Q3 2019 Earnings Call

Company Participants

- Carlos Anibal de Almeida Jr, Executive Officer, Pulp Commercial Business
- Leonardo Grimaldi, Executive officer - Paper Business Unit
- Marcelo Feriozzi Bacci, Chief Financial Officer and IR Director
- Walter Schalka, Chief Executive Officer

Other Participants

- Caio Ribeiro, Analyst
- Carlos de Alba, Analyst
- Daniel Sasson, Analyst
- George Staphos, Analyst
- Marcio Farid, Analyst
- Thiago Lofiego, Analyst
- Unidentified Participant

Presentation

Operator

Ladies and gentlemen, thank you for holding, and welcome to Suzano's Conference Call to discuss Results for the Third Quarter of 2019. We'd like to inform that all participants will be in a listen-only mode during the presentation of Messrs Walter Schalka, Chief Executive Officer, Marcelo Bacci, Financial and InvestorRelations Executive Officer; Carlos Anibal, Pulp Commercial Executive Officer; and Leonardo De Grimaldi, Paper 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 Schalka, you may proceed.

Walter Schalka {BIO 2099929 <GO>}

Good morning, everyone. It's a great pleasure to have you joining us with the third quarter results of Suzano. I think I'd like to -- In addition, to the name that there was mentioned to us we have Pablo Machado, we have Fernando Bertolucci. We have Christian Orglmeister and Alexandre Chueri, and we have Camila Nogueira [ph] as well. We are here to answer in the end of the presentation all the required questions.

I think the highlights of this quarter is very positive. We are very pleased with the operational performance, but of course, we are a little bit frustrated not delivering a nice return to our shareholders, due to the lower pulp prices that we have been facing on the last month. I think I'd like to highlight some specific points to you. The first of all is the sales volumes that was -- on the pulp side 2.5 million ton, 15% higher than the previous quarters.

The sales volumes on paper, that is 288,000 [ph] ton, that is showing our flexibility. I think, the local market is not performing as expected, we increased our exports on this quarter.

On the results of that, we have an EBITDA of BRL2.4 billion and a free cash flow of BRL1.5 billion. Even on this more asset -- market scenario, we are delivering cash flow return and decreasing our leverage. In addition to that, I think it's very important to highlight our pulp reduction on inventory. We had roughly 450,000 tons on reduction and we will continue to reduce this number on the fourth quarter. We announcing today that our net debt is, even on this scenario, have been going down from USD13.7 billion to put USD13.3 billion on this quarter, and since our EBITDA on the last 12 months is going down due to the lower pulp prices, our leverage is 4.3 times and we are going to announce today. Marcelo Bacci is going to go in more details.

Our plan that was presented and approved by the Board of Directors, yesterday, to address the situation on our financial policy. Since we are extremely conservative on that. Our cash cost on this quarter was BRL654 per ton, lower than the previous quarter, that was BRL697 per ton, and showing a positive trend in synergies that we are capturing on this process.

And we'd like to announce to the market that we will deliver the expected synergies that we announced when we merged the two entities. Now I'm going to hand over to Leonardo Grimaldi, who is going to present our paper results.

Leonardo Grimaldi

Thanks, Walter. And good morning, everyone. I would like to present the results of Suzano's paper business unit for the third quarter of '19. The figures presented on this next slide are specific to our paper division, therefore excluding Suzano's consumer business units' results and enabling us to have a better comparison with the best quarter.

Beginning with the top left graph, we can see our production figures. As of this quarter, and from here onwards, we will note the effects of the full conversion of our Suzano's mill coated paper machine into (inaudible) . Just as a recap, we used to produce approximately 100,000 tons annually of coated paper at our Suzano mill and this conversion will present an 8% reduction in our paper production capacity.

Additionally, during the quarter, we had the maintenance downtime at our Mucuri, L1 pulp line and paper machine, and consequently our production for the quarter totaled 286,000 tons and 1.17 [ph] million tons for the last 12 months.

Moving now to the top right graph, and looking at our sales figures, we can note that we have sold 288,000 [ph] tons in the third quarter, a 2.5% increase compared to the second quarter '19, and a 6.5% decrease compared to the third quarter '18 mainly due to the lower [ph] production allocation as I have explained previously.

As you can also, in the darker [ph] side of the graph, our sales in Brazil have increased 11% when compared to the second quarter '19, but decreased 14% when compared to the third quarter '18. This trend is much in line with the latest statistics published by (inaudible), our Pulp and Paper Association, which showed that the total demand of printing and writing in paperboard grades have decreased 9.3% in the third quarter '19, when compared to the third quarter '18.

