

Rating Action: Moody's upgrades Suzano to Ba1; negative outlook

Global Credit Research - 09 Dec 2016

Sao Paulo, December 09, 2016 -- Moody's América Latina Ltda. has upgraded to Ba1 from Ba2 in the global scale and to Aaa.br from Aa1.br in the national scale Suzano Papel e Celulose S.A. ("Suzano") corporate family ratings and the ratings assigned to its senior unsecured notes. The outlook changed to negative from stable.

Ratings upgraded as follows:

Issuer: Suzano Papel e Celulose S.A.

LT Corporate Family Rating: to Ba1 from Ba2 (global scale)/to Aaa.br from Aa1.br (national scale)

USD 166 mm notes due 2019: to Ba1 from Ba2 (global scale)/to Aaa.br from Aa1.br (national scale)

USD 18 mm notes due 2024: to Ba1 from Ba2 (global scale)/to Aaa.br from Aa1.br (national scale)

The outlook changed to negative from stable.

RATINGS RATIONALE

Suzano's upgrade to Ba1/Aaa.br reflects the improvement in the company's credit metrics in the past couple of years, while maintaining a solid liquidity position and continuing to implement initiatives to reduce cash costs and ensure competitive access to wood, its main raw input. Accordingly, Suzano's EBITDA margins (incorporating Moody's standard adjustments) increased to 43.2% in the LTM (Sep/16) from roughly 35% at the end of 2013, when the greenfield project in the state of Maranhão started. Even though lower hardwood pulp prices (decline of 22% YTD compared to 2015) and the BRL appreciation earlier in 2016 have reduced profitability, we expect EBITDA margins to remain in the 35%-40% range in the next couple of years. Adjusted leverage, in turn, has declined from a peak of 6.7x in 2013 to 3.5x in the LTM ended September 2016. Although we expect leverage to remain close to current levels through 2017, assuming about the same level (or a small decline) in pulp prices compared to those observed in 2016, Suzano should be able to speed up its deleveraging process from 2018 onwards.

Suzano's Ba1 rating now ranks one notch above Brazil's government bond rating of Ba2. Granted only on an exceptional basis, the notching represents a fundamental corporate profile that is stronger than the sovereign's government bond rating. Despite Suzano's asset concentration in Brazil and exposure to the domestic economy, in particular through the paper business, the company has a significant portion of revenues generated outside Brazil, which limits the impacts of weak domestic economic fundamentals. Besides, Suzano's strong liquidity profile and comfortable debt amortization schedule gives financial flexibility to face the challenging conditions of hardwood pulp markets in the next couple of years, when new, low-cost capacity starting-up should continue to pressure pulp prices.

Suzano's ratings incorporate the company's position as a low cost producer of bleached eucalyptus kraft pulp (BEKP) and paper, with leading positions in the global BEKP market and Brazilian printing and writing paper and paperboard sectors. The company benefits from a high level of vertical integration with substantial self-sufficiency in wood fiber and energy, in addition to the proximity of its pulp mills to its own forests and port facilities as well as the favorable location of its paper plants within Brazil's most industrialized region. Furthermore its diversity towards pulp and paper translates into exposure to different market dynamics and contributes to strong operating margins even amid a lower growth outlook for the paper industry in Brazil. Additional rating positives are the company's comfortable liquidity profile, with cash balance at the end of September 2016 sufficient to cover short term debt maturities by 2.6 times.

Constraining the ratings are the volatile nature of the pulp industry, which represents around 65% of Suzano's revenues and the still relatively high leverage compared to similarly-rated peers. Furthermore, the weakness in the Brazilian economy limits volumes and margins expansion in the paper segment.

The negative outlook reflects the outlook of Brazil's government bond rating.

An upgrade on Suzano's rating is unlikely at this time due to the current level of Brazil's government bond rating and would depend on the maintenance of strong credit metrics, market presence and diversification. Quantitatively, a positive action would also require leverage -- as measured by Total Adjusted Gross Debt to EBITDA -- to be below 3.0x and interest coverage -- expressed by Adjusted EBITDA to Interest Expense -- to remain above 5x on a consistent basis. Additionally, an upgrade would require a solid liquidity profile and positive free cash flow generation on a sustainable basis.

Negative pressure on the rating could result if adjusted leverage remains above 4.0x for a prolonged period or if interest coverage declines to below 3.5x without prospects for improving, and in case the company's liquidity position deteriorates, becoming insufficient to cover near term debt service requirements.

Headquartered in Salvador - Brazil, Suzano Papel e Celulose S.A. is a leading low-cost producer of bleached eucalyptus market pulp, printing and writing paper and paperboard, having reported consolidated net revenues of BRL 10.1 billion (about USD 2.8 billion) in the last twelve months ending September 2016.

The principal methodology used in these ratings was Global Paper and Forest Products Industry published in October 2013. Please see the Rating Methodologies page on www.moodys.com.br for a copy of this methodology.

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