FitchRatings

Corporates
Natural Resources
Brazil

Klabin S.A.

Rating

Rating Type	Rating	Outlook	Last Rating Action
Long-Term Local Currency IDR	BB+	Stable	Affirmed May 4, 2020
Long-Term IDR	BB+	Stable	Affirmed May 4, 2020
National Long-Term Rating	AAA(bra)	Stable	Affirmed May 4, 2020

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Fitch Ratings affirmed Klabin S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) at 'BB+' and National Long-Term Rating at 'AAA(bra)' in May 2020. Fitch also affirmed the 'BB+' rating for Klabin Finance S.A. and Klabin Austria Gmbh's senior notes guaranteed by Klabin. The Outlook for Klabin's ratings is Stable.

The ratings reflect the company's leading position in the Brazilian packaging sector, large forestry base that provides a low production cost structure, access to inexpensive fiber, and a high degree of vertical integration, which enhances product flexibility in the competitive but fragmented packaging industry.

Because of its strong market position in packaging products and integrated operations, Klabin is a price leader in the domestic market. It also is able to preserve more stable sales volume and operating margins during unstable economic environments in Brazil than its competitors, which have a significantly lower scale of operations and high production cost exposure. The company also benefits from being a low-cost producer of market pulp, in the lowest quartile, and maintains pulp production volumes above 90% of nominal capacity.

Klabin's solid liquidity position and low refinancing risk remain key credit considerations. Fitch's analysis considers the investments in the Puma II project, which will further strengthen the company's leading packaging business position.

Klabin's Fitch-calculated EBITDA fell to BRL3.6 billion in 2019 from BRL4.0 billion in 2018 as a result of the weak price environment. Due to the decline in EBITDA and increased capex for the Puma II project, Klabin's net debt increased to BRL14.5 billion from BRL12.5 billion in 2018 and its net leverage ratio increased to 4.1x from 3.1x, according to Fitch's criteria. This amount of net debt and the leverage ratios remain within Fitch's expectations in the midst of the project and result in the maintenance of a Stable Outlook.

The Outlook reflects Fitch's expectation of strong operating cash flows, despite the severe economic downturn and weak pulp prices, benefiting from depreciation of Brazilian real. Fitch expects the coronavirus pandemic to have a limited impact on Klabin's packaging business. Kraftliner, coated board and corrugated box demand should remain relatively stable in 2020, supported by the company's leading position and diversified client base in the more resilient food sector. Industrial bags, which represented 8% of sales in 2019, is the only segment that will be significantly affected by weaker demand.

Key Rating Drivers

Leading Position in Packaging Segment: Klabin is the leader in the Brazilian corrugated box and coated board sectors, with market shares of 18% and 50%, respectively. The company is the sole producer of liquid packaging board in the Brazilian market and is the largest producer of kraftliner and industrial bags, with market shares of 42% and 56%, respectively.

In Fitch's opinion, the Puma II expansion project is very strategic for Klabin and will add 920,000 tons of annual kraftliner production capacity by 2023, positioning the company as the world's third-largest kraftliner paper producer. Klabin's strong market shares allow it to be a price leader in Brazil. The company's competitive advantage is viewed as sustainable due to its scale, high level of integration and diversified client base in the more resilient food sector. This allows Klabin to preserve EBITDA margins above 30% throughout the cycle, while smaller companies have margins below 15%.

Pulp Mill and Forestry Assets: Klabin has a 1.6 million-ton pulp mill that started operations in 2016. Klabin sources much of its fiber requirements from hardwood and softwood trees grown on 248,000 hectares of plantations it has developed on 542,000 hectares of land it owns; this ensures a competitive production cost structure in the future.

Applicable Criteria

Corporate Rating Criteria (May 2020)

Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria (February 2020)

National Scale Ratings Criteria (July 2018)

Related Research

Fitch Affirms Klabin's Ratings at 'BB+'; Outlook Stable (May 2020)

Coronavirus Effects Pressure Brazilian Corporates (High Rating Downgrade Risk) (April 2020)

Rating Effects of Coronavirus on Latin American Corporates (Extensive Lockdowns to Drive Negative Rating Actions) (March 2020)

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During 4Q19, the company's cash cost of production was USD167 per ton, which placed it firmly in the lowest quartile of the cost curve. The accounting value of Klabin's land was about BRL2.2 billion as of YE 2019, and the value of the biological assets on its forest plantations was BRL4.7 billion. Some of the forestry assets could be monetized if needed to reduce debt and improve liquidity.

