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Research Update:

Suzano S.A. 'BBB-' Ratings Affirmed After Conclusion Of Joint Venture With Kimberly-Clark; Outlook Remains Positive

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Primary Contact

Henrique Koch
Sao Paulo
55-11-3039-9723
h.koch
@spglobal.com

Secondary Contact

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

Rating Action Overview

- Brazilian pulp and paper producer Suzano S.A. announced on July 1, 2026, the closing of the acquisition of a 51% equity interest in Arbex from Kimberly-Clark Corp. Arbex is a joint venture created to host Kimberly-Clark's international tissue assets.
- We believe this transaction supports Suzano's diversification efforts and mitigates exposure to market pulp and cash-flow volatility through business cycles.
- On July 6, 2026, S&P Global Ratings affirmed its 'BBB-' issuer credit and issue ratings on Suzano.
- The outlook remains positive and reflects the potential for an upgrade in the next 24 months if the company demonstrates consistent deleveraging toward 3.0x or below.

Rating Action Rationale

In our view, the closing of the joint venture (JV) with Kimberly-Clark increases Suzano's scale and reduces its exposure to the more volatile market pulp segment. The transaction was settled with a payment of $1.3 billion, considering the initial capital structure of the joint venture, with net debt of approximately $1.0 billion.

Through the JV, Suzano has integrated a diverse portfolio of 22 manufacturing facilities across 14 countries, with a total tissue capacity of approximately 1 million tons per year. The move expands Suzano from being the world's largest pulp producer to also now the eighth-largest tissue producer globally. The deal also provides access to premier global brands, such as Kleenex and Scott, through long-term licensing arrangements.

We believe the JV structure, which maintains Kimberly-Clark's operational involvement, mitigates integration risks. We expect Arbex to contribute a pro forma annual EBITDA of approximately $500 million, with the potential to capture an additional $175 million in annual synergies over the next three years.

We now see leverage declining slower than previously anticipated, primarily owing to a downward revision in pulp price assumptions and a strengthening of the Brazilian real (R$). Specifically, we have revised our 2026 price forecast for hardwood in China to approximately $580 per ton, down from our previous estimate of $650 per ton. This, combined with a less favorable exchange rate, has constrained both revenues and EBITDA margins. Consequently, we now project adjusted leverage to be approximately 3.8x in 2026, rather than the 2.5x previously forecasted.

However, Suzano's industry-leading cost position remains a significant credit strength. Even in this cycle low, the company continues to generate positive free operating cash flow and discretionary cash flow; its resilience distinguishes it from its peers.

Subsequently, we expect the company's leverage to ease as market conditions normalize and the JV fully contributes to EBITDA. We forecast adjusted leverage to decrease to 2.5x-3.0x by 2027, supported by an expected recovery in pulp prices to approximately $650 per ton and the stabilizing effect of the tissue segment. A disciplined capital allocation strategy (the company has no major expansion projects planned for the next few years) will also support deleveraging. Consequently, management remains focused on reducing leverage to its target of approximately 2.0x-2.5x to create flexibility for opportunities.

This shift in financial focus is in response to evolving global market dynamics. The industry is experiencing a substantially flattened cost curve and greater vertical integration among paper producers in China. We think these structural changes diminish the potential for significant increases in pulp prices.

Therefore, an upgrade would be predicated on the company maintaining adjusted leverage at 3.0x or below across business cycles, as well as a robust liquidity cushion and disciplined capital expenditure management.

Outlook

The positive outlook indicates at least a one-in-three chance of an upgrade in the next 24 months given the company's business and geographic diversification achieved with the conclusion of the deal with Kimberly-Clark, which we expect to reduce cash flow volatility through the cycles.

Downside scenario

We could revise the outlook to stable in the next 24 months if we expect leverage above 3.0x, on average, for the next three years. This could occur amid sustained low pulp prices or higher-than-expected capital expenditure (capex). We don't assume any new mergers and acquisitions, as indicated by Suzano management.

Upside scenario

We could raise the ratings in the next 24 months if Suzano maintains adjusted leverage at 3.0x or lower, even amid cyclical volatility in pulp prices. An upgrade would also depend on the maintenance of a liquidity cushion, with the ability to pass a stress test related to potential restrictions on access to foreign exchange to cover its operating and financial needs, given our 'BBB-' transfer and convertibility assessment on Brazil.

