S&P Global Ratings

RatingsDirect®

Suzano Papel e Celulose S.A.

Primary Credit Analyst:
Felipe Speranzini, Sao Paulo (55) 11-3039-9751; felipe.speranzini@spglobal.com

Secondary Contact:
Renata Lotfi, Sao Paulo (55) 11-3039-9724; renata.lotfi@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Covenant Analysis

Rating Above The Sovereign

Issue Ratings - Subordination Risk Analysis

Reconciliation

Ratings Score Snapshot

Related Criteria

Suzano Papel e Celulose S.A.

Business Risk: SATISFACTORY

Vulnerable — Excellent

Financial Risk: SIGNIFICANT

Highly leveraged — Minimal

Anchor	Modifiers	Group/Gov't
bbb-	bbb-	bbb-

Issuer Credit Rating

BBB-/Stable/--

Brazil National Scale

brAAA/Stable/--

Credit Highlights

Overview

Key Strengths	Key Risks
Leading position in hardwood pulp production with a very competitive cost structure.	Industry cyclicality and primarily capital-intensive business model might expose the company to substantial volatility.
Manageable debt maturity profile and solid liquidity.	Limited product and geographic concentration, with ratings limited at one notch above the T&C assessment for Brazil.
Commitment to a financial policy and credit metrics that are within the boundaries of an investment-grade company.	

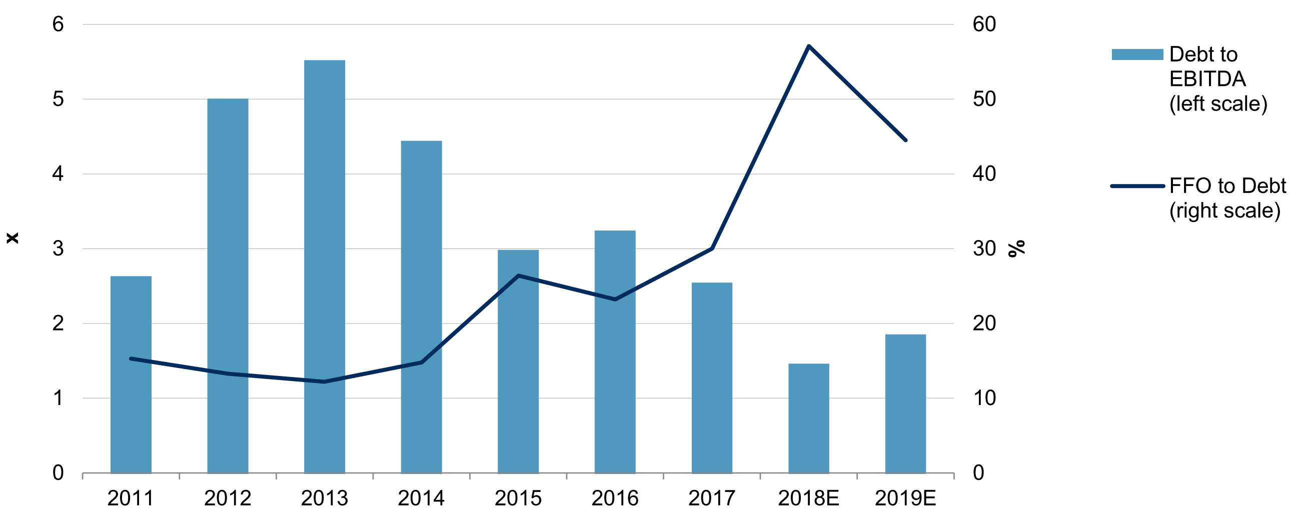
Our favorable view of Suzano's competitive position and operating performance is tempered by its exposure to a cyclical and capital-intensive industry. After acquiring Fibria, Suzano will have a leading global position and a cash cost comfortably within the first quartile among peers worldwide. Even though this should translate to above-average profitability, the company is exposed to an industry with a history of boom-and-bust behavior, where supply shortages traditionally trigger capacity expansion and subsequently overcapacity and pricing pressure. This factor, along with a dependence on economic conditions--with China as the main growing market--and currency swings expose the company to potentially high volatility. In addition, given its much larger scale and higher financial flexibility after it completed the Fibria deal, we believe Suzano is positioning itself as candidate for future pulp capacity expansions.

We expect earnings and cash flow to remain robust over the next two years. We expect a balanced and healthy scenario for the pulp market over the next two years, with prices above long-term averages. This is because no major capacity additions should reach the market until 2021 and because global demand should remain solid. Higher income levels, rapid urbanization, and rising living standards should continue to drive demand. Stricter enforcement of environmental policies in China is also reshaping the fiber supply-demand fundamentals, with increasing requests for virgin fibers. In this context, we expect Suzano to post an average debt to EBITDA of 2.0x and funds from operations (FFO) to debt above 30% during 2018-2020. Downside risks to the industry include the possibility of higher-than-expected new supply additions; more pressured global papermakers margins (given potential difficulties to pass-through higher pulp costs and depreciated emerging markets' currencies); and changes in Chinese demand patterns.

