Update: Klabin S.A.

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Primary contact

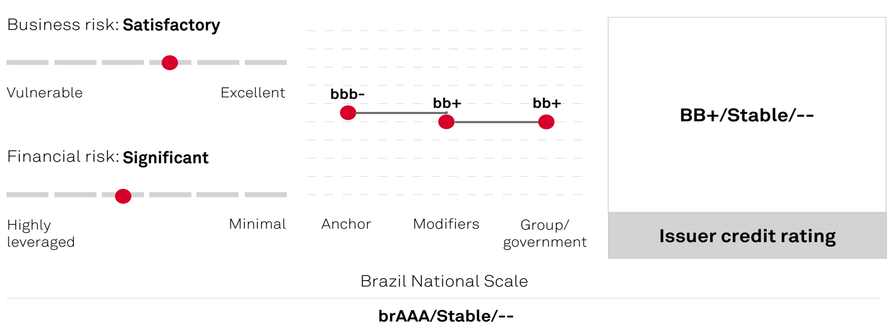
Fabiana Gobbi
Sao Paulo
55-11-3039-9733
fabiana.gobbi
@spglobal.com

Secondary contacts

Amalia E Bulacios
Buenos Aires
54-11-4891-2141
amalia.bulacios
@spglobal.com

Luisa Vilhena
Sao Paulo
55-11-3039-9727
luisa.vilhena
@spglobal.com

Ratings Score Snapshot



Credit Highlights

Overview

Key strengths	Key risks
A leading position in Brazil's paper packaging production segment, with longstanding client relationships.	Exposure to cyclicality in the forest and paper products industry, which has volatile input costs and selling prices.
Exposure to packaging brings cash predictability versus its exposure to the forest and paper industry.	Relatively high debt levels amid intensive capex cycles
Vertical integration bolsters profitability.	Higher tolerance for debt during investment cycles compared with peers.
Ability to convert paper production into packaging.	

We expect margins to recover in 2024 from higher pulp prices and our assumption of lower cash cost. We expect Klabin will maintain controlled cash cost in the coming years, even amid the first production cycle of PUMA II, due to the lower use of third-party wood with the recent land and forestry acquisition, still depressed chemical costs (notably caustic soda), lower Brent oil prices and decreasing energy costs as Klabin increases the use of its biomass gasification plant. In the first half of 2024, Klabin's pulp cash cost was $243/ton, a decrease of 9% compared with the same period last year.

Such aspects along with the recovery in pulp prices, lead us to revise our EBITDA margin forecast to around 43% in 2024, compared with our previous expectation of close to 37%. For 2025, we expect margins at roughly 40%, as we forecast some price correction because of a supply glut in pulp since 2023. We expect average pulp prices to fall 10% to 15% in 2025, depending on the pulp grade and region.

After a major investment cycle, we think leverage will recede in the next few years. We expect relatively stable debt to EBITDA of about 3.5x-4.0x in 2024-2025, versus 3.7x in 2023, from higher EBITDA generation balanced by higher debt levels. Klabin recently ended a major investment cycle with the conclusion of the PUMA II project last year, and the payment in July 2024 of R$6.3 billion for the land and forestry acquisition. Total investments related to PUMA II have amounted to approximately to R$12.6 billion during 2019-2023. We now forecast capital expenditures of about R$3.3 billion in 2024, R$3 billion in 2025, and R$2.7 billion in 2026, mostly for maintaining operations and modernizing the Monte Alegre facility (installation of a new recovery boiler for an estimated amount of R$1.7 billion with start-up in fourth quarter 2026). We think the company will finance the investments mostly with internal cash flow and continue refinancing debt maturities extending average tenor.

We expect Klabin to maintain its solid market position in the Brazilian paper and packaging segments through its longstanding client relationships and product diversification. Brazil's paper and packaging segment remains fragmented and competitive, but Klabin has a leading position with a domestic market share of 60% in Kraftliner, 40% in coated boards, 50% in industrial bags, and 22% in corrugated boxes, as of the second quarter of 2024.

