Tagging Info

Fitch Upgrades Suzano's Ratings to 'BB'; Outlook Revised to Stable

Ratings Endorsement Policy
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Fitch Ratings-Rio de Janeiro-19 September 2014: Fitch Ratings has upgraded 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) to 'BB' from 'BB-';
--Long-term local currency IDR to 'BB' from 'BB-';
--Long-term national scale rating to 'A+(bra)', from 'A(bra)'.

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

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

The upgrade of Suzano's ratings reflects Fitch's expectation that net leverage will be reduced to 3.5x or below by the end of 2015. The key driver of lower leverage is the ramp up of the Maranhao pulp mill, which was inaugurated at the end of 2013 and should reach full output during 2015. This mill, which has an annual production capacity of 1.5 million tons, should increase Suzano's annual EBITDA from around USD775 million in 2013 to more than USD1.1 billion by the end of 2015. For this projection, Fitch used a low net pulp price of USD600 per ton for BEKP, which reflects significant oversupply of pulp.

Suzano Trading Ltd. is a wholly owned subsidiary of Suzano and is incorporated in the Cayman Islands. Its long-term foreign currency has been withdrawn as it is not considered analytically significant due to the unconditional and irrevocable guaranteed of its USD650 million senior notes by Suzano.

KEY RATING DRIVERS

Leverage Expected to Decline in 2015 and 2016
Suzano's net debt-to-EBITDA ratio for the latest 12 months (LTM) was 4.7x as of June 30, 2014, per Fitch's calculation. 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. Fitch expects Suzano's net leverage to fall to 3.5x or below by the end of 2015 due to high output by Maranhao. The calculation for net leverage by Fitch assumes trough pulp prices. If prices were USD100 per ton higher, the company's net leverage ratio would decline to around 2.7x.

Capex to Decline
Suzano had BRL12.6 billion of total debt and BRL3.1 billion of cash as of June 30, 2014. These figures compare with BRL9.4 billion of net debt at the end of 2013 and BRL6.6 billion at the end of 2012. The increase of net debt during the past few years was due to nearly USD3 billion of investments in the Maranhao pulp mill and related forests. This mill increased the company's market pulp capacity to 3.4 million tons per year. Capex should taper off during the next two years around USD750 million per year as the company scales back investments.

Significant Forestry Holdings
The company owns and leases 889,000 hectares of land in Brazil, of which 458,000 are used for the development of eucalyptus plantations (372,000 own planted area). Under IFRS, the value of the company's biological assets was BRL3 billion and the value of land was BRL4.3 billion as of June 30, 2014. The productivity of these forestry assets provide it with a sustainable competitive advantage versus its peers in the Northern Hemisphere and additional growth opportunities. Considering the value of biological assets the company's adjusted net leverage for forestry assets would be 3.2x at the end of June 2014 and should be around 2.5x at the end of 2015.

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 36% in uncoated printing and writing paper and 29% in paperboard allow it to be a price leader in Brazil. With 3.4 million tons of market pulp capacity, Suzano is the fourth largest producer 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.

Strong Liquidity and Comfortable Debt Amortization Schedule
Suzano has historically maintained a strong cash position. As of June 30, 2014, the company had BRL3.1 billion of cash and marketable securities. Liquidity covered short-term debt obligations by a ratio of 2.4x. Suzano has manageable debt maturities of BRL634 million during the second half of 2014 (2H'14), BRL1.1 billion in 2015, and BRL1.9 billion in 2016.

Cash Flow Generation to Improve
Suzano generated BRL2 billion of EBITDA and BRL1.4 billion of funds from operations (FFO) during the LTM ended June 2014. This compares with BRL1.7 billion of EBITDA and BRL907 million of FFO during 2013. The company's EBITDA generation benefited from the new pulp sales volume from Maranhao as well as reduction in operational costs and expenses, which partially mitigated weak pulp prices. The company's CFFO was negatively affected by high working capital needs from the new pulp mill and was only BRL12 million in the LTM ended June 2014. With high investments of BRL1.8 billion and dividends of BRL122 million, free cash flow (FCF) was negative BRL1.9 billion during the LTM. Cash flow could benefit during 2014 and 2015 from a weaker currency, which should reduce the company's cost structure.

RATING SENSITIVITIES

Suzano's credit ratings could be positively affected by a reduction of net leverage to levels consistently below 3.0x through the cycle and by higher than expected cash generation during 2015 and 2016. 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 the next couple of years could also bolster the probability of positive rating actions.

Negative rating actions could be driven by a weakening of the company's liquidity position and by net leverage in the range of 4.5x to 5.0x during an investment cycle, considering pulp prices at USD600 per ton. Additional factors that could make it harder to achieve the aforementioned leverage metrics would include pulp prices below USD550 per ton, as well as any debt financed acquisitions.

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
Jay Djemal
Director

+1-312-368-3134

Tertiary 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' (May 28, 2014).

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

Additional Disclosure
Solicitation Status