Q4 2011 Earnings Call

Company Participants

- Alberto Monteiro, CFO, IR Director
- Alexandre Yambanis, Pulp Business Unit Officer
- Antonio Maciel Neto, CEO
- Ernesto Pousada, COO

Other Participants

- Celina Merrill, Analyst
- Deni Parsine, Analyst
- Lucas Sierra, Analyst
- Thiago Lofiego, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Suzano Pulp and Paper 4Q 2011 Earnings Conference Call. All participants will be in a listen-only mode during the conference's introduction that will be made by Mr. Alberto Monteiro, CFO and IR Director, and later we will conduct a Q&A session when further information will be given.

We inform that each participant can make only two questions. (Operator Instructions) Now I'd like to pass over to Mr. Alberto Monteiro, who will begin the conference call. Thank you.

Alberto Monteiro {BIO 1527328 <GO>}

Good morning. I'd like to thank everyone for participating in the conference call of Suzano Papel e Celulose.

Let's start on slide three. I will present the highlights for the pulp business units in the global market. Suzano's pulp sales grew in the Fourth Quarter, driven by seasonality and the additional volume from Conpacel, compared to the Third Quarter.

In the global market, pulp, the highlights were global pulp shipments grew by 2.8% compared to the Third Quarter and were relatively stable compared to the Fourth Quarter. In the year, market pulp shipments grew by 3.6% comparing to 2010. It's important to say eucalyptus pulp outpaced the other market pulps, growing by 13% compared to both and prior quarter in the year-ago quarter.

In the year, eucalyptus pulp shipments increased by 6.1% compared to 2010. The availability of eucalyptus pulp combined with the spread between softwood pulp and hardwood pulp led to an increase in the market share of this pulp.

In both the Fourth Quarter of the year, the highlight in terms of the region was China, which grew by (inaudible) 71.4% [ph] comparing to the Third Quarter and by 29% compared to 2010. This strong growth was driven by start-up of new paper capacity and the inventory rebuilding trend in the region.

Let's move on to the bottom of this slide. You can see the highlights at Suzano Pulp units. In the quarter, 430,500 [ph] tons of market pulp was sold. In the year, pulp sales come to 1.8 million tons. The increase in Suzano's pulp sales volume was driven by seasonality, the additional volume from Conpacel, and the improvement in the operational performance at Mucuri.

Asia remains the main destination of the Company's sales with a 43percentage, followed by Europe with 25%. In the year, China accounted for 36% of sales and Europe for 31% [ph].

Moving on to slide four, I will present the highlights of the pulp business unit and the behavior of the domestic paper market. Suzano domestic market note that during 2011 the share of imports in the domestic market fell sharply.

I will begin the highlight with paper demand in the domestic market. The higher Brazilian demand for paperboard and for printing and writing paper in the Fourth Quarter, comparing to the Third Quarter, is explained by the recovery in the economic growth as well seasonality.

The lower demand comparing to the Fourth Quarter of last year is explained by the higher comparison by -- 2010. Note that Brazil's economy grew by 7.5% in 2010, compared to GDP growth of 2.7% in 2011, which is an important driver of paper demand.

Domestic demand in the quarter, comparing to the Third Quarter, grew by 30.2% for printing and writing paper, by 0.7% for paperboard. A highlight was the significant reduction in coated paper imports, which reached 72% in March 2011.

The measures adopted by the Brazilian authorities to combat tax revision [ph] by virtue [ph] the final use of tax exempt papers contributed to a reduction in the March share of the imports, EBITDA mark-to-market. Imports of coated paper, which accounts for the highest share of imported paper volumes, stood at 47%, falling over 7percentage points from the Third Quarter, as you can see.

I will now present the highlights of Suzano Paper units during the quarter. We can realize that the unit sold 401,000 tons of paper. While in the year, paper sales totaled 1.3 million tons. Sales in both the quarter and the year were impacted by the full consolidation of the Limeira units.

As you can see on chart on the left, the incremental volume from Conpacel was directed to the domestic market with 803,000 tons in 2011, compared to the 643,000 tons in 2010 since the domestic market has the best operating margin.