Suzano has substantially improved its balance sheet over the past three years and adopted a financial policy consistent with an investment-grade company. A sound pulp market and reduced capital expenditures (capex) after the full ramp-up of the Maranhão plant have let Suzano boost cash flow generation and reduce its debt levels over the past few years. Furthermore, in mid-2017 the company approved a financial policy under which it commits to containing leverage below 3.0x, with a potential peak of 3.5x in times of expansion. In our view, this target allows Suzano to weather meaningful economic deterioration without eroding its credit protection measures. Also, it enables the company to undertake significant growth investments and shareholders' remuneration while maintaining credit metrics within the boundaries for an investment-grade rating.

Chart 1

Suzano's Leverage



Source: S&P Global Ratings. E--Estimated.

Outlook: Stable

The stable outlook on Suzano indicates our view that 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%.

Downside scenario

We could consider a downgrade over the next 24 months if industry conditions meaningfully weaken, impeding Suzano's deleverage, 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 (S&P Global Ratings' view of the likelihood of a sovereign's restricting non-sovereign access to foreign exchange needed to satisfy the non-sovereign entity's debt-service obligations), which currently is at 'BB+'. The pulp market's volatile nature also somewhat constrains Suzano's business, which also heavily depends on Chinese demand. Nevertheless, we could consider upwardly revising the stand-alone credit profile (SACP) in 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.

Our Base-Case Scenario

We expect Suzano to complete its acquisition of Fibria in January 2019. Since we expect healthy pulp prices to continue and a depreciated Brazilian real next year, we believe Suzano will have strong cash flow generation--which should translate to reduced debt for 2019 and 2020. Next year, we expect that the company should generate about R$10 billion-R$12 billion in free operating cash flow (FOCF).

Assumptions

- The cash outflow from the Fibria transaction to occur in January 2019;
- An average exchange rate of R$3.90 per $1 in 2019 and R$4.05 per $ 1 in 2020;
- Pulp prices to remain relatively stable during the next year, reflecting good balance in the global market. For 2020, we assume a slightly more pressured market scenario given potential new supply announcements, but with prices still well above long-term averages. Our net realized price assumptions are R$2,800 per ton in 2019, R$2,600 per ton in 2020 and 2,300 per ton in 2021;
- The abovementioned expected prices incorporate a 28% average discount in the next few years;
- We project pulp volumes sold of about 11 million tons yearly, according to the company's current production capacity;
- Cash costs to remain between R$620 and R$640 per ton, driving adjusted EBITDA margins to 57%-62%. 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, as well as lower logistics costs; and
- The company has not yet disclosed its capex and dividend strategy after the acquisition of Fibria. We assume investments close to maintenance levels of around R$5 billion in 2019 and 2020. We also assume the minimum dividend payment going forward.

Key Metrics

	2017A	2018E	2019E	2020E
EBITDA margin (%)	43.5	50-52	57-62	56-61
FFO to debt (%)	30	55-60	42-47	48-53
Debt to EBITDA (x)	2.5	1.3-1.5	1.6-2.0	1.4-1.8

All figures are S&P Global Ratings adjusted. A--Actual. E--Estimate.

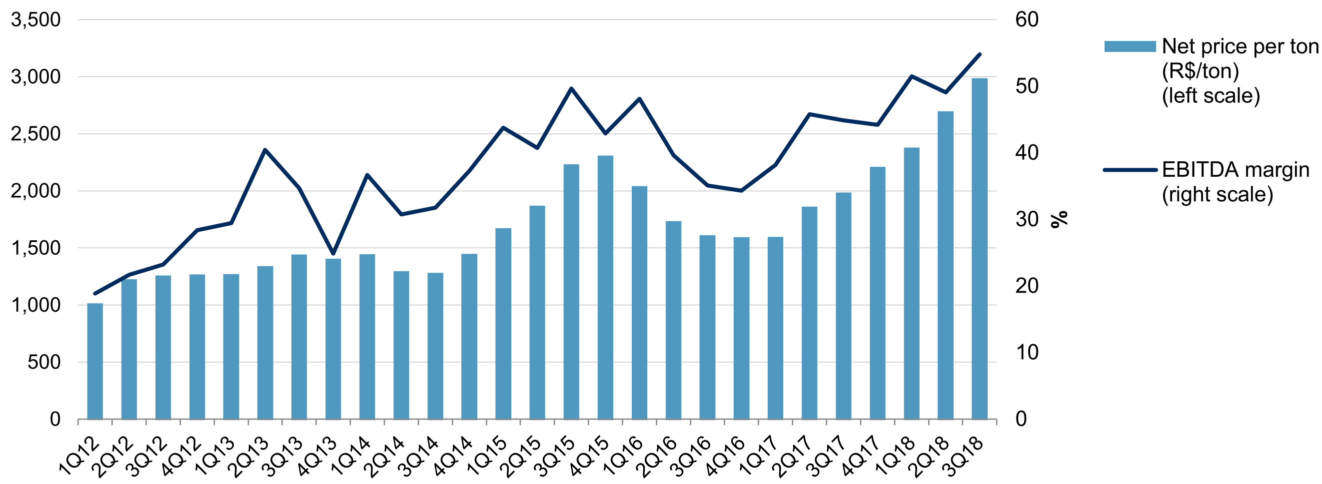
Base-case projections

Strong pulp prices and moderate capex should allow Suzano to generate consistently strong FOCF. Like most of its peers, Suzano should benefit from favorable market conditions and generate a substantial amount of cash flow after investments (we estimate FOCF of R$10-R$12 billion in 2019). In our base-case scenario, we assume that the company will focus its 2019 strategy on integrating Fibria, with capex close to maintenance levels in order to reduce gross debt.

