Q1 2021 Earnings Call

Company Participants

- Aires Galhardo, Executive Officer - Pulp Operation
- Carlos Almeida, Executive Officer - Forestry, Logistics and Procurement
- Fabio Almeida, Executive Officer Paper and Packaging
- Leonardo Grimaldi, Executive Officer of Paper Business & Member of Management Board
- Marcelo Bacci, Chief Financial Officer, Investor Relations Director & Member of Management Board
- Walter Schalka, Chief Executive Officer

Other Participants

- Caio Ribeiro, Analyst
- Carlos De Alba, Analyst
- Daniel Sasson, Analyst
- George Staphos, Analyst
- Jonathan Brandt, Analyst
- Leonardo Correa, Analyst
- Marcio Farid, Analyst
- Rafael Barcellos, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant

Presentation

Operator

Ladies and gentlemen, thank you for holding and welcome to Suzano's Conference Call to discuss the Results for the First Quarter of 2021. We would like to inform that all participants will be in a listen-only mode during the presentation of Mr. Walter Schalka, Chief Executive Officer; Marcelo Bacci, Financial and Investor Relations Executive Officer; Fabio Almeida, Paper and Packaging Executive Officer; Leonardo Grimaldi, Pulp Commercial Executive Officer and Aires Galhardo, Pulp Operation Executive Officer.

After the company's remarks are completed, there will be a question and answer session when further instructions will be given. (Operator Instructions) Before proceeding, please be aware that any forward-looking statements are based on the beliefs and assumptions of Suzano's management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. You should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Suzano and could cause results to differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor over to Mr. Walter Schalka. Please Mr. Walter, you may proceed.

Walter Schalka {BIO 2099929 <GO>}

Good morning and good afternoon to everyone. It's a great pleasure to be with you today. Welcome to the first quarter results video conference of Suzano. With us here we have all the Executive Committee. At the end of the session, we will be ready to answer your -- on the Q&A session.

Today it's a very important day, I think it's a historical day for us where we are announcing not only extremely good operational results, but we are preparing the company for the future. As you may know, we have been discussing with you for several times about several capital allocation alternatives that we have and one of them would be to keep our relevance on the pulp market for the future. And we are announcing today and there are certain precedent conditions, the approval of the project Cerrado that we are going to share with you during this session.

I'd like to start presenting to you the operational highlights that we had on the first quarter. First mentioning about the pulp volume, we were able to sell 2.7 million tons in this quarter. There is a very positive market environment. We are not able yet to capture all the price developments on different regions, as things we have certain lagging in this process and a specific geographic mix, as you know, we have a very large dispersion in prices during this quarter on different geographies.

On the paper market, we had extremely good performance, with sales that come back at the same level that we have before the COVID-19 issue comparing with the first quarter of 2019. On the pulp inventories, we are very stable compared with the last quarter last year, just remembering that the first quarter for Suzano regions usually is not the best quarter of the year. We had an adjusted EBITDA of BRL4.9 billion during this quarter, that's represent more than 60% higher than the comparison of the first quarter last year and extremely positive even so, we are not able to have all the benefits of the price increase yet. We had operating cash flow of BRL3.9 billion and this could lead us to deleverage the company at a faster pace as we are going to mention to you in a few moments.

Our cash cost was BRL623 per ton, extremely competitive, but I'd like to give a warning to you at this point of time that the brand prices and exchange rate FX and combined with higher chemical costs could have a marginal increase on the cash costs along the next quarter. Very strong liquidity position $2.4 billion and net debt that have been going down at a very fast pace, just remembering last -- end of last year we had $12.3 billion, now we have 11.6, a decrease of $700 billion roughly in this quarter, very extremely positive and showing the benefit of higher prices and better FX on our results. And leverage going down at a very fast pace. End of last year was 4.3, right now is 3.8 and we are approaching the level on our financial policies that have -- would be between two and three times and 3.5 times during the expansion of projects.

Our financial discipline is critical for us. We are going to discuss in a matter of moments about our new project Cerrado and the conditions under this project. Now I'm going to pass to Fabio Almeida, there he is going to show you our performance on the packaging and paper business. The floor is yours, Fabio.

Marcelo Bacci {BIO 17648865 <GO>}

Walter, Fabio is having problem in connection.

Fabio Almeida {BIO 22179839 <GO>}

I'm back.

Marcelo Bacci {BIO 17648865 <GO>}

Okay, great.

Fabio Almeida {BIO 22179839 <GO>}

Thanks, Walter. Good morning everyone. Sorry about the connection problem here. Please let's turn to slide number four in the presentation. Let's look at the paper and packaging business unit results for the first quarter of 2021. The figures presented here are specific to our paper and packaging business unit. Therefore, excluding Suzano consumer business units' results. Despite several challenge imposed by the second wave of COVID in Brazil, the paper and packaging business delivered a solid performance when compared in a year-over-year basis, indicating demand recovering the domestic international markets and better overall price.

As you can see in the top graph and look at our sales figure, Q1 2021 has been our best first quarter in terms of volumes for the past two years, indicating demand is recovering after the major impact last year. We have sold 264,000 tons during the first quarter 2021, which is a 10.4 increase compared to the first quarter of 2020 and we were 18.4% below the Q4 2020, mainly due to seasonality of demand in the domestic market between periods.

Domestic sales represent approximately 67% of our total sales in the quarter, totaling 176,000 tons, a 13.5% increase on a year-over-year basis. Strong recovery is mainly led by our paperboard sales which have grown 13.8% year-over-year due to a strong demand for paper packaging product in the period. Our domestic retail right in paper sales also grew by 9.6% on a year-over-year basis reflecting continuous demand recovered which started in the second half of 2020.