Sales to the domestic market represents 60% [ph] of the total sales in 2011. South and Central America, which are key regions for Suzano, deserved 74% [ph] of sales during the quarter and 77% [ph] during the year.

Moving to slide five, I will comment on the consolidated results in the quarter and the year. The major development was the improvement in the operational stability which allowed us to reduce the cash cost at Mucuri in relation to the previous two quarters. Net revenue in the quarter was BRL1.3 billion, while on the year net revenue was BRL4.8 billion.

Net revenue in the quarter was basically driven by the higher sales volume for both paper and pulp, the reduction in the average price of both pulp and paper, and currency variation which affected our revenue for exports.

The lack of down time in the operational stability at Mucuri contributed to a reduction in cash costs during the quarter to BRL543 per ton, comparing to BRL554 per ton in the Third Quarter. The increasing cost of goods sold in the quarter was mainly driven by the higher sales volume, the sales mix, the lack of scheduled maintenance downtime, and local currency depreciation against the US dollar.

EBITDA in the quarter was BRL415 million, reflecting the impact on revenues and costs I mentioned earlier. As well, the higher administrative expense, the result from the sale of fixed assets, the net cash positive effects from determining the fair value of biological assets, and the accounts gains from the acquisition of Conpacel.

EBITDA in 2011 was BRL1.3 billion, as I have said, basically reflecting the decreases in pulp and paper price during 2011, the stronger real against the dollar with an average exchange rate in 2010 of BRL1.76 versus BRL1.67 in 2011, the higher cost for labels in pulps and woods, and the revenues with no cash impact, that I mentioned earlier, due to the adoption of IFRS accounting rules as detailed in the notes to the annual financial statements.

In 2010, EBITDA was BRL1.7 billion which included the non-recurring sale of land and forest in the state of Minas Gerais.

Let's move to slide six. I look over the composition of Suzano's debt. On this slide, I would like to mention our adequate debt profile, which has competitive costs and an average of four years term as well a comfortable liquidity horizon of 18 months -- horizon, sorry.

In December 2011, Suzano's gross debt was BRL8.7 billion, that in foreign currency represented 53% of the Company's total debt. The increase in gross debt was mainly due to the contracting of new credit lines as of the end of the year and the variation in the exchange rates, although with the cash impacts only on debt maturities and amortization.

The net debt to EBITDA ratio ended the year at 4.2 times with a cash balance of BRL3.3 billion. The Company is working on various fronts to improve EBITDA with projects to increase productivity and to reduce costs and deleverage [in the achieves], as already announced grew asset sales and partnerships.

And slide seven, the next slide, shows Suzano's investments in 2011 of BRL3.2 billion, which were concentrated in Maranhao industrial units and the Conpacel acquisition. Maintenance CapEx was in line with the estimate for 2011.

Increase in maintenance CapEx in 2010 was explained by -- first, the acquisition of Conpacel, second, the higher maintenance at Mucuri, and the last one, the higher need to foreign forests to recover the average age in the state of Bahia.

On slide eight, I will update the Maranhao forests, which remains on schedule, which start-up expected in the Fourth Quarter of 2013. The earth-moving works have already been concluded with the infrastructure works already begun. We also already have 4,000 people working on forest formation and building the industrial units.

Construction is advanced after the full speed in financing has been arranged through our long-term credit lines with a grace period and gradual amortization aligning with the project's cash flow. Around BRL1 -- point -- billion has already been invested at Maranhao project, which includes both forest and industrial CapEx.

Move on slide nine, a look over the BRL800 million reduction in the expansion investment in 2011 and 2012. CapEx in 2011 was BRL300 million below the [fiber nationality] announced.

In 2012, the estimate for expansions CapEx is BRL3 billion, which consists of -- one, the forest and industrial investment at the Maranhao unit, second, the minimal investment required for forest formation in the state of Piaui and third, the investment of Suzano Paper e Celulose in Suzano Energia Renvovavel Renewable Energy, which will be made through the transfer of acquisitioned land and forests.

The investment in Suzano Energia Renvovavel Renewable Energy will continue to depend on the definition of the capital structure.

On slide 10, I will go over the highlights in 2011. In the pulp market, as I have said, the good news was the strong Chinese demand. On the other hand, prices decreased during the year. Let me emphasize in the paper market the sharp drop in the share of imports in domestic market during 2011 demonstrates the effectiveness of the providence [ph] to combat a visions.

