Suzano Papel e Celulose S.A.

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BB
Senior Unsecured	BB
Local Currency	
Long-Term IDR	BB
National Long-Term Rating	AA–(bra)

IDR – Issuer Default Rating.

Rating Outlook

Long-Term Foreign-Currency IDR	Positive
Long-Term Local-Currency IDR	Positive
National Long-Term Rating	Positive

Financial Data

Suzano Papel e Celulose S.A.

(BRL Mil.)	12/31/14	LTM 6/30/15
Revenue	7,265	8,686
EBITDA	2,446	3,307
EBITDA Margin (%)	34	38
Funds from Operations	1,784	2,706
FCF	(8)	663
Cash and Mkt. Securities	3,686	2,895
Total Adj. Debt	14,475	14,706
Total Adj. Debt/ EBITDAR (x)	5.9	4.4
FFO Adj. Leverage (x)	5.6	4.1
EBITDA/ Gross Interest Expense (x)	2.3	2.8

Related Research

Fitch Affirms Suzano's IDRs at 'BB', Upgrades Nat'l Scale to 'AA-(bra)'; Outlook Revised to Positive (September 2015)

Latin America Pulp Dashboard (May 2015)

Analysts

Fernanda Rezende
+55 21 4503-2619
fernanda.rezende@fitchratings.com

Jay Djemal
+1 312 368-3134
jay.djemal@fitchratings.com

Key Rating Drivers

Solid Business Position: Suzano Papel e Celulose S.A. (Suzano) is the leading producer of printing and writing paper and paperboard in Brazil with 1.3 million tons of annual production capacity. 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 market cycle.

Leverage Will Continue to Decline: Suzano's net debt/EBITDA ratio for the LTM was 3.6x as of June 30, 2015, according to Fitch Ratings' calculations. Fitch expects net leverage to fall to 2.5x or below by year-end 2016. Fitch's base case forecasts net pulp prices to improve to USD675 per ton in 2018 from around USD625 per ton in 2016. If prices were USD100 per ton higher in 2016, the company's net leverage ratio would decline to around to 2.0x.

Significant Forestry Holdings: The productivity of Suzano's forestry assets provide it with growth opportunities and a sustainable competitive advantage versus its peers in the northern hemisphere. The forestry assets were valued at BRL3.9 billion at the end of June 2015. The nearly ideal conditions for growing trees in the region make these plantations extremely efficient by global standards.

Strong 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.

Positive Credit Trends: Stronger operating cash flow and lower investments will contribute to the company's debt reduction strategy. Fitch projects Suzano will lower its net debt by BRL2 billion to BRL10 billion by the end of 2017, and expects the company to generate about BRL5 billion of EBITDA and BRL3 billion of FFO in 2016.

Rating Sensitivities

Positive Triggers: Suzano's credit ratings could be positively affected by a material reduction in gross debt to close to BRL13 billion, considering exchange rates in the range of BRL3.5–BRL3.75; reduction in net leverage to levels consistently below 3.0x through the cycle; and 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 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 Triggers: Negative rating actions could be driven by a weakening of the company's liquidity position and by an increase in net leverage ratio to levels above 4.5x, considering pulp prices at USD600 per ton. A sharp deterioration of market conditions with significant reduction of pulp prices and a debt financed acquisition could also lead to negative rating actions.

Financial Overview

Liquidity and Capital Structure

Suzano has historically maintained a strong cash position. As of June 30, 2015, the company had BRL2.9 billion of cash and marketable securities and BRL14.7 billion of total debt, per Fitch's calculations. These figures compare with BRL10.8 billion of net debt at year-end 2014 and BRL9.4 billion at year-end 2013. Fitch projects Suzano will lower its net debt by BRL2 billion to BRL10 billion by the end of 2017. Liquidity covered short-term debt obligations by a ratio of 1.8x. Suzano's liquidity compares favorably with BRL2.3 billion of debt maturities up to year-end 2016 and BRL1.3 billion in 2017.

