



**BY MARCELLO COLLARES**  
 SENIOR CONSULTANT  
 LATIN AMERICA,  
 FISHER INTERNATIONAL  
 ✉: mcollares@fisheri.com

## INVESTMENT OUTLOOK IN BRAZIL

Talking about investment potential is not an easy task. If we limit the scenario to politically stable regions, with high levels of education and social development, and try to forecast consumption growth, it might not be that difficult. But to assess the outlook of a country with several political challenges (to say the least), with limited social infrastructure and low education levels, and an Industry with a few question marks about its future, can be a more challenging task. So, let's see how the Brazilian Paper Industry can surprise us.

### Market Pulp

I won't take your time trying to convince you how important Brazil is in the Pulp market. A simple look at the worldwide market pulp (hardwood) cost curve shows how competitive and big it is (Figure 1). Fibria and Suzano have taken the lead in the growth process.

Eldorado is advancing from the outside track, with a potential new line arriving in 3-5 years. Klabin is the new "old player," seeking business alternatives.

Brazil will have, in total, at least two new pulp lines in the next decade, adding 4 million tons of hardwood pulp.

Note that I am only showing hardwood in the graph. Klabin has proven that an investment in other grades (softwood and fluff) can also be a good idea. The hardwood market, just like any other market, is finite. Softwood can be the next frontier. Provided we plant trees in advance...

### Communications Grades

Printing & Writing consumption is not growing in Brazil. A short-term analysis can be misleading since the economic recession has a direct impact on the grade. But we can be

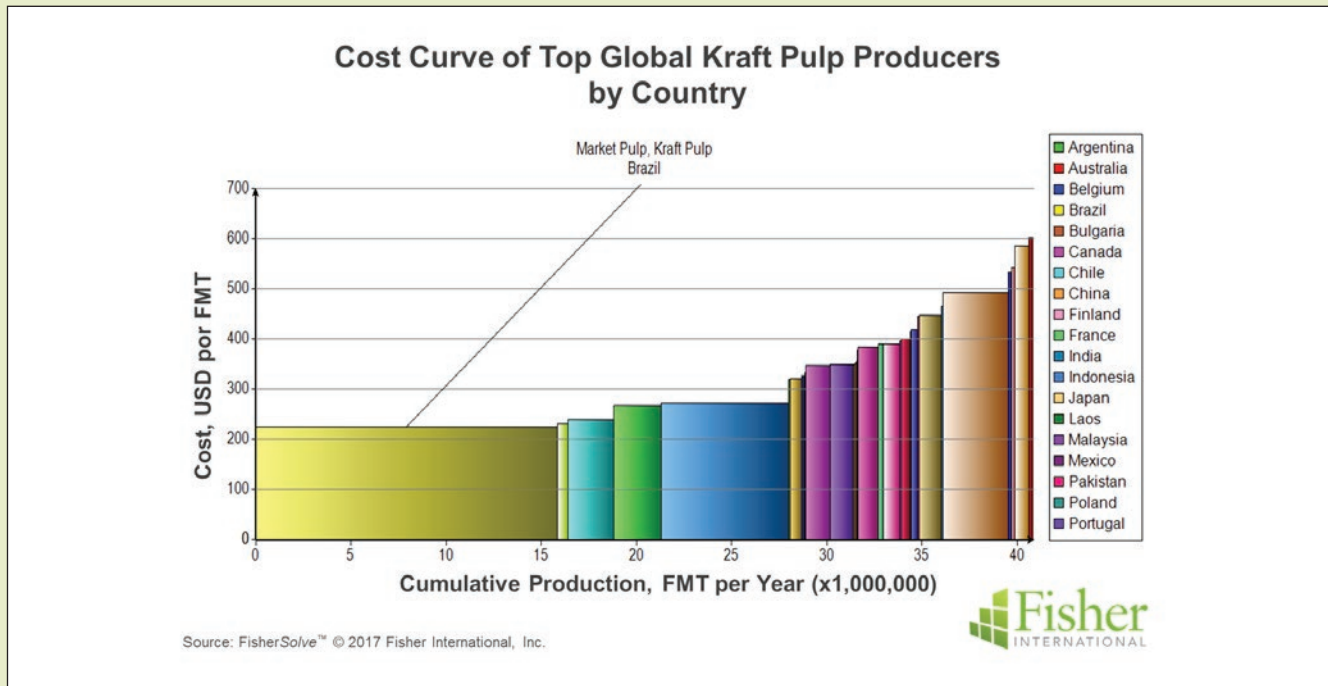


Figure 1

confident that Brazil will leapfrog over the massive consumption rates seen historically in developed countries, landing directly in the age of the digital media market.

Except for a possible new paper machine at International Paper's Três Lagoas unit (it has been announced and postponed several times), only marginal new investments are forecasted in the country, mainly debottlenecking capacity offset by grade changes or divestments.