Our international sales totaled 88,000 tons in the first quarter of 2021, a growth of 4.7% year-over-year and with a 5.3% reduction quarter-over-quarter, mainly export markets are still suffering from continuous logistics bottlenecks. Rise in logistics and pulp costs pushed paper prices higher in international markets and that coupled with a weaker reais allowed Suzano to export more at better conditions.

Looking at the lower left side, we can note that our average prices during the quarter totaled BRL$4,192 per ton being 8% higher than our average prices in Q4 and 9.6 higher than our Q1 prices of last year. During the period, Suzano has announced multiple price increases with indirect volume and to all markets we serve. We expect full implementation of these price increases in the months to come.

Looking at the lower right part of the slide, we can note that our EBITDA totaled 373 million in the first quarter of 2021 being 28.6% higher on a year-over-year basis and 8.5 lower on a quarter-over-quarter basis, mainly due to seasonality between periods. Our EBITDA margin has reached BRL1,412 per ton, which is a now time record for the paper and packaging business.

Now I would like to invite Leo to present the results of our pulp business unit

Leonardo Grimaldi

Thanks, Fabio and good morning everyone. So now let's move to page 5 of our presentation. As you will note, the results of our pulp business unit were positive in this first quarter 2021, supported by solid sales volumes with increasing prices at all regions and still low stocks. Just to give a recap on the market during the first quarter, after the inflection point which we perceived in the fourth Q '20, several factors continue to align and support the positive market fundamentals which were present throughout this first quarter.

On the supply side, we have noticed low producer pulp inventories coming into 2021 and production downtime during this quarter both planned and unplanned have shortened even further the availability of market pulp. When we add the logistics constraints on container shipments, which have reached the break bulk trade, we note even further challenges on the supply side of the equation.

On the demand side, we have noticed positive consumption trends in tissue, paperboards, specialty grades and the recovery of printing, writing grades from 2020 levels in all markets. And as paper and paperboard production as well as and demand has been positive in all of this mentioned grades, supported by a strong economic recovery and consumption, as well as positive exports of products to other regions of the world.

Additionally, we have been noticing price increase implementation in most paper and paperboard grades in all markets, which obviously help support this quarter fundamentals. Regarding our production in the quarter, I would like to recognize all the actions that our team has been taking in this critical COVID 19 pandemic moment, remaining focused on very strict health and safety protocols for our employees and for the uninterrupted operation of all of our mills and supply changes.

Looking at our numbers for the quarter, we have sold as Walter mentioned 2.7 million tons of market pulp which is in line with our fourth quarter sales. This volumes consequently bring us to low inventory levels for the quarter and we are endeavoring our best efforts to meet our customers' ideal needs in a turbulent supply chain scenario caused by logistics, problems and constraints that we have been facing.

Our sales for the last 12 months reached BRL10.6 million tons of market pulp. Our average export prices have reached $532 per ton in the first quarter '21, which is a 16% increase when compared to the fourth quarter or equivalent to BRL2,913 per ton. When you factor in the strong sales figures which represented in the quarter, the increasing prices both in US dollars and also in Brazilian reais terms, we reached an EBITDA of BRL4.5 million for the first quarter '21, being BRL1,683 per ton or equivalent to 59% EBITDA margin.

Looking forward, we continue to focus on the execution of our commercial strategy, taking advantage of the supply and demand for the metals, which continue to be very supportive. Supply continues to be tight considering low producer inventories, production curtailments due to the spring maintenance shutdown season, mainly in the Northern Hemisphere, unexpected production losses still continue to happen in addition to constraints in global logistics as I mentioned before. Demand for pulp continues to be solid in all major markets and our order intake is also positive and according to our expectations.

With that said, I would now like to invite Walter back, so that he can give us more news on our next bold strategic move the Cerrado Project.

Walter Schalka {BIO 2099929 <GO>}

Thank you, Leo. It's great opportunity to share with you our view about the future. It's very important to tell you that we have been implementing our purpose that is renewing tree, renewing life to trees that we have been discussing with you on the last several time -- years. Our ambition is to impact the society. We have this project not only in the economic side but on the environmental and social side as well and this is very important to you.

Aires is going to show you in a few moments about our vision of this specific details of this project, but it's very important to mention to you there is -- it would be extremely positive project for all stakeholders. We will impact and create value for our shareholders in one side, but we will have extremely good benefits as well on the environmental effect through increasing our carbon sequestration, through increasing our renewable energy in the coming years. We are very pleased to announce a project that is going to represent the lowest cash cost of our system and very probably their lowest cash cost in the world.

Yesterday and you can see in the next slide, the Board approves this project under certain specific precedent conditions and it's very important that the first condition would be to follow very close our financial policies. We -- as you may know, we have a policy of between two and three times net debt over EBITDA, but during the expansion period program we can reach 3.5 times.

We believe that with this project and Bacci is going to share with you, we are going to be during this situation, this area of approval of our Board of Directors and we are very pleased to tell you that financial policies for us is critical and have been very disciplined on that. And the second precedent condition is to reach an agreement with the major vendors of this project. We have been in discussions and negotiation with that and hopefully in a short period of time, we will be able to announce how with whom and with whom's we are going to use and use this technology for the future.

On the slide number 8, you can see that we have been moving ahead with our long-term strategy, we are not the avenues that we have been telling you let during the Suzano Day is our relevance on the pulp market. This is going to increase our competitiveness on this industry stands. We are going to have even a better cash cost comparing with our average cash cost of the system. It's going to be the lowest cash cost of all of our plant.

We are going to have a very good resiliency in terms of returns on capital employed even on very difficult and asset scenarios we will deliver extremely good return on capital employed. We will increase our economies of scale, there is important as well. We are going to exceed 13 million tons of total capacity on our system.

