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Chief Investment Office GWM
Investment Research
For investors outside of the US

Suzano: Sound pulp and paper

Emerging market bonds

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- Suzano S.A. (Suzano) is the world's largest producer of bleached eucalyptus kraft pulp (BEKP) and one of the largest producers of paper in Latin America. According to company filings, aside from benefiting from its global scale, Suzano is also the world's lowest-cost pulp producer, a factor that should help mitigate headwinds in times of downcycles and concurrent softer pulp pricing conditions.
- Suzano delivered relatively strong 4Q24 results on the back of higher volumes of pulp and paper sold, partly offset by ongoing pressure on prices. Top line and operating cash flow grew 16% and 22.1% year over year in USD terms, respectively, and debt ratios further improved. In addition, the company's investment grade ratings may have upside potential.
- We maintain our view that Suzano is a solid and stable credit, and continue to regard its bonds as suitable for a hold-to-maturity investment strategy. We currently favor the Suzano 3.125% sustainability-linked bond due 2032, as we believe it better fits CIO's views on benchmark UST yields. Investors looking for shorter-dated paper may want to consider the Suzano 2.5% sustainability-linked bond due 2028.

Source: Getty Images

Fig. 1: Suzano – Credit risk flags

CIO credit outlook	CIO credit risk flags			
	0 - 2years	2 - 5 years	5 -10 years	> 10 years
Stable	(green)	(green)	(amber)	(amber)

Source: UBS, as of 14 March 2025

Strong 4Q24

Suzano delivered relatively strong 4Q24 results on the back of higher volumes of pulp and paper sold, a portion of which is explained by completion of the acquisition of Pactiv Evergreen's assets in the US, partly offset by ongoing pressure on prices. Net revenues and EBITDA grew 16% and 22.1% year over year in USD terms, respectively, and the quarterly EBITDA margin widened 220bps, from 43.5% in 4Q23 to 45.7% in 4Q24. Quarter over quarter, net revenues grew 9.7%, but EBITDA declined 5.6%, and the quarterly EBITDA margin narrowed 740bps relative to a rather wide 53.1% in 3Q24. For the whole year, net revenues and EBITDA increased 10.1% and 21.1% year over year, respectively, and the annual EBITDA margin widened 460bps, from 45.8% in 2023 to 50.4% in 2024.

Table 2: Suzano – Quarterly financial data

	4Q23	3Q24	4Q24	y-o-y	q-o-q
Net revenues (USDmn)	2,092	2,213	2,427	16.0%	9.7%
EBITDA (USDmn)	909	1,176	1,110	22.1%	-5.6%
EBITDA margin (%)	43.5	53.1	45.7	+220bps	-740bps

Source: Company reports, UBS, as of 14 March 2025

Leverage further improves

Owing to higher year-over-year operating cash flow generation, debt ratios further improved. Leverage (total debt divided by 12-month trailing EBITDA) as of 31 December came in at 3.7x, down from 3.8x in September, and 4.4x in December 2023, although the ratio remained above 2.6x in December 2022, and 3.5x in December 2021.

Liquid balance sheet, low refinancing risk

While a 3.7x leverage multiple still looks a bit high, we continue to see refinancing risk over the foreseeable future as low. As of 31 December, Suzano reported over USD 3.6bn in cash, USD 1.7bn in short-term debt, and around USD 1.2bn in gross annual interest expense, while 12-month trailing EBITDA was running at over USD 4.4bn.

Table 3: Suzano – LTMs financial data

	12/2021	12/2022	12/2023	12/2024
Short-term debt (USDmn)	768	631	981	1,701
Long-term debt (USDmn)	14,582	13,477	14,923	14,729
Total debt (USDmn)	15,350	14,108	15,904	16,430
Cash (USDmn)	3,787	3,305	4,454	3,625
Net debt (USDmn)	11,563	10,803	11,450	12,805
Net revenues (USDmn)	7,590	9,637	7,948	8,755
EBITDA (USDmn)	4,353	5,450	3,643	4,412
Interest expense (USDmn)	786	958	1,166	1,207
EBITDA margin (%)	57.4	56.6	45.8	50.4
EBITDA/Interest (x)	5.5	5.7	3.1	3.7
Debt/EBITDA (x)	3.5	2.6	4.4	3.7
Net debt/EBITDA (x)	2.7	2.0	3.1	2.9
Debt/Capitalization (%)	84.9	69.2	63.3	75.8

Note: LTMs = last 12 months
Source: Company reports, UBS, as of 14 March 2025

Table 4: Suzano – Credit ratings

	Moody's	S&P
Outlook	Positive	Stable
Senior unsecured	Baa3	BBB-

Source: Bloomberg, as of 14 March 2025

Credit ratings

Following gradual improvements in company fundamentals, Suzano's investment grade ratings may now have some upside potential. On 2 March 2021, S&P revised the outlook for its BBB rating for Suzano from Negative to Stable. On 2 May 2024, Moody’s revised the outlook for its Baa3 rating for Suzano from Stable to Positive, signaling room for a higher credit rating. Most recently, on 25 February of this year, Fitch revised its outlook for its BBB- rating for Suzano from Stable to Positive, also signaling upside potential over the next 12-18 months.

Risk factors

Risks to Suzano include exposure to underlying sovereign Brazil; industry price volatility driven by fluctuations in global capacity; economic conditions in China, which is a major pulp buyer; and currency fluctuations. In addition, Suzano is exposed to environmental regulations and activist investor scrutiny regarding the use of natural resources, including eucalyptus trees and water.