As a Brazilian, I can only hope that someone can think outside the box and see the potential to export the finished good (paper), instead of just the raw material (pulp). After all, provided the freight cost can be hedged (Fibria can show us how), there is no economic reason why Brazil couldn't be an export platform of copy paper, for example.

## Packaging

If you love the paper industry, here we have only good news. Printing & Writing and Newsprint have suffered almost an industry disruption with globalization, digital communication, social media, PCs, e-books, etc., absorbing its business and making the world a more complex place in which to thrive. On the flip side, Packaging takes advantage of the same phenomenon to improve its presence with the unquenchable global e-commerce.

And, the truth is, as long as it's easier to squeeze orange juice out of a "tetra pak" than the fruit, we can continue building packaging machines.

Over the past six years, Brazil has added more than 700,000 tons of

new packaging capacity and will enjoy even more new investments in the years to come - we forecast an additional volume above 200,000 tons. That is not all. As another kind of investment, we must anticipate new M&As, which add value to companies and shareholders. It has happened before and there is every reason to consider it going forward: good assets, weak Real (R\$), good domestic market, access to fiber, etc.

## Tissue

We could almost carve Tissue out of the Paper Industry. In fact, P&G and KC do it, don't they? The business continues growing (Figure 2). It is not entirely immune to the economic roller coaster but, at the very least, it will follow population growth. From 2018 to 2021, we anticipate a net addition of 2 tissue machines - excluding Suzano's 2017 paper machine (140,000 tons).

By the way, this new business for Suzano is a complex and interesting matter. I recommend reading, "T&T in Brazil: Strong growth but challenges remain" by Fisher's Tissue guru, Bill Burns. It is available on Fisher's website and gets the ball rolling for considering the role that Brazil's Pulp producers might play as Tissue producers and Tissue exporters.

In Summary, we can expect good investments and growth in Brazil over the next few years. Jobs are going to be created and new players might be born. From the "Pulp and Paper" side of the equation, Brazil will see the light at the end of the tunnel. ■

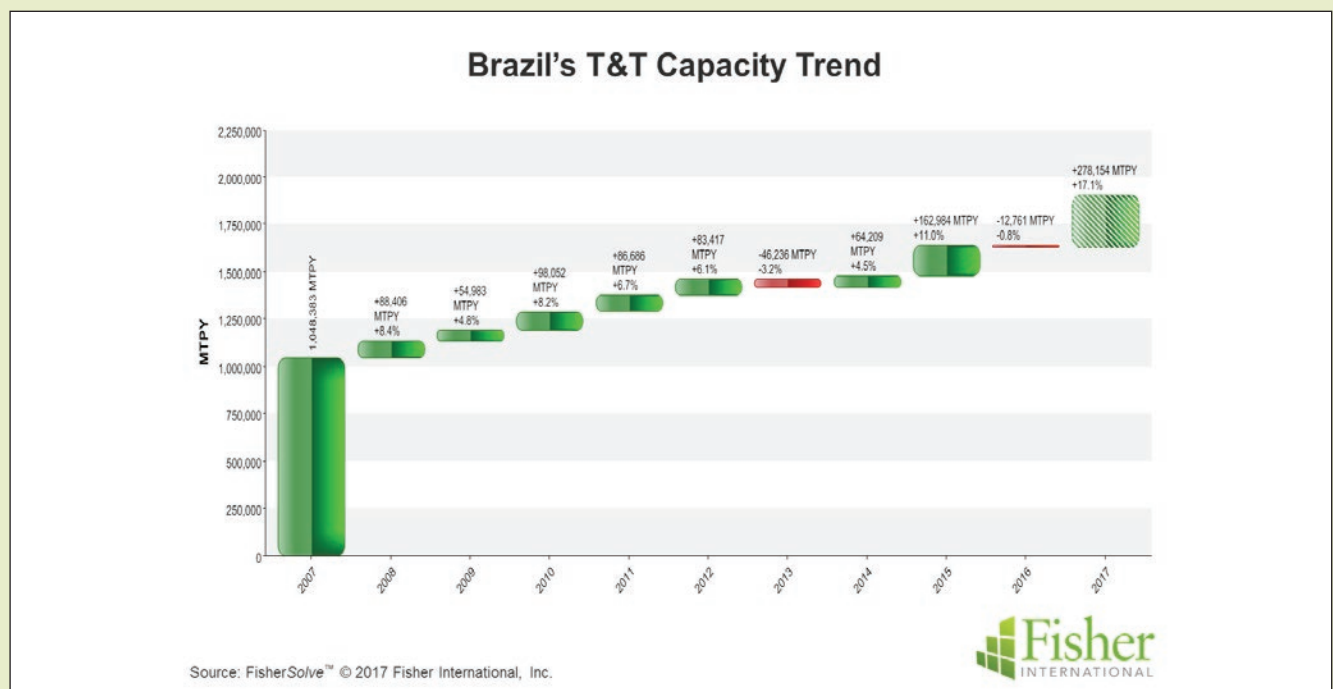


Figure 2