We think the resilient nature of the food and beverage end-markets (67% of Klabin's paper and packaging sales), followed by consumer products (13%), coupled with access to rapidly growing and high-quality fiber in Brazil, gives Klabin an advantage over international players.

The company benefits from balanced exposure to commoditized and value-added products with wide geographic presence. We forecast Klabin will sell 1.45 million–1.55 million tons of pulp, about 1.4 million–1.5 million tons of paper (coated boards and Kraftliner), and up to 1.2 million tons of packaging (corrugated boxes and industrial bags) in the next three years. In our view, such balanced sales volume should provide some cash flow protection amid the more abrupt and shorter pulp price cycles the industry has been experiencing.

Additionally, the company can adjust its product mix and export volumes based on market demand. Our base-case assumes the company will continue selling 55%-65% of its volume domestically, exporting the remaining to more than 50 countries, mostly in Europe and Asia-Pacific. Klabin manages to diminish volatility through increasing exports or adjusting its diverse product mix to the more profitable ones.

Outlook

The stable outlook indicates our expectation that Klabin will continue delivering solid cash flows, mostly from capacity addition with the start-up of PUMA II and some resilience in the packaging sector from increasing coated board sales. We expect debt to EBITDA of about 3.5x-4x, funds from operations (FFO) to debt of 15%-20%, and still weak free operating cash flow (FOCF) because of a sizable capital expenditure.

Downside scenario

We could downgrade Klabin in the next 12-18 months if we were to expect significantly weaker leverage metrics, with debt to EBITDA above 4x and funds from operations (FFO) to debt below

20% on a three-year moving average. This could occur because of a sharper decline in prices and appreciation of the Brazilian real, or due to a more aggressive growth strategy.

Upside scenario

Although unlikely in the next 12 months because of the uncertain pulp market, a positive rating action is possible if Klabin maintains financial discipline across the cycles, with debt to EBITDA close to 3x on a three-year moving average. This would also mean that the company would keep debt to EBITDA below 3x when pulp prices are high.

Our Base-Case Scenario

Assumptions

- Brazil's GDP growth of about 2.0% per year in 2024-2026.
- Brazil's average inflation of 4.2% in 2024, 3.8% in 2025, and 3.5% in 2026.
- Average exchange rates of about R$5.10 per $1 in 2024, R$5.18 per $1 in 2025, and R$5.33 per $1 in 2026.
- Average bleached hardwood kraft pulp (BHKP) listing in Europe close to $1,350 per ton in 2024, and between $1,100-$1,150/ton in 2025-2026. We apply about a 35% discount to listed prices.
- Demand recovery of pulp to result in total volume produced at 1.45 million–1.55 million in 2024-2026.
- Price of coated boards at around R$5,250 per ton in 2024 and growing 2%-3% in 2025-2026.
- Kraftliner prices at R$3,000 -R$3,500 per ton in 2024-2026.
- Corrugated boxes and industrial bags at about R$5,850 per ton in 2024 and growing 3%-4% in 2025-2026.
- Lower cash cost in 2024-2026, versus 2023. Still as a result of low chemical costs (notably caustic soda) and importantly the lower use of third-party wood. Other expenses related to chemicals, transportation, fuel, and energy following inflation and volume expansion.
- Margins expansion as result of higher pulp prices along with mix of products sold and the lower cash cost.
- Annual capital expenditure of about R$3.3 billion in 2024, R$3 billion in 2025, and R$2.7 billion in 2026, mostly for maintenance and expansion (Figueira and new furnace in Monte Alegre).
- The payment of R$6.3 billion related to forestry and land acquisition in 2024 (Caête project).
- Dividend distribution at 15%-25% of EBITDA generation in the next few years.

