

Fitch Affirms Suzano at 'BB+'; Outlook Positive

Fitch Ratings-Rio de Janeiro-20 June 2017: Fitch Ratings has affirmed Suzano Papel e Celulose S.A.'s (Suzano) Long-term foreign currency and local currency Issuer Default Ratings (IDR) at 'BB+' and its national scale long-term rating at 'AA+(bra)'. The Rating Outlook for the corporate ratings is Positive. A full list of rating actions follows at the end of this release.

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 fourth largest producer of market pulp in the world. The ratings also incorporate Suzano's strong liquidity and comfortable debt amortization schedule.

The Positive Outlook for the corporate ratings reflects Fitch's expectation that Suzano's FCF will remain strong in 2017 and 2018, and net adjusted leverage will decline to below 2x by 2018. An upgrade could occur if the company uses its FCF to continue reducing gross debt. The Positive 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 3.5 million tons of market pulp capacity, Suzano is the fourth largest producer of market pulp in the world.

Leverage Will Continue to Decline: Stronger operating cash flow and lower investments will contribute to Suzano's debt reduction strategy. Fitch expects net adjusted leverage to reduce to about 2.6x in 2017, falling to below 2x during 2018. Suzano's net adjusted leverage remained relatively stable during 2016 and it did not reduce to below 3.0x as previously projected due to the strong Brazilian real and weak pulp prices, Suzano's adjusted net debt /adjusted EBITDA ratio in the LTM ended March 31, 2017 was 3.3x, comparing unfavorably with 3.1x at year-end 2016 and 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.

Operational Cash Flow to Improve in 2017: Fitch projects that Suzano will generate about BRL4.1 billion of adjusted EBITDA in 2017 and BRL4.9 billion in 2018. Key assumptions are net BEKP prices of USD550 and USD575 per ton and FX rate of 3.2 BRL/USD and 3.3 BRL/USD in 2017 and 2018, respectively. Fitch's base case scenario incorporates investments around BRL3.5 billion during the period, a downward trend of costs and some efficiency gains from adjacent business projects.

Suzano generated BRL3.3 billion of adjusted EBITDA and BRL2.7 billion of cash flow from operations (CFFO) in the LTM ended March 31, 2017. This compares with BRL3.7 billion of adjusted EBITDA and BRL3.1 billion of CFFO during 2016, and BRL4.5 billion and BRL2.6 billion, respectively, in 2015. FCF was BRL91 million in the LTM, after dividends of BRL300 million and investments of BRL2.3 billion, including BRL789 million from the acquisition of land and forest.

Forestry Assets a Key Credit Consideration: A key credit consideration that further enhances Suzano's credit profile is its ownership of about 1.2 million hectares of land, where the company developed about 534,000 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.

DERIVATION SUMMARY

Suzano is the leading producer of printing and writing paper in Brazil, as well as paperboard and is the fourth 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. As other Latin American pulp producers, Suzano is exposed to the volatility of pulp prices that follow the supply and demand imbalance.

KEY ASSUMPTIONS

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

- Pulp sales volume of 3.6 million tons in 2017 and 3.7 million tons in 2018;
- Paper sales volume between 1.2 million tons and 1.3 million tons in 2017 and 2018;
- Average hardwood pulp price between USD550 and USD575 per ton.
- FX rate at 3.2 BRL/USD in 2017 and 3.3 BRL/USD in 2018.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Maintenance of net adjusted leverage below 2.0x during low investment cycle.
- Higher than expected cash generation during 2017.
- 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 Negative Rating Action

- Weaker liquidity position.
- Increase in net adjusted 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

Suzano has historically maintained a strong cash position. As of March 31, 2017, the company had BRL4.1 billion of cash and marketable securities and total debt was BRL14.8 billion. Liquidity covered short-term debt obligations by a multiple of 2.5x. Suzano has manageable debt maturities of BRL1.4 billion up to the end 2017, and BRL2.3 billion in 2018. Suzano does not have a standby facility. In March 2017, Suzano issued a USD300 million bond due in 2047.

FULL LIST OF RATING ACTIONS

Fitch has affirmed the following ratings:

Suzano

- Long-Term Foreign Currency IDR at 'BB+';
- Long-Term Local Currency IDR at 'BB+';
- National long-term rating at 'AA+(bra)'.

Suzano Austria GmbH

- USD500 million senior unsecured notes, due in 2026 and guaranteed by Suzano at 'BB+';
- USD300 million senior unsecured notes, due in 2047 and guaranteed by Suzano at 'BB+';

Suzano Trading Ltd.

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

The Rating Outlook for the corporate ratings is Positive.

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Applicable Criteria

Criteria for Rating Non-Financial Corporates (pub. 10 Mar 2017)

National Scale Ratings Criteria (pub. 07 Mar 2017)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

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