

## Tear Sheet:

**Klabin S.A.**

November 29, 2023

**We now expect lower EBITDA margin for 2024.** Our revised forecast incorporates lower pulp and paper prices because of weak global demand and capacity increases. These factors will cause Klabin S.A.'s margins to drop to about 36.5% in 2024 from 40.5% in our previous forecast, and compared with 37% expected for the entire 2023. Moreover, the continued need for third-party lumber for the first phase of PUMA II weighs on margins. In 2025, we forecast EBITDA margin close to historical levels of 40% owing to higher prices and, to a minor extent, to efficiency measures that will reduce total costs.

**Consequently, higher leverage with debt to EBITDA close to 4x in 2024.** We expect higher leverage than in our previous forecast, as Klabin maintains capital expenditures (capex) of about R\$4.5 billion amid lower cash flows. As a result, we now forecast leverage to remain relatively stable at the end of 2023 and 2024, close to 4x, compared with our previous expectation of 3.0x-3.5x. Capex is mostly for maintenance and continued work on existing projects, such as Figueira. We expect the company to fund investments with internal cash generation, an approved credit line of \$447 million from Finnvera, and the recently disbursed syndicated loan of \$595 million. Therefore, we expect Klabin to maintain a comfortable cash position of R\$9 billion – R\$10 billion. For 2025, we expect higher cash generation mostly from higher volumes and prices, amid a relatively stable debt level, leading to improved leverage with debt to EBITDA nearing 3x.

**Klabin benefits from integrated operations and ability to convert paper production into packaging.** The containerboard market remains challenging, with lower demand for exports, especially from Europe. For this reason, we believe the company should continue prioritizing the conversion of kraftliner into corrugated boxes in the domestic market, where we expect higher volumes in the coming months given the upcoming harvest and year-end festivities.

## Primary contact

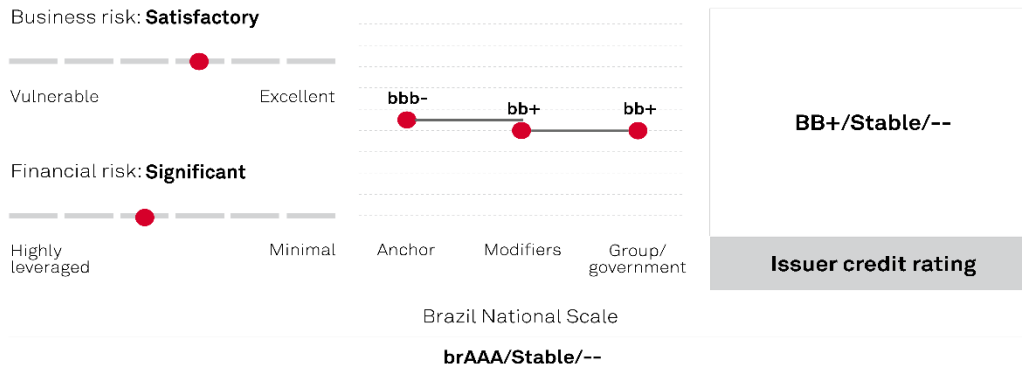
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## Ratings Score Snapshot

## Klabin S.A.



## Recent Research

- Klabin S.A., July 13, 2023

## 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 22 plants in Brazil and one in Argentina. It owns 507,000 hectares (ha) of land, 307,000 ha of which are planted forests (178,000 ha of which are destined for long fiber and 129,000 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).

## 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, offsetting weak pulp prices. Until the end of 2024, we expect debt to EBITDA of about 4x, funds from operations (FFO) to debt of 15%-20%, and still weak free operating cash flow (FOCF) as a result of sizable capex.

