

**Rating Action: Moody's affirms Suzano's ratings after announced acquisition of Fibria; negative outlook**

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Global Credit Research - 16 Mar 2018

Sao Paulo, March 16, 2018 -- Moody's America Latina Ltda. has affirmed Suzano Papel e Celulose S.A.'s corporate family rating at Ba1 in in the global scale and at Aaa.br in the national scale as well the ratings assigned to its senior unsecured notes. The outlook remains negative.

Ratings affirmed as follows:

Issuer: Suzano Papel e Celulose S.A.

LT Corporate Family Rating: at Ba1 (global scale) / at Aaa.br (national scale)

USD 153 mm notes due 2019: at Ba1 (global scale) / at Aaa.br (national scale)

USD 23 mm notes due 2024: at Ba1 (global scale) / at Aaa.br (national scale)

The outlook is negative

**RATINGS RATIONALE**

The affirmation of Suzano's Ba1 ratings follows the announcement on March 16 of an agreement of Fibria's and Suzano's controlling shareholders (BNDES, Votorantim, and Suzano Holding S.A.) to combine the operations and shareholding basis of Fibria and Suzano.

The transaction, when approved, will create the largest market pulp producer globally, with a 42% market share in eucalyptus pulp and 18% market share in market pulp. The business combination will bring long-term benefits to both Fibria and Suzano in terms of scale, size, financial flexibility and will generate meaningful operating synergies. It will be a transformative transaction for the fragmented pulp industry, leading to concentration that can help reduce the volatility in pulp prices with more disciplined supply and higher efficiencies. The business combination will enhance Suzano's credit profile, but will increase leverage at the closing of the transaction. We estimate a pro-forma leverage, measured by adjusted total debt to EBITDA, of 4.4x, from 2.7x at the end of 2017. The transaction is subject to the fulfillment of certain conditions, including the approval of minority shareholders and antitrust authorities in Brazil and abroad, among others. As such, it may take several months until the business combination is fully completed.

Suzano's Ba1 ratings incorporate the company's position as a low cost producer of bleached eucalyptus kraft pulp (BEKP) and paper, with leading positions in the global BEKP market and Brazilian printing and writing paper and paperboard sectors. The company benefits from a high level of vertical integration with substantial self-sufficiency in wood fiber and energy, in addition to the proximity of its pulp mills to its own forests and port facilities as well as the favorable location of its paper plants within Brazil's most industrialized region. Furthermore its diversity towards pulp and paper translates into exposure to different market dynamics and contributes to strong operating margins even amid periods of lower growth in Brazil's paper industry. Additional rating positives are the company's comfortable liquidity profile, with a cash balance of BRL 2.7 billion at the end of December 2017. Constraining the ratings are the volatile nature of the pulp industry, which represents around 65% of Suzano's revenues. As well, the weakness in the Brazilian economy may limit volume growth and margins expansion in the paper segment

The negative outlook reflects the higher debt levels Suzano will incur at the acquisition and the execution risks involved in a business combination of such magnitude. Although we do not expect credit metrics to change materially during 2018 based on current market conditions, leverage will increase at the closing of the transaction in late 2018/early 2019, when industry conditions may materially differ from our assumptions today.

An upgrade on Suzano's rating would require the maintenance of strong credit metrics, market presence and diversification, as well as solid liquidity profile and positive free cash flow generation on a sustainable basis. Quantitatively, a positive action would also require leverage -- as measured by Total Adjusted Gross Debt to

EBITDA -- to be below 3.0x and interest coverage -- expressed by Adjusted EBITDA to Interest Expense -- to remain above 5x on a consistent basis.

Negative pressure on the rating could result if adjusted leverage remains above 4.0x for a prolonged period or if interest coverage declines to below 3.5x without prospects for improving, and in case the company's liquidity position deteriorates, becoming insufficient to cover near term debt service requirements. Significant changes in market conditions, in particular for hardwood pulp, which may lead to weaker than expected cash flows for Suzano and the combined operations, could further pressure the ratings.

The principal methodology used in these ratings was Paper and Forest Products Industry published in March 2018. Please see the Rating Methodologies page on [www.moodys.com.br](http://www.moodys.com.br) for a copy of this methodology.

Headquartered in Salvador - Brazil, Suzano Papel e Celulose S.A. is a leading low-cost producer of bleached eucalyptus market pulp, printing and writing paper and paperboard, having reported consolidated net revenues of BRL 10.5 billion (about USD 3.3 billion) in the last twelve months ended December 2017.

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Barbara Mattos, CFA  
VP - Senior Credit Officer  
Corporate Finance Group  
Moody's America Latina Ltda.  
Avenida Nacoes Unidas, 12.551  
16th Floor, Room 1601  
Sao Paulo, SP 04578-903  
Brazil  
JOURNALISTS: 800 891 2518  
Client Service: 1 212 553 1653

Marianna Waltz, CFA  
MD - Corporate Finance  
Corporate Finance Group  
JOURNALISTS: 800 891 2518  
Client Service: 1 212 553 1653

Releasing Office:

Moody's America Latina Ltda.  
Avenida Nacoes Unidas, 12.551  
16th Floor, Room 1601  
Sao Paulo, SP 04578-903  
Brazil  
JOURNALISTS: 800 891 2518  
Client Service: 1 212 553 1653



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