

RATING ACTION COMMENTARY

Fitch Affirms Suzano's IDR at 'BBB-'; Outlook Stable

Wed 16 Mar, 2022 - 12:37 PM ET

Fitch Ratings - Rio de Janeiro - 16 Mar 2022: Fitch Ratings has affirmed Suzano S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB-', and National Scale Long-Term rating at 'AAA(bra)'. The Rating Outlook is Stable.

Suzano's ratings reflect the company's position as the world's leading producer of market pulp. The ratings also incorporate the company's strong business position as a low-cost producer of market pulp and its position as the leading producer of printing and writing paper and paperboard in Brazil. The company's strong liquidity position and comfortable debt amortization schedule also are factored into the ratings.

The Stable Outlook reflects the expectation that Suzano's net leverage will remain below 3.0x during a period of higher investments in the Cerrado project, supported by strong operating cash flow generation. Suzano's net debt is expected to remain below USD11 billion in 2022 and 2023, as the company should finance the new pulp mill with strong operating cash flow generation.

KEY RATING DRIVERS

Solid Business Position: Suzano is the world's leading producer of market pulp, with 11 million tons of bleached eucalyptus kraft (BEKP) market pulp capacity. The company is pursuing a new mill in Ribas do Rio Pardo (Cerrado Project) that will increase its annual capacity by 2.55 million tons to 13.6 million tons, which should start operating in the

second half of 2024. The company has an estimated market share of about 19% in market pulp and 32% in hardwood pulp, as calculated by Fitch.

Sustainable Competitive Advantage: Fitch views Suzano's competitive advantage as sustainable due to its modern pulp mills, high-yielding forestry plantations, low average distance from the forests to the mill and efficient logistics. Suzano is able to generate positive operating cash flow during cyclical pricing downswings due to its strong market position in pulp and very competitive production cost structure in the lowest quartile.

Strong Paper Business: Suzano's strong market shares in uncoated printing and writing paper and its exclusive distribution system of paperboard allow it to be a price leader in Brazil. The company is the leading producer of printing and writing paper and the second largest paperboard producer in Brazil with 1.4 million tons of annual production capacity. Suzano supplies about 40% of printing and writing paper and about 25% of paperboard in Brazil, according to the Brazilian Forestry Industry Association (Iba). The company's paper operations accounted for about 9% of its EBITDA during 2021.

Elevated Pulp Prices: The market pulp industry is cyclical and cash flow volatility and unpredictability act as rating constraints. Pulp prices increased sharply during 2021 after two challenging years due to supply and logistical constraints caused by mill closures, maintenance downtime and container shortages. Fitch projects BEKP prices to lose momentum during the second half 2022 and to average USD625/ton during the year, compared with USD677/ton in 2021. The upward movement of prices permitted Suzano to lower its debt and to partially fund the construction of its USD3.5 billion pulp mill with operating cash flow.

Strong FCF Despite High Investments: Suzano is expected to generate EBITDA of USD4.4 billion and cash flow from operations (CFFO) of USD3.7 billion in 2022 and USD4 billion and USD3.5 billion, respectively, in 2023. This compares with USD4.2 billion of EBITDA and USD3.1 billion of CFFO in 2021. Suzano's FCF should remain strong, despite high investments in the expansion project, and is projected at USD917 million in 2022 and USD884 million 2023. Fitch's base case projections considered USD330 million in dividends, asset sale of USD45 million in 2022 and investments around USD2.5 billion in 2022 and USD2.3 billion in 2023.

Leverage Not Expected to Increase: Suzano's leverage should remain below 3.0x, despite high investments in the next three years. Suzano's net leverage reduced to 2.8x in 2021, from close to 5.0x in 2020, benefiting from the important recovery of pulp prices, and supported the company's strategy to proceed with the expansion project. Suzano's strong

FCF of USD1.9 billion in 2021 allowed the company to reduce net debt by USD2.0 billion during 2021, to USD11.4 billion in December, and the expectation is for net debt to remain below USD11 billion in 2022 and 2023, as the company should finance the new mill with operating cash flow generation.

Forestry Assets Key to Credit Profile: Suzano's significant forestry holdings are a key credit consideration that supports the company's investment-grade credit profile, which assure a competitive production cost structure. The accounting value of Suzano's owned forest plantation assets was about USD2.2 billion as of Dec. 31, 2021.

Rating Pierces Country Ceiling: Suzano's 'BBB-' FC IDR is two notches higher than Brazil's 'BB' Country Ceiling due to a combination of 50% of EBITDA in hard currency, cash held outside of Brazil and a revolving credit facility (RCF) of USD1.275 billion. Fitch projects the ratio of exports, plus cash held abroad and RCF to cover hard currency debt service over the next 24 months above 1.5x, in line with Fitch's "Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria."