Company Description

Suzano is the world's largest bleached eucalyptus kraft pulp producer--with capacity of 13.4 million tons per year--and total paper capacity of 2.0 million tons. The company has 11 production facilities across Brazil and one in the U.S. Suzano also holds a 50% interest in Veracel, a joint operation with Stora Enso, in Bahia, Brazil, which has pulp production capacity of 1.2 million tons. Suzano benefits from access to proprietary rapidly growing forests, with about 2.9 million hectares of land (of which about 1.7 million hectares are planted forests).

Through a 51% stake in the Arbex joint venture with Kimberly-Clark, Suzano has diversified into consumer goods, gaining access to 22 industrial units across 14 countries and a portfolio of major global brands like Kleenex and Cottonelle.

Our Base-Case Scenario

Assumptions

- Average exchange rate of R$5.15 per $1 in 2026, R$5.25 per $1 in 2027, and R$5.35 per $1 in 2028
- Average hardwood pulp prices in China of about $580 per ton in 2026, $650 per ton in 2027, and $580 in 2028
- Annual pulp volumes of about 12.6 million tons in 2026 and close to 12.9 million tons in 2027 and 2028
- Annual paper volumes from current operations of 1.8 million-1.9 million tons in the next few years
- Pulp cash cost close to $170 per ton in the next few years
- Maintenance capex of about R$7.3 billion in 2026, expansion and modernization capex of about R$3.7 billion, and maintenance capex for Arbex of R$530 million
- Total capex of R$11 billion-R$12 billion in the next few years, mostly for maintenance
- Dividends of 10% EBITDA minus maintenance capex
- Acquisition payment of $1.3 billion in 2026, with Arbex reporting revenue, EBITDA, capex, and debt starting in the second half of 2026

Key metrics

Suzano S.A.--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028	Dec-31-2029
(Mil. BRL)	2022a	2023a	2024a	2025a	2026e	2027f	2028f	2029f
Revenue	49,831	39,756	47,403	50,116	59,113	74,986	71,511	75,602
EBITDA (reported)	29,631	19,537	24,915	21,946	23,156	29,091	25,068	28,279
Plus/(less): Other	(1,406)	(1,538)	(1,317)	(551)	(286)	984	1,030	1,030
EBITDA	28,225	17,999	23,599	21,395	22,869	30,075	26,097	29,308
Less: Cash interest paid	(4,378)	(5,889)	(6,201)	(6,093)	(6,664)	(7,032)	(6,498)	(6,464)
Less: Cash taxes paid	(306)	(308)	(366)	(290)	(577)	(3,670)	(2,601)	(3,850)