We will believe that we can expand their addressable markets with this project. as you may know, we have been discussing with you that innovability and bio economy is very important to us. Then we are going to use this opportunity to bring alternatives of fiber short fiber use to several other markets that could replace recycled pulp could replace long fiber pulp and could replace fossil fuel products for the future and this could be a very good opportunity and not less important is going to contribute above our sustainability goals. We will announce our ESG results next week on our website and we were very pleased that we are going to have even higher targets for the future with this project. We are extremely good on the environmental and the social side as well, creating a major impact on that specific country region.

Now I'm going to pass to Aires, who is going to explain a little bit details of this project.

Aires Galhardo {BIO 17954886 <GO>}

Thank you, Walter. Good morning everybody. It's a great pleasure to be here with you announcing this important Suzano investment in the state of Mato Grosso do Sul that will greatly contribute to develop of the region and the growth of the economy in Brazil. As you already know, how the project is located in the city of (inaudible) in the State of Mato Grosso do Sul, approximately 100 kilometers from the capital Campo Grande. This new plant will be able to produce 2.3 million tons of pulp per year and will have the lowest production cost of our asset base.

This excellent cost competitiveness is the result of a combination of the following factors. Our leverage ex total supply radius of 60 km either surplus generation of 108MW in average, an efficient logistical system for supplying and exporting production and our modern eco-efficient system in the treatment of residues. Our estimate is that say how the project will start off in the first quarter of 2024 and the necessary CapEx to invest inside fence that is industrial CapEx, infrastructure, indirect costs of BRL14.7 billion considering the effects of 5.25.

Now I give the floor to Marcelo, who will address the financial results of the Cerrado project.

Marcelo Bacci {BIO 17648865 <GO>}

Thank you, Aires. Hello, everyone. Moving to page 10, I'd like to emphasize that the Cerrado project is very special and such that it's very low cost of production, determines that we will be generating value even in more asset scenarios. This is a must for us, Suzano will always seek to enhance its low cost of production position globally. On the following page, page 11, we show that the CapEx will be concentrated in 2022 and 2023 with only BRL1.3 billion expected to be spent this year in '21. We've been preparing the company for over the last two years moving forward on a constant basis our debt maturities to 2025 and onwards. And therefore, we've prepared our maturity schedule to cope with the CapEx execution that will be concentrated in years where the maturities are very low. So we are very well prepared from the financial discipline point of view to cope with this additional CapEx.

On the following page, we update our CapEx program for 2021 as a result of this announcement including BRL1 billion of industrial and infrastructure CapEx related to Cerrado project, plus BRL300 million of additional forestry CapEx also related to the project. So now the guidance for the year is BRL6.2 of total CapEx.

Moving to page 13, we would like to highlight the key points of this project. First, the project will enhance our relevance in the pulp market over the years as a result of the belief that we have in the continuous growth of pulp demand, with the current applications and with new applications of pulp. And at the same time, we will improve our cost advantage that is so important to us.

Moreover, we will be significantly advancing in our ESG goals with the additional forest and a very high eco-efficiency that the new plant will bring. So climate change with the new forest will be impacted, plus additional renewable energy export, plus the development that we bring to this region contributing to the mitigation of income and quality.

We have in our team a very experienced team with very good track record in implementing projects of this nature, so we are very confident that we will be able to deliver this project on time and on budget. And at the same time, we now bring with this project a new important point which is the ability that Suzano has to implement a project of this size with only internally generated cash flow. We are not planning to take on any new project specific financing, but rather to rely on the cash position that we have today plus the cash flow generation that we're going to have over the coming years. And this will all be done with absolute compliance with our financial policy, financial discipline. So this is very different this time around when compared to other expansion cycles that we had in the past.

So with that, we conclude the presentation and we're ready to move to the Q&A session. Thank you very much.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from Thiago Lofiego, Bradesco.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Good morning, guys. Thank you. So, two questions on my side. The first one, how should we think about the wood supply equation for the project, you mentioned 85% of the wood requirement is already under contracts. I just would like to understand this a little bit better, what does that exactly mean? Is this for the first years or is it for the long-term already? As far as I know you own roughly 100,000 hectares for the project, but the project demand something like 200,000 hectares, right? So just would like to understand this equation a little better. And potential new CapEx involved on the forestry side right?

And then the second question, it's about the projects internal rate of return. Bacci you mentioned and you put a slide with sensitivity analysis there, but could you give us some numbers, what would be like the more asset scenario internal rate of return, maybe a range just for us to understand the -- how the project goes in the very negative scenario, maybe with $500 per ton pulp and BRL4 or BRL5 maybe a range. Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

Good morning, Thiago and thanks for your question. So on the wood side, we already have most of the volume contracted for the first cycle, by that I mean for the first seven years. That means that again on the wood side, we already started new mill.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Carlos, can you tell us like longer term like what could be like the new -- the additional CapEx needed and like the percentage of own land versus leased land, et cetera, maybe a ballpark estimate for us to understand a little bit better?

A - Carlos Almeida {BIO 16143237 <GO>}

Yes, all I can see right now I guess that we are already expanding our forest bases and the plantation pace will only increase from now onwards. By the end of this year, I can say that we will have relevant for our plantations established. Thiago, due to the commercial sensitivity of such information I -- we cannot disclose any other information like the volume or area for the time being above that you can comprehend that sensitivity now.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Of course, yes. Thank you, Carlos.

A - Marcelo Bacci {BIO 17648865 <GO>}

Thiago in relation to the internal rate of return, we are not in a position to share specific numbers with you, but I read your report and I can see that your analysis of the net present value of the project is not too different from the analysis that we have internally here. In any potential scenario according to what the history shows to us of pulp prices, this project will always be generating cash, positive cash after CapEx. And in a only a very few scenarios this cash flow generation will be below the necessary to have a positive value generation in the sense that the return will be in most cases above our cost of capital. But of course, you understand that this is very sensitive to pulp prices and again your analysis is not too different from our internal view.

