Q2 2020 Earnings Call

Company Participants

- Aires Galhardo, Executive Management - Pulp Operation
- Carlos Anibal de Almeida Jr., Executive Management - Pulp Commercial Business
- Leonardo Grimaldi, Executive Management - Paper Business
- Marcelo Feriozzi Bacci, Chief Financial Officer and IR Director
- Maria Luiza de Oliveira Pinto e Paiva, Executive Management - Sustainability
- Walter Schalka, Chief Executive Officer

Other Participants

- Carlos De Alba, Analyst
- Daniel Sasson, Analyst
- George Staphos, Analyst
- Leonardo Correa, Analyst
- Marcio Farid, Analyst
- Thiago Lofiego, Analyst
- Thiago Ojea, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for holding and welcome to Suzano's Conference Call to discuss the Results for the Second Quarter of 2020. 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; Leonardo Grimaldi, Paper Executive Officer; Carlos Anibal, Pulp Commercial Executive Officer; Aires Galhardo, Pulp Operational Executive Officer; and Maria Luiza Paiva, Sustainability Officer. After the company's remarks are completed, there will be a question-and-answer session and further instructions will be given. (Operator Instructions)

Before proceeding, let be -- 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 to everyone. I would like you -- to thank you very much for joining us for the second quarter results of Suzano 2020.

I would like now to pass to slide number three, and I would like to share with you our views about the second quarter. I think it was a outstanding result of the company that should be defined by two major points. First, the extreme economic and financial resilience of the company. I think on the very difficult period of time on the world history, we delivered very good results. Second and very important, the outstanding engagement and high qualified teams that we have that delivered to the -- to protect our teams to deliver to the society, very good impact and to have very good and positive results at the same time. I'd like to thank you every single team member of Suzano of this -- at this moment.

We had a very strong operational performance. On the pulp business, we had very good sales with 2.8 million tons during this quarter. We destocked around 220,000 tons at this quarter. Once again, on this last 12-month, we destocked 1.9 million tons during this period. On the paper business, despite the decline on printing and writing, we exercised our flexibility to have more exports and had a minor impact on our paper business. We had an outstanding EBITDA of BRL4.18 billion during this quarter, with excellent cash generation of BRL3.4 billion during this quarter and a very good operational results. Despite the impact of the FX on our costs, we had a very stable cash cost of BRL599 per ton.

On the financial side, we had a very good -- a very strong balance sheet. We have $2.5 billion in liquidity. We decreased our net debt from $12.7 billion to $12.4 billion at this quarter and we decreased our leverage from 4.8 to 4.7 times. But not less than that, we developed our ESG. Marcelo is going to share with us how we developed our ESG during this quarter. ESG has been something very important to us during many, many years and we will continue to evolve on this area.

Now, I'm going to pass and hand over to Leonardo Grimaldi who is going to share the paper information with all of us.

Leonardo Grimaldi

Thank you, Walter, and good morning, everyone. I would like to present the result of Suzano's paper business unit for the second quarter of 2020. The figures presented on slide number four are specific to our paper business units. Therefore, excluding Suzano's consumer business units results and enabling us to have a better comparison with the past quarters.

This was indeed a very challenging quarter for our business unit. As the demand of printing and writing papers, which represent roughly 80% of our business unit, was deeply impacted by the COVID pandemic. As we have mentioned during last quarter's earnings call, we have decided to stop production at our Mucuri and Rio Verde mills during the months of May and June, enabling us to match production with the market demand. Our operational flexibility allowed us to redirect the resulting pulp from the stoppages to other markets and products.

As you will see on the top left graph, our production of paper and paperboard was 239,000 tons during the second quarter, roughly 60,000 tons below quarter 2019. Despite this commercial downtime, there were no interruptions on the paper supply to our customers in Brazil or internationally, as our stocks were duly fulfilled and our four paper machines at the Suzano and Limeira mills allowed us to have production flexibility between paper grades in these sites.

Now, moving on to the top right graph and looking at our sales figures, we can note that we have sold 202,000 tons during the second quarter 2020, which is a 15% decline from the first Q '20 and a 28% decline compared to the second Q '19. Our international sales grew 8% compared to the first Q '20 and represented 45% of our total sales volumes during this quarter. Our consolidated sales of paper and paperboard in Brazil were 29% lower than the first Q '20 and 35% lower than the second Q '19. The latest statistics presented by Iba, our Pulp and Paper Association, present a reduction of 45% in the demand of printing and writing in the second quarter '20 compared to the second quarter '19, and a reduction of 12% in the demand of paperboard, folding boxboards grade in the same period.

Now, looking at the lower left side, we can see our average prices during the quarter, which totaled BRL3,998 per ton, privileged by our currency depreciation and posting therefore a 4.5% increase compared to the first Q '20 and almost 4% increase compared to the second Q '19. Now, looking at the lower right side of the slide, we can note that our total EBITDA was affected by our lower sales volumes and totaled BRL254 million during this period. As a result of our higher average prices due to currency devaluation, as well as lower SG&A expenses in the period, our EBITDA margins have increased, reaching BRL1,259 per ton.

