

Fitch Rates Suzano's Senior Notes 'BB+(EXP)'

Fitch Ratings-Rio de Janeiro-07 July 2016: Fitch Ratings has assigned a 'BB+(EXP)' rating to the proposed senior unsecured notes to be issued by Bahia Sul Holdings GmbH, and guaranteed by Suzano Papel e Celulose S.A.'s (Suzano). Proceeds from these unsecured notes, which are expected to total up to USD700 million, with a tenor of up to 10 years, will be used to extend the company's debt maturity profile. Fitch currently rates Suzano's Foreign Currency and Local Currency Issuer Default Ratings (IDR) 'BB+' with a Positive Outlook.

The rating reflects Suzano's stronger free cash flow (FCF) due to the depreciation of the Brazilian real, which has reduced the company's cost structure and allowed Suzano to accelerate deleveraging to a net debt to adjusted EBITDA ratio of 2.5x at the end of March 2016. 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.

The Positive Rating Outlook for the corporate ratings reflects Fitch's expectation that Suzano's FCF will remain strong during 2016 and 2017 and net adjusted leverage will decline to below 2.0x by 2018. An upgrade could occur if the company uses its FCF to reduce gross debt by around BRL2 billion. The Positive Rating Outlook also reflects the expectation that the company's strategy to decrease leverage and improve its capital structure will remain unchanged.

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 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.

Leverage Will Continue to Decline

Stronger cash flow has accelerated the deleveraging of Suzano's balance sheet at a pace more rapid than originally projected. Suzano's net debt-to-adjusted EBITDA ratio for the latest 12 months (LTM) ended March 2016 was 2.5x and should fall to below 2.0 by 2018. Net adjusted leverage was 3.0x at year-end 2015. Historically, Suzano has operated with higher leverage within its Latin America peer group, with an average net adjusted leverage ratio of 3.6x between 2008 and 2011, and 5.1x between 2012 and 2014.

Fitch's base case uses low-cycle price assumption of net pulp prices of between USD550 and USD575 per ton during the next three years. Capex in the next two years is assumed at around USD585 million to USD600 million per year, as the company invests in its 5.1 project that is expected to increase Suzano's total production capacity to 5.1 million tons by 2018.

Operational Cash Flow to Remain Strong in 2016 and 2017

Fitch projects that Suzano will generate about BRL5 billion of adjusted EBITDA and BRL3.1 billion of cash flow from operations (CFFO) in 2016. Suzano's adjusted EBITDA generation benefited from the depreciation of the Brazilian real against the U.S. dollar, which has reduced the company's cost structure and bolstered export revenues, offsetting weaker domestic demand for paper. Suzano generated BRL4.8 billion of adjusted EBITDA and BRL2.8 billion of CFFO in the LTM ended March 2016. This compares with BRL4.5 billion of adjusted EBITDA and BRL2.4 billion of CFFO during 2015, and BRL2.4 billion and BRL1.5 billion in 2014. As Suzano scales back investments, FCF was a strong BRL1 billion in the LTM ended March 2016.

Stronger operating cash flow and lower investments will contribute toward the company's debt reduction strategy. Suzano had BRL12 billion of net debt as of March 31, 2016 and Fitch projects Suzano will lower its net debt by BRL2 billion to BRL10 billion by the end of 2018. As of March 31, 2016, the company had BRL14.9 billion of total debt.

Forestry Assets Are Key Credit Consideration

A key credit consideration that further enhances Suzano's credit profile is its ownership of about 1.1 million hectares of land, where the company developed about 550,000 hectares of eucalyptus plantations. The forestry assets are valued at BRL4.2 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.

Pulp Price Close to Marginal Cost

Continued expansion activity in the market will make producers reliant upon growth in Chinese demand, plant closures, and a recovery in the U.S. and Europe for upward price momentum. Fitch believes market pulp is already close to marginal cost and will continue to force plant closures of high-cost producers in the Northern Hemisphere. Fitch expects more than 5 million tons of hardwood pulp capacity to enter the market during 2016 and 2017, while annual demand growth for market pulp should not exceed 1.5 million tons per year. China continues to play a key role in balancing supply and demand and return to Chinese demand growth to 1.5 million tons per year is crucial to balancing the market.

KEY ASSUMPTIONS

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

- Net pulp prices between USD550 and USD575 per ton during 2016 - 2018.
- Pulp sales volume around 3.6 million tons per year during 2016-2018, and paper at full capacity.
- Adjusted EBITDA margin around 44.5%.
- A Brazilian real averaged 3.6 BRL/USD in 2016 and 3.75 BRL/USD in 2017.

RATING SENSITIVITIES

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

- Reduction in gross debt by around BRL2 billion.
- Maintenance of net leverage below 2.0x during low investment cycle.
- Higher than expected cash generation during 2016 and 2017.

--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 4.0x, considering pulp prices at USD550 per ton.

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

--A debt financed acquisition.

--Any change in the company's strategy to reduce leverage and improve capital structure.

LIQUIDITY AND DEBT STRUCTURE

Suzano has historically maintained a strong cash position. As of March 31, 2016, the company had BRL2.8 billion of cash and marketable securities. Liquidity covered short-term debt obligations by a ratio of 1.2x. Suzano has manageable debt maturities of BRL2.4 billion in the short term, BRL1.1 billion from April to December 2017, and BRL2.5 billion in 2018. Suzano does not have a standby facility. In April 2016, Suzano concluded the issuance of Export Credit Notes, in the amount of BRL600 million. The transaction is securitized by Agribusiness Credit Receivables Certificates (CRA) and is due in April 2020.

FULL LIST OF RATING ACTIONS

Fitch assigns the following rating:

Bahia Sul Holdings GmbH

--Proposed senior unsecured notes, up to USD700 million and up to 10 years, 'BB+(EXP)'.
'BB+(EXP)'

Transaction will be issued by Bahia Sul Holdings GmbH and guaranteed by Suzano.

Fitch currently rates Suzano as follows:

Suzano

--Long-Term Foreign Currency IDR 'BB+';

--Long-Term Local Currency IDR 'BB+';

--National Long-Term Rating 'AA+(bra)'.

Suzano Trading Ltd.

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

The Rating Outlook for the corporate ratings is Positive.

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Date of Relevant Rating Committee: June 23, 2016

Additional information is available on www.fitchratings.com

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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