And 6% -- and a 6.5% decrease during the first nine months of 2019. Affected both by the reduction of publishing paper consumption in Brazil and also by the postponement of the Brazilian Government tax cut program. By anticipating this challenging scenario in our domestic market, we have again use our commercial flexibility to best allocate our volumes in several international markets, and our paper exports, as mentioned by Walter, have increased 12% when compared to the third quarter '18.

Now looking at the lower right side, we can note that our average prices during the quarter have totaled BRL3,855 per metric ton. This is a 1% decrease when compared to the second Q '19, but still 3% higher than the third quarter '18.

Now at the lower left side, we can see that there is an effect of the lower production and total sales volumes and slight price erosion. During the quarter, our EBITDA margin is still very resilient totaling BRL1,202 per ton. Even in a more challenging global scenario, our EBITDA for the last 12 months was BRL1,233 per ton, totaling BRL1.4 billion on the last 12 months, which is 23% higher than the same period last year.

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

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

Thanks, Leo. And good morning, everyone. So let's go to page five of our presentation. I would like to start by sharing with you some comments related to the pulp market in Q3. Actually, we continue to navigate through a challenging industry landscape that's still characterized by not supportive market fundamentals, although some minor improvements started to materialize at the end of the quarter. Global pulp markets [ph] weakened for (inaudible) as low demand and present supply were factors still at play in all key pulp markets. The unfavorable macroeconomic conditions and pulp industry specific unbalance fundamentals in Q3 explains a sharp correction or deterioration when compared to the previous period. The decline experienced for the quarter has brought global price for both soft and hardwood down to the cash cost of the high cost producers.

On the demand side, tissue continue to show resilience despite all the challenge economic scenario and has grown in the first eight months of the year by 3% according to PPPC. On the other hand side, demand for specialties and printing and writing in North America and Europe still needs to show improvement signals. Main positive news comes from China where the demand has accelerated moving into the stronger seasonal period.

Now in China, fine paper production rates have improved steadily as local players have enhanced their competitive position, coupled with recent price uptick. Some paper mills are already starting to restock recognizing current softwood prices have fallen below and are therefore unsustainable, below the cash costs.

On the other side of the market equation, despite the oversupplied market, most producers is still run at full capacity, maximized their output in Q3. We also understand that some integrated European players continue to deliver more market pulp volume to compensate a weaker graph paper market. Supply disruptions remained at much lower levels when compared to 2018.

Now I'll go through some of the main figures. Let me start by the top line. In the third quarter of 2019, the pulp business delivered revenues of BRL5.3 billion, which means roughly USD1.35 billion. We produced 2.1 million tons in Q3. In the first nine months of the year, our production amounted 6.5 million tons. That compares to over 7.7 million tons we produced in the same period last year, which means a production drop of over 1.2 million tons in the first nine months of 2019. Year-on-year, the quarter reduction was more than 600,000 tons.

On the sales side, our volume was 2.5 million for Q3 and that was 15,000 [ph] tons higher than Q2. For the first nine months of the year, sales volume amounted to 6.5 million tons. Our average pulp price for the export market for Q3 was $526 per ton. Given challenging market conditions, prices were up 16.5% when compared to Q2.

In Q3, we were able to deliver a total adjusted EBITDA of 2 billion, what means roughly EBITDA per ton of BRL857. Our inventories at the end of September were reduced by approximately 450,000 tons. And we expect it to go even further down at the end of this year. I would like to say that we fully implemented in Q3, our plan to reduce our Brazilian exports for inventory replenishment in Asia, given our high stock build out there. Our export volumes inventory replenishment was just one-fifth of what we did in Q2.

We will keep our commercial strategy of pricing policy adjustments to the prevailing market condition, allowing us to close the year with a decrease in the inventory. We are still operating in a very challenging environment, but we expect market conditions to improve in the short and medium-term.

We realized some positive developments in the global pulp market through September. We have the seasonally weak months behind us, demand for pulp and paper is beginning to show some signs of life. Limited consumer inventories and the seasonal improvement in demand is causing buyers to increase orders in pace with the gains in their demand. Structural and long-term market for demands have not changed, and we should start to see the market find its balance over the coming months and quarters.

Looking for 2020, there are no major expansions lined up, only incremental capacity gains, and there might be the potential of the market to experience supply disruptions, which have come before and have not played out this year so far. Not to mention, high-cost producers extend for longer their shutdowns due to poor or even existing profitability.

Now, I turn it over to Marcelo, who will go over our cash costs.