Now, looking forward, we still see a challenging scenario with a lot of uncertainty regarding the recovery of the demand of printing and writing papers in many regions of the world due to the COVID-19 pandemic. Despite such uncertainties in Brazil, we have seen improvements in our sales since the biggest demand in April and our domestic sales have been increasing consistently ever since, but still below historic levels. For the third quarter, there is still further uncertainties, such as the level of investments of the Brazilian government on education affecting the purchases of the national textbook program as well as the consumption of paper for advertising on the municipal elections in Brazil, which were delayed from October to November. However, with the recovery that we have seen so far, all our paper mills are back into operation.

I would now like to invite Carlos Anibal to present the results of our pulp business unit.

Carlos Anibal de Almeida Jr. {BIO 6275986 <GO>}

Thanks, Leo, and good morning, everyone. Hope everybody is well and safe.

So, let's go to page five of our presentation, so we can talk about our pulp business. Remarkable execution was key to deliver robust Q2 results, given the very complex and challenging socioeconomic development out of the pandemic. During the first six months of the year, our pulp mills run very well. On an average, pulp prices remained stable, but at a very low level. We are still dealing with a very poor pricing environment. Our teams worked diligently to reduce costs, capture synergies and efficiencies throughout our entire pulp system.

Although, we did experience challenge during the second quarter, we have managed to keep our global operations and global supply chains running with no impact to our customers. The accomplishment by our teams during this period with the support of our customers and suppliers were absolutely great. Our scale and global reach played out very well and it made a difference.

Our pulp production system flexibility with seven different mills and three ports located in three different regions granted the speed to react and versatility to better serve our most demand customers at the most critical time. Our strong operational performance fully support our commercial strategy that was successfully executed. We grew production and sales year-over-year. On the last 12 months, our sales exceeded 11 million tons, although this is not sustainable once this volume is above our nominal production capacity, this is a great accomplishment.

Once again, we reduced our inventories by around 220,000 tons. The reduction occurred in all ports, warehouse abroad. And in Asia, we ended the quarter with almost no inventory at the terminals, only keeping the minimum to support contractual customer needs. We consider our inventory at the end of Q2 to be on the lower side of our ideal inventory range.

With that, let me take you through how our second quarter market fundamentals played out. Beginning with the demand. So, in the beginning of Q2, the coronavirus outbreak accelerated the demand for tissue, hygiene products, farm and food packaging. We want to draw your attention to the strong tissue demand due to increased hygiene awareness and the shift from away from home to at home consumption.

Just to give you some color on that, global tissue demand rose 6.6% in May and 4.8% in the first five months of the year, highlighting the foreign figures. North America growing 7.3%, Europe 3.6% and Asia 4.7%. Late in the quarter, there was a rapid decline in some specialties and printing and writing paper consumption. Although, this led to reduced availability of recycled paper, which in turn increased the need for virgin fiber, it was not enough to balance the pulp supply and demand equation. Specifically on the hardwood side, the fiber price spread, long, short fiber above $100 per ton continues to play out in favor of the hardwood demand.

Now, on the supply. On the supply side, during Q2, we had to deal with a growing pulp supply as a result of planned maintenance shutdown postponement, integrated producers increasing their pulp output, dissolving pulp producers increasing their paper grade production. Several listed pulp and paper companies in the North hemisphere have already released their second quarter earning results and the post financial figures reflect this poor price environment. The industry cash generation figures as seen in such companies disclosed figures indicate a grim perspective for the future sustaining CapEx for some producers. According to Brian McClay & Associates, market-related downtime has already been a reality in Canada.

Now, once we have talked about the market fundamentals, let's take a look at our major business metrics. So, we're starting from the left hand side of the slide. We would like to highlight on the production level, we are over 9.2 million tons last 12 months and we should move higher over the coming quarter. On sales, the 2.8 million tons we sold in Q2 took us to a spectacular 11.1 million tons in the last 12 months, which is not sustainable going forward as I mentioned to you before. Our export average price was stable at $471 per ton, still very low and distant from what used to be our average selling price over the last 10 years. And finally, the strong EBITDA of BRL1,400 per ton came on the back of the Brazilian real depreciation and an outstanding cost performance.

Now, what can we expect for the second half of this year? On the supply side, it is expected the resumption of the planned and managed downtime and eventually according to Brian McClay & Associates some more market-related downtime, given the industry very poor profitability. It remains to be seen. We cannot ignore the potential impact arising from unexpected shutdowns that according to Fastmarket RISI could reach up to 2.5 million tons in 2020. Additionally, an increased weak US dollar should bring additional financial struggle to the high cost producers globally.

One more, according to a Hawkins Wright cash cost analysis and estimate, there are about 3.8 million tons of hardwood capacity, with cash cost delivering China above the current market price level. On the softwood side, this volume is even higher amounting 6.4 million tons. Issues of planned maintenance downtime here in Brazil in the second half of the year could remove a total close to 400,000 tons of production in the semester. That is roughly 65,000 tons per month, including several production lines of Suzano.

On the demand side, Q3 is usually Suzano's low period. As a result of pulp price seasonality in the Northern hemisphere, continued global economic impact, geopolitical tensions and uncertainty resulting from the pandemic, we can expect a lower pulp demand mainly in Europe. On the positive side, there are some early signs of improvement in the printing and writing. Tissue continues to perform very well in North America. In China, we expect the paper production to remain recovery, usually demands pick up in late Q3. Still, on the tissue, Fastmarket RISI forecast for 2020 a growth rate above the historical levels due to higher hygiene standards stemming from the pandemic despite the reduction in the away from home consumption.