FCF to Remain Negative: Consolidated adjusted EBITDA is forecast to be around BRL4.4 billion in 2020 and BRL4.6 billion in 2021, and cash flow from operations at BRL2.8 billion and BRL3.0 billion, respectively. Klabin generated BRL3.6 billion of adjusted EBITDA and BRL2.7 billion of cash flow from operations in 2019, as per Fitch's calculations. Klabin's flexibility and product diversification will continue to soften the effects of the severe economic downturn in Brazil and weak pulp prices.

Fitch's projections reflect a 1% reduction in paper and packaging sales volume in 2020, to 1.8 million tons, with an increase in 2021 following the start-up of the first phase of the Puma II project, and 1.5 million tons of pulp for 2020 and 2021. Fitch expects negative FCF of about BRL1.6 billion in 2020 and BRL955 million in 2021, due to Puma II investments. Fitch's base case incorporates total investments around BRL7.5 billion in 2020–2021 and no dividends during 2020.

Leverage to Increase: Fitch expects net adjusted leverage to increase to about 4.2x in 2020 due to Puma II investments. Net debt is expected to peak at BRL20.0 billion in 2022, compared with BRL14.5 billion at YE 2019.

Net adjusted leverage is expected to decline to lower levels only after 2023. Fitch expects Klabin to continue to manage its capital structure conservatively during its expansion phase and take proactive steps if leverage exceeds 5.0x. Net debt/adjusted EBITDA was 4.1x in 2019, according to Fitch's methodology, pressured by weaker pulp prices and high investments.

Downturn in Pulp Cycle: The market pulp industry is cyclical; prices move sharply in response to changes in demand or supply. Fitch believes prices of bleached eucalyptus kraft pulp delivered to China have already bottomed out after plummeting to USD480/ton at YE 2019 from USD725/ton at YE 2018. Weaker European demand for paper and packaging and a slowdown of the Chinese economy will continue to pressure a recovery in pulp prices.

At current pulp price levels, high-cost producers are already operating at very low profit margins and may extend maintenance capex or shut down mills to reduce supply. Demand for printing and writing and specialty papers will decline due to depressed global economies, but the tissue market is showing signs of increasing demand, providing a level of support for pulp prices. Tissue and fluff end use represented about 50% of market pulp demand in 2019.

Rating Pierces Country Ceiling: Klabin's 'BB+' IDR is one notch higher than Brazil's 'BB' Country Ceiling due to a combination of exports of about USD1 billion, approximately USD350 million of cash held outside of Brazil and its USD500 million unused revolving credit facility. As of YE 2019, pro forma EBITDA from exports, plus cash held abroad and the revolving credit facility, covered hard currency debt service over the next 24 months by more than 1.5x.

In line with Fitch's *Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria*, this could allow the company to be rated up to three notches above the Brazilian Country Ceiling. However, Klabin's Foreign Currency IDR is constrained by its 'BB+' Local Currency IDR, which reflects the company's underlying credit quality.

Financial Summary

(BRL000, as of Dec 31)	2018	2019	2020F	2021F
Operating EBITDA (Before Income from Associates)	4,022,621	3,550,000	4,424,757	4,625,768
Operating EBITDAR Margin (%)	40.2	34.6	40.9	40.6
FFO Margin (%)	30.9	28.1	28.8	27.5
FFO Adjusted Leverage (x)	4.9	6.6	6.7	6.7
Total Adjusted Net Debt/Operating EBITDAR (x)	3.1	4.1	4.2	4.2

F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Rating Derivation Relative to Peers

Klabin's size, access to inexpensive fiber and high level of integration relative to many of its competitors give it competitive advantages that Fitch views as sustainable. Its business profile is consistent with a rating in the 'BBB' category.

Klabin's leverage is high compared with Latin America peers Empresas CMPC S.A. (BBB/Stable) and Celulosa Arauco y Constitucion S.A. (BBB/Negative). That is a key reason Klabin, which was rated investment grade, is now rated 'BB+'. Klabin's leverage increased as a result of construction of the Puma pulp mill and low pulp prices following its completion have prevented quick deleveraging. Klabin's net adjusted leverage is projected to increase to around 4.5x in 2020 due to investments in Puma II project and it is not expected to decline to lower levels until 2023.