Marcelo Feriozzi Bacci {BIO 17648865 <GO>}

Good morning, everyone. Turning to Page 6, I'd like to comment that our cash costs for the quarter was BRL654 per ton, which is 6% below the number of the previous quarter, but still 10% above the number of the same quarter of last year. We saw significant improvements in fixed cost chemicals and energy, but we still don't see the contribution coming from wood. That we expect to see in the coming quarters. The trend of the cash cost for the coming quarters is down and this -- the downward trend will come, especially from the contribution of the wood cost.

Turning to Page 7, our leverage ratio came as, measured in dollars, from 3.6 times to 4.3 times in the quarter, but that came together with a reduction in our net debt from $13.7 billion to $13.26 billion. As a result on us -- of an acceleration on our sales, that contributed to the reduction on the net debt. Of course, the reduction on EBITDA was more pronounced than the reduction on the net debt and that caused a deterioration on the ratio that came to 4.3 times.

Our average cost of debt continues to be 4.8% per year. The average term is now 85 months, and we now have 78% of our debt maturing from 2023 and onwards. We have a significant -- a significant cash position and also standby facilities that add almost BRL12 billion, which is more than enough to cover the next three years of maturities, even if we don't generate any cash.

And we would like to continue to emphasize the fact that we don't have any financial covenant on our debt. Of course, we have a very resilient and robust financial situation, but we have a leverage ratio, which is above what is established by our financial policy. And we are now announcing to the market what is the plan that we have to address this situation over time. We have a very firm commitment to our financial policy and in order to bring our net debt to EBITDA ratio back to three times, we have four main measures that we are announcing today. The first, is that -- we will limit our CapEx to the sustaining level plus the commitments already made, which means that for next year, our CapEx will be significantly lower than this year. We will announce to the market the CapEx for next year, at the end of this year, after we complete our budgeting process. But we expect it to be lower than this year.

And we will continue to be limited to sustaining and commitments till we reach the three times net debt to EBITDA ratio. In addition to that, we will continue to reduce our inventories, and during the last quarter of this year and during 2020, we expect to collect about $500 million of cash coming from the sale of the excess inventory that we still have.

The synergies, as mentioned by Walter, in the beginning, they continue to be in line with our expectation and we confirm that we will be capturing next year 90% of the potential that we announced by the time of the merger, and that will enhance our ability to generate cash in 2020. We are also announcing that we will be selling non-core assets, meaning basically forest and land that are not used today for our operations. We will be working in the next years to continue to sell and to accelerate the sales of those non-core assets. This plan should be enough to bring our net debt to EBITDA ratio back to three times and lower in 2021. We will be periodically reviewing this projects according to the market scenario and we may adjust this measures as the market scenario changes, but in any scenario we don't anticipate any need for equity, and this is very important to be well understood by the market. We believe that those measures should be enough to bring us to the desired ratio.

Walter Schalka {BIO 2099929 <GO>}

Now we can go to the Q&A session.

Questions And Answers

Operator

Thank you. (Operator Instructions). Mr. Thiago Lofiego from Bradesco BBI would like to ask a question.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Two questions. Carlos, could you comment more on the current state of markets in Asia. Do you see paper makers already starting to restock, taking advantage of the lower prices and also, do you see the still weak dynamics in Europe impacting sentiment in the market, in general, and also specifically in Asia. The second question maybe to Walter, we know that Brookfield [ph] is selling land in different regions in Brazil. Are you guys considering the purchase of those at all or -- because of the deleveraging target you're just considering that potential deal? Thank you.

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

Thiago, good morning. This is Carlos. Thanks for your question. Let me start giving you an overall picture on supply and demand and then I can go to Europe and the Asia such (inaudible). So on the demand side, there is the seasonally strong period for the managers (inaudible) and there are good signs of re-acceleration there in China. We have already seen some -- there is positive development in that market. I would say that (inaudible) as far as the report and they seasonally improved as (Technical Difficulty) incentivize buyers to increase orders in place now with the gains in their demand. Another very important positive factor for short fiber is the current prices spread between long fiber and short fiber, that certainly creates an addition [ph] incentive for substitution, pushing up the short fiber volumes. So good perspective on the demand side. On the supply side, usually is in periods where we have lower production mainly and the upgrade [ph] has many mills, that are hence here, pick their [ph] scheduled maintenance downtime.

Specifically, this year, there might be also some extended downtimes in Sweden and Canada. Talking about Canada and (inaudible) right now there -- in there, (inaudible). So there, you put a big pressure on the fiber costs.

Moving to China, based on the available information that we have, most of the major paper grades have been posting a growing figures since March and April.

So, operating rates are improving mainly for uncoated paper. All the grades there are -- they have in high exposure to virgin fibers, are performing well. Just to give you numbers that were just released yesterday. Printing and writing Q3 on Q2 grew 5%. Fiberboard in the same comparison grew 7%.