Key metrics

Klabin S.A.--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. BRL)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	11,949	16,481	20,033	18,024	19,214	19,493	21,195	21,231
Gross profit	7,051	10,217	12,633	10,124	10,796	10,858	12,657	12,832
EBITDA (reported)	5,565	8,178	9,860	7,576	8,200	8,163	9,868	9,946

Klabin S.A.--Forecast summary								
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	(860)	(1,298)	(2,059)	(1,288)	(2)	(2)	(2)	(2)
EBITDA	4,704	6,879	7,801	6,288	8,198	8,161	9,866	9,944
Less: Cash interest paid	(1,439)	(1,635)	(2,239)	(2,394)	(1,822)	(1,919)	(1,968)	(1,976)
Less: Cash taxes paid	(10)	(507)	(534)	(168)	(450)	(882)	(914)	(845)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	3,256	4,738	5,027	3,726	5,926	5,361	6,984	7,123
EBIT	3,256	5,779	7,168	4,875	5,479	5,191	6,812	6,947
Interest expense	1,622	1,614	1,841	2,286	1,819	1,916	1,965	1,973
Cash flow from operations (CFO)	5,581	3,277	5,997	5,058	6,012	5,490	6,578	7,564
Capital expenditure (capex)	4,567	3,447	7,441	3,860	3,035	3,880	3,133	2,767
Free operating cash flow (FOCF)	1,014	(169)	(1,444)	1,198	2,977	1,610	3,445	4,797
Dividends	294	581	1,747	1,478	1,640	1,633	1,974	1,989
Share repurchases (reported)	--	--	--	--	--	--	--	--
Discretionary cash flow (DCF)	720	(750)	(3,190)	(280)	1,337	(23)	1,472	2,808
Debt (reported)	26,339	29,338	27,541	31,341	33,847	33,638	34,038	32,816
Plus: Lease liabilities debt	823	1,087	1,645	1,923	2,004	2,080	2,153	2,228
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(6,557)	(8,422)	(6,502)	(10,715)	(6,707)	(5,305)	(5,996)	(6,441)
Plus/(less): Other	--	181	387	582	582	582	582	582
Debt	20,606	22,184	23,070	23,131	29,726	30,995	30,777	29,185
Equity	4,385	7,086	11,568	13,733	14,255	15,168	16,752	18,233
FOCF (adjusted for lease capex)	567	(616)	(2,211)	736	2,520	1,164	3,008	4,364
Interest expense (reported)	1,403	1,183	1,157	1,782	1,819	1,916	1,965	1,973
Capex (reported)	4,786	3,878	8,125	4,363	3,035	3,880	3,133	2,767
Cash and short-term investments (reported)	6,557	8,422	6,502	10,715	6,707	5,305	5,996	6,441
Adjusted ratios								
Debt/EBITDA (x)	4.4	3.2	3.0	3.7	3.6	3.8	3.1	2.9
FFO/debt (%)	15.8	21.4	21.8	16.1	19.9	17.3	22.7	24.4
FFO cash interest coverage (x)	3.3	3.9	3.2	2.6	4.3	3.8	4.5	4.6
EBITDA interest coverage (x)	2.9	4.3	4.2	2.8	4.5	4.3	5.0	5.0
CFO/debt (%)	27.1	14.8	26.0	21.9	20.2	17.7	21.4	25.9
FOCF/debt (%)	4.9	(0.8)	(6.3)	5.2	10.0	5.2	11.2	16.4
DCF/debt (%)	3.5	(3.4)	(13.8)	(1.2)	4.5	(0.1)	4.8	9.6
Lease capex-adjusted FOCF/debt (%)	2.8	(2.8)	(9.6)	3.2	8.5	3.8	9.8	15.0
Annual revenue growth (%)	16.3	37.9	21.5	(10.0)	6.6	1.5	8.7	0.2
Gross margin (%)	59.0	62.0	63.1	56.2	56.2	55.7	59.7	60.4
EBITDA margin (%)	39.4	41.7	38.9	34.9	42.7	41.9	46.5	46.8

Klabin S.A.--Forecast summary

Return on capital (%)	14.1	21.3	22.4	13.6	13.6	11.5	14.5	14.6
Return on total assets (%)	9.3	14.9	16.0	9.5	9.6	8.8	11.3	11.3
EBITDA/cash interest (x)	3.3	4.2	3.5	2.6	4.5	4.3	5.0	5.0
EBIT interest coverage (x)	2.0	3.6	3.9	2.1	3.0	2.7	3.5	3.5
Debt/debt and equity (%)	82.5	75.8	66.6	62.7	67.6	67.1	64.8	61.5
Debt fixed-charge coverage (x)	2.9	4.3	4.2	2.8	2.4	2.2	2.3	2.2
Debt/debt and undepreciated equity (%)	82.5	75.8	66.6	62.7	67.6	67.1	64.8	61.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R$--Brazilian real.