So, back to Suzano and moving into the second half of 2020, our team will continue to focus on what we can control, cost and volume allocation. We are confident that the effective execution of our operational and commercial strategy will continue to bring us success. We are focused and closed 2020 compared to 2019, producing more despite the poor price environment and selling more as well. To finalize, the medium and long-term global pulp demand outlook remains very encouraging and continues to be expect to grow over the coming periods, supported by some structural change on the tissue and packaging side. Wood pulp and paper are the most sustainable and effective solution to replace less sustainable materials. Wood pulp and paper products are renewable, recyclable, biodegradable and are increasing the preferred solution of our customers and consumers.

With that, I turn it over Aires.

Aires Galhardo {BIO 17954886 <GO>}

Thank you, Carlos. Good morning, everyone.

We are in the slide number six. As said, remarkable execution are key to deliver robust future results. Suzano's cash costs excluding downtime in the second quarter stood at BRL599 per ton, a decrease of 98 tons versus second quarter '19. This represents 14% of reduction. Such performance shows the company consistent gains on competitiveness, mostly on the back of synergies obtained from the merger with Fibria. The most significant decline was related to wood costs, given lower harvest costs due to an improved operational performance. The lower average distance from forest to mill, 214 kilometres in this quarter and the lower costs with fuel.

Looking to the fixed cost figure, the lower maintenance experienced economies of scale with the production increases are the main reasons for the better performance. The cash cost ex-downtime in the second quarter '20 was certainly stable compared to the first quarter of '20. Despite the negative effect from appreciation on the US dollars versus reals, that represented BRL16 per ton impact on chemicals energy. Again, we have the lower wood cost as the most important factor, which in turn was due to lower transportation costs due to less expensive routes, although our forest to the mill distance was flat and the lower cost with the fuel that we find with transportation and harvest operations. However, these positive factors were offset by the lower result of other sales, which in the turnover due to a sharp drop in this part of energy price. The increase in the fixed costs due to a higher maintenance expense as a result of the postponement of activities in the first quarter '20 due to the COVID-19 pandemic and higher inputs costs mainly due to the negative effects from reals depreciation on the sunken costs and fuels.

For the coming quarters, even at the current FX and the energy price levels in the markets, we believe that cash costs in line with the last two quarters. Finally, I ought to mention that the energy export by Suzano to the grid is based on renewable source and benefits not only our cost competitiveness, but also the Brazilian energy matrix.

Now, I would pass the word back to Marcelo's presentation.

Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Thank you, Aires. Good morning, everyone.

I'd like to turn to page seven, where we can see that we posted an additional reduction on our net debt this quarter from $12.7 billion to $12.4 billion, which led to an evolution to 4.7 times on our leverage ratio that we believe -- we believe that will continue to decrease in the coming quarters. Our liquidity continues to be very comfortable with $2.5 billion at the end of the quarter, 78% of that held in US dollars. And enough to cover our liabilities that will come due in the next 2.5 years up to the end of 12 -- 2022.

Moving to page eight. Even when we consider the liability is coming from our derivative position that will also come due in the next 2.5 years, our liquidity position is enough to cover from that situation and we have to remember that if the real continues to be at BRL5.48, which was the level at the end of last quarter, our cash flow generation in that period will be significantly higher than in the next -- in the last 12 months. That situation led to the possibility of us prepaying the revolving credit facility that we have drawn last quarter in the beginning of the pandemic of $500 million that we announced today that will be prepaid in the coming days, leading to a reduction in our gross debt by $500 million still on August.

On page nine, we see that our financial result was once again impacted by the weaker BRL. Of the BRL5.7 billion of net negative financial result, BRL4.3 million related to the FX variation in the period on our debt that has an average maturity of seven years. We had during the quarter BRL1.6 billion of cash disbursements related to the hedges, half of which are related to our debt hedges that mature together with the debt pieces that they are hedging and the other half are related to cash flow hedges.

We have also decided during this quarter to further improve our hedging policy that had a maximum hedging level of 75% of our gap, of our FX gap in the coming 18 months. And now, we have also a minimum of 40% that will enable us to at least guarantee that we cover our needs of reals to pay for our costs and expenses. Today, we set up a hedging -- with a hedging position close to 75% of the gap.

On page 10, we see that our hedging policy continues to be effective and that a more depreciated real is always better for the company. So, on the left hand side of the page, we can see that the current FX level at the end of the quarter were BRL5 when compared to the BRL4 per dollars that we have at the beginning of the year will generate additional BRL3.7 billion of EBITDA in the second half of the year. And the result of our debt and our hedging portfolio will reduce, of course, that cash flow generation, but still with a positive of BRL1.1 billion when compared to the situation of a real at BRL4. And for next year as the level maturities of debt that we have are lower, this -- the difference is still higher. So, it's important to emphasize that a more depreciated currency is always better for the company.

The effectiveness of our hedging portfolio also can be seen in the way we continue to roll over our portfolio over a window of 18 months. So, on the right hand side of the page, you see that the hedges that have been contracted more recently during this quarter that will mature in the fourth quarter of '21, they have a put, an average put of BRL5.09, significantly higher than last quarters and average call of BRL6.18, guaranteeing a very much larger cash flow for the company in the coming quarters. Again, important to emphasize that the 100% of our hedging instruments have no margin requirements and we will continue to operate using those kind of instruments.