We understand that finished paper stock on normal level in the whole supply chain to support this high season that is just starting. In Europe, we expect to see some improvement in the demand for the coming months. But we haven't seen that yet. We do see some customers starting to restock mainly there in Asia, and more specifically on the Southern side.

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

Thiago, this is Marcelo speaking. On your question about the growth potential view, we have been following this -- the news that are coming up in the press. Of course, those assets are important for us. We have an existing contract that is in place, but we will consider any possibility of using this movement in our -- to our advantage of reducing the cost of this -- of these assets in -- for us but always according to our financial policy.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, Bacci. if I may, do you think that your non-core asset sales might eventually offset this potential acquisition of the Brookfield assets?

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

Not necessarily in terms of timing. Difficult to know at this point.

A - Walter Schalka {BIO 2099929 <GO>}

We are considering -- it's Walter answering here, we are considering to have around BRL1 billion on forest land sale on the next five years. This is what we have in line. Just to let you know.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Okay. Thank you, Walter, Carlos and Bacci.

Operator

Mr. George Staphos would like to ask a question.

Q - George Staphos {BIO 1495442 <GO>}

Good morning, everyone. Thank you for taking (Technical Difficulty) Good morning. Thank you for taking my question. Gentlemen, two questions around inventory. First of all, you have relatively limited outages scheduled for the fourth quarter and first quarter. Can you comment about any additional strategies related to this as you seek to reduce inventory. The second question is, Marcelo, on your financial discipline slide, you talked about monetizing your inventory and that contributing roughly $500 million.

Round numbers, taking the current price for hardwood, that's roughly a million tons, and you've already reduced, in the third quarter, by about 450,000 tons, more or less, saying what you've been saying before which is you want to eliminate about half of your inventory, the 1.5 million that's excess.

So what else is incremental to this monetization plan that you'd have us take away. It just seems to be you're stating, what you've said before, that you hope to get inventories down 1.5 million between now and the end of 2020. Thank you, and I had a quick follow-on.

A - Walter Schalka {BIO 2099929 <GO>}

George, good morning. This is Walter answering your first question related with the inventory. We -- when we reduced inventory combining production plus sales. Of course, we do not want to give any kind of guidance on production, that suspended yesterday our production guidance, we would like to show this information to our competitors in the benefit of our shareholders. But is our aim to continue our process to de-stocking to reduce our inventory in the third quarter, sorry, in the fourth quarter and in next year. We'd like not to give any specific guidance on volumes that we are going to reduce in the fourth quarter.

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

George, this is Marcelo speaking. And according to Walter, what Walter just said, basically the gains in working capital coming from inventory sales are related to the pulp inventories, but we cannot give you details on how much we're going to be reducing.

Q - George Staphos {BIO 1495442 <GO>}

Okay. One question, if I might, to follow-on, and then I'll turn it over. Your price realizations were relative to our forecast, better than expected and above the ForEx [ph] price for hardwood, how much of that was mix -- geographic mix, how much of that, if anything, is related to any type of timing effect whereby pricing might continue to head lower just because the lag effect. Said differently, do you expect your pricing to more or less follow ForEx from here on out? Thank you, and good luck in the quarter.

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

Hey, George. This is Carlos. That has more to do with the timing of the drop in some other markets.

Q - George Staphos {BIO 1495442 <GO>}

So -- Carlos, thank you. So there would be some follow on that we might expect in the fourth quarter then?

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

You're right.

Q - George Staphos {BIO 1495442 <GO>}

Okay, thank you very much.

Operator

Mr. Daniel Sasson from Itau would like to ask a question.

Q - Daniel Sasson {BIO 19234542 <GO>}

Good morning, everyone. Thank you for the questions. My first question, Carlos, if you could comment on your commercial strategy approach to Chinese customers. In the conference call, last quarter, you mentioned that you were pretty pleased with the results of offering volumes for the different quarter for fixed prices. How do you see that strategy evolving, or repeating that in the fourth quarter? If you could comment a bit on what you're seeing in the margin with this slight restocking of the Chinese customers, that would be great.

And Walter, maybe if you could comment a bit on your synergies. You mentioned that they are on time and on budget. I'd like to know what is offsetting the potentially lower synergies from the wood -- from your wood costs or logistic costs, considering that they have probably been temporarily lower with your lower production volumes, right, or at least the production volumes being lower than what you expected in the beginning of the year? What has been offsetting that, in terms -- for it to still be on track with your original plan? Thank you.

