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Research Update:

**Suzano Papel e Celulose S.A.
Upgraded To 'BBB-' On Solid Financial
Policy; Fibria Celulose S.A. 'BBB-'
Ratings Affirmed**

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Research Update:

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Overview

- On March 16, 2018, Fibria's shareholders and Suzano announced an agreement to combine their operations. Suzano will finance the deal mainly through debt (about R\$30 billion), with a smaller portion in shares exchange. Once and if the deal is concluded, Fibria will be incorporated under Suzano's structure and de-listed from the Brazilian and NY stock exchanges. The deal is still pending customary closing conditions, including the approvals from both companies' shareholders and antitrust authorities.
- Although in our view the combined entity will be an industry leader, the upgrade of Suzano is independent from the transaction. It follows the company's commitment to its financial policy and its credit metrics that are within the boundaries of an investment-grade level.
- In our view, the proposed combination, if completed, will result in a company with very competitive costs and a leading global position. We believe the large scale and better forest portfolio management will provide the company with further cash-cost improvements and strong EBITDA margins, that would rank in the top quartile of the global forest companies peer group.
- Fibria's ratings remain unaffected. Once the transaction is completed, they'll move in tandem with those of the combined entity.
- We are raising our ratings on Suzano to 'BBB-' from 'BB+' and affirming our ratings on Fibria at 'BBB-'.
- The stable outlook reflects our view that the proposed combination of Suzano and Fibria will yield a stronger entity, from a business perspective, but its asset concentration in Brazil will limit upside potential.

Rating Action

On March 16, 2018, S&P Global Ratings raised its global scale corporate credit rating on Suzano Papel e Celulose S.A. (Suzano) to 'BBB-' from 'BB+'. We also raised our issue-level ratings on the company to 'BBB-' from 'BB+'. At the same time, we affirmed our 'brAAA' national scale corporate credit rating on Suzano. The outlook is stable.

We also affirmed our 'BBB-' global scale corporate credit rating on Fibria Celulose S.A. (Fibria) and the issue-level rating on its financing vehicle Fibria Overseas Finance Ltd. The outlook also remains stable.

Rationale

The upgrade on Suzano to 'BBB-' reflects our view that the company is committed to containing its leverage within the boundaries of its financial policy, which limits leverage peaks at 3.5x in times of expansion. In our view, the announced transaction won't make Suzano deviate from its leverage standards, given the company's track record and our confidence in terms of Suzano's sustainable level of credit metrics. At the same time, the transaction will strengthen Suzano's business position, so we think it's credit positive. In fact, if for some reason the transaction isn't viable, our ratings on Suzano will remain 'BBB-' because we think that the company could successfully balance significant growth investments and shareholders' remuneration while maintaining credit metrics within the boundaries for an investment-grade rating.

Fibria's ratings affirmation follows our belief that its operating performance and deleverage trend are aligned with our expectations. Favored by strong pulp prices, prudent risk management, and incremental cash flows from its expansion, Fibria's leverage will head towards net debt to EBITDA of 2.0x-2.5x over the next three years. This ratio leaves a cushion to absorb price shocks and supports its 'BBB-' rating. Once the deal is completed, we will align our ratings on Fibria to mirror those of the combined entity.

Suzano's bid for Fibria will result in a 'BBB-' combined entity with a stronger business position due to economies of scale, cost profile, and market relevance, but with a weaker leverage position due to the debt used to finance the acquisition. We expect the initial leverage to peak at 3.5x, improving over the next two to three years because of supportive pulp prices and synergies.

The combined entity will become a global leader in bleached eucalyptus kraftwood pulp (BEKP), with a total capacity of 10.75 million tons per year--commanding 20% of the global market pulp supply and more than 30% of hardwood fiber production. We believe the significant scale and better forest portfolio management will provide the company with further cash-cost improvements and strong EBITDA margins. The company's asset base benefits from Brazil's favorable climate conditions for eucalyptus trees with a strong genetic performance, resulting in a harvest cycle of seven years. In addition, the modern technologies applicable to its facilities result in a self-sufficient energy status. Even though the deal will strengthen Suzano's business position, our assessment of the resulting business risk profile would remain satisfactory given the industry's inherent volatility, the high impact from currency swings over cash flow generation, and the limited product and geographic diversification.

Our pro forma financial risk assessment incorporates significant free operating cash flow (FOCF) generation over the next three years, based on our assumption of solid pulp prices (driven by healthy demand with no major supply additions) and a capital spending level that will be largely maintenance--following the completion of Fibria's Horizonte 2 project and the management's focus on leverage reduction after the deal is completed. Our pro forma base-case assumes that prices will recede from current all-time highs, but will stay favorable through 2020. As a result, Suzano should post a three-year average debt-to-EBITDA ratio of 3.0x-3.5x and funds from operations (FFO) to debt of 20%-25%. If we were to assume more stable pulp prices during 2019 and 2020--at the same level as 2018 prices--debt to EBITDA would be below 3.0x and FFO to debt above 25%.