Finally, I'd like to draw your attention to page 11, where I'd like to reaffirm our capital discipline. Our capital expenditures have been in line with our guidance, with a BRL1.9 billion of disbursements in the first half of the year and the guidance of BRL2.3 billion for the second half of the year and we keep the number that we had announced to the market in the beginning of the year of BRL4.2 billion for the full year of 2020. The reason for the larger number in the second half is because of the postponements we had to do in our annual shutdowns, given the pandemic.

With that, I'll turn over to Malu Paiva that will guide us through our significant evolution on ESG.

Maria Luiza de Oliveira Pinto e Paiva {BIO 17141192 <GO>}

Thank you, Marcelo. The results presented previously are intrinsically connected to our ESG agenda, an agenda, as Walter already said, that we have been working for a long time. What make us to feel very pleased to see the growing interest of the market on ESG practices and specifically on climate. So, here, we are going to provide some -- few highlights. Regarding the environment dimension, our engagement with TCFD is yet another example that shows and reinforces our commitment with -- address the climate change related risk and business opportunities. We want to advance more, still to always advance and always in a very consistent transparent way.

Regarding the social agenda, Suzano quickly embraced its role in acting to fight the pandemic. We did that through different initiatives. We have invited other companies. Together, we mobilized resources to substantially increase the production of breath ventilators by Magnamed, a Brazilian ventilators manufacturer. Mission accomplished, 6,000 [ph] (Technical Difficulty) from China that were distributed to state, municipal and federal government. And there is a daily effort that is to protect our employees. The teams that are still working on the production of our essential products, we have been working very rigorously to protect them and to make sure that they are in safe conditions.

We supported our value chain through different initiatives coming from the suppliers up to the communities, where we are based. And when we talk about governance, I want to highlight two points. Our Board has today seven independent members, what this means 70% of the total members was much higher than the 20% required by the Brazilian Stock Exchange. And two of these external members are women what reinforces Suzano's commitment to push forward the agenda of inclusion and diversity.

And now, I pass it on to Walter.

Walter Schalka {BIO 2099929 <GO>}

Thank you very much, Malu. I would like to share with you one very important hidden value of Suzano. I think Suzano is one of the few companies in the world that is carbon-negative. Everybody is announcing their targets for the coming years to be carbon-neutral. We are already carbon-negative. But we can do even more to that. We need to mitigate the climate risks and we are working on this direction. We made a very deep study, very interesting study that shows that every additional hectare planted by Suzano captures 282 tons of carbon in the period of the seven years before harvesting.

This is a very important impact on the society. And we are working on this dimension to announce already to overview our targets for the next 10 years. We want to capture -- set 40 million tons of carbon in the next 10 years, Scope 1, 2 and 3. And we are going to do not only for expansion, but for carbon emission as well, specific carbon emission. We have been working on different dimensions to reduce our specific consumption per ton, and that's very positive to the society as well. And this the hidden value. We want to monetize part of this value in the coming years. And something that could create value for the society and for the shareholders at the same moment.

Now, I think I would like to pass for the Q&A session. Please feel free to make the required questions to all of us.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Thiago Lofiego, Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. Good morning, everyone. Congratulations on the very strong results. I have a couple of questions here. The first one to Carlos. Carlos, if you could comment a little bit more on how you're seeing Chinese demand evolving in the near-term? Do you see any positive impact from new paper capacities being added in the second half of the year in China? And also how you're seeing the paper market -- paper prices dynamics in China and how do you think that is connecting with pulp pricing dynamics?

The second question to Bacci on the hedging exposure. You mentioned that you guys now have a minimum of 40%, if I'm not mistaken. Should we expect Suzano to eventually migrate towards a lower exposure, so eventually going below the 75% and below the 18 months that you currently have as a maximum exposure? And also, Bacci, if you guys have made any decisions on the dollar reporting that would be nice to understand. Thank you.

A - Carlos Anibal de Almeida Jr. {BIO 6275986 <GO>}

Okay, Thiago. Good morning. Thanks for your question. So, let me talk a bit about China. So, the way that we see that China achieve the kind of a V-shaped recovery in Q2 after a very hard beginning of the year with the COVID outbreak and the related lock down, we have been seeing the Chinese paper production recovering for the major grades, where we have a higher virgin fiber content. We have just received some figures related to the first half of the year. And when I look at that for printing and writing, paperboard and tissue, we already see a flat production year-on-year, six months '20 on six month '19 production is flat, again, despite a very weak beginning of the year.

We understand that our customers in terms of finished paper stocks, it is normal for printing and writing, for paperboard, for tissue taking into account the seasonality. On pricing, printing and writing, and paperboard prices have shown lately some recovery. And I would say that a combination of this price increase, a lower pulp price and a stronger renminbi, all that have contributed to improve the paper industry profitability. So, the profitability right now seems to be quite good.

Moving forward, we are approaching the high season there in China, we expect a kind of uptick in the demand and not less important the paper export recovered with the regional Asia markets and the economies being reopened. That is also a very important component of the production there in China. So all-in-all, we have a pretty good expectation for the second half of the year there for all grades, mainly for the tissue.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Carlos, if I may explore a little bit more. You mentioned customer inventories are normal, so you're talking about their own paper inventories or are you talking about pulp --?

