Ultrapar Pa-ADR	UGP	UGP US	Leonardo Marcondes
<b>UNDERPERFORM</b>				
	Empresas Copec SA	PZDCF	COPEC CI	Leonardo Neratika
	Grupo Mexico	GMBXF	GMEXICOB MM	Caio Ribeiro
	Klabn S.A	XLWDF	KLBN11 BZ	Caio Ribeiro
	Klabn S.A	KLBY	KLBY US	Caio Ribeiro
	Southern Copper	SCCO	SCCO US	Caio Ribeiro
	YPF SA	YPF	YPF US	Leonardo Marcondes
	YPF SA	YDFS	YDFS AR	Leonardo Marcondes
<b>RSTR</b>				
	Braskem SA-A	BAKAF	BRKM5 BZ	Leonardo Marcondes
	Braskem SA-ADR	BAK	BAK US	Leonardo Marcondes

iQmethod<sup>SM</sup> Measures Definitions

## Business Performance

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

## Quality of Earnings

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

## Valuation Toolkit

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

## Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

## Numerator

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

## Numerator

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

## Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

## Denominator

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

## Denominator

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales  
Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

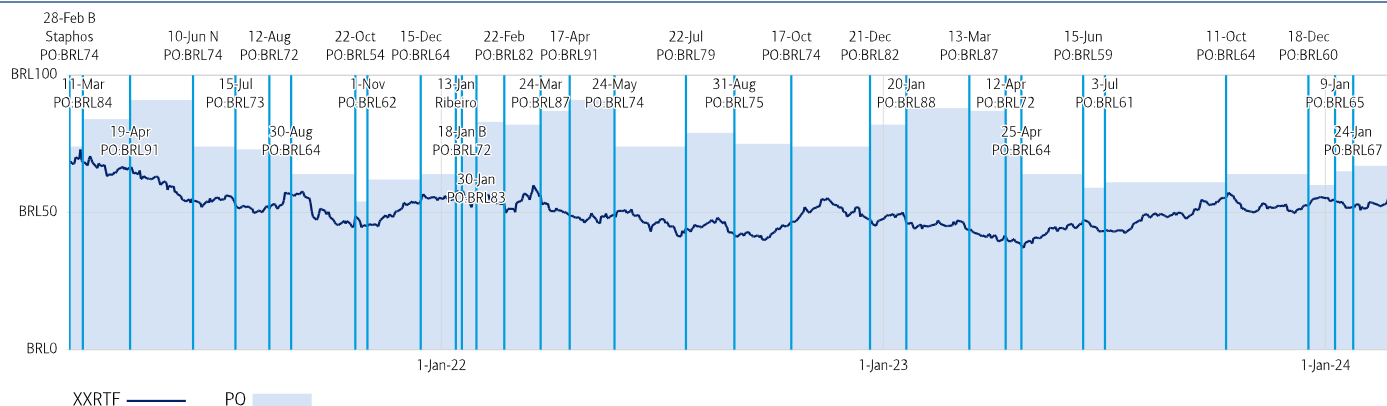
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# Disclosures

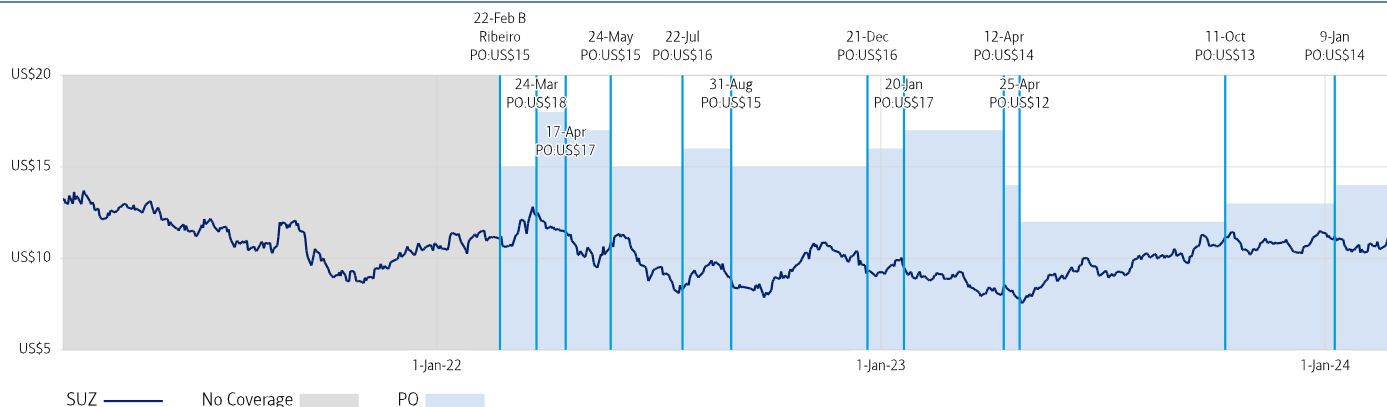
## Important Disclosures

### Suzano (XXRTF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Suzano (SUZ) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Paper/Forest Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	9	45.00%	Buy	8	88.89%
Hold	2	10.00%	Hold	1	50.00%
Sell	9	45.00%	Sell	5	55.56%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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