

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

Global Credit Research - 31 May 2017

Sao Paulo, May 31, 2017 -- Moody's America Latina ("Moody's") has revised to negative from stable the outlook for several companies operating in Brazil, while all ratings were affirmed. The companies' outlook change follows the change of outlook on Brazil's issuer rating to negative from stable and affirmation of its issuer, senior unsecured and shelf ratings at Ba2 and (P)Ba2 respectively.

ISSUERS AND RATINGS AFFIRMED -- OUTLOOK CHANGED TO 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 negative from stable.

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

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 negative from stable.

Raizen Combustiveis S.A and Raizen Energia 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 negative from stable.

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 negative from stable.

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 negative from stable.

Ultrapar Participações S.A.: the CFR was affirmed at Aaa.br in the national scale and also affirmed the Ba1/Aaa.br senior unsecured debentures issued by Ipiranga Produtos de Petróleo S.A. guaranteed by Ultrapar Participações S.A. At the same time, Moody's Investors Service affirmed the Ba1 Corporate Family Rating assigned on its global scale to Ultrapar, 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 negative from stable.

Valid S.A.: the CFR and senior unsecured debentures ratings were affirmed at Ba2 in the global scale and Aa3.br in the national scale. The outlook was changed to negative from stable.

RATINGS RATIONALE

The rating affirmation and the change in outlook to negative for these companies follows the change in Brazil's outlook to negative from stable and the affirmation of its issuer rating, senior unsecured and shelf ratings at Ba2 and (P)Ba2 respectively, on May 26, 2017, driven by the following factors:

First Driver: Rise in uncertainty regarding reform momentum following recent political events

The stable outlook, previously assigned to Brazil's rating was based on our expectation that the observed improvement in macroeconomic conditions would persist, reinforced by the strong reform momentum witnessed under the Temer administration. Whatever the outcome, the recent corruption allegations against the President risk reversing the virtuous cycle between political normalcy, reform implementation, and investor confidence that underpinned the stabilization of economic conditions.

In recent months, the government has passed a number of important reforms including a constitutional

amendment to cap government spending, and has promoted discussion in Congress of planned social security reforms, which are critical to medium-term fiscal sustainability. However, the controversy surrounding President Temer will likely cause negotiations around social security reform to stall, with the result that the reform does not pass in Congress this year, as we had previously expected.

Moreover, looking further ahead, with the focus of the administration shifting towards the political crisis, the government's ability to continue to develop and implement the reforms needed to address Brazil's economic and fiscal malaise will likely be undermined.

Second Driver: Prospects of deteriorating macroeconomic conditions that will increase downside risks to the economic recovery

After two years of economic contraction, the economy has begun to stabilize. We expect modest GDP growth of 0.5% in 2017 with inflation dropping to 4.0%, below the mid-point of the 4.5% inflation target, but within the +/- 1.5% tolerance interval, and remaining within the central bank target range, allowing the central bank to continue monetary easing.

That recovery, and the related boost to Brazil's medium-term economic strength, is threatened by the political crisis, which will likely undermine investor confidence and increase financial market volatility. Improved investor confidence was driven by the government's focus on structural reforms and its ability to deliver results in this area. In the current context, prolonged political uncertainty and the risk of another leadership transition will likely weigh on the incipient recovery. The central bank's ability to deliver further rate cuts could be hampered if a confidence-related shock to the exchange rate were to feed into higher inflation, stunting the potential for a positive impact on growth in 2018 and undermining fiscal savings from lower interest payments on government debt.

As a consequence of these developments, downside risks to our growth forecasts for 2017 and 2018 have increased. Short-term growth is generally of limited significance for credit ratings; however, in Brazil's case, the persistence of the very significant shock to growth witnessed in recent years would signal further diminishing of economic strength in the medium-term.

RATIONALE FOR AFFIRMATION OF BRAZIL'S Ba2 RATING

Brazil's issuer rating at Ba2 reflects the strengths and weaknesses of Brazil's credit profile. Below-potential economic growth and weak fiscal metrics, which will result in continued rise in government debt ratios over the next two to three years, are important constraints on the rating. This is balanced against Brazil's large and diversified economy, limited balance of payments-related vulnerabilities, and recent reforms to arrest the rise in government spending.

The negative 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 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 and Valid S.A. 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 April 2017. The principal methodology used in rating Raizen Energia 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., Raizen Combustiveis S.A and Ipiranga Produtos de Petroleo 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.

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The date of the last Credit Rating Action for Fibria Celulose S.A. was 17/03/2017

The date of the last Credit Rating Action for Fleury SA was 17/03/2017

The date of the last Credit Rating Action for Localiza Rent a Car S.A. was 17/03/2017

The date of the last Credit Rating Action for Suzano Papel e Celulose S.A. was 17/03/2017

The date of the last Credit Rating Action for Raizen Energia S.A. was 17/03/2017

The date of the last Credit Rating Action for Raizen Combustiveis S.A. was 17/03/2017

The date of the last Credit Rating Action for Telefonica Brasil S.A. was 17/03/2017

The date of the last Credit Rating Action for Ultrapar Participacoes S.A. was 17/03/2017

The date of the last Credit Rating Action for Ipiranga Produtos de Petroleo S.A. was 23/03/2017

The date of the last Credit Rating Action for Valid S.A. was 25/06/2015

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