Q - Thiago Lofiego {BIO 16359318 <GO>}

That's clear. Thank you, Bacci. Thank you, Carlos again.

Operator

Our next question comes from George Staphos, Bank of America.

Q - George Staphos {BIO 1495442 <GO>}

Hi, everyone. Good morning. Thank you for the details and good luck with the project. I wanted to go back to the cost positioning of the Cerrado mill and what makes you comfortable that will be your lowest cost mill in the system. My guess is, it's going to be around the fiber radius, but if there is a way that you could quantify or stack rank the logistics versus the wood basket versus the residuals, how should we think about how that contributes to the cost position of the mill. And then I had a follow-on question just regarding existing results.

A - Walter Schalka {BIO 2099929 <GO>}

Thank you, George, it's Walter answering this question. We -- it's very important to mention to you and to all of you, that one of our key strategic deals for the future is to increase our competitiveness. As you know, our total disbursement cost it's a critical factor that we have been telling you to the future that we have been working, there is the combining number of OpEx and CapEx on the forest, industrial and logistic area.

We have been working on this dimension in the every single plant of our asset base is specific and how the project is going to be the lowest of all of the others. And the reason behind that is the first as you know wood represents more than 40% of our total cost and wood is going to be extremely competitive. We are not going to operate only with very low average distance, but we've off-roads in ex-trans, there is very important with us with higher trucks, bigger trucks that could bring more wood per trip to the plant is going to decrease our total cost as well.

In the industrial side, we are going to have much more export of energy to the grid, there is -- and this is a discount of the total cash cost as you may know. And our chemical costs are going to be lower as well. If you combine all of this issues, you are going to see that this plant is going to be lower than any other plant of our system. And the reason behind that we believe as Marcelo mentioned that we are going to generate cash in any single alternative combining FX and pulp price for the future.

Q - George Staphos {BIO 1495442 <GO>}

Walter, thank you. Just a point of clarification, what energy assumption have you baked in as we would say to your energy benefit for the project over the course of the cycle. And then my other question, I will turn it over, as we sit here today in terms of pricing that has been accepted by customers, pricing that's been reflected in the published benchmarks, what additional pricing should we bake in, I'm not asking about any new initiatives that you might have, but just based on what's already happened, what benefit should we see from pricing in 2Q and what embedded inflation do you have in inventory and cash cost should we expect for 3Q? Thank you very much and good luck in the quarter and congratulations.

A - Walter Schalka {BIO 2099929 <GO>}

Thank you, George. Just complementing your question related with the cash cost, the company will operate this plant with a lot of -- major sales and energy grid. We are not going to disclose any information about guidance on energy prices. But what I can tell you, there is not going to be different from what we have today, not today but during the last year's. Of course if its today -- today the energy price is very high, but if you compare the average price of the last year's, this is exactly the same amount that we have in the calculations that you use for the future of this plant.

Q - George Staphos {BIO 1495442 <GO>}

Very clear.

A - Walter Schalka {BIO 2099929 <GO>}

Now will allow (technical difficulty) within the market.

A - Leonardo Grimaldi

Hi, George. Good morning. So talking a little bit about our prices, as you know, we have announced $780 for China, April unchanged for May and announced now a new increase of $80 for Europe and North America, bringing this local prices to 1,090 per ton in the US at 1,320. We believe strongly that the current market conditions fully support the implementation of this announced prices. It is also important to mention that the prices that were lately or recently announced are all being fully implemented with no discount, no discount from this price levels that I mentioned to you.

But it's also important to bear in mind that the price realization may force you lays in both directions up or down, especially when the curves are moving so quickly as they are. And this is a result of some factors such as the delays of which the pricing indexes are following the actual prices, we have been noticing that some of these indexes are taking up to 50 days to catch up.

Also customers in geographic mix which are now even more impacted due to all the late shipments across the system as we also have been reporting. And also all the different price structures that we have been offering our customers not only in China, but also throughout all the world. That's what we can say for now, but please rest assured that all this announced prices again are being fully implemented and they will lead to higher realized prices for the coming quarter.

Operator

Our next question comes from Daniel Sasson, Itau BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

Hi, good morning everyone, thanks for taking my question and congrats on the approval of the project. My first question on the project comes from the -- is related to potential upside to this project for instance, is there room for debottlenecking or flip capacity, do you think that volumes could be even higher than the 2.2 million tons that you -- that is in nominal capacity of the project. In regards to the CapEx, at which point of the project or in which of the following four years do you think you would have more flexibility in regards eventually both only part of the CapEx, so as not to breach the 2.5 times net debt EBITDA ratio of your policy. Then my second question the pulp price front, if you could comment on the ability of your final customers to pass through the recent increase just mentioned that they have been seeing on pulp prices, which of your clients do you think are more pressured from a margin perspective? Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

Good morning, Daniel. In respect to our first question, the price follows return of general dimension of the plant in order to the total thing from production capacity, usually following the learning curve the company access possible bottlenecks and can propose a complementary investment initiative to seek to increase the production volume. But at this moment the maximum capacity that we are foreseeing in this project is 2.3 million tons.

A - Leonardo Grimaldi

Now, hoping Daniel, this is Leonardo, when I go to your second question related to paper producers price increases or related margin, as we have been seeing paper and board producers are increasing their prices during this past months to recover the raw material inflation and we also see new announcements being made for most grades and in all markets.

The effectiveness of this price increases as well as their local currency fluctuation will allow us and will allow them in all the market to be more supportive in terms of pulp price increases or levels as they are. In China printing, writing specialty, every board are presenting -- have presented significant increases in RMB terms reaching all-time high levels, even though recently we have seen some fluctuations but from this high levels again.

