

ISSUER COMMENT

27 October 2016

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RATINGS

Suzano Papel e Celulose S.A.

CFR	Ba2/Aa1.br
Outlook	Stable

Source: Moody's Investors Service

KEY METRICS:

Suzano Papel e Celulose S.A.

	FY2014	FY2015	LTM Jun-16
Revenues (BRL bln)	7.3	10.2	10.9
EBITDA Margin %	38.4%	47.2%	47.1%
Debt / EBITDA	5.3x	3.4x	2.7x
EBITDA / Interest Expense	2.5x	3.8x	4.2x

Source: Moody's Financial Metrics

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Suzano Papel e Celulose S.A.

Purchase of Forest Assets is Credit Positive, with no impact on the ratings

On 26 October, 2016 [Suzano Papel e Celulose](#) (Ba2 stable) signed an agreement to purchase forest assets in the state of Maranhão and Tocantins, in Brazil, for about BRL 764 million (USD 245 million), from Companhia Siderúrgica Vale do Pindaré (unrated) and COSIMA – Siderúrgica do Maranhão Ltda. (unrated). The transaction is credit positive because it will increase the cost competitiveness of the Imperatriz pulp mill, increasing the availability and supply of wood, reducing the average distance of the forests supplying the mill's operations and enhancing the wood competitiveness of this unit, which produces 1.5 million tons of market pulp or 44% of Suzano's consolidated pulp capacity. This acquisition will allow Suzano to assure 100% of the wood supply through its own wood and supported producers.

Suzano will pay USD 245 million once CADE, Brazil's anti-trust authority, approves the acquisition. The transaction will not jeopardize Suzano's liquidity position, supported by cash and equivalents of BRL 4.2 billion at the end of the 3Q16, and will not increase the company's leverage (total reported debt/EBITDA at 3.3x at the end of the 3Q16).

The announced transaction includes 75,000 hectares of land located in the Brazilian states of Maranhão and Tocantins, of which 40,000 hectares correspond to arable land and planted forests. Accordingly, this purchase will add 9 million cubic meter of wood to Suzano's forest asset base, allowing the company to assure 100% of the wood supply for the Imperatriz mill in the state of Maranhão (85% own wood and 15% supported producers). As part of the transaction, Suzano will also acquire an hydroelectric plant with 19 MW generation capacity for about USD 14 million. Although the company is already self-sufficient in its energy needs on a consolidated basis, currently generating an excess capacity of 30MW, this new plant will increase the surplus to be sold in the open market, further reducing its cash cost.

With the forest assets transaction, Suzano will save approximately BRL 110 million (USD 35 million) in capex and operating costs annually over the next 10 years, mainly from the reduction in the distance to transport wood from the forest to the mill (decrease of about 30 km in the average distance in the long-term), and lower leasing expenses and third-parties wood acquisition costs, and also lower capital expenditures in planting its own forests. Moreover, the transaction will bring tax advantages, given the reduction in wood transportation across Brazilian States. Finally, the company will minimize wood supply disruption risks and enhance its ability to maintain its competitiveness through the industry's cyclical downturns.

Suzano's credit metrics have substantially improved in the past couple of years, supported by enhanced cash flow generation in the pulp segment and expansion in market share in

paper in Brazil, despite the economic downturn. Suzano's liquidity position has materially improved, which allows the company to make small acquisitions and maintain an adequate liquidity position without jeopardizing leverage. Despite the weaker results in 3Q16 compared to previous quarters, with a reported EBITDA of BRL 4.2 billion (USD 1.2 billion) in the last 12 months ended September 2016 (BRL 4.9 billion or USD 1.3 billion in the last 12 months ended June 2016), mostly as a result of the Real Depreciation, lower pulp prices and challenges in the paper market in Brazil, Suzano continues to reduce cash costs and maintain healthy margins, despite the decline to 35.3% (reported EBITDA margin) from record levels of 49.4% a year ago, supported by higher pulp prices and the BRL depreciation. Accordingly, Suzano's cash costs are at BRL 637/ton (USD 202/ton) in 3Q16, a 5% reduction over the 3Q15 - and the company's target is to get to BRL 475/ton (USD 152/ton) in 2021/2022.

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 10.1 billion (about USD 2.8 billion) in the last twelve months ending September 2016. The sales mix (73% pulp and 27% paper - in terms of volumes) gives the company cash flow stability due to the different supply-demand and pricing dynamics for each of the segments. The company benefits from its vertical integration and 70% self-sufficiency in wood and energy (with excess capacity of 30MW) on a consolidated basis and also from prudent financial management, solid liquidity position and good risk management practices.

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