Total debt is composed of export and import financing, loans from the Brazilian National Development Bank (BNDES), senior notes, export credit agencies (ECAs) and a syndicated loan, and about 53% of total debt was denominated in foreign currency (excluding swaps). Approximately 25% of Suzano's debt as of second-quarter 2015 is composed of fixed-rate debt, while the remaining 75% maintains a variable interest rate.

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. Suzano's net debt/EBITDA ratio for the LTM was 3.6x as of June 30, 2015, per Fitch's calculations, and should fall to 2.5x or below by year-end 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. 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.

Cash Flow Analysis

Suzano generated BRL3.3 billion of EBITDA in the LTM ended June 2015. This compares with BRL2.4 billion of EBITDA during 2014 and BRL1.7 billion in 2013. The main drivers for the improvement seen so far in 2015 are the weakening of the Brazilian real versus the U.S. dollar and strong sales volumes from its new pulp mill (Maranhao).

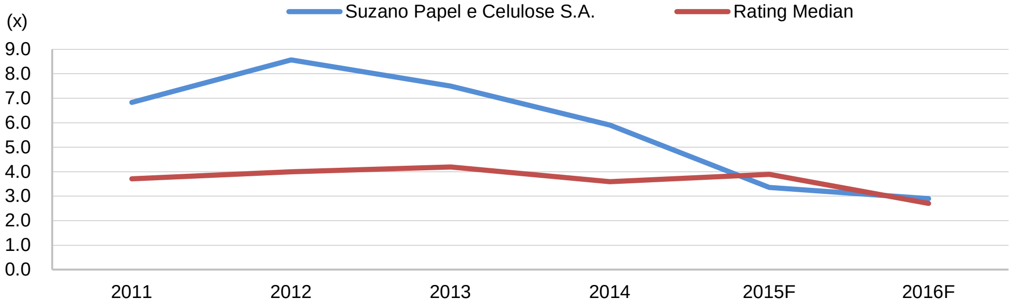
In the LTM ended June 2015, Suzano's FFO increased to BRL2.7 billion and CFFO to BRL2.3 billion, from BRL1.8 billion and BRL1.5 billion, respectively, in 2014. With high investments of BRL1.5 billion and dividends of BRL150 million, FCF was BRL663 million during the LTM.

Fitch expects Suzano to generate about BRL5 billion of EBITDA and BRL3 billion of FFO in 2016. Fitch's base case considers that the company will maintain capex in the next two years around BRL1.5 billion per year as the company scales back investments. Stronger operating cash flow and lower investments will contribute toward the company's debt reduction strategy.

Related Criteria

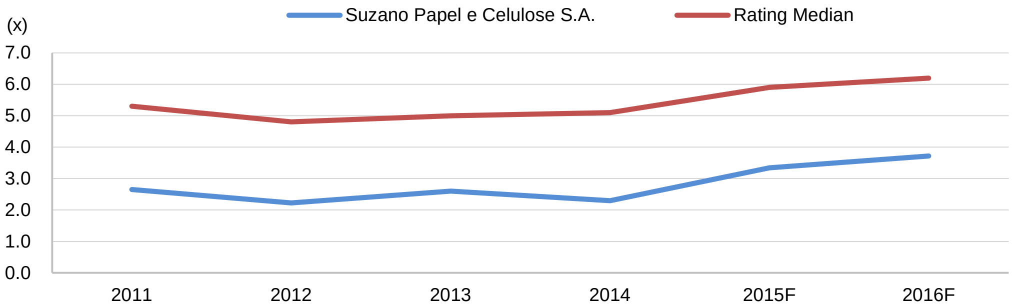
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (August 2015)

Leverage: Total Adjusted Debt/Operating EBITDAR



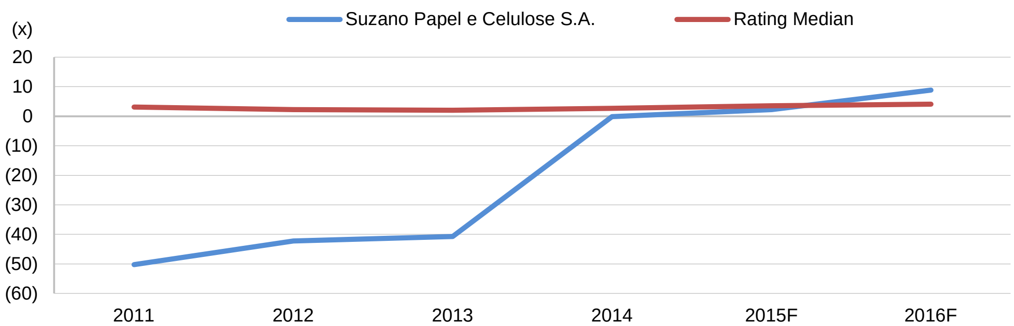
F – Forecast.
Source: Company data, Fitch Ratings.