As a result, Suzano's FC IDR can receive a rating uplift of up to three notches above Brazil's Country Ceiling. Therefore, its FC IDR would only be downgraded in the event of a two-notch downgrade to Brazil's Country Ceiling. Suzano's FC IDR is constrained by its LC IDR, and would not be upgraded in the event of an upgrade to Brazil's Country Ceiling.

The Stable Outlook reflects the expectation that Suzano's net leverage will remain below 3.0x during a period of higher investments in the Cerrado project, supported by strong operating cash flow generation. Suzano's net debt is expected to remain below USD11 billion in 2022 and 2023, as the company should finance the new pulp mill with strong operating cash flow generation.

DERIVATION SUMMARY

Suzano is the world's leading producer of market pulp, followed by Empresas CMPC S.A. (CMPC; BBB/Stable), Celulosa Arauco y Constitucion S.A. (Arauco; BBB/Stable) and International Paper (not rated). Suzano is also the leading producer of printing and writing paper and the second largest paperboard producer in Brazil. Suzano's business profile is consistent with a rating in the 'BBB' category.

Similar to Latin American pulp producers, Arauco and CMPC, Suzano's pulp production cash costs are among the lowest in the world, ensuring its long-term competitiveness. The company has a significant size advantage in the fragmented pulp market, but with lower

geographic and product diversification than its Chilean peers Arauco and CMPC, which are leaders in the wood products segment and tissue markets, respectively.

Pulp price recovery allowed pulp producers to generate strong operating cash flow, improving deleveraging capacity. Suzano's leverage is higher than CMPC and Arauco, while Klabin's leverage also increased due the period of high investments. Liquidity is historically strong for pulp producers, and Suzano has strong access to debt and capital markets. Suzano's operating margins are higher than the Chilean companies that operate in lower-margin business segments such as tissue, packaging and boards.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within the Rating Case for the Issuer

--Pulp sales volume of 10.7 million tons in 2022 and 2023;

--Paper sales volume of 1.2 million tons in 2022 and 2023;

--Average net hardwood pulp prices of USD625 per ton in 2022 and USD600 per ton in 2023;

--Average FX rate of 5.5 BRL/USD in 2022 and 5.4 BRL/USD 2023;

--Investments of USD6.4 billion during 2022-2024;

--Asset sale of USD45 million in 2022.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Average net debt/EBITDA ratio remain below 2.0x throughout the pulp price cycle;

--Sustained net debt at Suzano of less than USD7.5 billion at current production level, or USD9 billion considering a new expansion project.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Average net debt/EBITDA ratio above 3.0x throughout the pulp price cycle;

--Sustained net debt at Suzano of more than USD10 billion at current production level, or USD11.5 billion considering a new expansion project;

--A two-notch downgrade to Brazil's Country Ceiling would lead to a downgrade of Suzano's IDR to non-investment grade.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity: Suzano has historically maintained a strong cash position, and Fitch expects the company to preserve an extended debt amortization profile and conservative liquidity. On Dec. 31, 2021, Suzano had USD3.7 billion of cash and marketable securities and USD15.1 billion of total debt, including about USD1.1 billion of debt factoring as per Fitch's calculation. The company's cash position comfortably covers debt maturities up to the end 2024.

Suzano enjoys strong access to both the debt and equity markets. Financial flexibility is enhanced by the potential sale of forestry assets and/or less strategic assets, if necessary, and a USD1.275 billion of an unused revolving credit facility.

ISSUER PROFILE

Suzano is the world's leading producer of market pulp, with 11 million tons of BEKP market pulp capacity. Suzano is the leading producer of printing and writing paper in Brazil, as well as paperboard, with a total production capacity of 1.4 thousand tons of paper. The company has 11 production facilities (seven pulp mills) located in the states of Bahia, São Paulo, Maranhão, Espírito Santo and Mato Grosso do Sul, and three export pulp ports.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Suzano S.A. has an ESG Relevance Score of '4' [+] for Energy Management as the company sells excess energy to the grid from cogeneration based upon a renewable resource, which has a positive impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Suzano Austria GmbH				
senior unsecured	LT	BBB-	Affirmed	BBB-
Fibria Overseas Finance Ltd.				
senior unsecured	LT	BBB-	Affirmed	BBB-
Suzano S.A.	LT IDR	BBB- Rating Outlook Stable		BBB- Rating Outlook Stable
	Affirmed			

LC LT IDR BBB- Rating Outlook Stable

Affirmed

BBB- Rating
Outlook
Stable

Natl LT AAA(bra) Rating Outlook Stable

Affirmed

AAA(bra) Rating
Outlook
Stable

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APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria \(pub. 08 Jan 2021\)](#)

[Corporate Rating Criteria \(pub. 15 Oct 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.2 ([1](#))

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EU Endorsed, UK Endorsed

Suzano Austria GmbH

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Suzano S.A.

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