



## Fitch Upgrades Suzano's Ratings to 'BBB-'; Outlook Stable

Fitch Ratings-Rio de Janeiro-21 December 2017: Fitch Ratings has upgraded Suzano Papel e Celulose S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) to 'BBB-' from 'BB+'. Fitch has also upgraded Suzano's National scale Long-Term rating to 'AAA(bra)' from 'AA+(bra)'. The Rating Outlook is Stable. A full list of rating actions follows at the end of this release.

The upgrade to investment grade reflects Suzano's strong FCF which supported an important leverage reduction, to 2.5x in the LTM ended September 2017. Stronger operating cash flow and lower investments contributed to the company's debt reduction efforts and gross and net debt fell by BRL2.4 billion and BRL3.8 billion, respectively, between December 2015 and September 2017. The upgrade also incorporates Fitch's expectation that net leverage would climb again if Suzano decides to proceed with investing in a new pulp mill, but should not exceed 3.5x during the construction period. Pulp prices should remain elevated up to 2020 due to strong demand from China and a dearth of new projects, which would provide a favorable backdrop for partially funding the project with internal cash flow.

Suzano's ratings also incorporate the company's strong business position as a low-cost producer of market pulp and its position as the leading producer of printing and writing paper, and paperboard in Brazil. Because of its strong market business position in pulp and production costs in the lowest quartile, Suzano is able to generate strong cash flow during cyclical pricing downswings while maintaining production volumes above 90% of nominal capacity.

Suzano is rated above the 'BB+' Country Ceiling for Brazil. This is in line with our 'Rating Non-Financial Corporates Above the Country Ceiling Rating Criteria' and takes into account the company's strong hard-currency external debt service ratio, which is supported by significant operating cash flows from exports and hard currency cash and marketable securities.

### KEY RATING DRIVERS

**Leverage to Remain Low:** Fitch projects net leverage will fall below 2x during 2018. Better pulp prices should contribute to a continued deleveraging. The company's net debt/EBITDA ratio was reduced to 2.5x at Sept. 30, 2017, as per Fitch's calculations, from 3.1x in 2016 and an average of 5.1x between 2012 and 2014. In Fitch's opinion, Suzano's financial strategy approved by the board in May 2017 demonstrates the company's commitment to preserve low leverage and continue to manage its capital structure conservatively. The rating upgrade considers the possibility of a potential new investment cycle in a pulp mill and incorporates the expectation that net leverage will remain below 3.5x even with higher investments.

**Strong Cash Flow Generation:** Fitch projects that Suzano will generate about BRL5.8 billion of adjusted EBITDA in 2018 and BRL6 billion in 2019. Fitch's base case scenario incorporates better pulp prices, total investments around BRL3.6 billion during 2018 and 2019, a downward cost trend, and some efficiency gains from adjacent business projects. Suzano generated BRL4 billion of adjusted EBITDA and BRL3.3 billion of cash flow from operations (CFFO) in the LTM ended Sept. 30, 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 BRL461 million in the LTM, after dividends of BRL371 million and investments of BRL2.4 billion, including BRL789 million from acquisition of land and forest.

**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. Suzano supplies about 58% of printing and writing paper demand and about 37% of paperboard in Brazil. The company's strong market shares in uncoated printing and writing paper and paperboard allow it to be a price leader in Brazil. With 3.6 million tons of market pulp capacity, Suzano is the fourth largest producer of market pulp in the world, behind Fibria, Arauco and CMPC. Suzano's competitive advantage is viewed as sustainable due to its modern pulp mills, high-yielding forestry plantations, low average distance from the forests to the mill and its efficient logistics. During the LTM, the company's cash cost of production was USD184 per ton, which placed it firmly in the lowest quartile of the cost curve. In comparison, producers in the third quartile have production costs in the range of USD350-USD450 per ton, while those in the fourth quartile can be more than USD500.

**Forestry Assets Key to Credit Profile:** A key credit consideration that supports Suzano's investment-grade credit profile is its significant forestry holdings, which ensure a competitive production cost structure. As of Sept. 30, 2017, the accounting value of the biological assets on its forest plantations was BRL4.3 billion. The company owns about 1.2 million hectares of forest assets in Brazil, on which it has developed 579,000 hectares of eucalyptus plantations. The nearly ideal conditions for growing trees in Brazil make these plantations extremely efficient by global standards and give the company a sustainable advantage in terms of the costs of fiber and transportation between forest and mill.

**Cyclicality of Pulp Prices:** The market pulp industry is very cyclical; prices move sharply in response to changes in demand or supply. Suzano's sales volumes are less volatile than prices, as sales are carried out under long-term supply agreements. Market fundamentals for pulp producers have turned favorable, as strong demand from China has helped the market absorb new capacity from Asia Pulp and Paper and Fibria seamlessly. Prices from 2018 through 2020 should be healthy do to the lack of new projects, which should help issuers build cash positions for new projects or reduce debt accumulated during recent pulp mill projects. China will continue to play a key role in supporting prices, and demand should be driven by a growing economy and the closing of pulp mills that relied upon non-wood fibers.