Downside risks to the forecast include lower-than-expected demand from China, a more appreciated Brazilian real, and acclerating new pulp global capacity. In our view, the industry boom-and-bust behavior adds risks to a potential acceleration of new capacity announcements. And in this context, Suzano could be a good candidate for adding capacity, given its sizable scale and ability to absorb new investments. The company's financial performance is also linked to currency movements because its revenues are highly dollarized while about 80% of its costs are denominated in local currency, creating significant operational leverage when the Brazilian real is more depreciated. Although the majority of the company's debt is also denominated in hard currency, which could create some temporary mismatch in the balance sheet, the company's cash flow generation benefits from the currency depreciation.

Chart 2

Suzano's Pulp Prices And EBITDA Margins



Source: S&P Global Ratings.

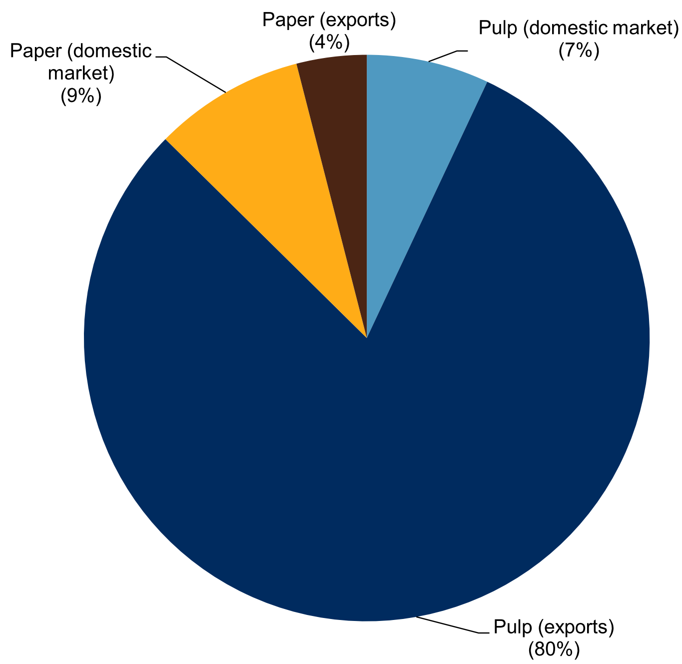
Company Description

Suzano is the largest bleached eucalyptus kraftwood pulp (BEKP) producer worldwide--with a capacity of 10.75 million tons per year--and a leading player in the printing and writing paper business in Brazil, with a total capacity of 1.4 million tons (including tissue capacity). The company has nine pulp mills across Brazil, including ones in Sao Paulo, Bahia, Maranhão, Mato Grosso do Sul, and Espírito Santo. All of those plants also produce paper. Suzano also benefits from access to proprietary fast growing forests, with more than 2.3 million hectares of its own land (of about 1.2 million hectares of planted forests).

On March 16, 2018, Fibria's shareholders and Suzano announced an agreement to combine their operations. Suzano financed the deal mainly through debt (about R$30 billion), with a smaller portion in shares exchange. The antitrust authorities granted final approvals on Nov. 29. With the conclusion of the deal in January 2019, Fibria will be incorporated into Suzano's structure and de-listed from the Brazilian and NY stock exchanges. Suzano's pro forma shareholder structure will be: 46.4% of shares owned by Suzano's controlling shareholders, and 53.6% of free float, of which 11.1% relates to BNDESPar, 5.6% to Votorantim, and 36.9% to the remaining shareholders.

Chart 3

Revenues Breakdown In 2018
Pro forma with Fibria



Source: S&P Global Ratings.

Business Risk: Satisfactory

After acquiring Fibria, Suzano became a global leader in bleached eucalyptus kraftwood pulp (BEKP), with a total capacity of 10.75 million tons per year. Although the global market is very fragmented, with total pulp demand surpassing 170 million tons per year, Suzano now commands about 20% of the global market pulp supply and over 30% of hardwood fiber production. Pulp will represent the main portion of the company's pro forma revenues base (about 85%) and we believe its significant scale and better forest portfolio management will provide the company with further cash-cost improvements and strong EBITDA margins (we don't expect the company to face issues while integrating its labor groups, risk management, and control systems with Fibria's). Suzano also benefits from leading positions in the Brazilian printing and writing market (around 40% market share) and paperboard (25%), and is beginning operations in tissue as well.

The company's asset base benefits from Brazil's favorable climate for eucalyptus trees with a strong genetic performance, resulting in a harvest cycle of seven years. In addition, the modern technologies of its facilities result in a self-sufficient energy status. This favorable cost structure positions Suzano among the top players in the global industry cost curve. Even though the deal with Fibria strengthens Suzano's business position, our assessment of the company's resulting business risk profile remains satisfactory because of the industry's inherent volatility, the high impact from currency swings over cash flow generation, and Suzano's limited product and geographic diversification.