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

Daniel, good morning. This is Carlos. So, on China pricing policy, our pricing policy for Q4 is exactly the same that we adopted for Q3. We have kept our commercial strategy and approach, offering our customers the option to lock the volumes for the whole quarter at an agreed-price in, of course, individual [ph] negotiations with customers. This movement has been successful -- our view, allowing us to secure with most of them, our volume for the fourth quarter and securing customers that we have good price. So we are exactly what it is in Q3.

A - Walter Schalka {BIO 2099929 <GO>}

Yeah, Daniel. Thank you very much for your question. I think you used the right word, the reserve cycle [ph]. We have all the synergies in place, but of course, we had some specific contract with suppliers on the logistics side and/or on the wood side, that is not allowing to have the full benefit of this year. We are accomplishing with all the contracts that we have in -- that we have in place during the merge, and this is the reason that we are not seeing the benefit of this. We are increasing the third-party wood, as you saw -- in our presentation.

Since we are saving our own wood, then we are going to have the benefit of this in the coming quarters. We are very pleased with the fact that we have been seeing major biological asset gains on our operation. And this is we have our competitiveness for the future. It's our mentality and our culture that we are going to use -- we are never going to compromise the long term just to benefit the short-term results.

We are always looking on our NPV results to improve the value to our shareholders. Then we, of course, we are not having the full benefit of the synergies on the wood price on this quarter -- on these quarters, but we are going to see in the near future.

Q - Daniel Sasson {BIO 19234542 <GO>}

Perfect, very clear. Thank you, Walter.

Operator

Mr. Carlos de Alba from Morgan Stanley would like to make a question.

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

Thank you. Good morning, everyone. So the first question is and, maybe, for Carlos. What we saw in the third quarter is that you guys came out with the same commercial strategy you locked on -- locked in the volumes that resulted in a higher price, ready to fight [ph], as was alluded before, but the ForEx looking to decline. And what we understand is of some of the competitors have to offer lower prices than perhaps the ones that you -- which you locked in your quarterly volumes?

How do you see, Carlos, the strategy -- repeating the strategy in the fourth quarter playing out for the pulp market prices, in general, and is it fair to say that the reason why you are offering the same deal or the same option in the fourth quarter, as you did in the third quarter, has to do with the need to reduce inventories and -- but we might continue to see a deterioration in the pulp export prices as a result of what your competitors might do. And I understand that is difficult for you to talk about what they will do, but just based on what we experienced in the third quarter, I would like to see if you have any comments.

And then, maybe, for Marcelo. We also saw a significant reduction in receivables, and obviously, the cash flow generation from working capital because of that. How do you see this evolving going forward, Marcelo? Do you think that we will continue to see both inventories and receivables contributing to cash -- cash flow generation in the coming quarters or it would be mostly from inventories? Thank you.

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

Hi, Carlos. This is Carlos speaking. Your question is very sensitive. All I can say to you that we closed October business at the same price level that we did in September. We do see, as I said before, important improvements that is there in China. We have realized a growing pickup rate at the major China exports over the last few weeks. So that shows the market is getting stronger. I can take the opportunity to share with you, as I said before, our global stocks dropped 450,000 tons in Q3. And a large amount of that was in the Asia supply chain.

In China, we closed September with the lowest inventory level this year, and that will go even further down until December. I expect to have closer -- close of October, with very limited available pulp inventory in some of the key ports in China. In two major ones, there, I'll not mention the name, I expect to have no inventory at all at the end of October. By that, I mean, unsold product sit at the port to be sold to customers.

Nevertheless, we believe our global inventories should be sufficient to full and properly serve our customer demands.

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

Carlos, in terms of the receivables -- this is Marcelo speaking, the -- in this quarter, we had a higher participation of China in our sales. And our policy in China is basically to discount the receivables because we have no conditions to assess the credit of most of our clients there. So, the higher participation of China meant, at the end of the day, that we sold more than the average of the previous quarters, in terms of receivables. Looking forward, we will continue the same policy, which means that there probably no significant new contribution from receivable sales should be seen in working capital gains.

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

Thank you.

Operator

Mr. Marcio Farid from JP Morgan would like to ask the question.

Q - Marcio Farid {BIO 21017394 <GO>}

Hello -- hello. Good morning, everyone, thanks for the question. I have a couple of follow-ups. Carlos, you mentioned that you do expect inventories in October and going to the end of the year, to be very -- probably normalize and now [ph] significantly in China, but, when we look at the numbers at the Chinese ports specifically, and if you add even

European port inventories in there -- we see that inventories actually increased in the third quarter versus the second quarter. So I was just wondering, if that's the result of sold volumes that were not picked up by your clients and if that's the case, is there a risk that sales are going to be weaker next quarter or if that's the result of your competitors increasing their own inventories because you're gaining market share.