Klabin is more exposed to demand from the local market than Suzano S.A. (BBB–/Negative), CMPC and Arauco, as these companies are leading producers of market pulp sold globally. This makes Klabin more vulnerable to Brazilian macroeconomic conditions than its peers, which is also a negative consideration. Positively, its concentration of sales to the food industry, which is relatively resilient to downturns in Brazil's economy, and its position as the sole producer of liquid packaging board add stability to operating results.

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Competitive Intensity	Sector Trend	Company's Market Position	Diversification	Profitability	Financial Structure	Financial Flexibility
Celulosa Arauco y Constitucion S.A.	BBB/Neg	aa	bbb	bbb	bbb	bbb+	bbb-	a-	bbb-	bbb+
Eldorado Brasil Celulose S.A.	BB-/Sta	bb+	bb-	bbb	bbb	bb+	b+	bbb	bb+	bb
Empresas CMPC S.A.	BBB/Sta	a	bbb	bbb+	bbb	bbb+	bbb-	bbb+	bbb-	bbb+
Klabin S.A.	BB+/Sta	bb-	bbb	bbb-	bbb-	bbb	bb+	bbb	bb	bbb-
Suzano S.A.	BBB-/Neg	bbb-	bbb	bbb	bbb	bbb+	bb+	a-	bb+	bbb

Source: Fitch Ratings. Importance: Higher, Moderate, Lower

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Competitive Intensity	Sector Trend	Company's Market Position	Diversification	Profitability	Financial Structure	Financial Flexibility
Celulosa Arauco y Constitucion S.A.	BBB/Neg	6.0	0.0	0.0	0.0	1.0	-1.0	2.0	-1.0	1.0
Eldorado Brasil Celulose S.A.	BB-/Sta	2.0	0.0	4.0	4.0	2.0	-1.0	4.0	2.0	1.0
Empresas CMPC S.A.	BBB/Sta	3.0	0.0	1.0	0.0	1.0	-1.0	1.0	-1.0	1.0
Klabin S.A.	BB+/Sta	-2.0	2.0	1.0	1.0	2.0	0.0	2.0	-1.0	1.0
Suzano S.A.	BBB-/Neg	0.0	1.0	1.0	1.0	2.0	-1.0	3.0	-1.0	1.0

Source: Fitch Ratings. Worse positioned than IDR; In line with IDR; Better positioned than IDR

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Average net debt/EBITDA of 3.0x or below throughout the pulp price cycle following completion of the expansion project;
- Sustained net debt of less than USD3.5 billion after completion of the expansion project.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Net leverage higher than 4.5x during the expansion project;
- Average net debt/EBITDA of 4.0x or higher throughout the pulp price cycle following completion of the expansion project;
- Sustained net debt of more than USD4.5 billion after completion of the expansion project;
- An increasingly unstable macroeconomic environment that weakens demand for the company's packaging products and prices.

Liquidity and Debt Structure

Solid Liquidity: Klabin's solid liquidity and low refinancing risk remain key credit considerations. The company had BRL7.2 billion of cash and marketable securities as of March 31, 2020 and BRL27.8 billion of total debt, of which BRL1.5 billion is due in the short term. Financial flexibility is enhanced by a USD500 million unused revolving credit facility. Klabin plans to finance the Puma II expansion project with a combination of debt and operating cash flow.

Fitch expects Klabin to continue to preserve an extended debt amortization profile and strong liquidity, conservatively positioning it for price and demand volatility, which is an inherent risk in the packaging industry. Klabin successfully concluded its liability management in 2019, issuing about BRL23.0 billion of debt and prepaying approximately BRL6.3 billion, which significantly improved its debt amortization profile and enhanced liquidity to finance high investments. The company also concluded in 1Q20 the reopening of its 2049 bond, for USD200 million. Klabin had about BRL1.5 billion due in the short term as of March 31, 2020, BRL491 million due from March 2021 to December 2021 and BRL1.2 billion due in 2022.

About 72% of total debt was denominated in U.S. dollars as of March 31, 2020. Total debt of BRL27.8 billion consisted of 43% bonds, 14% export prepayment, 14% agribusiness receivables certificates, 10% export credit notes, 8% debentures, 2% Banco Nacional de Desenvolvimento Economico e Social (BNDES) and 9% others.