Peer comparison

Table 1

Peer Comparison

	Suzano Papel e Celulose S.A.	**Fibria Celulose S.A.**	**Suzano pro forma (+ Fibria)**	**Klabin S.A.**	**UPM-Kymmene Corp.**	**Empresas CMPC S.A.**	**Celulosa Arauco y Constituición S.A.**
Issuer credit rating	BBB-/Stable/--	BBB-/Stable/--		BB+/Stable/--	BBB/Stable/A-2	BBB-/Stable/--	BBB-/Stable/--
Country	Brazil	Brazil		Brazil	Finland	Chile	Chile
Industry GIFT	Paper & forest products	Paper & forest products		Containers & packaging, paper & forest Products	Paper & forest products	Paper & forest products	Paper & forest products
Business risk profile	3 - Satisfactory	3 - Satisfactory	3 - Satisfactory	3 - Satisfactory	3 - Satisfactory	3 - Satisfactory	3 - Satisfactory
CICRA	4 - Moderately High Risk	4 - Moderately High Risk	4 - Moderately High Risk	4 - Moderately High Risk	4 - Moderately High Risk	4 - Moderately High Risk	4 - Moderately High Risk
Country risk	4 - Moderately High Risk	4 - Moderately High Risk	4 - Moderately High Risk	4 - Moderately High Risk	2 - Low Risk	3 - Intermediate	3 - Intermediate
Industry risk	4 - Moderately High Risk	4 - Moderately High Risk	4 - Moderately High Risk	4 - Moderately High Risk	4 - Moderately High Risk	4 - Moderately High Risk	4 - Moderately High Risk
Competitive position	3 - Satisfactory	3 - Satisfactory	3 - Satisfactory	3 - Satisfactory	3 - Satisfactory	3 - Satisfactory	3 - Satisfactory
Financial risk profile	4 - Significant	4 - Significant	4 - Significant	4 - Significant	1 - Minimal	4 - Significant	4 - Significant
Cash flow/Leverage	4 - Significant	4 - Significant	4 - Significant	4 - Significant	1 - Minimal	4 - Significant	4 - Significant
Anchor	bbb-	bbb-		bbb-	a-	bbb-	bbb-
Diversification/Portfolio effect	Neutral (0)	Neutral (0)	Neutral (0)	Neutral (0)	Neutral (0)	Neutral (0)	Neutral (0)
Capital structure	Neutral (0)	Neutral (0)	Neutral (0)	Neutral (0)	Neutral (0)	Neutral (0)	Neutral (0)
Financial policy	Neutral (0)	Neutral (0)	Neutral (0)	Neutral (0)	Negative (-2 notches)	Neutral (0)	Neutral (0)
Liquidity	Strong (0)	Strong (0)	Strong (0)	Strong (0)	Strong (0)	Strong (0)	Adequate (0)
M&G	Fair (0)	Satisfactory (0)	Fair (0)	Fair (0)	Satisfactory (0)	Fair (0)	Satisfactory (0)
CRA	Neutral (0)	Neutral (0)	Neutral (0)	Negative (-1 notch)	Neutral (0)	Neutral (0)	Neutral (0)
SACP	bbb-	bbb-	bbb-	bb+	bbb	bbb-	bbb-

S&P's adjusted figures (Mil. US$)	**Average of past three fiscal years**						
	Suzano S.A.	**Fibria Celulose S.A.**	**Suzano pro forma (+ Fibria)**	**Klabin S.A.**	**UPM-Kymmene Corp.**	**Empresas CMPC S.A.**	**Celulosa Arauco y Constituición S.A.**
Revenues	2,930.6	2,756.0	--	2,047.0	11,128.6	4,822.0	5,048.8
EBITDA	1,245.4	1,388.9	--	653.7	1,739.5	997.0	1,160.7

Table 1

Peer Comparison (cont.)							
Funds from operations (FFO)	950.4	1,093.8	--	411.0	1,446.1	676.8	834.6
Net income from cont. oper.	277.2	307.4	--	202.2	1,030.3	27.5	285.0
Cash flow from operations	801.9	1,230.3	--	484.3	1,712.2	693.6	898.9
Capital expenditures	536.3	1,288.1	--	705.4	395.8	503.0	372.1
Free operating cash flow	265.6	(57.9)	--	(221.2)	1,316.3	190.7	526.8
Discretionary cash flow	154.8	(309.7)	--	(349.8)	837.6	167.8	395.1
Cash and short-term investments	856.8	1,361.2	--	1,966.2	862.2	670.5	560.7
Debt	3,599.2	4,415.8	--	3,605.1	2,456.4	3,612.3	3,961.9
Equity	2,920.4	3,967.0	--	1,823.9	9,266.7	7,721.2	6,920.9
Adjusted ratios			--				
EBITDA margin (%)	42.6	50.5	--	32.0	15.6	20.7	23.0
Return on capital (%)	13.6	10.5	--	11.6	9.0	4.5	6.1
EBITDA interest coverage (x)	3.7	5.4	--	1.8	15.6	4.7	4.8
FFO cash int. cov. (X)	4.2	6.9	--	2.5	35.5	4.8	4.5
Debt/EBITDA (x)	2.9	3.2	--	5.6	1.4	3.6	3.4
FFO/debt (%)	26.4	25.0	--	11.2	58.0	18.7	21.1
Cash flow from operations/debt (%)	22.0	28.0	--	13.3	68.7	19.2	22.7
Free operating cash flow/debt (%)	7.3	(0.4)	--	(7)	52.7	5.1	13.3
Discretionary cash flow/debt (%)	4.3	(6.6)	--	(10.5)	33.6	4.5	10.0
S&P's Adjusted Figures (Mil. USD)	**--Fiscal year ended Dec. 31, 2017--**						
Revenues	3,175.4	3,050.3	6,225.7	2,527.3	12,020.7	5,143.1	5,238.3
EBITDA	1,380.1	1,566.8	2,946.9	802.8	2,024.7	1,020.9	1,206.9
Funds from operations (FFO)	1,048.3	1,204.5	2,252.8	540.9	1,626.1	700.3	804.7
EBIT	1,045.9	975.8	2,021.7				
Net income from cont. oper.	545.5	327.6	873.1	160.6	1,168.4	103.3	269.7
Cash flow from operations	891.2	1,284.0	2,175.2	737.9	1,962.3	900.5	1,071.8
Capital expenditures	534.1	1,399.4	1,933.5	279.3	365.1	403.5	442.7
Free operating cash flow	357.1	(115.4)	241.7	458.6	1,597.3	497.0	629.1
Discretionary cash flow	184.9	(234.5)	(49.6)	305.6	988.4	492.2	507.5
Cash and short-term investments	817.4	2,013.5	2,830.9	2,496.6	859.8	843.9	589.9
Debt	3,494.2	4,814.9	8,309.1	3,518.3	1,658.9	3,473.6	3,742.5
Equity	3,437.7	4,421.7	7,859.4	2,183.4	10,404.3	8,018.0	7,116.9
Interest expense	358.8	370.3	729.1				
Avg. Adjusted capital for return on capital	7,379.2	9,064.5	16,443.7				