Suzano reported a new record for net revenue. EBITDA was impacted by lower pulp price, currency appreciation, and higher costs. It's important to note that Suzano maintains a solid financial position with an adequate debt profile and competitive costs. We ended the year with a robust cash position of BRL3.3 billion, which gives us a comfortable liquidity horizon.

In December, the leverage ratio stood at 4.2 times and we are working on various initiatives to reduce our leverage such as reducing the investments announced before 2011 by around BRL300 million.

In closing, I'd like to comment on the Maranhao project. We have begun construction on the Maranhao units. We have restructured the funding and the project is advancing on schedule. We start-up project for the Fourth Quarter of 2013.

Thank you, everyone, and I'll give the call back over to the operator to begin the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Our first question will come from Thiago Lofiego of Bank of America. Please, go ahead.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Hi. Thanks for the call. I have two questions. First, on your leverage situation. So I would just like to understand, under your assumption do you think a potential divestment of, let's say, 50% stake on Maranhao with other asset sales like the Capringa [ph] and co-power plant and land in Sao Paulo, do you think all of these events together will be enough to leave the Company in a comfortable leverage situation?

Or do you think you would need additional events to bring leverage to more comfortable levels given the CapEx ramp up you're going to see in the coming quarters. That's the first question.

A - Antonio Maciel Neto {BIO 16703850 <GO>}

Thiago, this is Maciel. Good morning. We have always mentioned here in our conversation with you guys about the leverage at BRL3.5 billion would be the comfort to us, what you mentioned -- a comfortable level during this investment phase. Because we mentioned about the comfortable leverage in order just to have in [these costs] that probably BRL3.5 billion is okay.

With all the changes in the exchange rate that we have seen, a very volatile environment, and, as you know, we have about 50% of our debt denominated in dollars, this we can get easily to BRL4 billion, BRL4.2 billion with those variations in the exchange rate. So this is why our covenants that we have, we just renegotiated was set at BRL4 billion. Then we have some variations on these.

So we have worked out here to get on these levels, that's the BRL3.5 billion, BRL4 billion, to be in a good level for -- to continue in the coming two years. As you know, at the end of 2013 we will have the start-up of Maranhao. Beginning of 2014, we have the start-up of the Suzano Renewable Energy. Then we are going to see a very sharp in fast decline in our leverage. Therefore, we have in 2012 and '13 to be managed.

So with that and with the covenant renegotiations that we were able under Alberto's leadership to make, we think that with the actions that we are going to take we are going to reduce leverage. We don't have any guidance, a number, to say this is the threshold, this is where we are going to stay, but on this level, around BRL4 billion, but targeting always BRL3.5 billion is something that we are going to pursue.

As you know, as we move forward with the Maranhao investment, we are going to see a trend in the leverage -- a trend up on the leverage depending on what the EBITDA will be. So let's see. However, we are going to take actions to try to maintain those levels the leverage of the Company.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. All right. Thank you, Maciel. My second question is more specific, about the First Quarter in terms of the cash costs. So you've had an unscheduled stoppage in the Mucuri plant during January, so could you give us some color on what's the potential impact of this stoppage?

Could we see similar costs to the quarters that you had the same problems or other problems in the Mucuri plant? So cash costs above BRL600 per ton, is that possible in the First Quarter of this year?

A - Ernesto Pousada {BIO 15951890 <GO>}

Okay. Good morning, Thiago, Ernesto Pousada speaking here. So we have this unscheduled stoppage, shutdown in the Mucuri mill in January, as we announced. First of all, about production, it's important to mention that in February we hit a new record in that unit. That was followed by a previous record in December, so this is for us clear that was a one-time event that happened.

Since then, the unit is operating very stable, which has been able to help us to reduce our overall First Quarter cash cost. We don't have the final cash cost number, but we don't, considering that unscheduled shutdown, we expect the cash costs to stay slightly higher than what we had in the Fourth Quarter. As I mentioned, we don't have the final numbers for the overall costs of that shutdown.

Operator

And your next question comes from Lucas Sierra [ph] of JPMorgan. Please, go ahead.