ESG Considerations

The highest level of Environmental, Social and Governance (ESG) credit relevance, if present, 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 to 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.

Liquidity and Debt Maturity Scenario with No Refinancing

Available Liquidity

(BRL 000)	2020F	2021F	2022F	2023F
Beginning Cash Balance	9,730,915	6,766,513	5,393,239	3,870,203
Rating Case FCF after Acquisitions and Divestitures	(1,552,696)	(954,736)	(359,771)	269,719
Total Available Liquidity (A)	8,178,219	5,811,777	5,033,468	4,139,922
Liquidity Uses				
Debt Maturities	(1,411,706)	(418,538)	(1,163,265)	(3,574,000)
Total Liquidity Uses (B)	**(1,411,706)**	**(418,538)**	**(1,163,265)**	**(3,574,000)**
Liquidity Calculation				
Ending Cash Balance (A+B)	6,766,513	5,393,239	3,870,203	565,922
Revolver Availability	0	0	0	0
Ending Liquidity	**6,766,513**	**5,393,239**	**3,870,203**	**565,922**
Liquidity Score (x)	5.8	13.9	4.3	1.2

F – Forecast.
Source: Fitch Ratings, Fitch Solutions, Klabin S.A.

Scheduled Debt Maturities

(BRL 000)	12/31/19
2020	1,411,706
2021	418,538
2022	1,163,265
2023	3,574,000
2024	2,187,000
Thereafter	15,467,927
Total	**24,222,436**

Source: Fitch Ratings, Fitch Solutions, Klabin S.A.

Key Assumptions

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

- Paper and packaging sales volume of 1.8 million tons for 2020 and 2.0 million tons for 2021;
- A 60% reduction in industrial bags sales volumes in 2020, with a gradual recovery in 2021 and 2022;
- Pulp sales volume of 1.5 million tons in 2020 and 2021;
- Average hardwood net pulp price of USD525 per ton in 2020 and USD575 per ton in 2021;
- Average FX rate of 4.9 Brazilian reals to the U.S. dollar in 2020 and 4.5 in 2021;
- Investments of around BRL7.5 billion in 2020–2021, of which about BRL5.5 billion will be invested in the Puma II project;
- No dividends in 2020 and dividends of 20% of EBITDA in 2021.