Table 1

Peer Comparison (cont.)							
Adjusted ratios							
EBITDA margin (%)	43.5	51.4	47.3	31.8	16.9	19.8	23.0
Return on capital (%)	14.2	10.8	12.3	10.5	11.0	4.3	6.3
EBITDA interest coverage (x)	3.8	4.2	4.0	2.3	14.8	4.4	4.6
FFO cash int. cov. (X)	4.6	5.0	4.8	3.0	44.6	4.5	4.0
Debt/EBITDA (x)	2.5	3.1	2.8	4.4	0.8	3.4	3.1
FFO/debt (%)	30.0	25.0	27.1	15.4	98.3	20.2	21.5
Cash flow from operations/debt (%)	25.5	26.7	26.2	21.0	118.5	25.9	28.6
Free operating cash flow/debt (%)	10.2	(2.4)	2.9	13.0	96.5	14.3	16.8
Discretionary cash flow/debt (%)	5.3	(4.9)	(0.6)	8.7	59.8	14.2	13.6

Suzano is large relative to peers, with a pro forma revenue base estimated at R$32 billion-R$34 billion and EBITDA of R$18 billion-R$20 billion in 2018. In general, we believe that Brazilian players, amid access to more favorable natural resources, enjoy a beneficial cost position for pulp making. However, margins vary not only from the cost position, but also from exposure to commodity products. Compared to Klabin(BB+/Stable/--), Chilean (i.e. Empresas CMPC S.A. [BBB-/Stable/--] and Celulosa Arauco y Constitución S.A. [BBB-/Stable/--]) and European (i.e. UPM-Kymmene Oyj [BBB/Stable/A-2]) peers, Suzano has less exposure to value-added products, with a big focus on the commoditized pulp business. Even though this translates to higher absolute margins, volatility also tends to be more pronounced, driven by economic cycles and currency fluctuation.

Credit metrics and financial policies are also distinguishing factors. Suzano implemented a tighter financial policy mid-2017, which mandates a target of reported leverage below 3.0x, potentially temporarily reaching 3.5x in the case of an expansion cycle, which we think supports Suzano's investment grade. This tighter policy compares positively with the company's latest leverage peak of 5.5x in 2013 that followed the investments in its Maranhão mill. We also view this financial policy as stronger than Klabin's, which historically has a higher risk tolerance. Chilean and European players tend to have more stable cash generation performances, especially because they're less exposed to currency fluctuations and commodity products.