### 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 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.

## Key Metrics

## Klabin S.A.--Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. BRL)	2019a	2020a	2021a	2022a	2023e	2024f	2025f	2026f
Revenue	10,272	11,949	16,481	20,033	16,598	18,428	20,376	20,734
Gross profit	5,614	7,051	10,217	12,633	9,210	9,941	11,626	11,679
EBITDA (reported)	4,713	5,565	8,178	9,860	6,167	6,779	8,347	8,286
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	(967)	(860)	(1,298)	(2,059)	(23)	(23)	(23)	(23)
EBITDA	3,746	4,704	6,879	7,801	6,144	6,756	8,324	8,262
Less: Cash interest paid	(1,213)	(1,439)	(1,635)	(2,239)	(1,739)	(1,973)	(1,990)	(1,882)
Less: Cash taxes paid	(205)	(10)	(507)	(534)	(364)	(240)	(482)	(455)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	2,328	3,256	4,738	5,027	4,041	4,544	5,851	5,925
EBIT	2,640	3,256	5,779	7,168	6,140	6,584	8,337	8,276
Interest expense	1,486	1,622	1,614	1,841	1,737	1,970	1,988	1,880
Cash flow from operations (CFO)	2,935	5,581	3,277	5,997	5,033	5,203	6,388	6,682
Capital expenditure (capex)	2,546	4,567	3,447	7,441	4,643	4,537	3,803	3,232
Free operating cash flow (FOCF)	389	1,014	(169)	(1,444)	390	666	2,585	3,450
Dividends	965	294	581	1,747	1,357	1,356	1,669	1,657
Share repurchases (reported)	--	--	--	--	--	--	--	--
Discretionary cash flow (DCF)	(576)	720	(750)	(3,190)	(967)	(690)	916	1,792
Debt (reported)	24,085	26,339	29,338	27,541	31,343	33,764	32,464	29,788
Plus: Lease liabilities debt	497	823	1,087	1,645	1,727	1,813	1,904	1,999
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid investments	(9,731)	(6,557)	(8,422)	(6,502)	(9,727)	(10,277)	(8,968)	(7,549)
Plus/(less): Other	5	--	181	387	748	748	748	748
Debt	14,857	20,606	22,184	23,070	24,090	26,048	26,147	24,986
Equity	6,501	4,385	7,086	11,568	12,337	12,228	13,399	14,512
FOCF (adjusted for lease capex)	182	567	(616)	(2,211)	66	343	2,263	3,128
Interest expense (reported)	1,459	1,403	1,183	1,157	1,737	1,970	1,988	1,880
Capex (reported)	2,574	4,786	3,878	8,125	4,643	4,537	3,803	3,232
Cash and short-term investments (reported)	9,731	6,557	8,422	6,502	9,727	10,277	8,968	7,549
<b>Adjusted ratios</b>								
Debt/EBITDA (x)	4.0	4.4	3.2	3.0	3.9	3.9	3.1	3.0
FFO/debt (%)	15.7	15.8	21.4	21.8	16.8	17.4	22.4	23.7
FFO cash interest coverage (x)	2.9	3.3	3.9	3.2	3.3	3.3	3.9	4.1
EBITDA interest coverage (x)	2.5	2.9	4.3	4.2	3.5	3.4	4.2	4.4
CFO/debt (%)	19.8	27.1	14.8	26.0	20.9	20.0	24.4	26.7
FOCF/debt (%)	2.6	4.9	(0.8)	(6.3)	1.6	2.6	9.9	13.8
DCF/debt (%)	(3.9)	3.5	(3.4)	(13.8)	(4.0)	(2.6)	3.5	7.2
Lease capex-adjusted FOCF/debt (%)	1.2	2.8	(2.8)	(9.6)	0.3	1.3	8.7	12.5
Annual revenue growth (%)	2.5	16.3	37.9	21.5	(17.1)	11.0	10.6	1.8
Gross margin (%)	54.7	59.0	62.0	63.1	55.5	53.9	57.1	56.3
EBITDA margin (%)	36.5	39.4	41.7	38.9	37.0	36.7	40.9	39.8
Return on capital (%)	12.9	14.1	21.3	22.4	17.3	17.6	21.4	20.9
Return on total assets (%)	8.2	9.3	14.9	16.0	12.3	12.2	15.0	15.1
EBITDA/cash interest (x)	3.1	3.3	4.2	3.5	3.5	3.4	4.2	4.4