Suzano S.A.--Forecast summary

Funds from operations (FFO)	23,540	11,802	17,031	15,013	15,629	19,373	16,998	18,994
EBIT	22,062	12,440	16,098	11,446	13,144	20,457	16,605	20,066
Interest expense	4,501	5,085	5,941	6,501	6,978	7,602	7,078	7,045
Cash flow from operations (CFO)	20,520	18,816	17,097	18,073	16,584	18,390	18,062	19,215
Capital expenditure (capex)	14,389	16,397	15,573	12,300	10,872	11,049	12,084	10,276
Free operating cash flow (FOCF)	6,130	2,419	1,524	5,773	5,712	7,341	5,978	8,939
Dividends	4,151	193	1,625	2,208	1,653	1,590	2,009	1,552
Share repurchases (reported)	1,904	881	2,807	192	--	--	--	--
Discretionary cash flow (DCF)	75	1,346	(2,907)	3,373	4,059	5,751	3,968	7,387
Debt (reported)	74,575	77,173	101,436	94,801	93,783	90,196	91,475	89,674
Plus: Lease liabilities debt	6,183	6,244	6,973	6,930	7,256	7,553	7,833	8,091
Plus: Pension and other postretirement debt	456	550	476	489	489	489	489	489
Less: Accessible cash and liquid Investments	(17,053)	(21,170)	(21,990)	(25,113)	(28,140)	(31,689)	(35,796)	(40,984)
Plus/(less): Other	8,952	4,461	6,821	6,616	13,636	13,771	13,906	13,906
Debt	73,113	67,258	93,715	83,724	87,024	80,321	77,907	71,177
Equity	33,166	44,810	32,416	43,952	47,898	56,485	60,787	67,538
Cash and short-term investments (reported)	17,053	21,170	21,990	25,113	26,320	29,834	33,906	39,094
Adjusted ratios								
Debt/EBITDA (x)	2.6	3.7	4.0	3.9	3.8	2.7	3.0	2.4
FFO/debt (%)	32.2	17.5	18.2	17.9	18.0	24.1	21.8	26.7
EBITDA interest coverage (x)	6.3	3.5	4.0	3.3	3.3	4.0	3.7	4.2
CFO/debt (%)	28.1	28.0	18.2	21.6	19.1	22.9	23.2	27.0
FOCF/debt (%)	8.4	3.6	1.6	6.9	6.6	9.1	7.7	12.6
DCF/debt (%)	0.1	2.0	(3.1)	4.0	4.7	7.2	5.1	10.4
Annual revenue growth (%)	21.6	(20.2)	19.2	5.7	18.0	26.9	(4.6)	5.7
EBITDA margin (%)	56.6	45.3	49.8	42.7	38.7	40.1	36.5	38.8
Return on capital (%)	22.9	11.4	13.5	9.0	10.0	15.1	12.1	14.5

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

Liquidity

We assess Suzano's liquidity as exceptional, given its high cash holdings, low debt costs, and extended debt amortization profile. We expect the company's sources of liquidity to exceed uses by more than 2.0x in the next two years. In addition, we think that Suzano could maintain a positive sources-to-uses ratio even if EBITDA drops 50%, as well as absorb high-impact events without refinancing.

Moreover, the company has access to funding from several banks and has recently increased and extended its revolving credit facility, and we consider its standing in credit markets as favorable.

Principal liquidity sources	Principal liquidity uses
• Cash of R$22.3 billion as of March 31, 2026 • Standby credit facility of $1.775 billion (about R$9.3 billion) available until February 2031 • New debt issuances amounting to R$2.7 billion during the second quarter of 2026 • Forecast funds from operations of R$17.2 billion in the 12 months following March 2026	• Short-term debt maturities of R$3.4 billion as of March 31, 2026 • Capex of R$10.6 billion in the 12 months following March 2026 • Working capital needs of about R$1.1 billion in the next 12 months • Acquisition payment of $1.3 billion for the JV • Dividend payments and shares buyback totaling about R$1.7 billion in the 12 months following March 2026

Issue Ratings--Subordination Risk Analysis

Capital structure

Suzano's capital structure mainly consists of senior unsecured debt issued by the financing vehicles Suzano Austria and Suzano Netherlands, which the parent company guarantees, as well as export financing lines, local debentures, and BNDES loans. There's no material secured debt collateralized by real assets.

Analytical conclusions

The ratings on Suzano's debt are the same as our issuer credit rating on the company because Suzano has limited secured debt. Even if this debt ranked behind the debt issued by subsidiaries in the capital structure, we believe the risk of subordination is mitigated by a priority debt ratio lower than 35%, even after including the capital structure with the JV, and by the parent's considerable earnings. We rate the financing vehicles' unsecured debt the same as our issuer credit rating on Suzano based on the unconditional guarantee of this debt.

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB-/Positive/--
Local currency issuer credit rating	BBB-/Positive/--
Business risk	Satisfactory
Country risk	Moderately high risk
Industry risk	Moderately high risk
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Exceptional
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- 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: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Suzano Outlook Revised To Positive On Acquisition Of Majority Stake In Kimberly-Clark's International Tissue Assets, June 6, 2025

Ratings List

Ratings List		
Ratings Affirmed		
Suzano S.A.		
Issuer Credit Rating	BBB-/Positive/--	
Suzano Austria GmbH		
Suzano Netherlands B.V.		
Senior Unsecured	BBB-	
Ratings Withdrawn		
	To	**From**
Suzano International Finance B.V.		
Senior Unsecured	NR	BBB-