Financial policy limits the rating. The company's financial policies permit net debt to EBITDA of up to 4.5x during investment cycles (internal projects or mergers and acquisitions [M&As] totaling at least $1 billion), which in our view limits the rating, considering Klabin operates in the cyclical forest and paper industry. Moreover, Klabin will continue paying dividends of 15%-25% of adjusted EBITDA if its leverage is below 4.5x. When not making large investments, the company's net debt to EBITDA (measured in U.S. dollars) must remain at 2.5x-3.5x.

Company Description

Klabin is one of Brazil's largest pulp and paper producers, focused on several forest products, and is the leading producer and exporter of paper packaging in the country. The company operates 23 plants in Brazil and one in Argentina. It owns 908,000 hectares (ha) of land, 413,000 ha of which are planted forests (236,000 ha of which are destined for long fiber and 177,000 for short fiber). Klabin's business units consist of forestry (planted trees such as pine and eucalyptus), paper (coated boards and container boards), market pulp (hardwood, softwood, and fluff), and packaging (industrial bags and corrugated boxes).

Peer Comparison

In the forest products segment, we compare Klabin mainly with other South American companies because they benefit from access to superior natural resources, availability of wood, and similar climate conditions, translating into lower cash costs than global peers. Klabin is smaller in terms of capacity and revenues compared to Suzano S.A. and Celulosa Arauco y Constitucion S.A. But its margins are higher than Arauco's given its presence in Brazil that enables lower cash costs than the Chilean peers. With much higher exposure to pulp, Suzano has historically higher margins than Klabin.

Klabin ranks behind global peers in the packaging and containers segment in terms of geographic diversification, production capacity, and revenues. However, Klabin has integrated and self-sufficient production lines, which help boost its profitability compared with global packaging peers.

Klabin S.A.--Peer Comparisons

	Klabin S.A.	Suzano S.A.	Celulosa Arauco y Constitucion S.A.	Smurfit Kappa Group PLC
Foreign currency issuer credit rating	BB+/Stable/--	BBB-/Stable/--	BBB-/Stable/--	BBB/Stable/--