Financial Data

(BRL000, as of Dec. 31)	Historical 2017	2018	2019	Forecast 2020	2021	2022
Summary Income Statement						
Gross Revenue	8,373,378	10,016,461	10,271,839	10,821,630	11,402,713	12,225,938
Revenue Growth (%)	18.1	19.6	2.6	5.4	5.4	7.2
Operating EBITDA (Before Income from Associates)	2,689,254	4,022,621	3,550,000	4,424,757	4,625,768	4,812,188
Operating EBITDA Margin (%)	32.1	40.2	34.6	40.9	40.6	39.4
Operating EBIT	748,767	2,349,274	1,442,473	2,003,650	2,136,518	2,320,252
Operating EBIT Margin (%)	8.9	23.5	14.0	18.5	18.7	19.0
Gross Interest Expense	(1,147,332)	(1,184,676)	(1,430,432)	(1,575,357)	(1,760,767)	(1,857,839)
Pretax Income (Including Associate Income/Loss)	838,668	(68,581)	864,526	798,293	745,750	832,413
Summary Balance Sheet						
Readily Available Cash and Equivalents	8,271,595	7,047,204	9,730,915	10,397,507	11,184,128	11,137,350
Total Debt with Equity Credit	20,020,274	19,590,815	24,222,436	28,941,724	30,683,081	30,996,074
Total Adjusted Debt with Equity Credit	20,020,274	19,590,815	24,222,436	28,941,724	30,683,081	30,996,074
Net Debt	11,748,679	12,543,611	14,491,521	18,544,217	19,498,953	19,858,724
Summary Cash Flow Statement						
Operating EBITDA	2,689,254	4,022,621	3,550,000	4,424,757	4,625,768	4,812,188
Cash Interest Paid	(1,343,265)	(1,308,543)	(1,334,104)	(1,575,357)	(1,760,767)	(1,857,839)
Cash Tax	(5,098)	(160,144)	(205,108)	(79,829)	(74,575)	(83,241)
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	0	0	0	0	0	0
Other Items Before FFO	842,066	541,724	871,588	0	0	0
Funds Flow from Operations	2,182,957	3,095,658	2,882,376	3,119,570	3,140,426	3,221,108
FFO Margin (%)	26.1	30.9	28.1	28.8	27.5	26.3
Change in Working Capital	(87,855)	(625,016)	(181,299)	(317,266)	(121,008)	(104,442)
Cash Flow from Operations (Fitch Defined)	2,095,102	2,470,642	2,701,077	2,802,304	3,019,418	3,116,667
Total Non-Operating/Nonrecurring Cash Flow	0	0	0	—	—	—
Capex	(925,285)	(1,096,343)	(2,574,075)	—	—	—
Capital Intensity (Capex/Revenue) (%)	11.1	10.9	25.1	—	—	—
Common Dividends	(507,000)	(840,000)	(965,348)	—	—	—
FCF	662,817	534,299	(838,346)	—	—	—
Net Acquisitions and Divestitures	81,368	35,136	10,979	—	—	—
Other Investing and Financing Cash Flow Items	16,908	193,569	281,087	(2,500,000)	0	0
Net Debt Proceeds	1,044,805	(2,000,321)	3,217,686	4,719,288	1,741,357	312,993
Net Equity Proceeds	1,674	12,926	12,305	0	0	0
Total Change in Cash	1,807,572	(1,224,391)	2,683,711	666,592	786,621	(46,778)
Leverage Ratios						
Total Net Debt with Equity Credit/Operating EBITDA (x)	4.4	3.1	4.1	4.2	4.2	4.1
Total Debt with Equity Credit/Operating EBITDA (x)	7.4	4.9	6.8	6.5	6.6	6.4
FFO Adjusted Leverage (x)	6.8	4.9	6.6	6.7	6.7	6.6
FFO Adjusted Net Leverage (x)	4.0	3.1	3.9	4.3	4.3	4.2
FFO Leverage (x)	6.8	4.9	6.6	6.7	6.7	6.6
FFO Net Leverage (x)	4.0	3.1	3.9	4.3	4.3	4.2
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	(1,350,917)	(1,901,207)	(3,528,444)	(4,355,000)	(3,974,154)	(3,476,438)
FCF After Acquisitions and Divestitures	744,185	569,435	(827,367)	(1,552,696)	(954,736)	(359,771)

