

# Klabin

February 11, 2015

## 4Q14 Results: resilient growth in an unstable market

Despite Klabin's weaker results, the company has been showing a resilient growth despite a less favorable domestic environment. Its flexibility to choose the focus of its sales between domestic and foreign market has helped the company to offset the deceleration of sales in the Brazilian market with higher exports, taking advantage of the dollar appreciation.

**Lower volumes were offset by FX variation.** In the 4Q14, sales volume reached 443 kt, 6.9% lower YoY, mainly due to the drop of 22.4% and 5.1% in sales of Kraftliner and Coated Boards respectively. According to the company, the stoppage in Angatuba for capacity expansion and the higher consumption of pulp in the machine no.9 in Porto Alegre (which is still in the ramp-up phase) restricted paper volume production. However, as a result of higher sales of Coated Boards in the domestic market and the increase in prices due to the dollar appreciation, Klabin's revenues increased by 1.7% YoY to BRL 1.26 billion.

**Cash Cost and Operating Results.** Excluding one-off effects, the cash cost came at BRL 1,778/t in the 4Q14, an increase of 5.3% over the same period last year. The major impact came from the exchange rate and the growth in prices with chemicals, energy and fuel oil, but they were partially offset by lower purchases of Sack Kraft after the startup of the new machine in Correia Pinto (SC) at the end of 2013 (+40kt per year). Despite the rise of 8.5% in administrative expenses, Klabin reached an EBITDA of BRL 508.4 million (margin of 40.4%), +14.9% YoY. Excluding the non-recurring sale of forestry assets of BRL 27 million in the 4Q14, the growth goes down to 8.8% and margin to 38.3%.

**Indebtedness and Financial Results.** Following the investments in the Puma Project, Net Debt totaled BRL 5.2 billion and it was 30.1% higher than the previous quarter. Thus, the Net Debt/EBITDA ratio ended the quarter at 3.1x, versus 2.4x in the previous quarter. Despite the increase in gross debt due to the necessity of cash for the current investments in the Puma Project, the financial result was also influenced by the dollar appreciation, which resulted in a net foreign exchange variation negative of BRL 357.7 million. As a result, Klabin ended the quarter with a net loss of BRL 127.4 million, versus net income of BRL 21.5 million in the 4Q13.

**Outlook.** Klabin will continue its tracking on the Puma Project, and the consequent increase in its level of leverage. It might be a concern for the next quarters if we consider the more challenging scenario, added to a inflationary pressure over the company's costs. On the other hand, the company's strategy to focus its sales on the foreign market due to the Brazilian real depreciation, and the new recycled paper machine in Goiana (PE) should bring better operational results in the upcoming quarters. We are maintaining our KLBN11 target price of BRL 16.00 for YE2015, with Outperform recommendation

BRL million	4Q14	QoQ	YoY	2014	YoY
Net Revenue	1,257	-2.0%	1.7%	4,894	6.4%
Gross Profit	357	-42.9%	-20.2%	2,244	29.8%
Gross Margin (%)	28.4%	-20.4 pp	-7.8 pp	45.9%	8.3 pp
Adjusted EBITDA	508	12.6%	14.9%	1,718	10.0%
EBITDA Margin (%)	40.4%	5.2 pp	4.6 pp	35.1%	1.2 pp
Net Income	-127	-	-	730	151.8%
Net Margin (%)	-	-	-	14.9%	8.6 pp

Sales by product (kt)	4Q14	Q/Q	YoY	2014	YoY
Kraftliner	90	-17.4%	-22.4%	389	3.2%
Coated Boards	166	3.8%	-5.1%	637	-5.6%
Conversion	176	-4.9%	0.6%	712	2.7%
Others	11	-15.4%	10.0%	33	-23.3%
<b>Total</b>	<b>443</b>	<b>-5.1%</b>	<b>-6.9%</b>	<b>1,771</b>	<b>-1.0%</b>

Source: Klabin and BB Investimentos

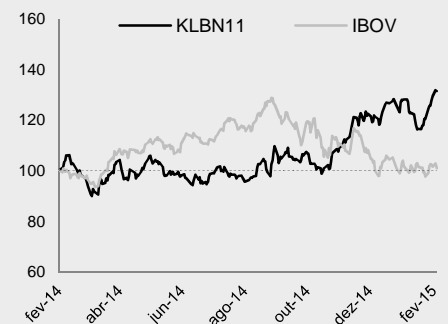
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KLBN11	Outperform
Last Price 02/10/2015 (BRL)	14.95
Target Price 12/2015 (BRL)	16.00
Upside	-
Market Cap (BRL million)	13,873
1 Month Change	2.6%
LTM Change	30.1%
YTD Change	2.5%
52w Low (BRL)	10.03
52w High (BRL)	15.09

Multiples	2105e	2016e	2017e
EV/EBITDA	8.5x	7.4x	5.8x
P/E	39.6x	34.4x	21.2x
EPS (BRL)	0.38	0.43	0.71



Source: Bloomberg and BB Investimentos

Revenue by prod (BRL mm)	4Q14	Q/Q	Y/Y	2014	Y/Y
Kraftliner	160	-8.0%	-14.4%	639	6.9%
Coated Boards	450	7.4%	4.7%	0	3.3%
Conversion	544	-4.4%	4.0%	2,171	7.6%
Wood	82	0.0%	1.2%	335	6.0%
Others	21	-44.7%	40.0%	88	46.7%
<b>Total</b>	<b>1,257</b>	<b>-2.0%</b>	<b>1.7%</b>	<b>4,894</b>	<b>6.4%</b>

Indebtedness (BRL million)	4Q14	QoQ	YoY
Gross Debt	10,986	6.4%	57.8%
Net Debt	5,242	30.2%	31.6%
Net Debt / EBITDA	3.1x	0.6x	0.5x

Source: Klabin and BB Investimentos

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