FitchRatings

Fitch Assigns Suzano 'BB' IDR; Affirms 'A+(bra)' Rating

22 Dec 2011 3:34 PM (EST)

Fitch Ratings-Sao Paulo/Chicago-22 December 2011: Fitch Ratings has affirmed Suzano Papel e Celulose S.A.'s (Suzano) national scale rating of 'A+(bra)' and the national scale rating of its debentures due in 2014 and 2019 at 'A+(bra)'.

In conjunction with these affirmations, Fitch has assigned the following ratings:

Suzano

--Foreign Currency Issuer Default Rating (IDR) at 'BB';
--Local Currency IDR at 'BB'.

Suzano Trading Ltd.

--Foreign Currency IDR at 'BB';
--USD650 million Senior Notes due Jan. 23, 2021 at 'BB'.

The Rating Outlook for the corporate ratings is Stable.

Suzano Trading Ltd. is a wholly owned subsidiary of Suzano and is incorporated in the Cayman Islands. The USD650 million senior notes are unconditionally and irrevocably guaranteed by Suzano. The credit quality of Suzano and Suzano Trading Ltd. have been linked according to Fitch's 'Parent and Subsidiary Rating Linkage' criteria report dated Aug. 12, 2011.

Suzano's credit ratings reflect the company's leading position in Brazil's printing and writing paper and paperboard markets, and its strong position in the bleached eucalyptus kraft market pulp (BEKP) industry. The ratings also take into consideration Suzano's large forestry base, which assures it of a competitive production cost structure in the future and provides it with organic growth opportunities. The value of the company's land and forests as of Sept. 30, 2011 was BRL6 billion.

Suzano's ratings are constrained by high leverage ratios and by the expectation that leverage will remain high during 2012 as capital expenditures for the pulp mills rise, reaching a peak in 2013, when the start-up of the Maranhao pulp mill is expected. Fitch projects net debt-to-EBITDA ratios to exceed 4.0 times (x) during 2012 and 2013, as the company expands its market pulp capacity to 3.4 million tons per year by 2013 from 1.9 million tons per year during 2011.

Sustainable Competitive Advantage; Low Production Cost Structure:

Suzano is the leading producer of printing and writing paper in Brazil, as well as paperboard, with 1.3 million tons of annual production capacity. The company's market shares of 31% in uncoated printing and writing paper and 26% in paperboard allow it to be a price leader in Brazil. Suzano also produces 1.9 million tons of market pulp, which makes it one of the ten largest producers of market pulp in the world.

Like other producers of hardwood pulp in Brazil, Suzano enjoys a production cost structure that is among the lowest in the world. This enables Suzano to generate positive cash flows during troughs in the pulp and paper cycle. Suzano's competitive advantage is viewed as sustainable. The company owns 771,000 hectares of land in Brazil, of which 341,000 are used for the development of eucalyptus plantations.

Suzano plans to develop pulp mills at Maranhao (targeted start-up date at the end of 2013), with an annual production capacity of 1.5 million tons. The company recently announced a postponement of the decision to purchase industrial equipment for a new pulp mill in Piaui until the first half of 2014; this was viewed positively by Fitch in light of current market conditions.

Leverage is High; Liquidity is Adequate:

Suzano had BRL8.4 billion of total debt and BRL3 billion of cash as of Sept. 30, 2011, resulting in net debt of BRL5.5 billion. These figures compare with net debt of BRL3.6 billion at the end of 2010 and BRL4.2 billion at the end of 2009. The increase in net debt was due to the negative impact of BRL depreciation versus the U.S. dollar (52% of total debt is dollar denominated), and, to a lesser extent, new debt.

As expected by Fitch, leverage increased during 2011 and should continue to rise. During the latest 12 months (LTM) ended Sept. 30, 2011, Suzano's total debt-to-EBITDA ratio was 6.9x, while its net debt-to-EBITDA ratio was 4.5x, as calculated by Fitch. These ratios compare with 4.4x and 2.1x, respectively, in 2010, and 6.6x and 4.1x in 2009. Suzano's leverage has historically been higher than most of its peers in Latin America. Between 2005 and 2008, Suzano's net leverage averaged 3.5x.

Leverage should remain high in the next couple of years, as Suzano plans to invest about BRL4 billion in 2012 and BRL2.2 billion in 2013, not considering the sale of assets. Leverage should also be pressured by the expectation of relatively weak pulp prices due to a sluggish global recovery, excess paper capacity in China, and additional pulp capacity. Higher leverage ratios may lead to covenant breach of the third debentures issuance. The company is taking the necessary steps to seek covenant adjustments or waivers and could repay the obligation with its cash balance if necessary.

Suzano has historically maintained a strong liquidity position. As of Sept. 30, 2011, Suzano had BRL3 billion of cash and marketable securities. This compares with about BRL2.5 billion of debt maturing by the end of 2012. Maturities of BRL1.2 billion in 2013 and BRL1.1 billion in 2014 should also be manageable.

Strong Cash Flow Generation Capacity Pressured by High Investment Plan:

Suzano generated BRL1.2 billion of EBITDA and BRL989 million of funds from operations (FFO) during the LTM. This compares with BRL1.7 billion of EBITDA and BRL1.2 billion of FFO during 2010. With investments of BRL2.4 billion and dividends of BRL162 million, free cash flow was negative BRL1.6 billion during the LTM.

The high level of investments was due to expansion projects (Maranhao and Piaui units) and the acquisition of a 50% interest in Consorcio Paulista de Papel e Celulose (Conpacel) from Fibria Celulose S.A. (Fibria) for BRL1.450 billion, as well as the acquisition of the paper distribution company, KSR Distribuidora (KSR), for BRL50 million.

Suzano's plan to invest an additional BRL6.2 billion in 2012 and 2013 will further pressure free cash flow for the next 18 months. The company's cash position could benefit from the sale of non-core assets or partnerships. Suzano has strong access to long-term debt financing in both the local banking market and the debt capital markets and is expected to fund much of its growth with debt.

Potential Rating or Outlook Drivers:

Suzano credit ratings could be negatively affected by a further increase in leverage ratios, or by a significant reduction in liquidity. Negative rating actions could also be driven by additional debt financed acquisitions.

Suzano credit ratings could be positively affected by a decision by the company's management to maintain lower total debt levels for a sustained period of time. A change in the company's capital structure, following an equity increase to support the aggressive expansion project would also be viewed positively by Fitch.

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Additional information is available at 'www.fitchratings.com'. The National Scale Ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings. However, the international IDRs above were unsolicited and have been provided by Fitch as a service to investors..

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 12, 2011);
--'National Ratings - Methodology Update' (Jan. 19, 2011);
--'Parent and Subsidiary Rating Linkage' (Aug. 12, 2011).

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