FitchRatings

Fitch Affirms Suzano's Ratings at 'BB-'; Outlook Revised to Positive

Ratings Endorsement Policy
03 Oct 2013 5:10 PM (EDT)

Fitch Ratings-Rio de Janeiro-03 October 2013: Fitch Ratings has affirmed the following ratings of Suzano Papel e Celulose S.A.'s (Suzano) and its subsidiary Suzano Trading Ltd.:

Suzano
--Long-term foreign currency Issuer Default Rating (IDR) at 'BB-';
--Long-term local currency IDR at 'BB-';
--Long-term national scale rating at 'A(bra)';
--3rd Debentures Issuance, second series in the amount of BRL167 million, due in 2019, at 'A(bra)'.

Suzano Trading Ltd.
--Long-term foreign currency IDR at 'BB-';
--USD650 million senior notes due Jan. 23, 2021 at 'BB-'.

The Rating Outlook for the corporate ratings was revised to Positive from Stable.

The revision of the company's Outlook to Positive from Stable reflects Fitch's expectation of a gradual deleverage process in 2014 and 2015 following the completion of the Maranhao pulp mill. They also reflect a renewed focus by the company's leadership team on decreasing leverage, which has resulted in a suspension of the Piaui and Renewable Energy projects until the company's leverage is more manageable.

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. 5, 2013.

KEY RATING DRIVERS

Solid Business Position

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 37% 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 10 largest producers of market pulp in the world. Suzano's new pulp mill at Maranhao should begin operations at the end of 2013 and will add an annual production capacity of 1.5 million tons. 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 and leases 847,000 hectares of land in Brazil, of which 442,000 are used for the development of eucalyptus plantations (357,000 own planted area). The value of the company's land and forests as of June 30, 2013 was BRL7.0 billion.

High Leverage Should Decline in 2014

Despite having a strong business position, Suzano's rating have been constrained at 'BB-' due to the company's high leverage. Suzano had BRL12.1 billion of total debt and BRL4.5 billion of cash as of June 30, 2013, resulting in net debt of BRL7.7 billion. These figures compare with net debt of BRL6.6 billion at the end of 2012 and BRL5.6 billion at the end of 2011. Net debt has increased due to nearly USD3 billion of investments in the Maranhao pulp mill and related forests. As of June 30, 2013, Suzano's net debt-to-EBITDA ratio for the LTM was 5.3x. Historically, Suzano has operated with a higher level than its Latin America peer group, with an average net leverage ratio of 3.6x between 2008 and 2011. Leverage should gradually reduce to below 4.5 during 2014 due to the startup of the Maranhao mill. The reduction in leverage during 2014 should be tempered by weak pulp prices, which should begin to recover in 2015. By the end of 2015, Fitch expects Suzano's leverage to fall to 3.0x or below.

Strong Liquidity and Comfortable Debt Amortization Schedule

Suzano has historically maintained a strong cash position. As of June 30, 2013, the company had BRL4.5 billion of cash and marketable securities. The cash position was supported by a USD535 million Export Credit Agency (ECA) facility that the company received in May. Liquidity covered short-term debt obligations by a ratio of 5.1x. Suzano has manageable debt maturities of BRL1.3 billion up to December 2014 and BRL860 million in 2015.

Cash Flow Generation Pressured by High Investments

Suzano generated BRL1.5 billion of EBITDA and BRL535 million of funds from operations (FFO) during the latest 12 months (LTM) ended June 2013. This compares with BRL1.3 billion of EBITDA and BRL989 million of fund from operations (FFO) during 2011. The company's EBITDA generation benefited from higher pulp and paper prices, depreciation of the Brazilian real against the USD, as well as reduction in operational costs and expenses. With investments of BRL2.6 billion and dividends of BRL100 million, free cash flow was negative BRL2.1 billion during the LTM. Cash flow is not expected to materially improve during the next 12 months due to additional capital expenditures on the Maranhao mill, weak pulp prices, and rising pulp cash cost due to the acquisition of more wood from third parties.

RATING SENSITIVITIES

Suzano's credit ratings could be positively affected by higher than expected cash generation during 2014. Additional proactive steps by the company to materially bolster its capital structure in the absence of high operating cash flow would be viewed positively and could result in a positive rating action. A positive outlook for pulp prices in 2015 could also bolster the probability of positive rating actions.

Negative rating actions are unlikely in the near term. If the company's ratios continue to decline beyond levels anticipated by Fitch, additional negative rating actions could follow. A weakening of the company's liquidity position could also result in negative rating actions.

Contact:

Primary Analyst
Fernanda Rezende
Director
+55-21-4503-2619
Fitch Ratings Brasil Ltda.
Praca XV de Novembro, 20 - Sala 401 B - Centro - Rio de Janeiro - RJ - CEP: 20010-010

Secondary Analyst
Joe Bormann, CFA
Managing Director
+1-312-368-3349

Committee Chairperson
Ricardo Carvalho
Senior Director
+55-21-4503-2627

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (Aug. 5, 2013).

Applicable Criteria and Related Research:
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

Additional Disclosure
Solicitation Status