And my second question is maybe to Walter. Walter, you've been talking about the importance of Suzano's reducing earnings uncertainty, earnings volatility, since over the past few years, right, but what we've seen this year is the opposite really, right. We've seen some -- a lot of uncertainties ahead of quarterly earnings. We understand that this is part of a very challenging market, but looking forward, when can we expect this earnings uncertainty to be reduced? What can the company do? And if the view of -- better, less volatility is still there? Thank you very much.

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

So Marcio, this is Carlos. Good morning and thank you for your question. So as I said, we have realized a growing pickup rate for all the major -- on Chinese ports. In our case, the transaction time, I mean the time between the invoicing and when customers are ready to move the full part of the port [ph], is usually 15 -- no, 20 days. That has to do, wherever there is recommendation process. So we do expect to see the pulp that we sold and has sold since late September to be a move out of the ports.

As I said before, and let me be very clear on that, we closed September with the lowest inventory level this year, and that will grow even further down into December. As I said, in two major ports, we have a zero pulp sit there to sell in the beginning of November. So that shows, somehow, in our view an improvement of demand. Also, I would recommend you to be careful when you look at, we expect at the end of the month and two or three vessels arriving late in the month, who change that number in 200,000 tonnes, easily. So, bear that in mind, I would say that the numbers that we gave are precise, when you look at that in a broader range, but we might view -- are going to look at, once, this is weak, that's not so precise as when again, as I look at the broader range.

A - Walter Schalka {BIO 2099929 <GO>}

Marcio, thank you very much for your question. This is Walter answering. I think, we all recognize and our study shows that volatility is not creating value for all the supply chain. And we have been showing to our customers that lower pulp prices does not mean higher paper margins, and the reason behind that is that the fragmentation of the paper industry in one side, and the other side is the fact that we have several players fighting to market share in the industry. If that -- every time that the pulp price is going down for a lagging period of time, paper price will go down as well.

In the opposite side, it's on a very fast pace that pulp prices -- faster pace that the pulp prices are going down and paper producers are not able to increase price in the same pace. And this is the reason, if you see the graph that we -- that we present and we'll show to some of our customers, volatility is not providing very good results to the industry as a whole. Then, our aim is to have lower volatility. Unfortunately, we are not able to deliver a lower volatility at this point of time.

And of course, we are a little bit frustrated with the fact that we have right now, pulp prices, there is not delivering the expected return to our shareholders and to some of our competitors, they're below the cash cost -- their cash cost and that's not very positive for them as well. But this is the market that we are facing at this point of time, and Suzano have a very robust position not only on our balance sheet, but on our cash cost and our competitiveness to face the situation. And there is not the best strategy ultimately for us.

Q - Marcio Farid {BIO 21017394 <GO>}

Thank you very much.

Operator

Mr. Caio Ribeiro from Credit Suisse would like to make a question.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Yes. Good morning. Thank you for the opportunity. So my first question, in light of the contingency plan, which you already provided some details on, given you will be striving towards the net debt to EBITDA of 3 times, over the next year or so, and given that you said the CapEx will remain at sustaining levels until you do so.

Is it safe to assume that, you would not make any decisions on a potential expansion until at least 2021, which, in that case, it would indicate that the earliest that you could see up new project coming online from Suzano, would be perhaps, 2023 and 2024. And also related to this, how does the decision of some of your competitors to expand in the market throughout 2021 and '22 impact any potential decision on this front?

And then secondly, on the potential of other players shutting down capacity, and as you mentioned some players there -- they are already under water at this -- at these pricing levels. Yet, we haven't seen any real material announcements yet in terms of shutdowns. So I just wanted to hear from you, why do you think that is. And whether you think that your decision to reduce production this year, could have impacted or could generate any impacts on the decisions of other players to shut down capacity or not? Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

Thank you very much, Caio, for your question. Let me start with the issue related to the expansion. I think we are extremely conservative on our policy. We have a financial policy approved and to -- from our Board. And public to the market that we -- our target is to stay between two and three times. Of course, we are going to track every time the combination of EBITDA and net debt to see what is going to be our next investments for the future. At this point of time, we are going to be more conservative, but we are going to track this on a quarterly basis. Really on a monthly basis, we are tracking this to see when we are going to be ready for new expansion program. Related with the planned shutdown capacity, Carlos is going to answer part of that and then I am going to add some comments.

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

So, Caio. Good morning, and thanks for your question. What we hear in the market is that we have several producers reducing their output without making any formal announcement. So again, we hear about that. In Asia, in Europe, and mainly in Canada. So this is all I can say -- I can share with you about that.