A - Carlos Anibal de Almeida Jr. {BIO 6275986 <GO>}

See, I'm talking about finished products. Finished products.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Finished product?

A - Carlos Anibal de Almeida Jr. {BIO 6275986 <GO>}

Yes, that's correct.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Can you comment on pulp inventories? We heard that some players are running at slightly above normal inventory levels because they took advantage of the low price environment. How you're seeing your clients' pulp inventory levels?

A - Carlos Anibal de Almeida Jr. {BIO 6275986 <GO>}

Thiago, let me start and share with you a quick view on the inventories at the port. So, looking at Qingdao and Changshu end of July, that settled a bit lower and close to what we had there at the beginning of this year. So, there was a big jump in February. But since then, stocks at the ports are coming down. We have a very important difference. We understand that most of the stock at the China ports today is wanted by customers and the producer, the pulp producers hold a very little position that. On customer side, some hold normal inventories. Others are slightly above normal. One and another might be in a kind of a different position. We believe that those customers holding more than normal stock that could be explained by the production loss they had in the beginning of the year. Some of them are building up some safety stocks and again everybody is preparing just to restart the high season there in China. So all-in-all, we have customers with normally inventory, slightly above normal, slightly below normal. We don't see any issue on that.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay, Carlos. And very last one. I asked about your view on the paper capacities being added in China. Do you have any views there? Do you think this will be an impact for the second half of this year or may be first half next year?

A - Carlos Anibal de Almeida Jr. {BIO 6275986 <GO>}

I think that we're going to have --

Q - Thiago Lofiego {BIO 16359318 <GO>}

(Multiple Speakers) you are adding like a big capacity in the second --

A - Carlos Anibal de Almeida Jr. {BIO 6275986 <GO>}

Yeah. That will come, Thiago, in the next year. We expect more tissue production. We have some machines also starting up now in the second half of the year. But the bigger projects, the big capacity will come beginning of next year. That's our view, as we speak.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Yeah. Thank you.

Operator

Our next question comes from (Multiple Speakers) BTG Pactual.

A - Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

We still have to answer the second part of Thiago's question.

A - Walter Schalka {BIO 2099929 <GO>}

Go ahead, Marcelo.

A - Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Yeah. Taking the second part of Thiago's question on the minimum hedge. Now, the establishment of the 40% minimum hedge, it is not a signal that we will reduce this number to 40%. As I mentioned during the presentation, we still sit at 75%, close to 75%. It's just an evolution of our policy that we establish a minimum amount. And there was a third part of your question that I didn't hear. If you can repeat?

A - Walter Schalka {BIO 2099929 <GO>}

I think we lose Thiago. I think let's go for the next question and eventually he will come back.

Operator

Okay. Our next question comes from Leonardo Correa, BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Yeah. So, moving to my question. The first question is on the -- still the options for the revenue. I just wanted to clarify what Suzano at this point is assessing for faster deleveraging? And over the past days, the press in Brazil basically came out with reports talking about a potential equity offering. I know that in the past, Suzano has been very vocal that an equity offering was completely off the table. I just wanted to confirm, whether that still is the case and what are the alternatives that you're looking for faster deleveraging? And the second question I have is regarding some of the targets you mentioned at Suzano Day. During Suzano Day, you mentioned cash flow increase over the medium-term of BRL2.8 billion per year, which already incorporated the synergies coming from the Fibria transaction and other cost cutting. So, I just wanted to see where you are in that curve. So, sorry guys, the line is horrible, I'm not sure exactly what's happening, but I hope you can hear my questions. Thanks you.

A - Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Well, thanks for your question. I'm taking the first part. Our deleveraging process is going according to what we had expected. Of course, the situation on pulp prices is different from what we had envisioned at the beginning. On the other hand, we are getting the benefits from the FX and also a very good performance on the cost side. So, at this point, we don't see any need for an equity offering, especially at these price levels that we see in the market for our shares and we should not expect any meaningful equity offering coming from the company in the coming quarters, especially because we don't feel the need for that -- for our deleveraging process. We have -- we are continuing to evolve on the operational side and also with the sale of assets and other things that we announced to the market that we are continuing to work on. So, no equity offering in the coming months.

A - Walter Schalka {BIO 2099929 <GO>}

Leo, thank you very much for the question. I'm going to answer the second question, is related with the total structural cost that we have and the company deliver. We had -- we established a target of reaching BRL1,300 as a target in the next coming years, 2024. We have been evolving on this direction. Of course, this is related not only to our gaining operational performance, but that synergies as well. I think we have been delivering the synergies as well to the -- to everyone. It's very clear that part of the fact that we are running with lower SG&A and lower cash costs every single quarter is the fact that we are realizing all the synergies that we have been presenting to you 1.5 years ago when we had the merge between Suzano and Fibria. We have more to come. We are very happy with the operational performance of the company, but it's very clear that we still have some opportunities to improve and we are working on this direction.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Daniel Sasson, Itau BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

Hello, everyone. Good morning. Thanks a lot for the questions. Congrats on the strong results. My first question goes to Aires. Aires, if you could comment a bit on the evolution of the main components of your cash costs that you expect in the second half versus what you posted, the strong performance that you had in the second quarter. I mean, how are chemicals, energy costs, chemicals and energy and average logging distance evolving? And if we had any major differences versus -- in terms of average logging distance and wood from third parties versus the targets you presented in your last Suzano Day that would be important for us understand the evolution of costs in a period that will see a higher concentration of maintenance stoppages?