Chart 4

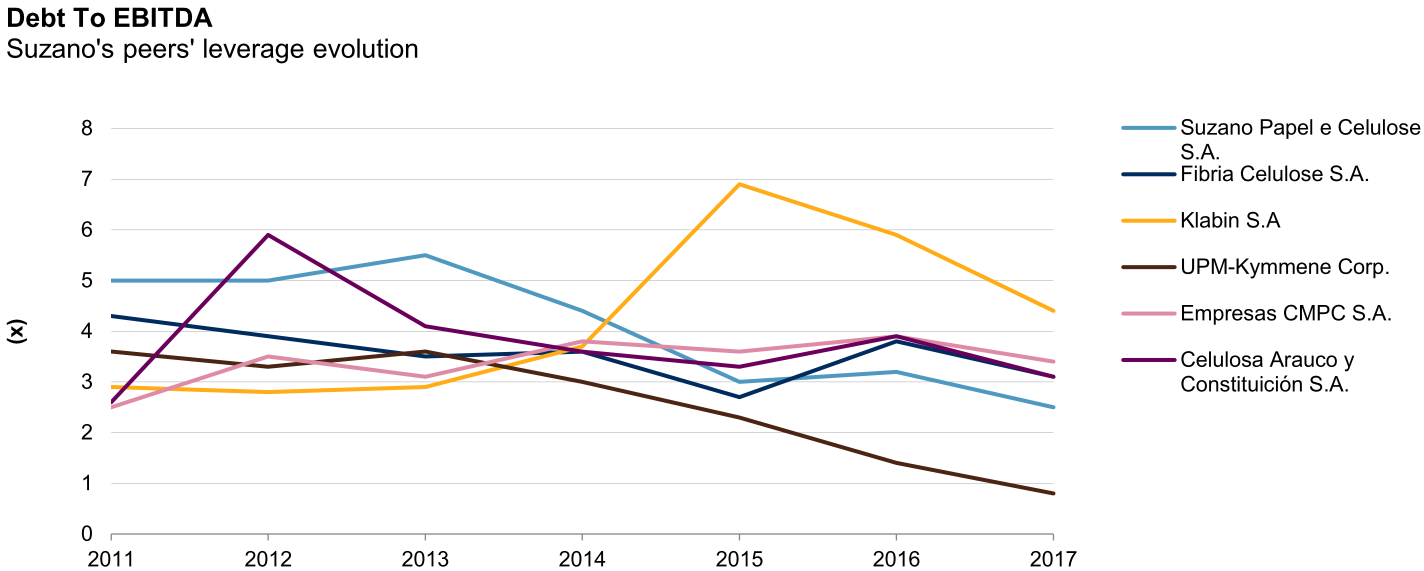
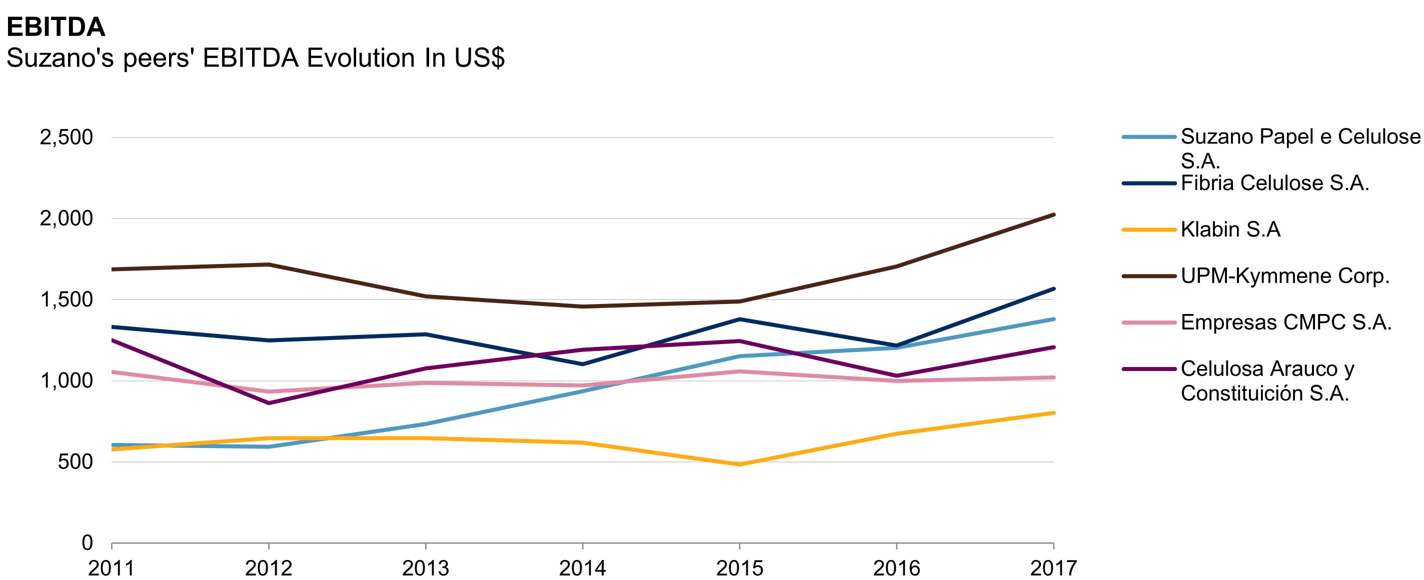


Chart 5



Financial Risk: Significant

Our pro forma financial risk assessment incorporates significant FOCF generation over the next three years, based on our assumption of solid pulp prices and capital spending largely at maintenance levels--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 pulp 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 1.5x-2.0x and FFO to debt of 45%-55%.

Sensitivity Analysis

In our view, global pulp prices may rise slightly above our base-case scenario for 2020 because demand remains solid and so far no major capacity additions have been announced for before 2021. However, we remain cautious with our price assumptions because the global expansion of supply could be significant and may pressure prices even before the new supply comes online. If we were to assume a stronger exchange rate--R$3.7 per $1--in 2019 and 2020, with benchmark pulp prices at $1,000/ton in 2019 and at $900/ton in 2020, Suzano's average leverage ratio for the next two years would be 2.0x. Under that same exchange rate assumption, with pulp prices at $800/ton, the average leverage would be 3.0x for the period. A more pressured scenario would follow pulp prices at $800/ton and exchange rate at R$3.3 per $1, when leverage would peak at 4.0x.