We also believe that on a pro forma basis, the combined entity's liquidity position will remain strong. We base our analysis on our expectation of material cash flow generation after interest and taxes of R\$10-12 billion, a solid cash position above R\$10 billion, and a manageable debt maturity profile driven by successful liability management activities performed by both entities. Although some of Fibria's debts could be automatically accelerated in case of change of control (some R\$5 billion in CRAs)--apart from bilateral bank loans that would be triggered, although not automatically--we believe debtholders have enough incentives to avoid acceleration. In any case, we believe the company could easily refinance or pay down those debts because of its high cash balance, sound banking relationships, and good standing in credit markets.

Our key base-case operating assumptions for Suzano, pro forma the merger, incorporate the following:

- The transaction to close before the end of 2018;
- An average exchange rate of R\$3.3 per \$1 in 2018 and R\$3.4 per \$1 in 2019;
- Pulp prices to remain above long-term averages, reflecting good balance in the global market. Average realized prices around R\$2.000-R\$2.200 in 2018 and R\$1.900-R\$2.000 in 2019;
- Constant average pulp prices discounts for each of the companies in the next years, leading to a combined average discount of 28%;
- On a combined pro forma basis, pulp volumes sold of almost 12 million tons yearly, considering the about 900,000 tons yearly sold by Fibria and produced by Klabin S.A. (BB+/Stable/--);
- Cash costs between R\$600 and R\$615 per ton, driving adjusted EBITDA margins to 50%-55%. We assume that the synergy curve will be captured in up to three years, mainly driven by selling, general, and administrative expenses (SG&A) and a broader forest portfolio that should result in shorter distances between forest and mills and lower logistics costs;
- Even though the capital expenditures (capex) and dividends strategy is now unknown, we assume investments of around R\$6.5 billion in 2018 and R\$4.2-R\$4.7 billion in 2019, already incorporating Facepa (a tissue producer company) and land acquisition by Suzano and the capex for

completing Fibria's Horizonte 2 project. We also assume the minimum dividend payment going forward; and

- \$9.2 billion new debt at Suzano's level to finance the acquisition.

Based on these assumptions, we arrive at the following credit measures and metrics: Revenues of about R\$27-R\$29 billion;

- EBITDA of R\$13-R\$15 billion;
- Debt to EBITDA of 3.0x-3.5x; and
- FFO to debt of 20%-25%.

Outlook

The stable outlook on Suzano indicates that with or without the acquisition, the company will remain committed to its financial policy and will keep a cautious stance towards investments and shareholders' remuneration, maintaining leverage targets that are consistent with the boundaries for an investment-grade rating--including net debt to EBITDA below 3.5x and FFO to net debt above 20%. If the combination is approved, we expect credit metrics to slightly weaken, but to remain manageable and strengthen through time.

Downside scenario

We could consider a downgrade over the next 24 months if industry conditions meaningfully weaken, impeding Suzano's deleverage--assuming the acquisition is completed--or if the company adopts a more aggressive shareholder remuneration strategy. Specifically, we could lower the ratings if Suzano's three-year average FFO-to-debt ratio falls below 20% with debt to EBITDA above 3.5x.

Upside scenario

Despite its strong market position in pulp and the low cash-cost, we cap the ratings on Suzano at one notch above Brazil's transfer and convertibility assessment (currently at 'bb+'). Suzano's business is also somewhat constrained by the volatile nature of the pulp market, and heavily depends on Chinese demand. Nevertheless, we could consider upwardly revised the stand-alone credit profile (SACP) over the next three years if the industry consolidation results in more stable prices and cash flow generation. A higher SACP would also be contingent on the company's financial policies supporting leverage below 3.0x-3.5x.

Ratings Score Snapshot

Suzano Papel e Celulose S.A.:

Corporate Credit Rating:

- Global scale rating: BBB-/Stable/--
- National scale rating: brAAA/Stable/--

Business risk: Satisfactory

- Country risk: Moderately high risk
- Industry risk: Moderately high risk
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- Criteria - Corporates - General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 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
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 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

Ratings List

* * * * * Fibria Celulose S.A. * * * * *

Ratings Affirmed

Fibria Celulose S.A.

Corporate Credit Rating BBB-/Stable/--

Fibria Overseas Finance Ltd.

Senior Unsecured BBB-

* * * * * Suzano Papel e Celulose S.A. * * * * *

Ratings Affirmed

Suzano Papel e Celulose S.A.

Corporate Credit Rating
Brazil National Scale brAAA/Stable/--

Upgraded

To From

Suzano Austria GmbH

Senior Unsecured BBB- BB+

Suzano Trading Ltd.

Senior Unsecured BBB- BB+

Upgraded; Outlook Action

To From

Suzano Papel e Celulose S.A.

Corporate Credit Rating
Global Scale BBB-/Stable/-- BB+/Positive/--

Not Rated Action

To From

Suzano Austria GmbH

Senior Unsecured

| | | |
|--------------------------------------|------|--------|
| US\$500 mil 7.00% nts due 03/16/2047 | BBB- | BB+ |
| Recovery Rating | NR | 3(65%) |
| US\$700 mil 5.75% nts due 07/14/2026 | BBB- | BB+ |
| Recovery Rating | NR | 3(65%) |

Suzano Trading Ltd.

Senior Unsecured

| | | |
|-----------------|------|--------|
| Local Currency | BBB- | BB+ |
| Recovery Rating | NR | 3(65%) |

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