## DERIVATION SUMMARY

Suzano is the leading producer of printing and writing paper in Brazil, as well as paperboard, and is the fourth-largest global producer of market pulp, after Fibria Celulose S.A. (BBB-/Stable), Celulosa Arauco y Constitucion S.A. (BBB/Negative) and Empresas CMPC S.A. (BBB/Stable). The company's business is exposed to the cyclicality of pulp prices. As at other Latin American pulp producers, Suzano's cash production costs are among the lowest in the world for hardwood pulp, ensuring its long-term competitiveness. Suzano and Fibria are rated lower than Chilean peers due to less diversified regional and business profile. Suzano and Fibria have industrial facilities only in Brazil, while Arauco and CMPC are more diversified with operations in the wood products segments and tissue, respectively.

Suzano's ratings incorporate the important leverage reduction since 2015, which positions the company with the lower leverage among the Latin America pulp players. Liquidity is historically strong for pulp producers. Suzano's operating margins are similar to Fibria's and higher than the Chilean companies that operate in lower-margin business segments such as tissue, packaging and boards.

Suzano is rated one notch above Brazil's Country Ceiling of 'BB+'. Suzano's Foreign Currency IDR is not constrained by Brazil's Country Ceiling, as the company exports about 70% of its sales and holds hard currency cash and marketable securities, which easily covers hard currency interest expense by more than 1.0x. The strong ratio supports notching up to 3 notches above Brazil's Country Ceiling and its weakening could result in a revision in our approach. Suzano's Foreign Currency IDR is constrained by the company's Local Currency IDR, which is a reflection of the company's underlying credit quality.

## KEY ASSUMPTIONS

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

- Pulp sales volume of 3.7 million tons in 2018 and 2019;
- Paper sales volume of 1.2 million tons in 2018 and 2019;
- Average hardwood net pulp price between USD675 and USD700 per ton;
- FX rate of 3.3 BRL/USD.

## RATING SENSITIVITIES

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

- Positive rating actions are not expected.

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

- An expectation that net leverage will remain above 3.0x during 2018, not considering relevant investments;
- If Suzano decides to invest in a new pulp project, net leverage should remain below 3.5x to prevent a negative rating action, with an expectation of quick deleveraging after the startup of the project;
- Sharp deterioration of market conditions with significant reduction in pulp prices;
- A debt-financed acquisition.

## LIQUIDITY

**Strong Liquidity:** Suzano has historically maintained a strong cash position. As of Sept. 30, 2017, the company had BRL3.8 billion of cash and marketable securities and total debt was BRL13.8 billion. Liquidity covered short-term debt obligations by a multiple of 2x. Suzano has manageable debt maturities of BRL2.5 billion up to the end of 2018 and BRL2.1 billion in 2019. In September 2017, Suzano completed the reopening of its 2026 and 2047 senior unsecured notes, in the total amount of USD400 million, and will use proceeds to extend its debt maturity profile. Suzano does not have a standby facility. The company enjoys strong access to both the debt and equity markets.

## FULL LIST OF RATING ACTIONS

Fitch has upgraded the following ratings:

Suzano Papel e Celulose S.A.

- Long-Term Foreign Currency IDR to 'BBB-', from 'BB+';
- Long-Term Local Currency IDR to 'BBB-', from 'BB+';
- Long-term National scale rating to 'AAA(bra)', from 'AA+(bra)'.

The Outlook is Stable.

Suzano Trading Ltd.

- USD650 million senior notes due Jan. 23, 2021 to 'BBB-' from 'BB+' (guaranteed by Suzano Papel e Celulose S.A.).

Suzano Austria GmbH

- USD700 million senior notes due in 2026 to 'BBB-' from 'BB+' (guaranteed by Suzano Papel e Celulose S.A.).
- USD500 million senior notes due in 2047 to 'BBB-' from 'BB+' (guaranteed by Suzano Papel e Celulose S.A.).

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Summary of Financial Statement Adjustments -

- Debt adjusted by debt factoring.
- Fitch excludes changes in biological assets from EBITDA.
- In 2016, Fitch excluded provision for land loss from EBITDA.

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### Applicable Criteria

Corporate Rating Criteria (pub. 07 Aug 2017) (<https://www.fitchratings.com/site/re/901296>)

Exposure Draft: Corporate Rating Criteria (pub. 14 Dec 2017) (<https://www.fitchratings.com/site/re/907387>)

Exposure Draft: Sector Navigators (pub. 14 Dec 2017) (<https://www.fitchratings.com/site/re/10013332>)

National Scale Ratings Criteria (pub. 07 Mar 2017) (<https://www.fitchratings.com/site/re/895106>)

Rating Non-Financial Corporates Above the Country Ceiling Rating Criteria (pub. 15 Feb 2017) (<https://www.fitchratings.com/site/re/894126>)

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