Financial summary

Table 2

Suzano Papel e Celulose S.A. -- Financial Summary

Industry Sector: Paper/Forest Products

	2018*	**2017**	**2016**	**2015**	**2014**	**2013**
Rating history	BBB-/Stable/--	BB+/Positive/--	BB+/Stable/--	BB+/Stable/--	BB/Stable/--	BB/Negative/--
(Mil. R$)						
Revenues	13,350.5	10,520.8	9,882.3	10,224.4	7,264.6	5,688.6
EBITDA	6,784.9	4,572.4	3,920.6	4,561.4	2,484.6	1,732.8
Funds from operations (FFO)	5,511.9	3,473.1	2,934.4	3,570.2	1,631.3	1,162.9
Net income from continuing operations	(786.3)	1,807.4	1,692.0	(925.4)	(261.5)	(220.5)
Cash flow from operations	4,688.3	2,952.6	2,999.0	2,349.6	1,457.3	28.4
Capital expenditures	2,274.7	1,769.5	2,306.8	1,451.5	1,354.1	2,250.1
Free operating cash flow	2,413.5	1,183.2	692.2	898.1	103.2	(2,221.8)
Discretionary cash flow	2,003.5	612.6	392.3	628.2	(19.0)	(2,321.7)
Cash and short-term investments	12,970.3	2,708.3	3,695.3	2,448.1	3,686.1	3,689.6
Debt	13,260.4	11,577.0	12,661.5	13,525.1	11,017.9	9,546.1
Equity	10,411.2	11,389.7	9,919.7	9,018.4	10,132.0	10,518.8
Adjusted ratios						
EBITDA margin (%)	50.8	43.5	39.7	44.6	34.2	30.5
Return on capital (%)	23.2	14.2	12.0	14.8	6.9	5.4
EBITDA interest coverage (x)	5.8	3.8	3.4	3.7	2.3	2.1
FFO cash int. cov. (x)	7.1	4.6	3.7	4.4	2.9	2.2
Debt/EBITDA (x)	2.0	2.5	3.2	3.0	4.4	5.5
FFO/debt (%)	41.6	30.0	23.2	26.4	14.8	12.2
Cash flow from operations/debt (%)	35.4	25.5	23.7	17.4	13.2	0.3
Free operating cash flow/debt (%)	18.2	10.2	5.5	6.6	0.9	(23.3)
Discretionary cash flow/debt (%)	15.1	5.3	3.1	4.6	(0.2)	(24.3)

*Data as of Sept. 30.

Liquidity: Strong

Our assessment of Suzano's strong liquidity follows its maintenance of cash flow generation above historical levels, coupled with high cash holdings, reduced cost of debt, an extended amortization profile, and lack of sizable investment plans. We expect the company to maintain the sources-to-uses ratio above 1.5x and to keep it above 1.0x over the subsequent 12-month period, even considering a peak historical working capital outflow as seen in past years. Also, we believe that Suzano has enough of a cushion to allow it to post a positive sources-to-uses ratio even if EBITDA drops by 30%, as well as the ability to absorb high-impact events without refinancing.

Moreover, the company has access to several banks and we perceive its standing in credit markets as positive for the rating level, considering current bond yields. Finally, Suzano has recently benefited from prudent risk management, illustrated by the high cash amount it's held to overcome market volatility and its consistently prudent liability management.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash reserves of R$12 billion as of September 2018 (expected about R$8 billion-R$10 billion after acquisition completion); and • Annual FFO between R$9.0 billion and R$10 billion in 2019.	• Short-term debt maturities of R$2 billion as of September, 2018 (expected R$4.8 billion for 2019 after acquisition completion); • Annual capex of R$5.0 billion to R$6.0 billion; • Working capital outflows peaking at R$1 billion; and • Annual dividend payments between R$800 million and R$1 billion.

Debt maturities

As of January 2019, we expect Suzano's debt maturities to be as follows:

- 2019: R$4.8 billion.
- 2020: R$4.2 billion.
- 2021: R$5.7 billion.

Covenant Analysis

Compliance expectations

The company is subject to financial covenants on some of its bank loans. Those covenants are measured every 60 and 120 days after the closings of June and December. As of December 2017, the company was in full compliance with those covenants, and we expect it to remain so.

Fibria's agribusiness receivable certificates (CRA) have automatic acceleration clauses in case of change of control.

The company has already negotiated with main debt holders (a few large private banks in Brazil) for the non-acceleration of the majority of those notes. Regardless, we believe the company's liquidity would remain comfortable even if the remaining non-negotiated CRAs accelerate.

Requirements

Covenant restrictions on certain debt holdings include limitation of net debt to EBITDA above 3.90x in 2018 and 2.85x in 2019. As of this September, the company had about R$950 million of its debt under covenant restrictions, all of it related to export credit agencies.

Rating Above The Sovereign

Our long-term issuer credit global scale rating on Suzano is currently three notches above our 'BB-' foreign currency rating on Brazil, reflecting our view that there's an appreciable likelihood that the company won't default even in the simulated stress scenario of a sovereign default.

We believe that Suzano operates in an industry with moderate sensitivity to Brazil, given its partly export-oriented business model and flexibility to redirect paper products to international markets in order to mitigate the impact of the domestic downturn. As a result, we currently believe we could rate Suzano above the sovereign rating, subject to the company's ability to pass a stress test related to the restrictions on access to foreign exchange to satisfy its operating and financial needs (which translates to the sovereign's T&C assessment, currently at 'BB+').