Financial Data

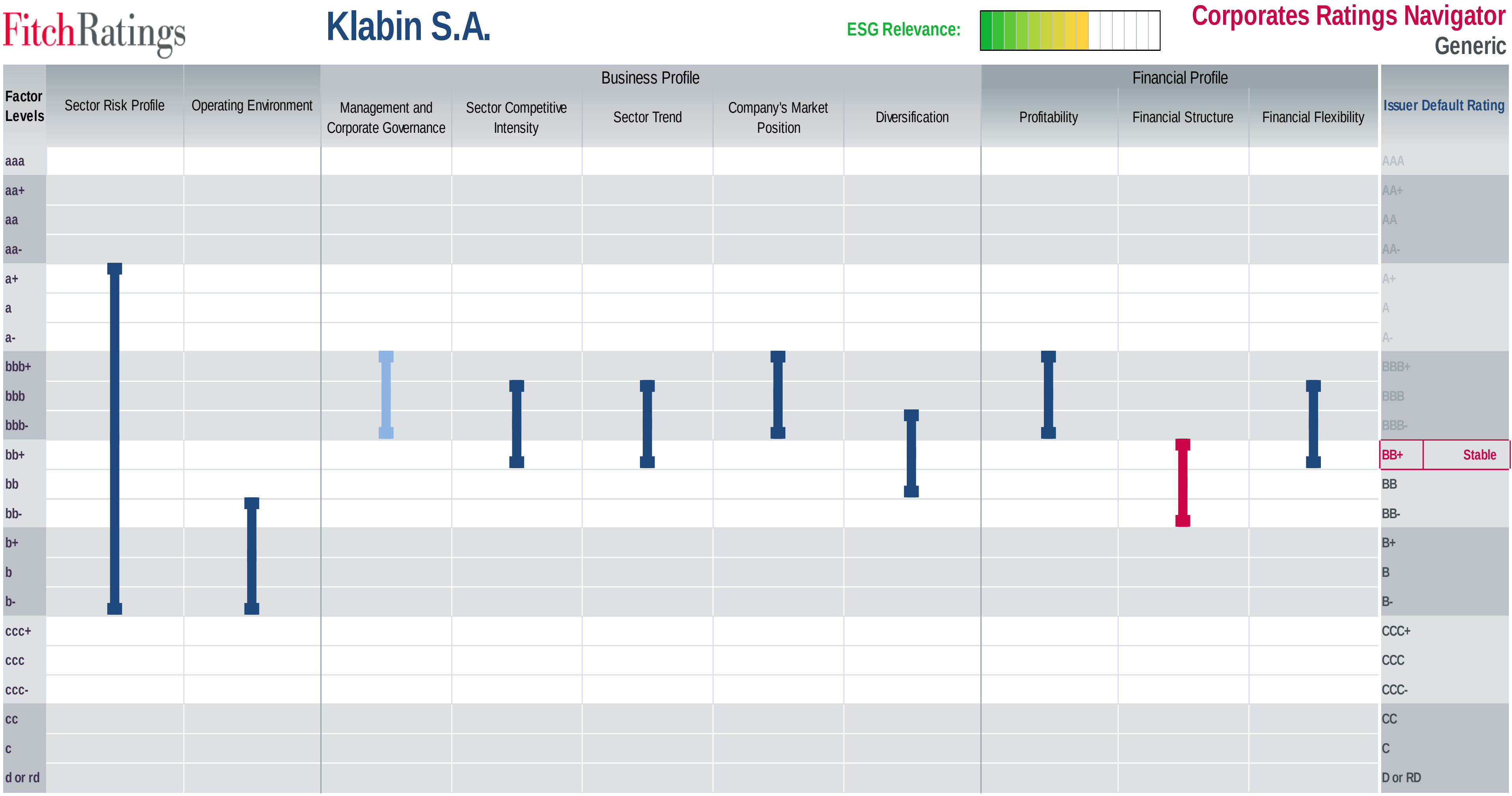
	Historical			Forecast		
(BRL000, as of Dec. 31)	2017	2018	2019	2020	2021	2022
FCF Margin (After Net Acquisitions) (%)	8.9	5.7	(8.1)	(14.3)	(8.4)	(2.9)
Coverage Ratios						
FFO Interest Coverage (x)	2.2	3.1	2.8	2.8	2.6	2.5
FFO Fixed-Charge Coverage (x)	2.2	3.1	2.8	2.8	2.6	2.5
Operating EBITDAR/Interest Paid + Rents (x)	2.0	3.1	2.7	2.8	2.6	2.6
Operating EBITDA/Interest Paid (x)	2.0	3.1	2.7	2.8	2.6	2.6
Additional Metrics						
CFO-Capex/Total Debt with Equity Credit (%)	5.8	7.0	0.5	(5.4)	(0.1)	1.9
CFO-Capex/Total Net Debt with Equity Credit (%)	10.0	11.0	0.9	(8.4)	(0.2)	3.0

CFO – Cash flow from operations.
Source: Fitch Ratings, Fitch Solutions.

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



FitchRatings

Klabin S.A.

Corporates Ratings Navigator
Generic

Operating Environment

bb	Economic Environment	b	Weak combination of countries where economic value is created and where assets are located.
bb-	Financial Access	bbb	Average combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	bb	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'bb'.
b-			
ccc+			

Management and Corporate Governance

a-	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
bbb+	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bbb	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.
bbb-	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
bb+	Financial Sponsor Attitude (LBO only)		n.a.

Sector Competitive Intensity

bbb+	Industry Structure	bbb	Larger number of competitors with some track record of price discipline in downturns.
bbb	Barriers to Entry/Exit	bbb	Moderate barriers to entry. Incumbents are generally strongly established but successful new entrants have emerged over time.
bbb-	Relative Power in Value Chain	bbb	Balanced relative bargaining power with suppliers and customers.
bb+			
bb			

Sector Trend

bbb+	Long-Term Growth Potential	bbb	Mature industry. Traditional markets may be under some pressure but opportunities arise in new markets.
bbb	Volatility of Demand	bbb	Demand volatility in line with economic cycles.
bbb-	Threat of Substitutes	bb	Facing substitutes of comparable quality with modest switching costs.
bb+			
bb			