And my second question, maybe to Walter. Walter, you mentioned in your final remarks the -- that you want to monetize part of the carbon credits, that you expect to extract the 40 million tons until 2030. How much do you think those credits could be worth? And what do you think is necessary for us to have a more functional and developed carbon credit market? And congratulations for including an ESG part -- an ESG portion in your presentation slides. Thank you.

A - Aires Galhardo {BIO 17954886 <GO>}

Okay. Thanks for the question. As I mentioned for the coming quarters, even with the tax impact and energy price levels lower than expected, we believe that we can deliver cash cost in similar levels that we have delivering the quarters before. As I mentioned, all synergies that -- with impact on cash costs have already been implemented and again (Technical Difficulty) to realizing the projection for the coming quarters. There are additional reductions planned for the coming years as demonstrated in the last Suzano Day, but we try not to do synergies [ph] anymore.

A - Walter Schalka {BIO 2099929 <GO>}

Daniel, thank you very much for your question. I'd like to talk a little bit about the carbon market. As you may know, we have two different markets. We have the regulated market and the volunteer market for carbon. The regulated market at this point of time need to be addressed on the COP26 in Glasgow next year on the Chapter 6.2 and 6.4 of the Paris Agreement. We believe that Brazil should support the cap and trade system that would allow Brazil to participate on this regulated market in the coming years. On the other hand, it's very clear that several companies are announcing their volunteer targets for the next coming years. And they need to offset their emissions acquiring carbon credits. And forest is one of the main opportunities for that.

For the price issue that you asked, it's very difficult to forecast how much is going to be the carbon price in the next coming years. It's very clear that on the supply and demand carbon, if everyone reach their targets in terms of carbon emission, the demand is going to be huge in the next coming years. You can see every single company on different areas, on energy areas, on the CPG areas asking for -- and tech areas telling about their targets. The prices, the demand is going to be huge, but it's very difficult to see how much is going to be the balance between supply and demand, and mainly the carbon. I think one of our presentation that we have been making to you is that 40 million tons is something that is achievable in the next coming years. And we would like to keep enhancing these numbers with several activities, but I'm sure that we are going to create a lot of value, of this hidden to the company in the coming years.

Q - Daniel Sasson {BIO 19234542 <GO>}

Thank you, Walter. Very clear.

Operator

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

Q - George Staphos {BIO 1495442 <GO>}

Hi, everyone. Good morning. Thank you for taking my questions and congratulations on a fantastic quarter. All my questions have already been answered, so I'll keep it brief. I just wanted to double-check, because I -- the phone line was cutting out. Do you expect to maintain consistent, stable cash cost per ton over the next several quarters, even with the building synergies from the Fibria deal? And my interpretation was that because of the maintenance outages, I just wanted to confirm if that was the correct conclusion.

Secondly, to the extent that inflation in recovered paper pricing and in particular SOP has been helpful to virgin fiber demand, especially for tissue, I guess, to the extent that offices and schools reopen, could that bring deflation to SOP? And would that be important, if at all, to demand for virgin pulp, if there is less inflation recovered paper? And then lastly, Carlos, we all ask this question every quarter. We recognize there's a limited amount in terms of what you will share. But adjusted for maintenance outages, should we assume that Suzano will sell all it can produce? Thanks very much. And, again, good luck in the quarter and congratulations on the last one.

A - Aires Galhardo {BIO 17954886 <GO>}

Okay. Thanks for the question, sorry for bad connection in the last answer. Planning for us, we believe that to run the same level of cash cost in the next quarters, considering ex-downtimes, then we have a lot of downtime in the second half, but to put in the same base of compares, we delivered the same level of costs.

Q - George Staphos {BIO 1495442 <GO>}

Thank you.

A - Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Okay. If I can add to that answer, George, I think it's important to remember that about 80% of our cash cost is dollar-denominated. So, the fact that we continue to believe that our cash cost will be flat in the coming quarters with a higher FX rate than we had in the first quarter is a signal that the synergies are kicking in and we are reaping the benefits of that.

Q - George Staphos {BIO 1495442 <GO>}

Thank you, Marcelo.

A - Carlos Anibal de Almeida Jr. {BIO 6275986 <GO>}

George, good morning. Starting on SOP, we do not foresee any impact coming from a higher availability of SOP over the coming months in the virgin fiber. I think that market is already back to normal.

And regarding our sales in the second half of the year, as we said before, we're going to produce more, we're going to sell more. We have just started our maintenance shutdown season. We just concluded Mucuri, but that will not change our goal. We're going to sell more, we're going to produce more, we're going to sell more. We closed Q2 with very low inventory, very low. And let me take the opportunity to share with you just a quick comment on our inventory policy. So, our inventory policy is based in granting our customers the best possible service level at any market condition. This is a very important premise for us, support our customers and all the pulp market needs. We believe that we did very well serving our most demanding customers at a very challenging time during Q2, mainly April and May. So after that, I mean, customer care, we take into account the logistic and the related costs, and we are always trying to optimize the best service with the right logistic costs. So, as I said before, our inventory at the end of Q2 was on the very low side of our ideal range. Moving forward what we are going to do will depend on the market conditions on our commercial strategy. But, again, all-in-all, we're going to produce more, we're going to sell more despite a very poor pricing environment.