In tissue a first-round of price increase has been done in December 2020 and a new price increase has been recently announced just before the Labor Day holiday. This new price increase is roughly RMB400 to RMB500 and that's being -- at least the producers are trying to make this move as we speak. In our view, the market share in this tissue segment in China among players is different sizes and their competitiveness can be a challenge to the speed of this price increase implementation. And we are watching very closely about their ability to do so and also the ability of the price implementations to happen in all other major markets as this will all be very important for the equation of the fundamentals to our business.

I think Marcelo could answer a little bit about the second question that was not answered yet.

A - Marcelo Bacci {BIO 17648865 <GO>}

Yeah, Daniel, on the CapEx flexibility, we are still negotiating with major equipment suppliers, so the CapEx schedule still can be modified. But more important than that one of the reasons why we are not at this point announcing the other CapEx items related to forestry or to outside the fence of additional CapEx or logistics CapEx is because we are considering alternative structures to minimize the CapEx over time if necessary. So we will have some flexibility, at this point we have tried to minimize the CapEx volume in the first year in 2021, but we will have certainly room to manage the additional yield.

Q - Daniel Sasson {BIO 19234542 <GO>}

Perfect, thank you.

Operator

Our next question comes from Leonardo Correa, BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Yes, good morning everyone. Thank you. The first question for Marcelo, looking at the leverage numbers right, Marcelo, the -- when Suzano acquired Fibria back really and consolidating the numbers in 2019, Suzano's net debt number was about BRL54 billion right? Since then clearly the currency changed and that had an unexpected negative impact of BRL6 billion. So we've seen BRL68 billion of net debt and again the currency has been a big headwind right on the deleveraging.

To get your thoughts on how are you seeing this evolution and maybe what type of targets taking of in terms of absolute net debt, I understand that EBITDA generation has changed, has completely improved and changed, but as always we never know the denominator right? I mean, we've lived through many cycles and prices go up and down quite aggressively in the markets right? So just if you can focus on the net debt on an absolute basis and where you see that trending especially now with this new BRL15 billion project being announced at a time where net debt is still very high, right, I just wanted to see your thoughts on that.

And the second question maybe for Walter just moving back to the basics right on the thought process on how you guys have been thinking and why the approval at this point -- I understand leverage is now more manageable from a net debt to EBITDA perspective when the cycle improves, but just thinking of the competitive environment right, I mean the main competitor in the region is still under turmoil with big dispute between shareholders. So it doesn't seem that any competitors have been moving up to approve a project in the region. So I just wanted to understand a bit more of the thought process on why now and how you guys are viewing let's say the environment for project execution? Thank you very much.

A - Walter Schalka {BIO 2099929 <GO>}

Leo, thank you for your question. In terms of the debt, remember that right after the merger, our net debt was around $13 billion. And we believe that we have to keep looking at it in dollar terms, because this is the currency which we generate our cash flow. This is the currency in which 100% of our net debt is denominated indirectly or indirectly through all. So we came down from $13 billion on a sequence of reductions over the years and this first quarter of this year we posted a very significant reduction in the nominal number of our net debt.

We have been doing that even in years of difficult scenario like 2020 last year where we had the lowest average pulp price of the history and even so in that year we reduced by $1.2 billion, $1.3 billion of our net debt. So we've been moving very well along the direction, we gave by the time of the merger, we gave a number to the market that our goal was to have net debt of our own $10 billion. We are approaching that number and of course when we talk about on a per ton basis, that $10 billion would be around $800 per ton of capacity.

So if you adjust that to the new capacity that would mean about $11.5 billion, $12 billion, so we will be well below that, even we are in the execution phase of the project. We will be approaching $10 billion at the end of this year and our idea is to keep the nominal that in a number that we believe is very well manageable to us and also the leverage in relation to EBITDA which at this point of course is favored by the fact that the EBITDA is very high, but even when we do our projections over time, we of course don't consider forever the positive scenario that we see today in pulp prices and even in more difficult scenarios we will be on an absolute and on a relative basis well within the limits that we have established to ourselves in our financial policy.

A - Marcelo Bacci {BIO 17648865 <GO>}

Leo, thank you very much for you second question. We believe that we have been preparing this project for a period of time discussing not only the forest side, but the logistics, industrial area and all of the social conditions in the region, with the permits of the local government and not only but addressing all the infrastructure. And we believe that right now we reach almost all the precedent conditions to proceed with this project.

We believe that this project is going to increase our competitiveness on the global system and our asset base as well. We believe that we have all the financial conditions to proceed, respecting as Marcelo mentioned to you, our financial policy that always are going to be one very relevant and undisputable position of our self in terms of our vision for the future. And we believe that we can expand the addressable market in the years to come that would allow the short fiber to gain market share over other materials.

And we believe that with combining organic growth, with higher market share, we will allow to have a balance demand and supply that could bring very good return to our shareholders. This is the reason that we have the decision right now. As you may see, our ambition is to have the commissioning of this plant on the first quarter 2024, then at that time we believe that the market would be balanced and would be positive as for this new project.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you Walter, Marcelo.

Operator

Our next question comes from Carlos De Alba, Morgan Stanley.

Q - Carlos De Alba {BIO 15072819 <GO>}

Yeah, good morning everyone. Thank you very much. So just on keeping on the discussion about the project, I would like to ask if you can comment a little bit more on the expected production cost, even if you cannot disclose maybe the number or the range for production costs, if you can comment how much lower than perhaps horizontal line this could be, just to give us a sense of how much attractive this is. And also if you could elaborate a little bit more on the logistics options to deliver the pulp from the mill to Santos Port and how much cost that would add to the production cost and how that would compare to your average current logistic costs for the pulp system? Thank you.

