

Suzano Austria GmbH's Proposed Senior Unsecured Notes For Up To \$500 Million Rated 'BB+' (Recovery Rating: '3')

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SAO PAULO (S&P Global Ratings) March 9, 2017--S&P Global Ratings assigned today its 'BB+' debt rating to Suzano Austria GmbH's (formerly Bahia Sul Holding GmbH) proposed 30-year senior unsecured notes for up to \$500 million. We also assigned a recovery rating of '3' to the notes, which indicates our expectation of a meaningful recovery (50%-70%, in the lower range of the band) of the notes under a hypothetical default scenario.

Suzano Austria GmbH is a wholly-owned subsidiary of Brazilian pulp producer Suzano Papel e Celulose S.A. (Suzano; BB+/Stable/--). The latter will unconditionally and irrevocably guarantee the notes. We expect Suzano to use the proceeds for refinancing or for general liquidity purposes.

Our 'BB+' rating on Suzano incorporates its advantageous cost structure for pulp production thanks to its access to highly productive forests and its solid position in the global and Brazilian pulp markets for uncoated and coated printing, and writing paper and paperboard. These factors offset pulp price volatility, which we expect to remain significant in the next few years. In addition, the rating reflects Suzano's stronger capital structure and lighter balance sheet following the ramp-up of Suzano's 1.5 million ton pulp mill in the state of Maranhão. The rating constraints are the lack of a robust, clear, and sustainable financial policy that could support conservative leverage levels in the long term.

Recovery Analysis

Key analytical factors

- The issue-level rating on Suzano Austria's senior unsecured notes is 'BB+'.
- The recovery rating of '3' indicates our expectation of a recovery of 50%-70% (in the low band of the range) for unsecured lenders under a hypothetical default scenario.
- In our default scenario, EBITDA would decline by about 65%.
- We have valued the company on a going-concern basis, using a 5.0x multiple applied to our projected emergence-level EBITDA, which results in an estimated gross emergence value (EV) of about R\$11.8 billion.
- Our recovery analysis assumes that under a hypothetical default scenario, the senior unsecured notes would rank pari passu to the company's existing and future senior unsecured debt, which is also subjected to statutory priorities as tax and labor obligations.

Simulated default assumptions

- Simulated year of default: 2021
- EBITDA at emergence: R\$2.3 billion
- Implied EV multiple: 5.0x
- Estimated gross EV at emergence: R\$11.8 billion

Simplified waterfall

- Net EV after 5% administrative costs: R\$11.2 billion
- Senior secured debt: R\$5.5 billion
- Unsecured debt: R\$10.4 billion
- Recovery expectation: 50%-70%

RELATED CRITERIA

- Criteria - Corporates - General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 07, 2016
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 01, 2016
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Forest And Paper Products Industry, Feb. 12, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

RATINGS LIST

Suzano Papel e Celulose S.A.
Corporate credit rating BB+/Stable/--

Ratings Assigned

Suzano Austria GmbH
Sr. unsec. notes BB+
Recovery rating 3(50%)

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