S&P Global
Ratings

RatingsDirect®

Summary:
Suzano Papel e Celulose S.A.

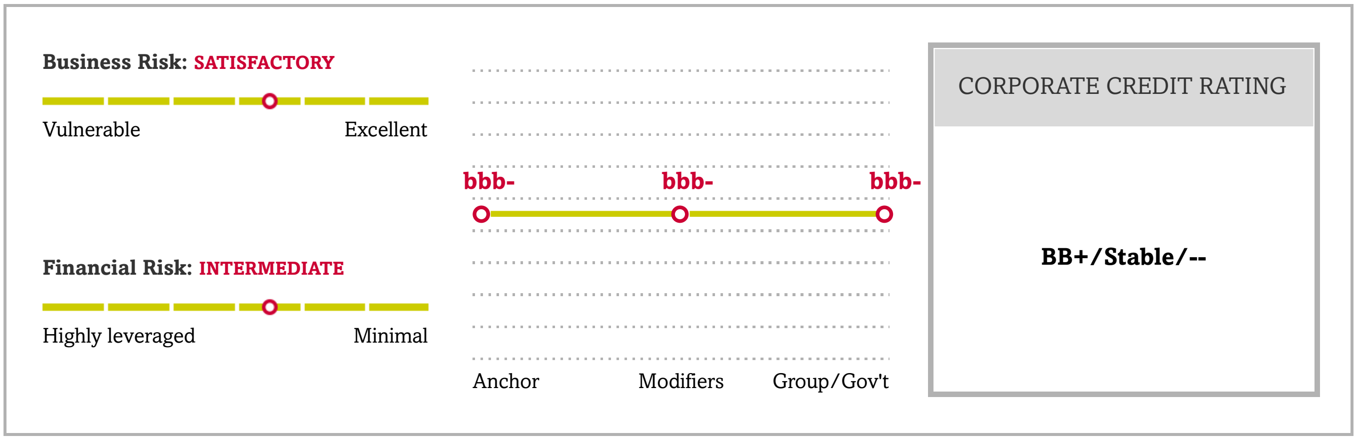
Primary Credit Analyst:
Felipe Speranzini, Sao Paulo (55) 11-3039-9751; felipe.speranzini@spglobal.com

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

Table Of Contents

Summary:

Suzano Papel e Celulose S.A.



Rationale

Business Risk: Satisfactory	Financial Risk: Intermediate
• High land productivity and cost-efficient pulp mills. • Self-sufficiency in wood and energy. • Diversified sales mix of pulp and paper and geographic destination, partially offsetting the volatility of the commodity price. • Large scale of operations especially in bleached eucalyptus pulp (nominal capacity of market pulp of 3.5 million tons per year). • Producing assets geographically concentrated in only one country and cash generation concentrated in few assets.	• Moderate leverage enabled by cash generated after the ramp-up of the 1.5 million-ton pulp mill in Maranhão and weaker Brazilian real. • Low capital expenditure (capex) needs in the near term. • Lack of more consistent and clearer track record of leverage, financial and dividend policies.

Outlook: Stable

The stable outlook incorporates S&P Global Ratings' view that Suzano Papel e Celulose S.A.'s low-cost producing assets, efficient operations and reduced investment needs will support solid free operating cash flow (FOCF) generation and an overall comfortable liquidity profile. It further reflects our expectation that Suzano will post funds from operations (FFO) to debt in excess of 20% and debt to EBITDA around 2.5x-3.0x.

Downside scenario

We could lower the rating over the coming 12 months if the company's financial metrics weaken significantly from the current level, with net debt to EBITDA of more than 3.5x-4x and FFO to net debt of less than 20%. This could happen if, for example, pulp prices decline to about $650 per ton and foreign exchange appreciates to an average of R$3/US$, or if the company enters in an aggressive shareholder remuneration program or an important capex plan.

Upside scenario

A higher rating is constrained by Suzano's financial policy, which in our view is weaker than that of investment-grade peers. In particular, for a rating upgrade, we would expect Suzano's financial risk profile to permanently strengthen (through higher FOCF generation) and the company to have clear and sustainable financial policies that support conservative leverage (for instance, at a level of net debt to EBITDA below 3x and FFO to debt above 30%) in the medium to long term.

Our Base-Case Scenario

Assumptions	Key Metrics
• Brazil's GDP contraction of 3.3% in 2016 and growth of 1.5% in 2017 and 2.5% in 2018, which should impact paper sales; • Annual pulp production of 3.5 million-3.7 million tons, and paperboard and printing and writing paper volumes ranging from 1.2 million-1.3 million tons each of the next two years; • Benchmark average prices for BEKP of $670 per ton in 2017 and 2018, with average discounts in the 25%-30% range; • Paper prices partially rising following Brazil's inflation (for sales in the domestic market), which we expect to be 8% in 2016, 6% in 2017, and 5% in 2018, and foreign currency exchange rates (for exports); • Cash costs of R$620-R$680 per ton in the next two years, including the maintenance stoppage, impacted by our average currency expectation for the real of 3.5 in 2016, 3.6 in 2017 and 3.8 in 2018; • Capex) of R$2.5 billion in 2017 and R$1.6 billion in 2018; and • Dividend payout ratio at 25% of net income.	• EBITDA margin near 40%; • Adjusted net debt to EBITDA of 2.8x-3.0x; and • FFO to adjusted debt of 23%-28%. Alternatively, if we were to assume average R$/US$ of 3.30 for 2017 and 2018, with prices aligned with the $670-per-ton base case assumption, we would expect leverage to peak at 3.2x in 2017, with FFO to debt close to 20%.