A - Walter Schalka {BIO 2099929 <GO>}

We -- kind of very important to add on this that, of course, we cannot have -- when we do not have enough details on all the producers in the world, but it's very clear to us that which is coming from Southeast Asia or Australia to China and/or Indonesia. Indonesia is going down. We are seeing that firm non-wood producers in China is reducing their production. We are seeing that firm softwood producer in the Northern Hemisphere are going to -- shutting down and -- some of their lines are capacitive, then we are seeing a combination and even on chart fiber as well. We are seeing the same. Then, we do not have all the numbers. We are not going to show to the market all the numbers, but we are very comfortable then -- since we are extremely competitive, we would be able to reduce our inventory on the next quarter.

Q - Caio Ribeiro {BIO 18420483 <GO>}

Perfect. That's very clear. Thank you, gentlemen.

Operator

Mr. (inaudible) would like to make a question.

Q - Unidentified Participant

Hello. Good morning, everyone. Can you hear me?

A - Walter Schalka {BIO 2099929 <GO>}

Yes.

Q - Unidentified Participant

Okay. Good morning. So my first question, just, sorry if I'm repeating something as I'm having some problems with my lines -- with my line, but just on the production guidance -- on the production outlook, right. I know that there is no more guidance. And I just wanted to confirm if you will not give any more guidance on production numbers for 2020.

I assume that, but I just wanted to hear from you whether this will be something sustained. I mean, again, I understand that you're managing your production profile quite cautiously but -- for 2020 would you be willing, assuming markets remain depressed. I mean, I just wanted to get a sense on whether you could maintain production levels, relatively where they are.

So just, just a bit more color, if possible, on how you're going to manage your production profile, and whether the guidance will never be used again over the medium-term.

The second question for Carlos, just still on market, Carlos, you -- you just spoke a lot about the outlook and -- and some of the indication. I think the big question has been on restocking in China. Right. What exactly will be the trigger for your Chinese paper industry to restock, let's say to the -- those old normalized levels? Is there anything that you are looking into as that event as a specific catalyst that you can share with us because it's -- I think there's a lot of confusion in the market on what exactly will trigger a restocking in China.

And finally for Bacci. Bacci, the numbers, I think these numbers on free cash flow, are very tricky, right, because I think Suzano will materially reduce CapEx for 2020 and I know that you're going to give your number.

But, if you can shed some light. If BRL3 billion, BRL3.5 billion is something good to work with on a preliminary basis. And you also have a lot of destocking from inventory reduction. So is there any updated breakeven on the free cash flow basis pulp price. So in other words, what do you see as being the breakeven pulp price or free cash flow? Any update on that front will also be helpful, given this big CapEx reduction, and also this working capital gain that you can sustain in 2020 as well. Those are the questions. Thank you.

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

So well, this is Marcelo speaking. On the production outlook, you're right. It is our intention not to discuss production guidance in the future. And therefore, we cannot give you any hint about the production of 2020 at this point. Before Carlos goes into the China question, I'll take the chance to answer your second question. We will discuss and release to the market, the CapEx number for 2020 in December, after we complete our budgeting process. At this point, I cannot give you a range, other than saying that is going to be significantly lower than this year. We also, will not give guidance to the market about what is the breakeven point for us because we got there very sensitive information about our trend in terms of cash cost and CapEx.

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

Now, good morning. This is Carlos. So, on restocking, our perception is that customers there in China, they are already restocking, mainly on the softwood side. And that has to do with the fact that they believe price cannot go further down as those high-cost producers are delivering loss today. You know, I was just reading some listed companies' results this week, and some of them are showing very negative numbers in their softwood business. So that's why we believe customers in China have big opportunity to start restocking the softwood side.

Q - Unidentified Participant

Okay, thank you.

Operator

Okay. Mr. John (inaudible) would like to make a question.

Q - Unidentified Participant

Hi. Good morning, gentlemen. So I just -- do wanted to come back. I know you're not giving production guidance anymore, but I'm wondering if you could conceptually discuss sort of how you -- what you think your role is in supporting the market? I mean, we saw you take some volumes off the market this year, is that something, conceptually, you're willing to do, or do you think perhaps, that was a mistake, and given your financial situation that if you can, sort of, generate some incremental EBITDA by increasing production, but that's sort of the priority at the moment. So I guess that's my first question. And the second question, so Carlos, you talked a lot about sort of the positive impacts that you had in -- that you've seen in China with inventory coming down, potentially some restocking issue being strong. So I'm wondering sort of what you would need to see in order to announce your own price hikes? The premium of softwood is going up. So can you talk a little bit about sort of if you could envision any sort of price hike in the coming ones? And then lastly, Bacci, so I know you're giving the 2020 CapEx number in December. But is there any change to the 2019 CapEx number? Thank you.