Klabin S.A.--Peer Comparisons

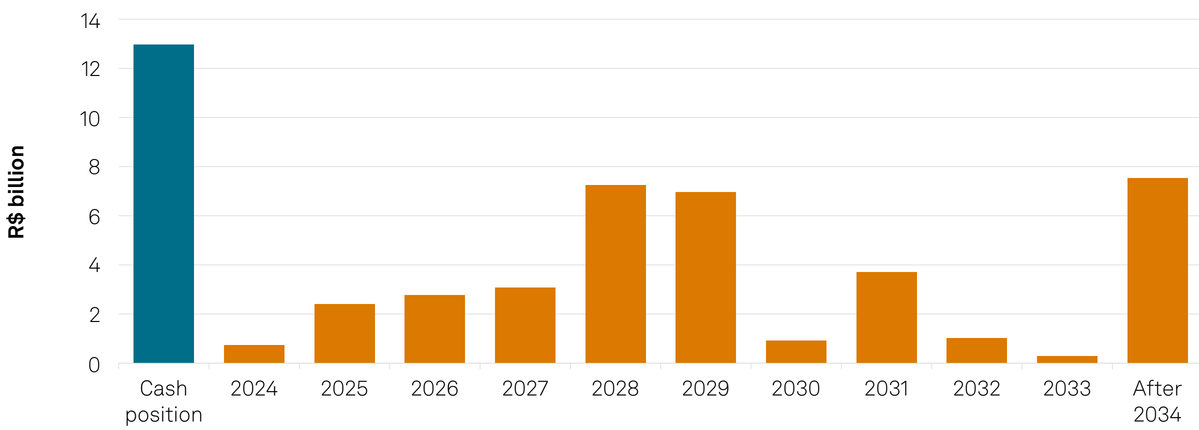
Local currency issuer credit rating	BB+/Stable/--	BBB-/Stable/--	BBB-/Stable/--	BBB/Stable/--
Period	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	R$	R$	R$	R$
Revenue	18,024	39,756	29,170	60,454
EBITDA	6,288	17,999	5,107	10,619
Funds from operations (FFO)	3,726	11,802	3,375	7,433
Interest	2,286	5,085	1,672	1,008
Cash interest paid	2,394	5,889	1,594	1,008
Operating cash flow (OCF)	5,058	16,200	2,904	7,938
Capital expenditure	3,860	16,397	6,095	4,553
Free operating cash flow (FOCF)	1,198	(197)	(3,191)	3,384
Discretionary cash flow (DCF)	(280)	(1,270)	(4,563)	1,266
Cash and short-term investments	10,715	21,170	2,766	4,773
Gross available cash	10,715	21,170	2,766	4,773
Debt	23,131	62,984	32,313	18,970
Equity	13,733	44,810	38,861	29,895
EBITDA margin (%)	34.9	45.3	17.5	17.6
Return on capital (%)	13.6	12.0	3.0	14.9
EBITDA interest coverage (x)	2.8	3.5	3.1	10.5
FFO cash interest coverage (x)	2.6	3.0	3.1	8.4
Debt/EBITDA (x)	3.7	3.5	6.3	1.8
FFO/debt (%)	16.1	18.7	10.4	39.2
OCF/debt (%)	21.9	25.7	9.0	41.8
FOCF/debt (%)	5.2	(0.3)	(9.9)	17.8
DCF/debt (%)	(1.2)	(2.0)	(14.1)	6.7

Financial Risk

Debt maturities

Debt Maturity Profile

As of June 30, 2024



Source: S&P Global Ratings.

Klabin S.A.--Financial Summary

Period ending	**Dec-31-2018**	**Dec-31-2019**	**Dec-31-2020**	**Dec-31-2021**	**Dec-31-2022**	**Dec-31-2023**
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	R$	R$	R$	R$	R$	R$
Revenues	10,016	10,272	11,949	16,481	20,033	18,024
EBITDA	4,085	3,746	4,704	6,879	7,801	6,288
Funds from operations (FFO)	2,833	2,328	3,256	4,738	5,027	3,726
Interest expense	1,210	1,486	1,622	1,614	1,841	2,286
Cash interest paid	1,092	1,213	1,439	1,635	2,239	2,394
Operating cash flow (OCF)	2,839	2,935	5,581	3,277	5,997	5,058
Capital expenditure	1,096	2,546	4,567	3,447	7,441	3,860
Free operating cash flow (FOCF)	1,743	389	1,014	(169)	(1,444)	1,198
Discretionary cash flow (DCF)	903	(576)	720	(750)	(3,190)	(280)
Cash and short-term investments	7,047	9,731	6,557	8,422	6,502	10,715
Gross available cash	7,047	9,731	6,557	8,422	6,502	10,715
Debt	13,147	14,857	20,606	22,184	23,070	23,131
Common equity	6,533	6,501	4,385	7,086	11,568	13,733
Adjusted ratios						
EBITDA margin (%)	40.8	36.5	39.4	41.7	38.9	34.9
Return on capital (%)	16.8	12.9	14.1	21.3	22.4	13.6
EBITDA interest coverage (x)	3.4	2.5	2.9	4.3	4.2	2.8