Interest Coverage: Operating EBITDA/Gross Interest Expense



F – Forecast.
Source: Company data, Fitch Ratings.

FCF/Revenues



F – Forecast.
Source: Company data, Fitch Ratings.

Debt Maturity Liquidity Table

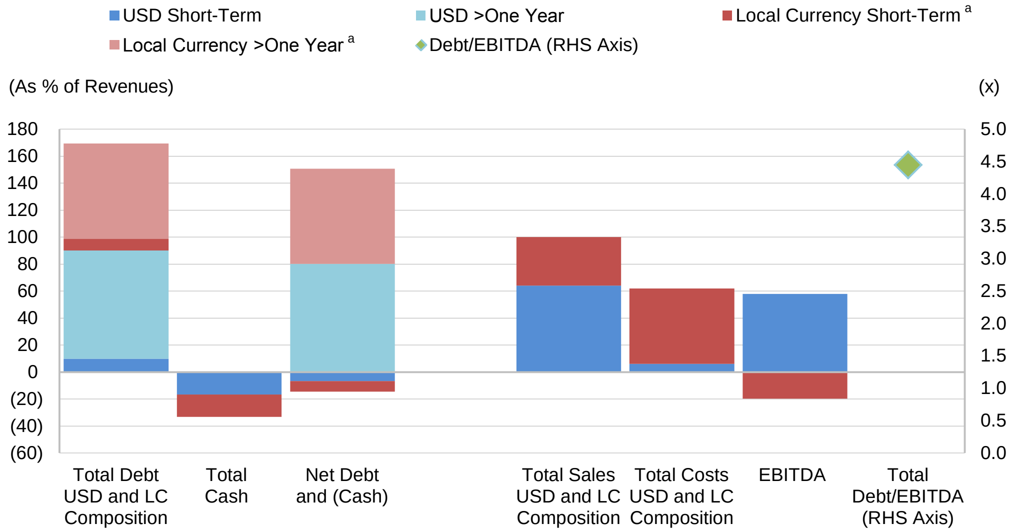
(BRL Bil., As of June 30, 2015)	
Current Maturity	1.6
Two Year	0.7
Three Year	1.3
Four Year	2.2
Five Year	3.7
Beyond Five Years	5.1
CFFO	2.3
Cash	2.9
Undrawn Committed Facilities	0

Source: Company reports.

FX Screener

Fitch FX Screener

(Suzano — BB/Outlook Positive, June 30, 2015)