Q - George Staphos {BIO 1495442 <GO>}

Thank you, Carlos.

Operator

Our next question comes from Thiago Ojea, Goldman Sachs.

Q - Thiago Ojea {BIO 17363756 <GO>}

Hi. Good morning, everyone. Thanks for the questions. My first question here is a little bit more long-term in terms of strategic deal in the market. There is an increasing discussion about the Chinese paper producers investing in pulp capacity. And this, of course, would reduce the demand for market pulp. How do you see this evolving for the next few years? Of course, there are new verticals for pulp, but is this something that you are considering? And how do you think this could shift the market? And my second question, picking up on Daniel's earlier question regarding the carbon credit. I just want to clarify, are you already selling carbon credit in the market? And if so, what is the current price that you are processing? And what do you believe could be the future price for that? Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

Thank you very much, Thiago, for your questions. The first issue that you raised is related with the future of the industry. I would like to highlight to you the competitiveness of Suzano. We have been increasing our competitiveness and always we are going to be in the first quartile in terms of costs. It's very difficult to replicate that. I think this is very important to mention to you. It's possible that we are going to see new capacity coming on the stream on the next coming years, it's very difficult to forecast that, but it would be very difficult to someone to reach of the Suzano competitiveness and the size of Suzano in the industry. We have a capacity of 10.9 million tons, as you know, and it's very difficult to someone to have access to competitiveness in terms of forest and plants in the other -- in different areas of the world, including in South America. And I think it's very important that we always have a very strong resilience in terms of financial and economic position in the next coming years.

The other -- and the second question that you raised is related with the carbon credits. We did not sell any kind of carbon credits till now, but we believe that we'll be able to do it on a volunteer market in the coming years. We are working on that and we hopefully would be able to announce to the market that we are monetizing value to our shareholders through our carbon credits.

Q - Thiago Ojea {BIO 17363756 <GO>}

Thank you, Walter. If you allow me just a follow-up. On the carbon credit, do you have any estimates on how big this could be in terms of your total revenue in the future?

A - Walter Schalka {BIO 2099929 <GO>}

Thiago, it's depending on how much is going to be the price of the carbon credit. It's very difficult as I mentioned on the previous questions how much would be the supply and demand situation on carbon credit. I think it's all related what is going to happen in the COP26 next year in Glasgow. Because if you have a very strong regulated market, then probably the prices of carbon is going to be much higher. We believe that the volunteer market is going to have lower prices than the regulated market, but it's very important to see that many companies are announcing what would be their shadow price on their projects. And we are seeing several companies announcing very high shadow prices that the way that they make analysis on CapEx to reduce the carbon emission. Then the best way to offset their carbon emission would be to invest on forest. And this is our belief that additional forest will create a very important value for Suzano and other players as well.

Q - Thiago Ojea {BIO 17363756 <GO>}

It's clear, Walter. Thank you. I appreciate it.

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, a question then again basically based on the last two discussions for Carlos and maybe Walter. So, Carlos, when you -- I think I heard you say that the level of sales the last 12 months is not sustainable. Maybe I didn't hear correctly, but could you elaborate on that? On the one hand, you said that Suzano is going to sell more and produce more. I think that you are talking about 2020 versus 2019 when you make those comments, but then can you clarify the other comment which I understood was that the current level of sales are not sustainable? And then when I looked at the production in second quarter, 2.5 million annualized is close to 10 million tons. Still a little bit slightly below your production. How do you see -- your capacity, sorry. How do you see this -- the strategy for Suzano? Do you want to produce closer to your capacity regardless of what that could mean for prices or you are better off maybe keeping this production down -- or capacity down and help support a recovery in pulp prices?

A - Carlos Anibal de Almeida Jr. {BIO 6275986 <GO>}

Okay. Carlos, this is Carlos. Thanks for your question. So, regarding production, we will not give any guidance. We keep what we have said, we're going to produce in 2020 more than what we produced in 2019. Regarding sales, over the last 12 months, we sold 11.1 million tons and that is above our production capacity. And that's why I said before this is not sustainable. And when I said before that we're going to produce more, we're going to sell more, you're right, that is when we compare the whole year of 2020 with 2019.

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

Thank you, Carlos. And Walter, on the comment that you made about Suzano having now a very strong competitive advantage and a footprint that is very difficult to replicate. But if more and more people keep coming into the industry, the cost curve is going to flatten out. And while Suzano, obviously, will be at the very low end of that, the margins for the industry, and even for Suzano even being the leader -- or amongst the leaders, are going to reduce. What do you think would take to change the constant addition of capacity in this industry?

A - Walter Schalka {BIO 2099929 <GO>}

Carlos, we do not believe that it's sustainable at this price level in this industry. We believe that the situation that we are facing right now on the several players -- we have several players in the North hemisphere and different regions of the world are not even generating cash. With breakeven or even negative EBITDA is not sustainable for a long period of time. On the other hand, it's very important that even the Latin American producers that is generating cash, including Suzano, we are not generating enough return on capital employed. We believe that the situation is not sustainable for the future and probably we are going to see some players long-term considering the possibility of shutdown their production, curtailing their production since it's impossible to sustain this price level situation for a long period of time.

