Bad Times at Brazil's Suzano Papel e Celulose

Contributed by Newsroom
Friday, 22 April 2005

Brazil's Suzano Papel e Celulose, one of Latin America's largest integrated producers of pulp and paper, announced its consolidated results for the first quarter of 2005. The information includes the effects of the acquisition of the control of Ripasa S.A. Celulose e Papel.

Net sales in 1Q05 were positively affected by a 1% increase in average prices, and negatively affected by a fall of 9.3% in total volume sold, totaling R$ 580.3 million, 8.4% lower than in 1Q04.

In comparison with 4Q04, net sales were reduced by 11.8%, due to a reduction of 8.1% reduction in sales volume and of 4.0% in average prices. Exports provided 52.2% of net sales, compared to 43.8% in 4Q04, and 53.3% in 1Q04.

Rising pulp prices in the world market were a key feature of 1Q05. CIF prices for pulp sold in Europe increased by around US$ 60/ton, in the quarter, to US$ 580/ton.

The reasons for the increase in international prices are: (i) increased economic activity in the US, with higher consumption of paper and pulp; (ii) strong demand from Chinese producers; and (iii) the continuing strength of the euro against the dollar, resulting in increased dollar prices for pulp sold to Europe.

At the beginning of April there was a further increase in the price of pulp, CIF Europe, to US$ 600/ton.

Pulp net sales were R$ 148.1 million in 1Q05, 13.6% less than in 1Q04. This was primarily the result of a 12.7% reduction in volume sold, to 113.9 thousand tons, and a decrease of 1.1% in the average price of pulp in Reais, to R$ 1,299.92 per ton in the quarter.

The lower sales volume also reflects the rebuilding inventories, which at the end of 2004 were below appropriate operating levels for meeting customers' needs. The reduction in average pulp prices in Reais reflects international prices 6.7% higher in dollars, mitigated by the appreciation of the Real.

Net sales revenue from pulp was 13.1% higher than in 4Q04, due to the 3.3% increase in unit volume sold, mainly in exports, and also due to increases in average prices of 9.4% in Reais and 15.8% in dollars.

1Q05 total paper net sales were R$ 432.2 million, 6.5% lower than in 1Q04. The negative effect of a 7.0% reduction in sales volume to 177.4 thousand tons in 1Q05, was partially offset by a 0.6% increase in the average price of papers, to R$ 2,436.48/ton in 1Q05.

Volume sold in the domestic market decreased by 8.0% to 99.4 thousand tons, in comparison to 108.0 thousand tons in 1Q04. Sales volume to the domestic market represented 56.0% of total sales of paper, compared with 56.6% in 1Q04. As a result, export prices became closer to domestic prices, also influenced by the increasing strength of the Real.

The increased production volume enabled the company to rebuild inventories. Total production reached 334.5 thousand tons in 1Q05 - 204.8 thousand tons of papers and 129.7 thousand tons of market pulp and in March was a record month in terms of production of pulp and final products.

A contributing factor in the increase in output was the good performance of the equipment during the Mucuri pulp plant learning curve period, and the absence of maintenance stoppages (in contrast to 4Q04).

At the Mucuri plant the cash production cost of market pulp, including the cost of standing wood, was R$ 472/ton

(US$177/ton) in 1Q05, compared with R$ 673/ ton (US$241/ton) in 4Q04.

This mainly reflects (i) the absence of maintenance stoppages and the start up of the optimization project at the Mucuri unit during 4Q04; and (ii) appreciation of the Real during the quarter.

In comparison with 1Q04, the cash cost increased by US$22 per ton, due to: (i) the learning curve in the pulp plant after the optimization project (which added annual production capacity of 60,000 tons); (ii) increase in chemical costs and (iii) Real appreciation.

Suzano's net income in 1Q05 was R$ 91.0 million, 21.5% lower than in the same period of 2004 - and 33.2% lower than in 4Q04.

The main factors in the lower net income were lower sales volume, in both the domestic and external markets, and the appreciation of the Real, which resulted in a lower price for exports in Reais.