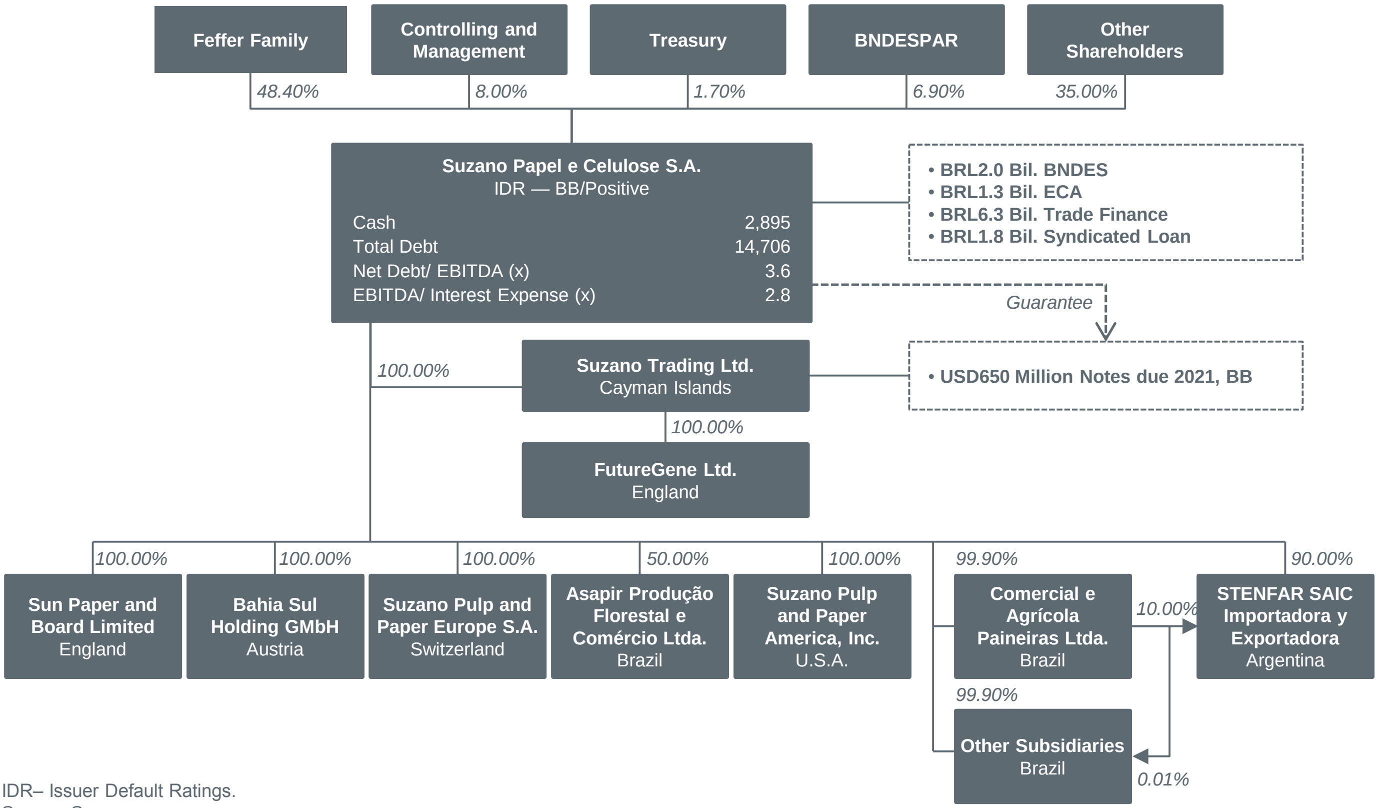
[a]Local currency depicted as USD equivalent.
Source: Fitch Ratings.

This FX risk screener shows Fitch's estimates of the foreign currency (FC) and local currency (LC) split between Suzano's debt, sales and operating costs. This graph illustrates the relative proportions rather than specific figures, thereby acknowledging the limitations of calculating the currency splits for a given financial year.

Fitch analysts make estimates, sometimes with information from management, as to the actual FC receipts or FC-linked income relative to costs. Within the graphs' debt columns, the short-term FC (usually U.S. dollar) debt is highlighted since, in a volatile currency market, this debt has to be physically repaid with FC using cash or accommodative refinancing in the bond or bank market.

About 53% of total debt of BRL14.7 billion was dollar denominated at the end of June 2015. Suzano does not hedge its foreign currency debt, as the company exported 64% of its sales in the LTM ended June 2015. Suzano's FCF benefited from the depreciation of the Brazilian real during 2015, which has reduced the company's cost structure.

Organization Structure — Suzano Papel e Celulose S.A.
(BRL Mil., As of June 30, 2015)



IDR– Issuer Default Ratings.
Source: Suzano.

Debt and Covenant Synopsis — Suzano Papel e Celulose S.A.