Klabin S.A.--Financial Summary

FFO cash interest coverage (x)	3.6	2.9	3.3	3.9	3.2	2.6
Debt/EBITDA (x)	3.2	4.0	4.4	3.2	3.0	3.7
FFO/debt (%)	21.6	15.7	15.8	21.4	21.8	16.1
OCF/debt (%)	21.6	19.8	27.1	14.8	26.0	21.9
FOCF/debt (%)	13.3	2.6	4.9	(0.8)	(6.3)	5.2
DCF/debt (%)	6.9	(3.9)	3.5	(3.4)	(13.8)	(1.2)

Reconciliation Of Klabin S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. R$)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023									
Company reported amounts	31,341	11,585	18,024	7,576	4,249	1,782	6,288	7,593	1,478	4,363
Cash taxes paid	-	-	-	-	-	-	(168)	-	-	-
Cash interest paid	-	-	-	-	-	-	(1,891)	-	-	-
Lease liabilities	1,923	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(10,715)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	504	(504)	(504)	-	(504)
Dividends from equity investments	-	-	-	25	-	-	-	-	-	-
Income (expense) of unconsolid. cos.	-	-	-	(15)	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	695	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(1,865)	-	-
Noncontrolling/ minority interest	-	2,147	-	-	-	-	-	-	-	-
Debt: other	582	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	(5)	(5)	-	-	-	-	-
EBITDA: Valuation gains/(losses)	-	-	-	(1,229)	(1,229)	-	-	-	-	-
EBITDA: other	-	-	-	(63)	(63)	-	-	-	-	-
EBIT: other	-	-	-	-	1,229	-	-	-	-	-
Working capital: other	-	-	-	-	-	-	-	(802)	-	-

Reconciliation Of Klabin S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. R$)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
OCF: other	-	-	-	-	-	-	-	637	-	-
Total adjustments	(8,210)	2,147	-	(1,288)	626	504	(2,562)	(2,535)	-	(504)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	23,131	13,733	18,024	6,288	4,875	2,286	3,726	5,058	1,478	3,860

Liquidity

We view Klabin's liquidity as strong, based on our expectation that its cash sources will exceed uses by about 1.6x in the next 12 months. The company's large cash position of approximately R$13 billion as of June 2024, provides financial flexibility to face unexpected downturns and finance ongoing projects.

We expect Klabin's revolving credit facility of $500 million will continue enabling sufficient liquidity cushion over the coming years. In addition, Klabin isn't subject to financial covenants on its debt, and it enjoys well-established, solid relationships with banks and a generally high standing in credit markets.

Principal liquidity sources

- Cash position of R$13 billion as of June 2024.
- Undrawn credit facility of $500 million (about R$2.6 billion).
- Cash FFO of about R$5.8 billion in the next 12 months after June 2024.
- New debentures totaling R$1.5 billion issued in August 2024.

Principal liquidity uses

- Short-term debt maturities of R$2.6 billion as of June 2024.
- Capex of about R$3.2 billion in the next 12 months after June 2024.
- Working capital needs of about R$425 million in the next 12 months.
- Dividends of about R$1.2 billion in the next 12 months.
- The payment of R$6.3 billion for the forestry and land acquisition in July 2024.

Environmental, Social, And Governance

Environmental factors are a neutral consideration in our credit rating analysis of Klabin. On one hand, pulp and paper production requires significant amounts of energy, water, and chemicals, and the process generates greenhouse gas (GHG) emissions, waste, and pollution. Conversely, Klabin benefits from favorable climate conditions for eucalyptus and pine, which have the highest harvesting rates in the industry, as well as from owning the land. The company has an advanced land management, combining a high proportion of preserved and sustainably certified forestland.

In addition, Klabin's vertical integration, the relatively short distance from forests to its pulp mills, and high degree of energy self-sufficiency (about 97% in 2023) result in a very competitive cost structure. Moreover, the company has been reducing consumption of chemicals and fossil fuels in the production process due to its biomass gasification plant.

We also see an accelerating trend of substituting plastic packaging with paper, which should favor demand growth for Klabin's products in the medium to long term. In terms of greenhouse gas emissions, Klabin has a goal to reduce emissions per ton of pulp, paper, and packaging by 42% by 2030 (2022 base year), and net zero until 2050. It reduced emissions per ton by 14.2% in 2022, and 17.8% at the end of 2023.