Q - Lucas Sierra

Hi. Good afternoon, gentlemen. Thanks for the call. My first question is related to the sensitivity you gave on the Portuguese call of the FX impacts on your EBITDA, about BRL0.10 variation in Brazilian real versus the US dollar, impacts your EBITDA by BRL140 million. I was wondering if you have a similar sensitivity to your FX and net financial lines. Thank you.

A - Alberto Monteiro {BIO 1527328 <GO>}

The impact is around BRL220 million.

Q - Lucas Sierra

Okay.

A - Antonio Maciel Neto {BIO 16703850 <GO>}

It's a big impact. This is a rough number that our controller here is saying. It's a big number. Always we have on top here [ph]. This is a rough number, it's not the exact. Every $0.10 in dollars in the FX, we have BRL140 million in EBITDA and BRL220 million, BRL220 million plus in the debt.

Q - Lucas Sierra

All right. Great. Thank you. And my second question is related to the CapEx. I was wondering if you could provide us also a breakdown of the expansion CapEx. How much of the 2012 numbers would go to Maranhao and how much is Piaui or any other small expansion that you may want to say here, in 2012 and 2013? Thank you.

A - Alberto Monteiro {BIO 1527328 <GO>}

Lucas, what we are saying is we have this maintenance, industrial, in the forest -- is about BRL500 million to BRL550 million. This is around the numbers -- the same numbers we had this year. And most of the investment that we are going to see will be at Maranhao. We are not going to disclose the line-by-line on this, but you can consider that most will be for Maranhao and about BRL400 million, BRL450 million for maintenance.

Operator

And our next question comes from Deni Parsine [ph] of DB. Please, go ahead.

Q - Deni Parsine

Good morning. Thanks for the call. I'm a debt analyst, so I'm a little bit concerned about the leverage and the coverage of short-term debt with cash, which you mentioned your large cash cushion, but you only covered your short-term debt, about 1.5 times.

And given the negative free cash flow that we are factoring in, given where pulp prices are and paper prices and the real and your large CapEx budget, the rating agencies have you with a negative outlook. Everyone is kind of concerned about how you're going to meet your very large amortizations this year without seriously putting your business plan at risk.

Could you give us a little bit of color about how you're going to meet your very large amortizations this year and cover your CapEx and not get downgraded anymore? And when is the equity partner that you've found for Maranhao going to start contributing?

I'm just -- we have some serious concerns about your balance sheet and I'd like to hear you address, for bondholders and creditors, how you're going to manage your balance sheet this year with (inaudible) obvious cash burn and the large CapEx and the large amortization. Thanks.

A - Antonio Maciel Neto {BIO 16703850 <GO>}

Deni, this is Maciel. I think the message here is very simple. We have in the cash now BRL3.3 billion, and the amortization -- this is enough to cover the amortization that we have for the coming two years.

Q - Deni Parsine

Okay.

A - Antonio Maciel Neto {BIO 16703850 <GO>}

So this is what we have in cash, so we can cover the short-term debt for two years without any new operations with the banks, new loans, and short-term export facilities, anything -- not in full stock, getting more cash from the banks, we would be able to pay the debt, the short-term debt the coming two years with the cash that we have in house. So this is one point.

On top of this, we have the EBITDA. The EBITDA this year was BRL1.3 billion, then you can consider that what we see in the current -- in 2012, is a better year. I hope prices are much better. Exchange rate is pushing for the right type for us.

Stability in Mucuri is being forecasted and we are very close to have a very good and strong stability, so we are going to have our EBITDA as well. So this is a big piece that can be used for the CapEx coming.

On the other hand, most of the investments in the Maranhao project is financing. We have the financing for the Maranhao project. We have signed -- contracted signed with [this debt] that's flowing normally. We have DCH [ph] for the imported piece, so we have done most of the financing for the Maranhao.

But we have -- I don't see any concern for our balance sheet as you are mentioning. This is completely out of our perspective. We have very good liquidity for the short-term. We have two years that we can pay with our cash here.

On top of that, we have our EBITDA of this year. On top of this, we have all the -- most of the timings for the Maranhao project done. So the concern here is about net debt to EBITDA that's growing and going for the year end and then we can see what the level that will be in a good level.

