

Rating Action: Moody's changes outlook to stable from negative on Brazilian Companies

Global Credit Research - 17 Mar 2017

Sao Paulo, March 17, 2017 -- Moody's America Latina ("Moody's") has revised to stable from negative the outlook for several companies operating in Brazil, while all ratings were affirmed. The companies' outlook change follows the change in Brazil's outlook to stable from negative and the affirmation of its issuer rating, senior unsecured at Ba2 and shelf ratings at (P) Ba2 on March 15, 2017.

ISSUERS AND RATINGS AFFIRMED -- OUTLOOK CHANGED TO STABLE

Ambev S.A.: the ratings of senior debentures issued by Ambev S.A were affirmed at Baa3 in the global scale and Aaa.br in the national scale. At the same time, Moody's Investors Service affirmed Ambev's issuer ratings at Baa3 (global scale foreign currency and local currency). The outlook was changed to stable from negative.

Fibria Celulose S.A.: the CFR was affirmed at Ba1 in the global scale and Aaa.br in the national scale. At the same time, Moody's Investors Service affirmed the Ba1 rating of the notes issued by Fibria Overseas Finance Ltd and guaranteed by Fibria Celulose S.A. The outlook was changed to stable from negative.

Fleury S.A.: the CFR and senior unsecured debentures ratings were affirmed at Ba2 for the global scale and Aa2.br in the national scale. The outlook was changed to stable from negative.

Localiza Rent a Car S.A.: the CFR and senior unsecured debt ratings were affirmed at Ba2 in the global scale and Aa1.br in the national scale. The outlook was changed to stable from negative.

Raizen Energia S.A and Raizen Combustiveis S.A.: the CFR and the senior unsecured debt issued by Raizen Energia S.A. (guaranteed by Raizen Combustiveis S.A.) ratings were affirmed at Ba1 in the global scale and Aaa.br in the national scale. The outlook was changed to stable from negative.

Suzano Papel e Celulose S.A.: the CFR and senior unsecured notes rating was affirmed at Ba1 in the global scale and Aaa.br in the national scale. At the same time, Moody's Investors Service affirmed the Ba1 rating of the backed foreign currency senior unsecured notes issued by Suzano Trading Ltd, a wholly-owned subsidiary of Suzano Papel e Celulose S.A.. The outlook was changed to stable from negative.

Telefonica Brasil S.A.: the CFR and senior unsecured debentures ratings were affirmed at Ba1 in the global scale and Aaa.br in the national scale. The outlook was changed to stable from negative.

Ultrapar Participações S.A.: the CFR was affirmed at Aaa.br in the national scale and at the same time, Moody's Investors Service affirmed the Ba1 Corporate Family Rating assigned on its global scale to Ultrapar and also affirmed the Ba1 rating assigned to the backed foreign currency senior unsecured notes issued by Ultrapar International S.A, irrevocably and unconditionally guaranteed by Ultrapar and by Ipiranga Produtos de Petróleo S.A. The outlook was changed to stable from negative.

RATINGS RATIONALE

The rating affirmation and the change in outlook to stable for these companies follows the change in Brazil's outlook to stable from negative and the affirmation of its issuer rating, senior unsecured at Ba2 and shelf ratings at (P)Ba2 on March 15, 2017, driven by the following factors:

1. Moody's expectation that the downside risks reflected in the negative outlook are abating and macroeconomic conditions stabilizing, with the economy showing signs of recovery, inflation falling and the fiscal outlook clearer.
2. Indications that the functioning of Brazil's policy framework is improving and the strength of its institutions recovering, supporting planned implementation of structural fiscal reforms.
3. Risk of contingent liabilities from government-related entities, captured in the negative outlook, has been significantly reduced.

Over the past six months, downside risks to the Ba2 rating have abated and macroeconomic conditions have stabilized in Brazil, with an incipient recovery in economic growth expected in 2017 and faster-than-anticipated fall in inflation. A positive reform momentum emerged last year, indicating improved functioning of institutions that would support implementation of fiscal reforms and passage of the social security reform this year. Contingent liability risks related to financial support to Petrobras have diminished, reducing downside risks, while the fiscal cost of debt relief provided to state governments remains contained. Overall, the government debt trajectory remains in line with our earlier expectations for 2017-19 and consistent with the Ba2 rating.

The stable outlook for the affected companies reflects Moody's view that the creditworthiness of these companies cannot be completely de-linked from the credit quality of the Brazilian government, and thus their ratings need to closely reflect the risk that they share with the sovereign. Moody's believes that a weaker sovereign has the potential to create a ratings drag on companies operating within its borders, and therefore it is appropriate to limit the extent to which these issuers can be rated higher than the sovereign, in line with Moody's Rating Implementation Guidance "How Sovereign Credit Quality Can Affect Other Ratings" published on 16 March 2015, and available on www.moody.com.

The principal methodology used in rating Ambev S.A. was Global Alcoholic Beverage Industry published in March 2017. The principal methodology used in rating Fibria Celulose S.A. and Suzano Papel e Celulose S.A. was Global Paper and Forest Products Industry published in October 2013. The principal methodology used in rating Fleury SA was Business and Consumer Service Industry published in October 2016. The principal methodology used in rating Localiza Rent a Car S.A. was Equipment and Transportation Rental Industry published in December 2014. The principal methodology used in rating Raizen Energia S.A. and Raizen Combustiveis S.A. was Global Protein and Agriculture Industry published in May 2013. The principal methodology used in rating Telefonica Brasil S.A. was Telecommunications Service Providers published in January 2017. The principal methodology used in rating Ultrapar Participacoes S.A. and Raizen Combustiveis S.A. was Retail Industry published in October 2015. Please see the Rating Methodologies page on www.moody.com.br for a copy of these methodologies.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1060333.

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The date of the last Credit Rating Action for Ambev S.A. was 25/02/2016.

The date of the last Credit Rating Action for Fibria Celulose S.A. was 10/05/2016.

The date of the last Credit Rating Action for Fleury SA was 25/02/2016.

The date of the last Credit Rating Action for Localiza Rent a Car S.A. was 10/05/2016.

The date of the last Credit Rating Action for Suzano Papel e Celulose S.A. was 9/12/2016.

The date of the last Credit Rating Action for Raizen Energia S.A. was 10/05/2016.

The date of the last Credit Rating Action for Raizen Combustiveis S.A. was 10/05/2016.

The date of the last Credit Rating Action for Telefonica Brasil S.A. was 10/05/2016.

The date of the last Credit Rating Action for Ultrapar Participacoes S.A. was 24/02/2017.

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