Our bottom line

We maintain our view that Suzano is a solid and stable credit, and continue to regard its bonds as suitable for a hold-to-maturity investment strategy. We currently favor the Suzano 3.125% sustainability-linked bond due 2032, as we believe it better fits CIO's views on benchmark UST yields. Investors looking for shorter-dated paper may want to consider the Suzano 2.5% sustainability-linked bond due 2028. At an indicative price of 84.858, as per Bloomberg Services, the Suzano 3.125% bond due 2032 (ISIN US86964WAK80), offers a yield-to-worst of 5.8456% (to maturity date 15 January 2032). At an indicative price of 91.104, as per Bloomberg Services, the Suzano 2.5% sustainability-linked bond due 2028 (ISIN US86964WAL63), offers a yield-to-worst of 5.3235% (to maturity date 15 September 2028).

Coupon step-up provisions

According to the indenture that governs the 3.125% sustainability-linked bond of 2032, the coupon will step up 25bps on 16 July 2026 unless Suzano has notified the Trustee at least 30 days prior to 16 July 2026, that in the year ended 31 December 2025 it has complied with (i) the Sustainability Performance Target, and (ii) and that the satisfaction of the Sustainability Performance Target has been confirmed by the External Verifier in accordance with customary procedures.

According to the indenture that governs the 2.5% sustainability-linked bond of 2028, (1) the coupon will step up 25bps on 16 September 2026 unless Suzano has notified the Trustee at least 30 days prior to 16 September 2026 that in the year ended 31 December 2025 it has complied with the Sustainability Performance Target, and that the satisfaction of the Sustainability Performance Target has been confirmed by the External Verifier in accordance with customary procedures; and (2) the coupon will step up 25bps on 16 September 2027 unless Suzano has notified the Trustee at least 30 days prior to 16 September 2027 that in the year ended 31 December 2026 it has complied with the Sustainability Performance Target, and that the satisfaction of the Sustainability Performance Target has been confirmed by the External Verifier in accordance with customary procedures.

12-month rating history

No changes

UBS CIO risk views

Credit risk flags

CIO attaches a credit risk flag to the instruments under its coverage. Credit risk is assessed based on the remaining tenor and / or instrument type. The flag indicates the likelihood that a holder of the instrument will not receive a coupon or principal payment when it comes due. For subordinated and hybrid instruments, which are usually callable and have a remote or no fixed maturity date, we apply one uniform credit risk flag per issuer and instrument type. The idea is to reflect the possibility of contractual trigger events or regulatory intervention occurring. Either can impose losses on bondholders regardless of the remaining term of the instrument or a specific issuer default event. Credit risk flags only indicate our view of the riskiness of a particular instrument. Credit risk flags should not be seen as recommendations to buy, hold or sell. In fact, any combination of risk flags and relative value recommendations is possible.

Very low credit risk

We believe that the probability of debt payments not being made when they come due is very low (cumulative probability of less than 2%).

Medium credit risk

We believe that the probability of debt payments not being made when they come due is low to medium (cumulative probability of non-payment between 2% and less than 20%).

High credit risk

We believe that the probability of debt payments not being made when they come due is at least one in five cumulatively.

Issuer credit outlook

We complement the instrument-specific risk information of the credit risk flags by indicating our outlook for the credit quality of an issuer over the next 12 months. Depending on instrument pricing, all combinations of an issuer credit outlook and relative valuation recommendations are possible.
Improving: We expect the credit profile of the issuer to improve, to an extent that may result in upgrades by rating agencies.
Stable: We do not expect the credit profile of the issuer to change meaningfully.
Deteriorating: We expect the credit profile of the issuer to deteriorate, to an extent that may result in downgrades by rating agencies.
Note that the credit views in this report are those of UBS Financial Services and may differ from those of other parts of UBS regarding the same issuer.

UBS CIO valuation views

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Our relative value bond recommendations are based on an average investment horizon of six to 12 months. They reflect our assessment of a bond's attractiveness relative to comparable instruments under CIO coverage. Comparable instruments typically exhibit similar credit quality, are denominated in the same currency, and belong to the same segment of the bond market.
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Attractive Bonds seen as “attractive” are expected to generate a total return exceeding the average return of comparable instruments. Our recommendation can stem from a positive view on the issuer’s credit profile not fully reflected in the price, unduly high risk premiums, our take on an instrument's call probability, the risk of coupon deferrals, and external factors including regulatory intervention.

Fair Bonds seen as "fair" are expected to produce a total return broadly in line with the average return of comparable instruments.

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Sell A Sell recommendation is assigned when the risk of an adverse outcome for an instrument exceeds what is reflected in its current valuation. Such situations can include those in which the instrument appears likely to post negative total returns until redemption, either due to a highly negative yield to maturity or an imminent call at a price below market valuations.

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UBS bond recommendation	Credit Suisse channels
Attractive	Buy
Fair	Neutral
Expensive	*no equivalent in CS channels*
Sell	Sell

For more information about our present and past recommendations, please contact ubs-cio-wm@ubs.com.

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For details please see "Understanding bonds: A guide to CIO's credit offering", published 16 April 2021.

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		AA+ AA AA-	Aa1 Aa2 Aa3	Issuer / bonds have very strong credit quality.
		A+ A A-	A1 A2 A3	Issuer / bonds have high credit quality.
		BBB+ BBB BBB-	Baa1 Baa2 Baa3	Issuer / bonds have adequate credit quality. This is the lowest Investment Grade category.
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		B+ B B-	B1 B2 B3	Issuer / bonds have very weak credit quality.
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Risk Information

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