A - Marcelo Bacci {BIO 17648865 <GO>}

Thank you, Carlos. I will take your first question. Our current average cash cost of production in the last two quarters has been around BRL620 per ton. And we have a dispersion among our different views and for strategic reasons we don't disclose the number on a mill-by-mill basis. But what I can tell you is that after this new mill, after the start-up phase and the ramp-up, this new mill will be the lowest cost producing unit of Suzano, even lower than current better one which is line 2 of (inaudible).

And the reason behind that as Walter mentioned in the beginning, a combination of the scale of the mill, the very low average radius and also the technology by the new equipment and with your technology that always gets better over time. This is as far as we can go from the strategic point of view in terms of projection of cost of production.

A - Carlos Almeida {BIO 16143237 <GO>}

Hey, Carlos, good morning. This is Carlos speaking. Thanks for your question, on the (technical difficulty) we have different options and alternatives, which are being studied now. We can say that we have already defined a part of the solution. It's done, it's concluded, but due to our current discussions for the whole system, we cannot disclose any further information for the time being and also for the same reason we cannot make any comment about cost now, so I hope you can understand that.

A - Walter Schalka {BIO 2099929 <GO>}

Carlos, it's very important to mention that we are going to operate at Santos Port, we have two different terminals over there. There is the -- in the right side is still treating 32 and the left side is (inaudible) project. We do not decide from which of the sites we are going to operate yet. But as you may know, both of these terminals are extremely competitive, then its very important to mention that we are going to move in terms from Rio from State of Mato Grosso do Sul to the Santos Port. And then we have two alternatives as you may know on this situation, this is the reason that Carlos do not want to disclose about this alternatives at this point of time. But I can assure to you that the cost of logistic cost combining terminal, port terminals and rail are going to be at the same level that we have with Tres Lagoas today at this point of time.

A - Carlos Almeida {BIO 16143237 <GO>}

All right. Thank you. And if I may squeeze a last question and I appreciate your prior responses. How much was the production -- the pulp production in the first quarter?

A - Walter Schalka {BIO 2099929 <GO>}

We are not disclosing, go ahead Marcelo.

A - Marcelo Bacci {BIO 17648865 <GO>}

No, we have decided to not disclose anymore the production levels from now onwards. We will be continuing to disclose the number to our associations and you're going to see the official statistics on a combined basis with the other companies, but we will not disclose individually as most of our competitors also do.

A - Carlos Almeida {BIO 16143237 <GO>}

All right, thank you.

Operator

Our next question comes from Caio Ribeiro, Credit Suisse.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Yes. Good morning, everyone. Thank you for the opportunity. So my first question is on the long-term sustainable prices for hardwood pulp. It seems that a lot of the projects that are coming online in the next few years are very competitive projects from a cash cost perspective and that should generate changes in the cash cost curve in the industry. But at the same time, there are discussions of new projects that could come online in China, which in many cases it seems that they would depend on imported wood sheets and would naturally tend to be much higher cost. So in light of that, I wanted to ask you, would you believe is sustainable long-term level of prices for hardwood pulp in China, right?

And then secondly on the pulp cash cost, I just wanted to see if you could talk a little bit about how you see that trending throughout 2021? And then looking further ahead, how this -- how the project could help you achieve your goals for 2024 of reaching a cash cost of BRL560 per ton and whether the project -- what's contemplated in that guidance or not or now that it's approved that this cash cost could be even lower. I know the project will still be ramping up in that year, but could it start to contribute to a lower cash cost that year itself? Thank you.

A - Leonardo Grimaldi

Okay. Caio, this is Leonardo, I will take your first question regarding long-term prices for pulp, it's hard to foresee that as obviously prices are determined by supply and demand fundamentals. We have shared with you guys in our Suzano Day our view to that being the current market and the growth which is forecasted, but also all the other opportunities in terms of new additions that we believe will create future demand for bleached chemical pulp or hardwood such as what you mentioned in the fiber-to-fiber and even fossil to fiber alternatives.

So again, very difficult to position in that sense. In our view, there will be an over-demand which enables us to still be able to fill in gaps in terms of needed production to fulfill all this additional demand. Regarding your question about the Chinese production, we have been monitoring a lot of projects indeed have been announced for the region. We believe big part of those projects are related to the incentives that are being given in the Cuba and (inaudible) region. And we believe that also that some of this projects maybe the part -- the paper part of the projects will be indeed going forward or moving forward, but very hard to understand how all the pulp capacity will come on board as we understand that woodchip is indeed a limited resource in China or to China.

So we have been monitoring, we have also been monitoring trade of woodchip from other regions for the world of China, see it as a huge challenge to be overcome in order for biggest part of all these announcements to become a true reality.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Okay. In relation of your second question, we see our cash cost production ex downtimes rising in the second quarter around 5%, 7% and then stable throughout the remaining quarters of the year. Such negative pressure on cards is mainly coming from the higher breach price and consequently wood costs affected by fossil fuel and freight. Relation if our guidance of our cash cost or total disbursement to 2024, see how the projects was not complaining in that number. Then in the following months, probably in the end of the year as Marcelo mentioned other mid teens or you updated this number for 2024.

A - Marcelo Bacci {BIO 17648865 <GO>}

Okay, understood. Thank you.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Thank you very much.

Operator

Our next question comes from Marcio Farid, JPMorgan.

Q - Marcio Farid {BIO 21017394 <GO>}

Thank you. Good morning, everyone. I have just a quick follow-up question on the project itself. I think there was couple of surprise last night announcement the first one was the timing of the announcement, I guess consensus you are expecting with announcement to come later in the year. So just trying to understand why now, I mean I know you have better visibility in terms of cash flow generation, but half of them tell you that the right time to make this announcement and this type of investing considering the long displaying conditions for the long term, but also difficulties and challenges in the short term with COVID unfortunately still being around us.