So the problem here is that net debt is too high, it's moving. We need to take actions, this is what we are doing. The contracts [ph] have been already negotiated, so from balance sheet perspective I don't see what you're saying, that we don't see any concern on this. Leverage, net debt EBITDA leverage, for sure this is the concern. And if we don't take actions we are going to have a hard time next year.

On the other hand, at the end of -- we have two years. This is a bridge out for two years. At the end of 2013, beginning of 2014, we have the start-up of Maranhao, have start-up to the renewable energy [before we move this]. That is the scenario that we are considering. Then we are going to see a very sharp and fast decline in the leverage.

Operator

Our next question comes from Celina Merrill of Credit Suisse. Please, go ahead.

Q - Celina Merrill {BIO 6748233 <GO>}

Hi. Good morning. Thank you for the call. I just wanted to ask a couple of follow-ups on your CapEx plan for 2012. The guidance that you provide here on your slides of BRL3.5 billion for 2012, that assumes that Suzano would be taking the whole investment in Maranhao, correct? So if you do finalize a negotiation with a partner, this would be reduced?

A - Alberto Monteiro {BIO 1527328 <GO>}

Almost of the total parties from its -- go to Maranhao unit and we are comfortable to do that. And as Maciel has said, we are financing with BNDES from all funding for this year, which is no problem for us.

A - Antonio Maciel Neto {BIO 16703850 <GO>}

Celina, just to complete this, you are correct. This amount of money we have, BRL3.5 billion, is to be -- to cover the full investment that we need to for this in Maranhao to maintain contract to the start-up in 2013 -- the end of 2013.

If we have a partner coming in, this will be reduced because a piece of this will be passed on to the partner, the same way in the past that we have accumulated for these last three to four years that we have invested in piece of this debt will move to the partner as well.

After here, the situation is -- everything you see here is considering the scenario without partner. If we have a partner, everything is going to change for the better.

Q - Celina Merrill {BIO 6748233 <GO>}

Okay, that's helpful. Thank you. And do you have any updates on how those negotiations are going, either specifically for Maranhao or some of the other asset sales that you have mentioned in the past that you're focused on for this year?

A - Alberto Monteiro {BIO 1527328 <GO>}

Importantly, we don't have any news on this. The only thing I can tell you Celine is that we are working hard. We have banks mandate -- we have put mandates to specific banks to work out with -- on these aspects. We are looking -- having broad perspective focus on deleveraging. That's the alternatives to boost our leverage down as we move during this year with the Maranhao project.

So no news so far, but when we consider that the first half of the year we are going to see some movements to improve the leverage situation.

Operator

Our next question is a follow-up from Thiago Lofiego of Bank of America. Please, go ahead.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. So just a follow-up question here. Is there any specific reason why you're not increasing prices to Europe for April, only for Asia? What do you expect in terms of European demand in the short-term? And also, do you see any inventory moves in Europe that are different from other regions?

A - Alexandre Yambanis {BIO 16470785 <GO>}

Yes. Hello, this is Alex Yambanis. I will address your question. Yes. We have announced the price for Asia for April -- effective April 1st, and this is a $30 increase which will take our price to $670 per ton in the Asian market. Our current price is at $640 and implemented.

The second part of your question, if I'm not mistaken, relates to Europe. While the European situation is improving -- I'm referring to the macro geopolitical, economic situation in Europe, which is improving. And we expect that right now with the advent of the high paper season, which starts from March -- goes from March to June, roughly, paper demand will be more robust than it has been in the past.

So we don't expect any inventory build-up either in Europe or in Asia. As a matter of fact, with the advent of multiple paper machine start-ups in Asia, we foresee both being consumed in lieu of built into inventories.

Operator

The question-and-answer session is now over. I'd like to pass over the call back to Mr. Maciel and Mr. Monteiro for their last statements.

A - Antonio Maciel Neto {BIO 16703850 <GO>}

Okay. Guys, thank you very much for your participation in this call this morning. This was our first time that we have Alberto Monteiro leading the presentation. He is, as you know, now is appointed as our Investor Relations Director along with his capacity of CFO. Brea [ph] and the team will be here along with Alberto to additional clarifications if you need.