The following were some of the consequences:

(1) Unit cost of sales, at R$ 1,184.21, was 7.2% higher than in 1Q04, reflecting salary increases in 2004 and higher production costs. Gross margin was 3.4 percentage points lower than in 1Q04 and 2.4 percentage points lower than in 4Q04.

(2) Net financial expenses (excluding monetary and FX variations), at R$ 30.6 million, were 49.4% higher than in 1Q04, reflecting higher interest expenses and lower financial revenue - in part due to the lower average cash and deposits.

The following factors partially offset the above effects:

(1) Administrative expenses were reduced to R$ 50.1 million, which is 8.3% higher than in 1Q04, but 31.6% lower than in 4Q04, and is at a sustainable level. As well as the salary increase in 2004, administrative expenses in this quarter included the Company's first contributions to its new private pension plan - which started operating in this quarter - and a non-recurring disbursement of R$ 1.9 million relating to the process of acquisition of Ripasa.

(2) Selling expenses, at R$ 31.9 million, were 0.4% more than in 1Q04, but 38.3% less than in 4Q04. The reduction in relation to 4Q04 reflects the reduction in domestic sales volume and the existence of non-recurring items in that quarter, including provision for doubtful accounts.

(3) The net effect of monetary and FX variations was negative, at R$ 6.9 million, due to the devaluation of only 0.4% in the Real in the quarter - the amount is 51.3% lower than its value in 1Q04 (when it was R$ 14.2 million negative).

1Q05 Ebitda was R$ 211.6 million (US$ 79.3 million, converted at the average R$/US$ FX rate for the period), 16.4% lower in Reais than in 1Q04, and 9.1% lower in dollars. Ebitda margin (on net sales), at 36.5%, was 3.4 percentage points lower than in 1Q04 (39.9%).

Capital expenditure in 1Q05 totaled R$ 69.5 million: R$ 19.0 million was spent on the São Paulo units, R$ 34.6 million on the Mucuri unit, and R$ 15.7 million on the Capim Branco hydroelectric project.

Of the total, (i) R$ 8.5 million was invested in the forest base for expansion project; (ii) R$ 14.4 million was invested in industrial modernizations, including R$ 8.3 million in the optimization project; and (iii) R$ 30.6 million expenditures was the total in current investments in the industrial and forestry areas.

Net debt on March 31, 2005 was R$ 2.3726 billion (US$889.9 million), which compares with R$ 1.616 billion (US$608.8

million) on December 30, 2004, excluding the proportional consolidation of Ripasa's net debt, due to the participation of 23.03% in its total capital.

The increase in net debt reflects the funding transactions to finance the purchase of Ripasa. At the end of March net debt / trailing 12-month Ebitda was 2.38, compared with 1.56 at the end of December 2004.

Considering the inclusion of the 23.03% of Ripasa's net debt, the total consolidated debt reached R$ 2,504.4 million and the net debt / trailing 12-month Ebitda was 2.51. This indicator does not include 23.03% of Ripasa's Ebitda, prior to the acquisition.

Suzano Papel e Celulose is one of the largest integrated producers of paper and eucalyptus pulp in Latin America, with pulp production capacity of 1.1 million tons/year and paper production capacity of 820 thousand tons/year.

It offers a broad range of pulp and paper products to the Brazilian and international markets, and has leadership positions in key segments of the Brazilian markets.

It has four principal product lines: (i) eucalyptus pulp; (ii) uncoated woodfree printing and writing paper; (iii) coated woodfree printing and writing paper; and (iv) paperboard. Suzano Papel e Celulose has indirectly 50% of the controlling interest in Ripasa S.A Celulose e Papel ("Ripasa"), which produces pulp, printing and writing paper, specialty papers, paperboard and cardboards.

Ripasa reported net sales revenue of R$ 1.4 billion in 2004 from sales of 612,000 tons of products. It has four industrial units in São Paulo State and forest areas totaling 86,400 hectares.

Source: Suzano Bahia Sul Papel e Celulose S.A.
www.suzano.com.br

PRNewswire