It's very clear to us that we are extremely competitive that we are going to increase our production and sales volumes compared with last year. And we will run our facility -- facilities with even lower cash costs in the future. We are going to strength our competitiveness for the future, but it's very important to mention to you that in our perception the market could not sustain this price level for a long period of time. What we have been working, Carlos, is that we are to expand our area of new products. We are going to go against the long fiber to find ways, and the long fiber is even worse situation in terms of profitability. On the other hand, we are going to expand our product utilization to go against plastic as well and to replace plastics on different -- on different utilizations. That could be a huge value potential creation for the industry and for Suzano. And long fiber is very well established to be a long-term competitiveness and very strong and resilient position.

Q - Carlos De Alba {BIO 15072819 <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, and congrats on the second quarter results. I have a couple of questions. The first one maybe to Carlos. I mean, we had maybe two big surprises over the past few quarters. Right? The first one was that Suzano sales volumes outperformed market expectations by quite a lot and that has been the case for -- I mean, since fourth quarter last year. But also on the negative side, prices have also been on the lower side and much lower than market expectations pretty much for a year now. So, I'm just trying to understand, Carlos, how much you think that with Suzano maybe second quarter sales being a bit weaker than in the first quarter, do you think there would be enough for us to see a market that is better balanced going into the end of the year? Or do you see -- I understand the supply and demand dynamic are much more complex than that, but I'm just trying to understand if the supply cuts that are going to be seen in the second half are going to be enough to balance the market, considering your demand outlook?

And the second question on the pricing side. I remember in the first quarter, you mentioned that prices in China were at $480 and above. It doesn't seem that we're seeing that being reflected in the second quarter numbers yet. So, I'm just wondering if there is a catch-up to be made in the third quarter and what are the price levels you're seeing for the different regions, Europe, China and the US? And if you think there is one specific region that have to catch up in terms of prices with one and another? Thank you.

A - Carlos Anibal de Almeida Jr. {BIO 6275986 <GO>}

Marcio, good morning. Thank you for your question. I will try to answer all those.

I'm not going to share any guidance, any view on price specifically, but I can share with you our view, first, on the supply and demand balance for the second half of 2020. I think there is no question about the impact on the demand arising from the pandemic. Printing and writing, and to a less extent some specialties are being impacted. At the same time, add from tissue, consumer packages like fiberboard, folding boxboard, where we have a good virgin fiber content and even some specialties related to at home are being positively impacted by this situation. Still on that, recycled fiber might be a black swan in late 2020 depending on how things will play out there in China. And unexpected downtime can change the market direction pretty quick.

According to some consultants, and I mentioned that before, including people like Brian McClay & Associates, the market faces at this time several uncertainties on the supply side. The length of the planned maintenance shutdown, unexpected shutdowns, temporary closures arising from unbearable profitability, it remains to be seen what is going to be the impact of all that on the net balance in the market, both supply and demand equation. Still, according to a report that was just released by Brian McClay & Associates, the current price levels are not sustainable in the medium and long run. And any eventual price drop would just accelerate market-related downtime with even some permanent closures. So, again, all-in-all on both sides of the market fundamentals, we are dealing with several moving parts, which makes it harder to post any kind of forecast. Not easy to predict exactly what is going to be the outcome of all that situation.

So, regarding prices in Q2, we had Europe flat at $680, North America, flat around $900 list price. In China, it is true that we concluded in April our business at additional $30. And towards the end of the quarter, we are not able to sustain that. According to Brian McClay, the prices in China there at the end of June was in the range $440, $460. Again, this is the market price reported by Brian McClay. Beginning July and beginning of August, in our view, the major global pulp markets have been stable. We understand that stability is a combination of the coming planned maintenance downtime, the shutdowns, some long fiber market-related downtime, price stability there in China. So, that has been the case since the end of June. And more recently, we have been seen also the US dollar weakening putting even more pressure on the high-cost producers' profitability. That has been very low for longer than expected. So, considering the seasonality and being in the middle of the month, we expect to close our contractual August business with prices unchanged in August when that is compared to July. We are not going -- I'm not going to comment -- I'm not going to make any comment about future pricing.

Q - Marcio Farid {BIO 21017394 <GO>}

That's very clear, Carlos. Thanks a lot, and good luck in the third quarter.

A - Carlos Anibal de Almeida Jr. {BIO 6275986 <GO>}

Thank you.

Operator

As there are no current 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. I think it was very fruitful and very positive session to everyone. Hopefully, we answered the questions on an appropriate way. I would like to share with you that we have been evolving on our journey of culture. Remember that last year, we announced that we have three major pillars on our culture. There's people that inspire and transform that create a share value among the stakeholders. And it's only good for us if it's good for the world. We have been working on these three dimensions during the crisis and we have been developing the company on this. I'd like to thank you every single part of our team that have been working on that.

Finally, I would like to leave our investors with an open invitation for the first ESG call that we will host on September 21st. By purpose, this is the Tree Day in Brazil and we are going to invite you for that. Suzano is very committed towards ESG topics. And we'd like to promote a new forum with a transparent dialogue, where we hope to share with you how we are positioned, as well as address your points of interest. You will receive invitations in the coming days. Thank you, all of you, you all, and have a great day to everyone. Thank you very much, and keep safe, keep well, keep being well. Thank you.

Operator

Thank you. Suzano's second quarter results conference call is finished. Have a nice day.