I would like to go only in a very quick summary how we see the perspective of this year once I think we have covered most of the past year. The economies are improving. We see a much better environment in Europe, not so with the province, however, the panic that was saw in the Fourth Quarter of last year is out, at least for this moment. And with that, we see a more -- a less volatile environment and that's going to be good for our business.

Just to recall, the price that we had at the end of 2011 in December, we had our pulp prices were at $650 and now, as we speak, the reference price here I have Europe is at $760. So we had a recovery of $110 in less than three months, and this is good news.

As Alexandre Yambanis, mentioned we are moving our pulp prices in Europe, in China, in Asia, in -- another $30 now April 1st, and this is going to give us a little bit more better position on the pricing that we had in the quarter before.

On the paper side, as well, we have seen we have in this quarter, our prices are moving up between 3% to 5%. In this environment, despite this growth that's not certain so far, but we have exchange rate better -- much better position exchange rate. Because normally we talk about the exchange rate about the impact of the exchange rate in our pulp price because this is export-driven.

However, the exchange rate has a big impact in our paper business here locally because of the imports. When you import the product, this exchange rate makes all the difference. And we have 60% of our sales in the paper business locally, and the competition with import papers is very strong as well when we have the real too much strong. So stronger than normally.

So we are seeing here a better perspective from the exchange rate. And also, this very strong actions that we have seen being taken by the Sao Paulo state and also the federal government about -- against this tax evasion that we have seen in some paper grades. So this is now in place and this gives us a better perspective of the paper business here.

As an estimation, we are having much better stability. Here, as you know, we are going to have a downtime, a stoppage coming April in Mucuri, this will be a big one. And we think that with that we are going to overcome most of the design projects that we have faced since the start-up of line two in Mucuri.

Many times here during the calls we've talked about the dryer machine in number two, that we have a lot of problems. This we have overcome, the machine is working very well. Then we had the recently this accident with the boiler business water design, the problem [ph] as well, so this will be overcome -- we are going to have a solution for this as well.

And other aspects of the project that was innovative, very big project at that time, we have suffered a lot, and so far since the start-up. However, we see an outstanding perspective as we move forward with Mucuri.

On the downside here, in the production side, we have most of the raw materials and the chemicals that we use, most of their prices linked to the oil price. So with the oil prices at $120, this will be tough for us, big, big challenge to maintain the costs that we had from this chemicals.

And also, the wood utilization. We are now with about 50% of third parties wood utilization only to go down to 30%, that's our normal perspective on 2016. So we are going to have and see some pressure on the wood price as well as we have seen last quarter, and this is going to continue.

From the administrative expenses, we are going to see good news. We are working very hard. We see perspective with -- so from the cash cost perspective, I think we are in a position that this range, between BRL500 million and BRL550 million, has been what we have for this year. And as we move forward, probably we are going to see ups and downs, depends on the exchange rate, the pressures on the wood price, but this will be the outage [ph].

From the CapEx perspective, for what we considered before, we were able to reduce BRL600 million in 2011-2012. This is a very big CapEx, however, as I mentioned before, in finances, in very good conditions, most of this has been financed by BNDES, BRL2.7 billion, and we have 12 years to pay, two years of grace period. And the start-up is confirmed for the end of 2013.

And for the renewable energy company, we have another start-up for the beginning of 2014 confirmed. And as soon as we have the investor that we are working hard, that we are very close to be there. And so with that, with these two projects being started at the end of 2013, beginning of 2014, we are going to see a very quick, very fast deleveraging, putting us back on the more comfortable situation.

As I mentioned during the call, we feel very good on the liquidity that we have to pay our expenses during these coming two years. We have already cash on hand. We have the financing for the Maranhao project and we have our -- on top of this, we have our EBITDA coming during the year in the conditions that we have.

It's for sure, the part we have here, the senior management of the Company is to work during the year to reduce the leverage. And this has been a priority and we are going to work out on this and deliver during the year.

So with that, I would like to thank you, everyone, to come to participate in this call. And we, as I mentioned before, further clarifications we'll be very happy to answer questions to our Investor Relations department. Thank you very much.

Operator

The Suzano Pulp and Paper conference call is now over. We thank you for your participation. Have a nice day.