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Research Update:

Suzano Papel e Celulose S.A. 'BB+' Ratings Affirmed; Outlook Remains Stable

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Overview

- We believe Brazil-based pulp and paper producer Suzano will be able to withstand a potential sovereign distress scenario without defaulting on its obligations.
- We are affirming our 'BB+' global scale ratings on the company.
- The stable outlook reflects our belief that Suzano will continue to benefit from favorable conditions for Brazilian exporters, posting net debt to EBITDA of less than 3.5x on a sustained basis.

Rating Action

On Oct. 27, 2015, Standard & Poor's Ratings Services affirmed its 'BB+' global scale ratings on Suzano Papel e Celulose S.A. (Suzano). The outlook remains stable.

Rationale

The ratings on Suzano are at the same level as the sovereign foreign currency rating on Brazil (BB+/Negative/B) with a stable outlook, reflecting our view that there is an "appreciable" likelihood that the company will not default even in a simulated stress scenario of sovereign default. Suzano has a "moderate" sensitivity to country risk, due to its export-oriented business; as a result, we could potentially rate the company up to three notches above the sovereign. We stressed the company in 2016 under a sovereign default scenario. Our stress scenario includes the following:

- GDP and domestic volumes in Brazil decline by 10% in 2016;
- Inflation doubles and the company passes-through the additional costs from inflation to domestic prices;
- Local currency devaluation of 50% doubles the company's debt service costs related to foreign-currency debt (in local currency terms). In contrast, a weakened local currency bolsters export revenues;
- Hardwood pulp prices of \$550 per ton, in line with prices in mid-2009, when they reached a 10-year low;
- A doubling of interest rates for floating loans;
- A haircut of 30% to cash holdings and investments in Brazilian government securities or nonsystemic Brazilian banks; and
- Capital expenditures (capex) at maintenance levels

In our view, under this hypothetical scenario, the company would maintain

liquidity sources over uses of more than 1x in 2016. We believe that Suzano's export-oriented business, as well as the fact that most of its costs are denominated in local currency, moderately insulates the company from sovereign risk.

Outlook

The stable outlook incorporates our view that the company will post net debt to EBITDA of less than 3.5x and funds from operations (FFO) to net debt in excess of 30%. This will mainly depend on the company's growth strategy and the evolution of pulp prices in the short to intermediate term.

Downside scenario

We could revise the outlook to negative if the company's financial metrics weaken, with net debt to EBITDA of more than 4x and FFO to net debt of less than 20%. This could happen if, for example, pulp prices decline to about \$580 per ton, under the exchange rate in our base-case scenario (year-end exchange rate of Brazilian real [R\$]4 per \$1.0 in 2015, R\$4.2 per \$1.0 in 2016, and R\$4.5 per \$1.0 in 2017), or if the company undertakes significant investments.

Upside scenario

A positive rating action will be mostly linked to an improvement in the company's operating efficiency, which could occur if Suzano decreases its dependence on third parties for its supply of wood. If that happens, we expect to see clear and sustainable financial policies that support conservative leverage levels in the long term.

Ratings Score Snapshot

Corporate Credit Rating: BB+/Stable/--

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: Moderately high
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bb+

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)

- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Ratings Above The Sovereign: --Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013.

Ratings List

Ratings Affirmed

Suzano Papel e Celulose S.A.
Corporate Credit Rating

BB+/Stable/--

Suzano Trading Ltd.
Senior Unsecured

BB+

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