And the second point is related to the CapEx that has been announced, in US dollar terms, the above 20% to 30% higher than the last quarter, it was basically few Tres Lagoas couple of years ago. So just trying to understand what is the main driver of this inflation? I understand that its equivalent inflation, et cetera, but something little bit higher, I was expecting that to be related to higher logistics costs, but logistic seems to be included. So it sounds like we can expect more CapEx to come as well, if you can comment a little bit about that as well that would be great.

And lastly, maybe a question to Leo on the pulp markets. Leo, I know you're not disclosing production anymore, but just wanted to understand that if you're still -- I know you mentioned order books are good, but still seeing a relatively tight market out there, I mean are you saying no to some clients still or is everybody getting I guess now obviously high as at 780 at high pricing, but are you still saying no. Can you still see that tightness on the market? Thanks, everyone.

A - Leonardo Grimaldi

Well, thank you very much Marcio for your question. First, I would like to ask you about the timing of the project. We -- if you have a deep analysis on our forecast disbursement of this project, you are going to see that this year we are going to have a minor effect just representing 9% of the total amount. Meaning that end of this year, we are planning to have a very strong cash position, since our cash generation have been very robust and with higher pulp, realized pulp prices in the coming quarters, we are going to have a very positive cash generation for the company. And we believe that next year we are going to be in a position a much better position, not only in the sanitary conditions due to COVID, but on the financial position as well to have higher disbursement early next year.

Then we're well positioned this year, the CapEx is going to be very limited and this we're very comfortable with that position. Related with the CapEx per ton as you mentioned, I will bring to the surface two different issues. First, that the Tres Lagoas was a brownfield not a greenfield, of course, we have certain difference in that, all the infrastructure there was necessary to do. And the second point is that we're in the all-time high iron ore and steel prices that we consider on our project combined with very high FX. If you believe that the -- in the coming quarters or month the steel price will go to be lower on iron ore, we could have some benefit on that that we're not considering at this point of time.

We believe that 1,200 per ton that we have roughly inside the fence consider to this project, it's basically a little bit better than the average CapEx per ton of other projects in South America.

A - Walter Schalka {BIO 2099929 <GO>}

(multiple speakers)

Q - Marcio Farid {BIO 21017394 <GO>}

That's clear, thanks a lot.

A - Walter Schalka {BIO 2099929 <GO>}

Yeah, Marcio, thank you for your question. In order to answer that, let me give two step back. First, it's important to say that we have reached our record low stocks in the end of 2020 as Carlos mentioned in the last with all of us. And we have been seeing increasing challenges in logistics, ever since then. So that brings us to two very clear priorities. The first priority is to implement price or all the announced price increases that we have made public and as I have mentioned before this is being then there is no exception.

And the second priority we have is to well service our customers which obviously depend on us, rely on us and resolve the supply chain challenge. We are really focusing on how to make sure that there will be no interruption. So for the time being, we're already rewarded into how to service better or make sure that there are no interruptions to our current supply chain iss our existing customers and we do not have additional tonnages to be sold in spot markets or in customers which are not in Suzano's customer base as we speak.

Q - Marcio Farid {BIO 21017394 <GO>}

That is very clear. Thanks a lot, Walter and Mel, and good luck on the quarter.

A - Walter Schalka {BIO 2099929 <GO>}

Thank you.

Operator

Our next question comes from Jonathan Brandt, HSBC.

Q - Jonathan Brandt {BIO 5506998 <GO>}

Hi, good morning everyone. Just a follow-up on that last question. It seems like you're saying the market is still really tight and you've implemented all of your price hikes and we've seen significant price hikes in the first half of the year. So I guess I'm wondering why weren't you pushing for May price hikes, is there something that has changed, is the market not as tight as it was before or is it simply there is this supply chain issue because it would seems to me based on your comments that potentially there is room for further price hikes. So I'm just wondering what has changed? And if there is any concern the prices maybe weaken a bit as we go into the summer months in the northern hemisphere.

And my second question I guess is for Marcelo. Obviously, you're in a pretty comfortable position now with leverage and even with some of the CapEx that's coming up, but certainly what we've seen over the past six months or longer is that pulp prices can change pretty quickly and have become more volatile. So I know you're pretty comfortable now saying you won't breach the 3.5 times net debt, but have you run the scenario analysis what happens if pulp prices next year go back to 500 or 550? Are you still comfortable in that scenario that you wouldn't breach the 3.5 times net debt.

And then just sort of related to that because you're starting up this CapEx cycle, have you given any consideration to potentially trying to hedge pulp prices in some of the Asian exchanges? I know it's not a perfect hedge, but have you considered trying to lock in today's pulp prices, given the project. Thank you.

A - Leonardo Grimaldi

Hey, Jonathan, this is. Leo, I will answer your first question related to price. Obviously, we do not give disclosure on our commercial strategy and the rationale behind it. But what I can say is that when we compare prices in China with other regions in the world, we see that in other markets there is still a lag went behind it. And therefore we believe that prices could continue to increase in other regions in these regions.

Historically prices stand to balance among market. And related to the levels our prices are now, it's very, very hard to foresee the new levels of what they should be in the next coming weeks or months, because there are several new variables that are coming into play which are different from past cycles. First, as I have a vision before in the supply side, we're just entering the maintenance downtime season in the Northern Hemisphere. And we have been tracking and we see a write-off productions being lost over what was originally disclosed for this maintenance period. And we know that this might be a new reality at least for 2021 after and what happened with all the maintenance downtimes in 2020.