Business Risk: Satisfactory

Suzano has an advantageous cost structure for pulp production, enabled by vertical integration, efficient facilities, large scale and access to highly productive forests and energy supply. It competes globally with top players in the pulp industry, with one of the lowest cash costs worldwide.

At the same time, because of its relevant presence in domestic uncoated and coated printing and writing paper and paperboard markets, Suzano captures synergies from the integration with pulp production while holding shares in resilient markets that help mitigate exposure to volatile international pulp markets and stabilize overall margins over economic cycles.

Financial Risk: Intermediate

Suzano lightened its balance sheet after the ramp-up of the company's 1.5 million-ton pulp mill in Maranhão, as it benefited from low costs, increased scale and a weaker real. Even though pulp prices and foreign exchange rates are at less favorable levels for exporters, Suzano is expected to continue reducing costs following actions aimed at lowering dependence on third-party wood and average distances between forest bases and mills, such as a recently announced land and forest acquisition. As a result, we expect leverage to remain relatively stable at levels close to 3.0x in the near term, with EBITDA generation of about R$3.6 billion in 2017 and R$3.9 billion in 2018 (compared to about R$4 billion expected for 2016).

We see Suzano's lack of robust, clear, and sustainable financial policies as a rating constraint for an investment grade level, since we lack guidance as to whether the company will maintain financial risk at this level or whether it will take advantage of its increasing free-operating cash flow generation to engage in shareholder friendly actions or an organic/inorganic growth strategy that could materially increase leverage.

Liquidity: Adequate

We view Suzano's liquidity as adequate. Based on the company's amortization schedule and reported cash positon, as well as on our base-case assumed operational cash generation, planned investments, manageable working capital, and dividend distribution for the near term, we expect that cash sources will continue exceeding uses by more than 20%. Even if negative deviations from our base case scenario were to happen (EBITDA decline of 15%), we believe Suzano would be able to absorb high-impact, low-probability events with limited need for refinancing--which the company could attain, given its diversified funding access and solid relationship with banks, in our view.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash reserves of R$4.2 billion, as of Sept. 30, 2016. • Annual operating cash flow R$3.0 billion.	• Short term maturities of R$1.6 billion. • Sustaining yearly capex of R$1.2 billion. • R$800 million disbursement for acquiring recently announced land assets in Maranhão. • Dividend at a 25% payout ratio, according to company's bylaws.

Rating Above The Sovereign

The ratings on Suzano are one notch above the sovereign foreign currency rating on Brazil (BB/Negative/B), reflecting our view that there is an appreciable likelihood that the company won't default even in the simulated stress scenario of a sovereign default. In our view, Suzano has a moderate sensitivity to country risk, due to its export-oriented business. That means we may rate Suzano up to three notches above the sovereign rating on Brazil, 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 is translated through the sovereign's transfer and convertibility assessment, currently 'BBB-'. In our view and according to characteristics of the company's business model, we believe that under a hypothetical scenario of economic stress caused by a default on the sovereign, Suzano would maintain liquidity sources over uses of more than 1.0x in the next 12 months. We believe that Suzano's export-oriented business and most of its costs denominated in local currency partly insulate the company from Brazil's country risk.

Ratings Score Snapshot

Corporate Credit Rating

BB+/Stable/--

Business risk: Satisfactory

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

Financial risk: Intermediate

- **Cash flow/Leverage:** Significant

Anchor: bbb-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Negative (-1 notch)

Recovery Analysis

Key Analytical Factors

We assess recovery prospects using a simulated default scenario. In the case of Suzano, default is assumed in 2021 (as the company has a 'BB+' global scale rating). We calculated a net recovery value of about R$10.7 billion. We believe that this value would be sufficient to provide close to 50%-70% of recovery for the company's bondholders.

We believe that further deterioration of Brazilian macroeconomic conditions and material changes in the industry--such as lower pulp prices and less favorable currency--could trigger a payment default. In case this happens, we estimate that the company's cash flow generation may not be sufficient to cover interest expense, debt amortization and maintenance capex.

In an event of default, we believe Suzano would face a borrower's reorganization. We applied a 5.0x market multiple on Suzano's expected EBITDA at the year of default, following the industry's track record, assuming valuation of enterprise value as a going concern, indicating that the borrower's reorganization (or the outright sale of the ongoing business or certain segments) is the most likely outcome of an insolvency proceeding.

Therefore we arrived at a net enterprise value of around R$10.7 billion, after discounting 5% administrative expenses out of the R$11.3 billion gross enterprise value.

Simulated Default Assumptions

- Simulated year of default: 2021.
- Jurisdiction: Brazil.
- EBITDA at emergence: R$2.2 billion.
- Implied enterprise value multiple: 5.0x.
- Estimated gross enterprise value at emergence: R$11.3 billion.

Simplified Waterfall

- Net EV after 5% administrative costs: R$10.7 billion
- Senior secured debt: R$5.3 billion (including BNDES, ECA and export credit).
- Senior Unsecured claims: R$9.5billion (mainly composed of the company's bonds and bank loans).
- Recovery expectations of the existing unsecured senior notes: 50%-70% (lower half of the '3' range).

Related Criteria And Research

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 1, 2016
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- Corporate Methodology, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013

- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Industrials: Key Credit Factors For The Forest And Paper Products Industry, Feb. 12, 2014
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt , Aug. 10, 2009
- 2008 Corporate Criteria: Rating Each Issue, April, 15, 2008

Related Research

- Suzano Papel e Celulose Upgraded To 'brAA+' From 'brAA'; 'BB+' Global Scale Ratings Affirmed; Outlook Still Stable, Aug. 12, 2016

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-

1758826 | 302315404