Rating Above The Sovereign

The ratings on Klabin are one notch above our 'BB' foreign currency rating on Brazil, reflecting our view that the company wouldn't default upon a hypothetical sovereign default. In our view, Klabin has moderate sensitivity to the domestic economy due to its partly export-oriented business. As a result, and given the company's asset concentration in Brazil, we could rate Klabin up to three notches above the Brazilian sovereign rating, and up to one notch above our transfer and convertibility assessment of Brazil.

Our main assumptions for a hypothetical Brazilian sovereign default scenario include:

- GDP falls 10% in one year, resulting in the same decline in domestic volumes of pulp, paper, and packaging.
- Inflation doubles, and the company is unable to pass through all the resulting higher costs into prices.
- A 50% depreciation of the Brazilian real, which would double Klabin's servicing costs on its foreign currency debt (in domestic currency terms) but would raise its export revenues.
- Hardwood pulp prices of around $500 per ton, in line with those in mid-2020, when prices dropped to a historical low.
- Doubling of interest rates, increasing interest expenses of local floating-rate debt.
- A haircut of 70% applied to investments in Brazilian government securities and 10% haircut for liquid bank deposits.
- Capex at maintenance levels of about R$1.2 billion.

In this scenario, we think the company would maintain sufficient liquidity sources to cover its needs over 12-months. We consider that Klabin's partly export-oriented business, with ability to redirect its paper production to other markets if the domestic market deteriorates, somewhat insulate the company from a potential Brazilian economic downturn.

Issue Ratings--Recovery Analysis

Key analytical factors

- The issue-level rating on Klabin's senior unsecured notes is 'BB+'. The '3' recovery rating indicates our expectation of a recovery of about 65% for unsecured lenders under a hypothetical default scenario.
- We assume a scenario with eroding macroeconomic and industry conditions, with low pulp and paper prices for a long period, resulting in much weaker cash flows that aren't sufficient to cover the company's interest and principal payments and maintenance capital expenditures.

- In our default scenario, EBITDA would plummet about 35% from the currently projected EBITDA in 2024.
- In a default scenario, we expect Klabin to reorganize, rather than liquidate, because of its solid market position in the paper and packaging segments.
- We've valued the company on a going concern basis, using a 5.0x multiple applied to our projected emergence-level EBITDA, which results in an estimated gross emergence value of about R$30 billion.

Simulated default assumptions

- Jurisdiction: Brazil
- Simulated year of default: 2029
- EBITDA at emergence: R$6 billion
- Implied enterprise value (EV) multiple: 5.0x
- Estimated gross EV at emergence: R$30 billion

Simplified waterfall

- Net EV after 5% administrative costs: R$28.5 billion
- Senior secured debt: R$11.3 billion
- Unsecured debt: R$26 billion
- Recovery expectation: 65%

All debt amounts include six months of prepetition interest.

Rating Component Scores

Foreign currency issuer credit rating	**BB+/Stable/--**
Local currency issuer credit rating	**BB+/Stable/--**
Business risk	**Satisfactory**
Country risk	Moderately High
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bbb-**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**bb+**

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Tear Sheet: Klabin S.A, Nov. 29, 2023

Ratings Detail (as of September 13, 2024)*

Klabin S.A.		
Issuer Credit Rating		BB+/Stable/--
Brazil National Scale		brAAA/Stable/--
Senior Unsecured		
Brazil National Scale		brAAA
Issuer Credit Ratings History		
29-Jun-2016	*Foreign Currency*	BB+/Stable/--
27-Oct-2015		BBB-/Negative/--
10-Sep-2015		BBB-/Watch Neg/--
29-Jun-2016	*Local Currency*	BB+/Stable/--
27-Oct-2015		BBB-/Negative/--
10-Sep-2015		BBB-/Watch Neg/--
16-Aug-2017	*Brazil National Scale*	brAAA/Stable/--
29-Jun-2016		brAA/Stable/--

Ratings Detail (as of September 13, 2024)*	
27-Oct-2015	brAA+/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.