On the demand side, there is a growing optimism resolve the global economic recovery, which can result in a seasonality which completely different than in previous years as well. So the equation is still uncertain for the second half of the year, we're tracking the fundamentals closely and that's all I can say for now.

A - Marcelo Bacci {BIO 17648865 <GO>}

Jon, this is Marcelo speaking about your second question. We, of course, we have run different scenarios. We have run scenarios using prices around 500 for the coming years. Of course, this is not an indication of where what we believe where the price should be, but of course knowing that we're exposed to cycles in a CapEx decision of this size. We run all types of scenarios. We have run scenarios just to give you an idea that have according to best price behavior probability of occurrence of below 3%. This is the kind of stress that we do when projecting our cash flows.

When we talk about prices around 500 for the coming years, we would still be within the limits of our financial goals. And of course, in more asset scenarios, we believe that they may happen, but it is not expected that very low prices could last for long period of time. And last year was an example of those prices lasting for a year, but we don't believe that prices should be below 500 for a long period of time -- for longer than the year for instance.

In terms of pulp hedging, there is no instrument in the Chinese market, there is available, but we are not considering at this point to hedge, not so much because it's not a perfect hedge because it's the softwood contract, but mainly because the liquidity of that market is concentrated in the nearby maturities first. So it is not that good instrument to be used to hedge long-term, which would be the need in this case. And second, because we still don't feel comfortable in operating in that market having no experience so far operating in markets of that nature and not having in this case the ability to liquidate physically, because we don't produce softwood. So we are not considering hedging pulp for the timing being.

Q - Jonathan Brandt {BIO 5506998 <GO>}

All right, great, thank you both very much.

Operator

Our next question comes from Hernan Kazlock [ph], MetLife.

Q - Unidentified Participant

Good morning and thank you for taking my questions. I have two and the first one is regarding the Cerrado and rating agencies, I would like to know if you have already had conversations with them on what the impact on your credit ratings could be, that will be the first question. And the second question also linked to scenario analysis, is there any kind of downside scenario where you would have to take more debt to finance this project? These are my two questions.

A - Leonardo Grimaldi

Thank you for your questions. The first, the answer is yes, we have discussed this with rating agencies. They have all the scenarios for the CapEx and for prices and everything. And they will and it seems to us of course they will react to that, but we don't foresee any ratings action coming from the announcement of this project, because we have been discussing this with the market and with the rating agencies for a long period of time. So this is not a surprise for anybody.

In terms of new debt, we -- in our base case scenario, we don't need to take on any new debt, but we are analyzing the possibility of doing project related that instruments if they prove to be efficient in terms of cost and maturity and in which situation we would prepay other pieces of debt. So we don't need to take any new additional debt, but we will continue to look into market opportunities to further enhance the profile of our debt.

Q - Unidentified Participant

Okay, thank you very much.

Operator

Our next question comes from Rafael Barcellos, Santander.

Q - Rafael Barcellos {BIO 20593721 <GO>}

Hey, good morning. Thanks for taking my question. My first question is about the project. Could you tell us if you will have any tax benefit or credit in the region related to these investment. And my second question is about your long-term strategy, I mean now that you announced a new low cost pulp mill, would it make sense to convert dissolving or even integrate one of your older and higher cost mills. In the end, I just would like to understand your thoughts on your production footprint going forward. Thank you.

A - Leonardo Grimaldi

Rafael, thank you for the question. On your first question about tax benefit, we have negotiated with the State of Mato Grosso to show in the city of (inaudible). The usual tax treatment that the states and cities give to large investments, so nothing special. This is all public information and it will be available, but we don't have any benefit related to the monetization of our tax credits with other things, it's just the usual incentives that we get for large investment.

A - Marcelo Bacci {BIO 17648865 <GO>}

On the second question, Rafael, thank you very much, I'm going to take that. Our vision for the future is that we have five different avenues as we presented during the Suzano Day, where we can create value with all stakeholders. And we believe that addressing different markets areas for the short fiber is critical for the future. We are not ready to announce any kind of conversion of any of our avenue to any other application, but I can share to you that is in the analysis that we have been doing. We consider several alternatives including that. It's very important to mention to you that we'll pursue this alternative of bio strategy, our innovability where we can enter on different markets or different applications of our pulp and our lignin and this is part of our strategy for the future.

Q - Rafael Barcellos {BIO 20593721 <GO>}

Okay. Thank you.

Operator

As there are no more questions, I would like to turn the floor over to Mr. Walter Schalka for final considerations. Please, Mr, Walter, you may proceed.

A - Walter Schalka {BIO 2099929 <GO>}

Thank you very much for joining us on this session. It's a great pleasure to be with you and it's -- we are very pleased the announcement that we are doing today. We -- I'm sure that this Company this year is to be best year of our history in terms of EBITDA and cash generation. But more than that, we're preparing the company for the future. We have a major ambition to impact all the stakeholders. We are talking about our shareholders, but not only we're talking about our suppliers, our customers, the communities, our team would like to have a very clear vision of creating and sharing value with all the stakeholders.

In the other hand, we believe that we have a major potential impact on the environmental side of the equation for the next coming years. And this project will allow us to have even more carbon sequestration to have -- to allow us to have even more renewable energy to allow us to prepare the company for the future and the bio strategy arena for the next coming years.

We believe that Suzano have been improving our performance in the last many years, but our ambition for the future is going to be even more to impact all the stakeholders and to create and share values with all of that. Thank you very much, I hope everyone stays safe. I'd like in the end of the session to invite all of your to our first ESG call is going to be done on next June 25, when we are going to announce our next goal on biodiversity, is going to be our first ESG call and like to invite all of you to this session. Thank you very much and stay safe and well.

Operator

Thank you. Suzano's first quarter results conference call is finished. Thank you for participation and have a nice day.