

Announcement: Moody's affirms Suzano's Baa3 rating

Global Credit Research - 30 Dec 2010

Approximately USD 940 million in rated debt securities affected

Sao Paulo, December 30, 2010 -- Moody's affirmed the Baa3 global scale rating and Aa1.br Brazilian national scale rating of Suzano Papel e Celulose S.A.'s ("Suzano") BRL 500 million senior unsecured debentures and the Baa3 foreign currency rating of Suzano Trading Ltd.'s USD 650 million guaranteed senior unsecured notes due 2021. The ratings outlook remains stable. The affirmation follows the announcement that Suzano has entered into an agreement with Fibria Celulose S.A. (rated Ba1, outlook positive) to acquire a 50% stake in Consorcio Paulista de Papel e Celulose -- Conpacel (50% are already owned by Suzano) for BRL 1.45 billion and 100% of KSR Distribuidora (paper distribution company) for BRL 50 million in cash.

Ratings affirmed:

..Issuer: Suzano Papel e Celulose S.A.

....Senior Unsecured Debentures Due in 2014 and 2019: Baa3 (global scale) and Aa1.br (Brazilian national scale)

Issuer: Suzano Trading Ltd.

....Senior Unsecured Guaranteed Bonds Due 2021: Baa3 (foreign currency)

The outlook for all ratings is stable.

RATINGS RATIONALE

In our view, the acquisitions as announced will add scale to Suzano's paper operations and further strengthen its position in the Brazilian paper market. The acquisitions are expected to be concluded in January (Conpacel) and February (KSR) of 2011, when the respective cash payments are due. Based on Suzano's cash balance of BRL 3.6 billion on September 30, 2010, its liquidity position should remain solid based on an adequate debt maturity schedule and also considering a BRL 1.2 billion issuance of convertible debentures planned in 1Q2011, which counts on the firm commitment for full subscription by the controlling shareholders and BNDES Participações S.A. Based on preliminary documentation, Moody's understands that the proposed convertible debentures will have substantial equity-like features. Should, however, the final indenture prove otherwise, a negative rating action could be considered if leverage increases to a level considered inadequate for the Baa3 rating, particularly for a company with significant investment projects.

The Baa3 / Aa1.br ratings of the debentures consider Suzano's position as a low cost producer of bleached eucalyptus kraft pulp (BEKP) and paper, with leading market positions in the global BEKP market and Brazilian printing and writing paper and paperboard sectors. The company benefits from a high level of vertical integration with substantial self-sufficiency in wood fiber and energy, in addition to the proximity of its pulp mills to its own forests and port facilities as well as the favorable location of its paper plants within Brazil's most industrialized region. As a result, the company has reported strong operating margins even during the industry's downcycles. The rating is also supported by Suzano's prudent financial management as evidenced by its solid liquidity position and good risk management practices. While geographic diversification of Suzano's revenues is good, we note that its operational diversity is constrained by the concentration of market pulp production in the Mucuri site location. Additional constraining factor is the company's significant exposure to foreign currency as a large portion of its costs are in local currency while revenues are linked to the U.S. Dollar. Suzano's good corporate governance and level of disclosure are regarded as credit positives.

Reflective of the elevated indebtedness to finance a new USD 1.3 billion mill for the production of 1.1 million tons of market pulp in Mucuri, which is fully operational since early 2008, but also of the weaker market conditions in 2009, Suzano reported Total Adjusted Net Debt (considering a minimum cash of BRL 1 billion) to EBITDA of 3.4x as of September 30, 2010 (LTM) which, although declining from 4.0x as of June 30, 2010, is still high for the Baa3 rating category. Based on the gradual price recovery for pulp and paper since mid 2009 and improved cash flow generation, we expect Net Debt to EBITDA to decline further towards 2.5x in the near term as weaker quarters roll off, what would however depend on the level of equity credit given to the proposed BRL 1.2 billion convertible debentures to be issued in 1Q2011.

Suzano has announced sizeable investments for the period 2010 -- 2014, including three wood pellet facilities with one million tons of capacity each at an estimated cost of around USD 800 million, and two 1.4 million tons BEKP mills in the states of Maranhão and Piauí, respectively, with combined capital spending of some USD 5.3 billion. While the entry into the wood pellet business (for export to thermo power generators) should not represent a significant challenge to Suzano from an operational view point, we regard the risk of this new venture as moderate since the end-market for wood pellets differs significantly from that for pulp and paper products. The mentioned projects are still pending approval by the company's board.

The stable outlook considers that Suzano will adequately manage its aggressive investment plans over the near term in order to maintain leverage and liquidity at manageable levels during the execution period. We expect the company to pre-fund a substantial portion of its capital spending with long-term debt, so that free cash flow from existing operations is sufficient to cover current debt obligations.

An upward pressure on Suzano's debt rating is currently challenged by its aggressive investment plans and its low operational diversity. However, a positive rating action could be considered if the company manages to maintain Net Debt (considering a minimum cash balance of BRL 1 billion) to EBITDA below 3.0x, together with Free Cash Flow before pre-funded capex to Net Debt (as defined above) consistently in the mid-teen range and strong liquidity during execution of its expansion projects. On the other hand, negative pressure on the rating could result if Net Debt (considering a minimum cash balance of BRL 1 billion) to EBITDA increases above 4.0x during the execution of its expansion plans without prospects for near-term reduction, or in case the company's liquidity position deteriorates. Also, a significant increase in secured debt could negatively pressure the ratings of unsecured debt instruments.

Moody's last rating action regarding Suzano occurred on December 9, 2010 when we first assigned Baa3 / Aa1.br ratings to its senior unsecured debentures due 2014 and 2019.

The principal methodology used in rating Suzano was Moody's Global Paper and Forest Products Industry rating methodology published in September 2009. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

Moody's National Scale Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".br" for Brazil. For further information on Moody's approach to national scale ratings, please refer to Moody's Rating Implementation Guidance published in August 2010 entitled "Mapping Moody's National Scale Ratings to Global Scale Ratings."

Suzano Papel e Celulose, Brazil, is a leading producer of bleached eucalyptus market pulp, printing and writing paper and paperboard having reported consolidated net revenues of BRL 4.3 billion (about USD 2.4 billion converted by the average exchange rate) in the last twelve months ended on September 30, 2010.

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