A - Walter Schalka {BIO 2099929 <GO>}

John, thank you very much for your question. This is Walter answering your first question. As we mentioned, we are not going to give any guidance on our production for the next year, but it's very clear that our volumes for the next year on production are going to be higher than this year. We are not going to give numbers, but the trend is to have higher volumes on production side.

On the other hand, we continue to make an analysis what we call the last ton. We have been analyzing, for every single plant, what will be the last ton cost for us because we are not managing the company by average. We're managing the company by event. When certain specific tons is not delivering the expected return to our shareholders, then we are not discarding the possibility to have lower volumes than our full capacity, but we are not going to announce numbers for the next year.

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

Hi, John. This is Carlos speaking. You're right. The current spread between long fiber and short fiber has been very positive for us. We believe that will push up the demand for hardwood. And on price, we cannot give any guidance and -- on what we're going to do.

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

John, this is Marcelo. On the 2019 CapEx, for the time being, we keep the existing guidance which is BRL5.9 billion.

Q - Unidentified Participant

Great. Thank you very much, gentlemen.

Operator

(inaudible) from Bank of America would like to make a question.

Q - Unidentified Participant

Hi, guys. Thanks for the question. Just a quick follow-up first to Carlos. Can you comment if you gained market share in Q3 and what are you looking for Q4? And also how are the pulp inventories in the paper in China and how -- also the paper inventories in China? And the last one on pulp. We discussed previously your potential strategy of some integrated papers shifting to use market pulp. How does that evolve during the quarter? And if you're still seeing this playing out going forward?

And a second one to Grimaldi. Can you come on the paper trends and volumes and prices, and how is the competition on both on domestic market and also for exports. And potential guidance for 2020? Thank you.

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

Antonio, this is Carlos speaking. Thank you for your questions. Some of them are quite sensitive, so I'm going to comment only on paper and pulp stocks. So paper stocks, the information that we have is that those stocks are at a normal or even low level, taking into account that we are just starting the high season there in China.

Pulp, we believe that it's ranging from minimal, so medium level. So we believe that customers, mainly the small and the medium size producers, they are running with stocks below what should be their normal level. So, all-in-all, between minimum and normal.

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

Okay. Antonio, this is Bacci. Thank you for your question regarding the paper market. I'll give you some additional information (inaudible) paper; and Pulp Association in Brazil has just posted the third quarter results. As I mentioned, they were 10% below the third quarter '18. Now, when you look at printing and writing papers, this decrease is almost 11% and paperboard grades also posted a decrease during the quarter of 9%.

When we add up and look at the nine first months of the year, the domestic sales of printing, writing grades and paperboard were down 6.5% -- being 8%, roughly, print and writing rates, then 2% [ph] in paperboard. And imports also reducing in Brazil. at the same period, at 6.3%. We have noticed the different markets as analogy this year, due mainly to the postponement of the purchases of the Brazilian National Textbook Program, the PNLD, which will be pushed more into the fourth quarter of the year.

We expect that this fourth quarter will be the strongest quarter of the year due to expected market seasonality, as we have observed in previous years. And additionally, to the purchases of the P&L we -- as I mentioned.

A - Walter Schalka {BIO 2099929 <GO>}

Antonio, thank you very much for your questions for Leo. He was a little bit sad here to not being able to -- as there were no questions for him in the session.

A - Leonardo Grimaldi

Thank you, Antonio.

Q - Unidentified Participant

You're welcome. Thank you, Carlos and Walter.

A - Walter Schalka {BIO 2099929 <GO>}

Thanks.

Operator

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

A - Walter Schalka {BIO 2099929 <GO>}

Thank you very much for the opportunity to review. I'd like to give a highlight to you that the Company is preparing even better for the future. We have been working on several dimensions on the organization. We have been been working on integration of process and systems. We are working on synergies. We are working on the culture issue that for us is very important and all of them are going in the right direction with the right trend. We are extremely happy with that. We are extremely happy as well to be able to show to the society that we can have a very good impact on the sustainability issue. I think we can have a source of fiber that could replace fossil source product and we will be able to be a major positive impact on the society. We have been working as well on other issues on the organization and the results are very good. Of course everything offset by the pulp price and we recognize it and we are frustrated with that, but we are preparing a even better company for the future. Not only to our shareholders, but to all the stakeholders. Thank you very much. Hope you have a very nice weekend.

Operator

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