

## Fitch Affirms Suzano's IDRs at 'BB', Upgrades Nat'l Scale to 'AA-(bra)'; Outlook Revised to Positive

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Fitch Ratings-Rio de Janeiro-11 September 2015: Fitch Ratings has affirmed Suzano Papel e Celulose S.A.'s (Suzano) foreign currency and local currency Issuer Default Ratings (IDR) at 'BB'. At the same time, Fitch has upgraded its national scale long-term rating to 'AA-(bra)' from 'A+(bra)'. The Rating Outlook for the corporate ratings is revised to Positive from Stable. A full list of rating actions follows at the end of this release.

The upgrade of the company's national scale rating was due to the marked improvement in the company's free cash flow (FCF) due to the depreciation of the Brazilian real during 2015, which has reduced the company's cost structure. Stronger cash flow has accelerated the deleveraging of Suzano's balance sheet post the start-up of the Maranhao pulp mill at a pace more rapid than originally projected.

The Positive Rating Outlook for both the international and national scale ratings reflects Fitch's expectation that the company's free cash will remain strong during 2016. By the end of next year, Fitch expects Suzano's net leverage to be around 2.5x. An upgrade could occur if the company's uses its FCF to reduce gross debt levels to around BRL13 billion if the exchange rates is in the range of BRL3.5 to BRL3.75.

### KEY RATING DRIVERS

#### Strong Business Position and Liquidity Position

Suzano's ratings continue to reflect the company's leading position in printing and writing paper and paperboard in Brazil, and its position as the fifth largest producer of market pulp in the world. The ratings also incorporate Suzano's strong liquidity and comfortable debt amortization schedule, and the expectation that net leverage will be reduced during 2015 to 2017.

#### Leverage Will Continue to Decline

Suzano's net debt-to-EBITDA ratio for the latest 12 months (LTM) was 3.6x as of June 30, 2015, per Fitch's calculation, and should fall to 2.5x or below by the end of 2016.

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, and 5.0x between 2012 and 2014. Fitch's base case considers that the company will maintain capex in the next two years around USD500 million to USD600 million per year as the company scales back investments. Net pulp prices are projected to improve from around USD625 per ton in 2016 to USD675 per ton in 2018. If prices were USD100 per ton higher in 2016, the company's net leverage ratio would decline to around to 2.0x.

## Positive Credit Trends

Fitch projects Suzano will lower its net debt by BRL2 billion to BRL10 billion by the end of 2017. As of June 30, 2015, the company had BRL14.7 billion of total debt and BRL2.9 billion of cash. Fitch expects Suzano to generate about BRL5 billion of EBITDA and BRL3 billion of funds from operations (FFO) in 2016. During 2015, the company benefited from the weakening of the Brazilian real versus the U.S. dollar and strong sales volumes from its new pulp mill (Maranhao). Suzano generated BRL3.3 billion of EBITDA, BRL2.7 billion of FFO and BRL663 million of FCF in the LTM ended June 2015. This compares with BRL2.4 billion of EBITDA, BRL1.8 billion of FFO and negative FCF of BRL8 million during 2014. Stronger operating cash flow and lower investments will contribute toward the company's debt reduction strategy.

## 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 strong market shares in uncoated printing and writing paper and in paperboard allow it to be a price leader in Brazil. With 3.4 million tons of market pulp capacity, Suzano is the fifth 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, ensuring its long-term competitiveness.

## Significant Forestry Holdings

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A key credit consideration that further enhances Suzano's credit profile is its ownership of about 1 million hectares of land, where the company developed about 522,000 hectares of eucalyptus plantations. The forestry assets are valued at BRL3.9 billion. Importantly, the nearly ideal conditions for growing trees in the region make these plantations extremely efficient by global standards and give the company a sustainable advantage in terms of cost of fiber and transportation costs between forest and mills.

## KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for Suzano include:

- Net pulp prices between USD575 and USD625 per ton during 2015-2017.
- Pulp sales volume of 3.4 million tons per year.
- Pulp cash cost of USD200/ton.
- A Brazilian real weaker than 3.2 BRL/USD.

## RATING SENSITIVITIES

Future developments that may individually or collectively lead to a positive rating action includes:

- Material reduction in gross debt to close to BRL13 billion.
- Reduction in net leverage to levels consistently below 3.0x through the cycle.
- 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.
- A positive outlook for pulp prices in the next couple of years could also bolster the probability of positive rating actions.

Future developments that may individually or collectively lead to a negative rating action includes:

- Weaker liquidity position.
- Increase in net leverage ratio to levels above 4.5x, considering pulp prices at USD600

per ton.

--Sharp deterioration of market conditions with significant reduction of pulp prices.

--A debt financed acquisition.

## LIQUIDITY

Suzano has historically maintained a strong cash position. As of June 30, 2015, the company had BRL2.9 billion of cash and marketable securities. Liquidity covered short-term debt obligations by a ratio of 1.8x. Suzano has manageable debt maturities of BRL2.3 billion up to the end of 2016 and BRL1.3 billion in 2017. During the first half of 2015, Suzano prepaid about BRL2.7 billion of debt with BNDES and continued to extend its debt maturity profile with the issuance of USD600 million syndicated loan and BRL675 million Export Credit Note.

## FULL LIST OF RATING ACTIONS

Fitch has taken the following rating action:

Suzano

--Long-term foreign currency Issuer Default Rating (IDR) affirmed at 'BB';

--Long-term local currency IDR affirmed at 'BB';

-- Long-term national scale rating upgraded to 'AA-(bra)' from 'A+(bra)'.

Suzano Trading Ltd.

--USD650 million senior notes, due Jan. 23, 2021 and guaranteed by Suzano, affirmed at 'BB'.

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

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## **Applicable Criteria**

**Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015)**

## **Additional Disclosures**

**Dodd-Frank Rating Information Disclosure Form**

**Solicitation Status**

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