Currently, we limit the ratings at one notch above the T&C assessment, which reflects the high producing asset concentration of the pro forma combined company in Brazil and the export nature of its business. In a scenario of T&C restrictions, available cash outside Brazil and 25% of current exports would support the short-term debt and interest payment in hard currency.

We stressed the company under a sovereign default scenario for the next 12 months, using the following assumptions:

- GDP to decline 10% in 2019, which would dent volumes in the local market;
- The company would reduce capex to maintenance levels of about R$4.0 billion;
- The Brazilian real's 50% depreciation would erode Suzano's liquidity by affecting the realized price for pulp, as well as for paper exports in local currency, while having a lesser impact on production costs. It would also elevate debt.
- Doubling of inflation. The inflation rate directly affects the domestic price for paper products and the domestic components of the production cost.
- Pulp prices to drop to $550 per ton (BEKP delivered in Europe, as seen at a historical low three-month average in mid-2009), from the base-case level of $1,000 per ton for 2019.
- Haircut of 10% applied to bank deposits and 70% of face value for securities denominated in local currency, which is the bulk of Suzano's cash and cash equivalents.
- No dividend distribution in the period.

Under this hypothetical scenario, the company would maintain liquidity sources over uses of more than 1x in the first

12 months.

Issue Ratings - Subordination Risk Analysis

Capital structure

Suzano's capital structure mainly consists of senior unsecured debt (about 85% of total debt) issued by the financing vehicles Suzano Trading and Suzano Austria, which the parent company guarantees. Because Fibria will be initially allocated below Suzano, there will be some subordination of Suzano's rated debt until Fibria is fully incorporated, which we expect to occur at the end of the first semester of 2019. There's no material secured debt collateralized by real assets.

Analytical conclusions

The ratings on Suzano's debt are the same as our issuer credit rating on the company because Suzano has limited secured debt. Even if this debt ranked behind the debt issued by subsidiaries in the capital structure, we believe the risk of subordination is mitigated by a priority debt ratio that's far less than 50% and the parent's considerable earnings. We rate the financing vehicles' unsecured debt the same as our issuer credit rating on Suzano based on the guarantee of this debt.

Reconciliation

Table 3

Reconciliation Of Suzano Papel e Celulose S.A. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. R$)

	--Fiscal year ended Dec. 31, 2017--							
Suzano Papel e Celulose S.A. reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Capital expenditures**
Reported	12,191.86	11,621.55	4,654.81	3,252.03	1,144.40	4,654.81	2,949.99	1,772.25
S&P Global Ratings' adjustments								
Interest expense (reported)	--	--	--	--	--	(1,144.40)	--	--
Interest income (reported)	--	--	--	--	--	285.89	--	--
Current tax expense (reported)	--	--	--	--	--	(202.19)	--	--
Operating leases	50.97	--	19.74	3.48	3.48	16.26	16.26	--
Postretirement benefit obligations/deferred compensation	231.83	(231.83)	33.85	33.85	38.02	1.41	(10.84)	--
Surplus cash	(2,708.34)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	2.77	(2.77)	(2.77)	(2.77)
Non-operating income (expense)	--	--	--	311.65	--	--	--	--
Debt - Other	1,810.67	--	--	--	--	--	--	--

Table 3

Reconciliation Of Suzano Papel e Celulose S.A. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. R$) (cont.)								
EBITDA - Gain/(Loss) on disposals of PP&E	--	--	(29.01)	(29.01)	--	(29.01)	--	--
EBITDA - Valuation gains/(losses)	--	--	(192.50)	(192.50)	--	(192.50)	--	--
EBITDA - Other income/(expense)	--	--	18.85	18.85	--	18.85	--	--
EBITDA - Other	--	--	66.71	66.71	--	66.71	--	--
Total adjustments	(614.87)	(231.83)	(82.36)	213.02	44.27	(1,181.75)	2.65	(2.77)
S&P Global Ratings' adjusted amounts								
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditures**
Adjusted	11,576.99	11,389.72	4,572.45	3,465.06	1,188.67	3,473.07	2,952.65	1,769.48

Ratings Score Snapshot

Issuer Credit Rating

BBB-/Stable/--

Business risk: Satisfactory

- **Country risk:** Moderately high
- **Industry risk:** Moderately high
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb-

Modifiers

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

Stand-alone credit profile : bbb-

- **Group credit profile:** bbb-
- **Entity status within group:** Core

- **Related government rating:** BB-
- **Rating above the sovereign:** (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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	**bbb-/bb+**	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of December 11, 2018)

Suzano Papel e Celulose S.A.	
Issuer Credit Rating	BBB-/Stable/--
Brazil National Scale	brAAA/Stable/--

Ratings Detail (As Of December 11, 2018) (cont.)		
Issuer Credit Ratings History		
16-Mar-2018		BBB-/Stable/--
07-Aug-2017		BB+/Positive/--
26-Aug-2015		BB+/Stable/--
17-Sep-2014		BB/Stable/--
16-Aug-2017	*Brazil National Scale*	brAAA/Stable/--
07-Aug-2017		brAA+/Positive/--
12-Aug-2016		brAA+/Stable/--
14-Mar-2016		brAA/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.