**Klabin S.A.--Forecast summary**

EBIT interest coverage (x)	1.8	2.0	3.6	3.9	3.5	3.3	4.2	4.4
Debt/debt and equity (%)	69.6	82.5	75.8	66.6	66.1	68.1	66.1	63.3
Debt fixed-charge coverage (x)	2.5	2.9	4.3	4.2	2.1	2.5	2.4	1.7
Debt/debt and undepreciated equity (%)	69.6	82.5	75.8	66.6	66.1	68.1	66.1	63.3

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

## Financial Summary

**Klabin S.A.--Financial Summary**

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	R\$	R\$	R\$	R\$	R\$	R\$
Revenues	8,373	10,016	10,272	11,949	16,481	20,033
EBITDA	2,695	4,085	3,746	4,704	6,879	7,801
Funds from operations (FFO)	1,681	2,833	2,328	3,256	4,738	5,027
Interest expense	1,162	1,210	1,486	1,622	1,614	1,841
Cash interest paid	1,008	1,092	1,213	1,439	1,635	2,239
Operating cash flow (OCF)	1,813	2,839	2,935	5,581	3,277	5,997
Capital expenditure	925	1,096	2,546	4,567	3,447	7,441
Free operating cash flow (FOCF)	888	1,743	389	1,014	(169)	(1,444)
Discretionary cash flow (DCF)	369	903	(576)	720	(750)	(3,190)
Cash and short-term investments	8,272	7,047	9,731	6,557	8,422	6,502
Gross available cash	8,272	7,047	9,731	6,557	8,422	6,502
Debt	11,966	13,147	14,857	20,606	22,184	23,070
Common equity	7,234	6,533	6,501	4,385	7,086	11,568
<b>Adjusted ratios</b>						
EBITDA margin (%)	32.2	40.8	36.5	39.4	41.7	38.9
Return on capital (%)	11.3	16.8	12.9	14.1	21.3	22.4
EBITDA interest coverage (x)	2.3	3.4	2.5	2.9	4.3	4.2
FFO cash interest coverage (x)	2.7	3.6	2.9	3.3	3.9	3.2
Debt/EBITDA (x)	4.4	3.2	4.0	4.4	3.2	3.0
FFO/debt (%)	14.0	21.6	15.7	15.8	21.4	21.8
OCF/debt (%)	15.2	21.6	19.8	27.1	14.8	26.0
FOCF/debt (%)	7.4	13.3	2.6	4.9	(0.8)	(6.3)
DCF/debt (%)	3.1	6.9	(3.9)	3.5	(3.4)	(13.8)

## Peer Comparison

## 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-/Watch Pos/--
Local currency issuer credit rating	BB+/Stable/--	BBB-/Stable/--	BBB-/Stable/--	BBB-/Watch Pos/--
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2021-12-31	2022-12-31
Mil.	R\$	R\$	R\$	R\$
Revenue	20,033	49,831	35,378	72,405
EBITDA	7,801	28,225	12,321	13,238
Funds from operations (FFO)	5,027	23,540	11,065	10,645
Interest	1,841	4,501	1,498	910
Cash interest paid	2,239	4,378	1,901	780
Operating cash flow (OCF)	5,997	21,288	10,195	8,057
Capital expenditure	7,441	14,389	8,106	5,012
Free operating cash flow (FOCF)	(1,444)	6,899	2,088	3,045
Discretionary cash flow (DCF)	(3,190)	843	(537)	774
Cash and short-term investments	6,502	17,053	5,633	4,390
Gross available cash	6,502	17,053	5,633	4,390
Debt	23,070	66,223	27,397	20,572
Equity	11,568	33,166	43,561	28,465
EBITDA margin (%)	38.9	56.6	34.8	18.3
Return on capital (%)	22.4	24.5	13.4	19.9
EBITDA interest coverage (x)	4.2	6.3	8.2	14.6
FFO cash interest coverage (x)	3.2	6.4	6.8	14.7
Debt/EBITDA (x)	3.0	2.3	2.2	1.6
FFO/debt (%)	21.8	35.5	40.4	51.7
OCF/debt (%)	26.0	32.1	37.2	39.2
FOCF/debt (%)	(6.3)	10.4	7.6	14.8
DCF/debt (%)	(13.8)	1.3	(2.0)	3.8

## Rating Component Scores

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

## 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

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