Overview

Issuer	Suzano Papel e Celulose				
	Issue	**Issue Date**	**Maturity Date**	**Original Issue/ Outstanding**	**Indenture Date**
	5.875% Senior Unsecured Notes due 2021	09/23/10	01/23/21	USD650 Mil.	09/23/10
Description of Debt	Notes				
Security	Unsecured				
Ranking	Senior				
Guarantee	Suzano Papel e Celulose S.A.				
Release of Guarantee	The obligations shall be released and relieved upon (1) a sale or other disposition of all or substantially all the assets of the company otherwise permitted by this Indenture, or (2) discharge or defeasance of the securities.				
Equity Clawback	None				
Callability	At any time, Suzano may redeem the Notes, in whole, but not in part, at a redemption price equal to the greater of (1) 100% of the principal amount thereof, and (2) the sum of the present values, calculated as of the redemption date, of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the redemption date) due after the redemption date through the maturity date of the Notes, discounted to the redemption date on a semi-annual basis at the Treasury Rate plus 50 bps, plus in each case any accrued and unpaid interest and Additional Amounts, if any, on such Notes to the redemption date, as calculated by the Independent Investment Banker.				

Financial Covenants

Consolidated Leverage (Maximum)	None
Senior Secured Leverage (Maximum)	None
Interest Coverage (Minimum)	None

Acquisitions/Divestitures

Change of Control (CoC) Provision	The issuer must offer to repurchase the notes at 101%. A CoC is defined as the acquisition of 50% or more voting control and the acquisition of the power to direct or cause the direction of the management and policies of Suzano. Suzano is only required to offer to repurchase the Notes in the event that a CoC results in a Rating Decline.
Sale of Assets Restriction	Suzano will not enter into any Sale and Leaseback Transaction with respect to any Property unless the company would be entitled to create a Lien on such Property or asset securing the Attributable Debt without equally and ratably securing the Notes.
Limitation on Acquisitions/Investments	Consolidations or mergers are limited unless: (1) Suzano is the successor company or the resulting company is domiciled in Brazil, the U.S., or an OECD country; (2) the successor company expressly assumes the obligations and guarantee under this indenture; (3) no default or event of default is occurring or has occurred after giving effect to the transaction.

Debt Restrictions

Additional Debt Restriction	None
Limitation on Liens	The company is not permitted to incur any lien upon any property or assets with some exceptions. Some of them include: 1) pre-existing liens and liens created in the ordinary course of business; 2) liens associated with the acquisition, repair or improvement of fixed or capital assets; 3) liens assumed on property at the time of its acquisition; 4) liens securing hedging obligations related to indebtedness; 5) liens incurred to secure funding from national, multinational, or multilateral development banks; and 6) liens securing aggregate obligations not exceeding 7.5% of consolidated net tangible assets or 15% of consolidated net tangible assets in the event of the assignation of investment grade ratings by at least two rating agencies.
Restricted Payments	None

Other

Cross-Default	It is an event of default if Suzano or any of its Restricted Subsidiaries fails to pay principal when due on USD50 Million of debt, or an event of default occurs that leads to the acceleration of USD50 Million or more of debt.
Cross-Acceleration	Acceleration of debt greater than or equal to USD50 Mil. constitutes an event of default, allowing bondholders to invoke concurrent acceleration of these notes.
MAC Clause	None
Capital Expenditure Restrictions	None
Covenant Applicability and Suspension	None

OECD – Organization for Economic Cooperation and Development. MAC – Material adverse change. Note: Disclaimer — The covenant summaries reflect Fitch's interpretation and synopsis of information contained in publicly available documents identified in the "Document Date and Location" section of each covenant summary table. Fitch cannot ensure that the information contained in such documents is either accurate or complete, or that the covenant summaries, or any particular covenant summary, accurately or completely reflect the key terms of any such document. The information presented in the covenant summaries is provided "as is" without any representation or warranty and is not a substitute for information provided to investors by an issuer and its agents in connection with a sale of securities.
Source: Company reports, Fitch Ratings.

Key Forecast Assumptions

- Net pulp prices between USD575 and USD625 per ton during 2015–2017.
- Pulp sales volume of 3.4 million tons per year.
- Paper sales volume of 1.2 million to 1.3 million tons per year.
- Pulp cash cost of USD200/ton.
- A Brazilian real weaker than 3.2 BRL/USD.

Suzano Papel e Celulose S.A.

	Historical		Fitch Forecast		
(BRL Mil.)	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
Summary Income Statement					
Gross Revenue	5,689	7,265	9,653	10,480	11,027
Revenue Growth (%)	9.6	27.7	32.9	8.6	5.2
Operating EBITDA	1,740	2,446	4,402	4,806	5,060
Operating EBITDA Margin (%)	30.6	33.7	45.6	45.9	45.9
Operating EBITDAR	1,740	2,446	4,402	4,806	5,060
Operating EBITDAR Margin (%)	30.6	33.7	45.6	45.9	45.9
Operating EBIT	976	1,230	3,100	3,490	3,744
Operating EBIT Margin (%)	17.1	16.9	32.1	33.3	34.0
Gross Interest Expense	(682)	(1,050)	(1,316)	(1,292)	(1,217)
Pretax Income	(280)	(364)	2,034	2,449	2,776
Summary Balance Sheet					
Readily Available Cash	3,690	3,686	2,403	2,483	3,012
Total Debt with Equity Credit	13,055	14,475	14,775	13,925	13,125
Total Adjusted Debt with Equity Credit	13,055	14,475	14,775	13,925	13,125
Net Debt	9,365	10,789	12,373	11,442	10,113
Summary Cash Flow Statement					
Operating EBITDA	1,740	2,446	4,402	4,806	5,060
Cash Interest	(682)	(1,050)	(1,316)	(1,292)	(1,217)
Implied Interest Cost %	5.7	7.6	9.0	9.0	9.0
Cash Tax	0	0	(691)	(833)	(944)
Associate Dividends Less Distributions to NCI	0	0	0	0	0
Other Items Before FFO	(151)	388	250	250	250
Funds Flow from Operations	907	1,784	2,644	2,932	3,149
FFO Margin (%)	15.9	24.6	27.4	28.0	28.6
Change in Working Capital	(866)	(319)	(328)	(128)	(84)
Cash Flow from Operations (Fitch Defined)	41	1,465	2,317	2,804	3,065
Total Nonoperating/Nonrecurring Cash Flow	—	—	—	—	—
Capex	(2,255	(1,350)	—	—	—
Capital Intensity (Capex/Revenue) (%)	39.6	18.6	—	—	—
Common Dividends	(100)	(122)	—	—	—
Net Acquisitions and Divestitures	333	5	—	—	—
Capex, Dividends, Acquisitions and Other Items Before FCF	(2,022)	(1,467)	(2,100)	(1,874)	(1,737)
FCF After Acquisitions and Divestitures	(1,981)	(2)	217	931	1,328
FCF Margin (After Net Acquisitions) Margin (%)	(34.8)	0.0	2.2	8.9	12.0
Other Investing and Financing Cash Flow Items	108	66	0	0	0
Net Debt Proceeds	1,276	(76)	300	(850)	(800)
Net Equity Proceeds	(51)	9	0	0	0
Total Change in Cash	(648)	(4)	2,317	81	528
Coverage Ratios (x)					
FFO Interest Coverage	2.0	2.5	2.8	3.1	3.4
FFO Fixed Charge Coverage	2.0	2.5	2.8	3.1	3.4
Operating EBITDAR/Gross Interest Expense plus Rents	2.6	2.3	3.3	3.7	4.2
Operating EBITDA/Gross Interest Expense	2.6	2.3	3.3	3.7	4.2
Leverage Ratios (x)					
Total Adjusted Debt/Operating EBITDAR	7.5	5.9	3.4	2.9	2.6
Total Adjusted Net Debt/Operating EBITDAR	5.4	4.4	2.8	2.4	2.0
Total Debt with Equity Credit/Operating EBITDA	7.5	5.9	3.4	2.9	2.6
FFO Adjusted Leverage	9.7	5.6	4.0	3.5	3.2
FFO Adjusted Net Leverage	6.0	4.0	3.3	2.9	2.5

HOW TO INTERPRET THE FORECAST PRESENTED: The forecast presented is based on the agency's internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch's rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch's forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch's own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch's own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch's own internal deliberations, where Fitch, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch may update the forecast in future reports but assumes no responsibility to do so.
Source: Company reports, Fitch Ratings.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.