Company's Market Position

a-	Market Share	a	Top-three player in most markets or leader in a well defined and protected niche.
bbb+	Competitive Advantage	bbb	Some competitive advantages with reasonably good sustainability.
bbb	Operating Efficiency	bbb	Return on invested capital in line with industry average.
bbb-			
bb+			

Diversification

bbb	Geographic Diversification	bb	Modest geographical diversification.
bbb-	Product/End-Market	bbb	Exposure to at least three business lines or markets but with some performance correlation.
bb+			
bb			
bb-			

Profitability

a-	FFO Margin	bb	10%
bbb+	EBIT Margin	a	14%
bbb	FCF Margin	b	Neutral to negative FCF margin.
bbb-	Volatility of Profitability	bbb	Volatility of profits in line with industry average.
bb+	EBITDA Margin or EBITDAR Margin	aa	25% or 25%

Financial Structure

bbb-	FFO Leverage or FFO Adjusted Leverage	bb	4.0x or 4.0x
bb+	FFO Net Leverage or FFO Adjusted Net Leverage	bb	3.5x or 3.5x
bb	(CFO-Capex)/Total Net Debt With Equity Credit (%) or Net Debt/(CFO-	bb	7.5% or 3.5x
bb-	Total Debt With Equity Credit/Op. EBITDA or Total Adjusted Debt/Op.	bb	3.5x or 3.5x
b+	Funding Structure (LBO only)		n.a.

Financial Flexibility

bbb+	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
bbb	Liquidity	bbb	One year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bbb-	FFO Interest Coverage or FFO Fixed Charge Cover	bb	3x or 3x
bb+	FX Exposure	a	Profitability potentially exposed to FX but efficient hedging in place. Debt and cash flows well-matched.
bb	Op. EBITDA/Interest Paid or Op. EBITDAR/(Interest Paid+Rents)	bb	3.5x or 3.5x

Credit-Relevant ESG Derivation

Klabin S.A. has 13 ESG potential rating drivers

- GHG emissions; air quality
- Energy management
- Water and wastewater management
- Waste and hazardous materials management; ecological impacts; product design & lifecycle management; supply chain management - product
- Impact of climate change and extreme weather events on assets and operations
- Customer privacy; data security; product quality and safety; customer welfare; selling practices and product labeling

Showing top 6 issues

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	13	issues	3
not a rating driver	1	issues	2
	0	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Klabin S.A.

Corporates Ratings Navigator
Generic

Credit-Relevant ESG Derivation

Klabin S.A. has 13 ESG potential rating drivers

- Klabin S.A. has exposure to emissions regulatory risk but this has very low impact on the rating.
- Klabin S.A. has exposure to energy productivity risk but this has very low impact on the rating.
- Klabin S.A. has exposure to water management risk but this has very low impact on the rating.
- Klabin S.A. has exposure to waste & impact management risk and supply chain management but this has very low impact on the rating.
- Klabin S.A. has exposure to extreme weather events but this has very low impact on the rating.
- Klabin S.A. has exposure to customer accountability risk or product quality/ethical marketing risk but this has very low impact on the rating.

Showing top 6 issues

Overall ESG Scale

key driver	0	issues	5
driver	0	issues	4
potential driver	13	issues	3
not a rating driver	1	issues	2
	0	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	3	GHG emissions; air quality	Diversification; Profitability; Financial Structure; Financial Flexibility	5
Energy Management	3	Energy management	Diversification; Profitability; Financial Structure; Financial Flexibility	4
Water & Wastewater Management	3	Water and wastewater management	Diversification; Profitability; Financial Structure; Financial Flexibility	3
Waste & Hazardous Materials Management; Ecological Impacts	3	Waste and hazardous materials management; ecological impacts; product design & lifecycle management; supply chain management - product	Diversification; Profitability; Financial Structure; Financial Flexibility	2
Exposure to Environmental Impacts	3	Impact of climate change and extreme weather events on assets and operations	Diversification; Sector Trend; Profitability; Financial Structure; Financial Flexibility	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Human rights; relationships with communities and/or land right holders; access and affordability	Management and Corporate Governance; Company's Market Position; Diversification; Profitability; Financial Flexibility	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Customer privacy; data security; product quality and safety; customer welfare; selling practices and product labeling	Management and Corporate Governance; Sector Competitive Intensity; Company's Market Position; Profitability	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction; supply chain management - labor; employee diversity and inclusion	Operating Environment; Diversification; Profitability; Financial Structure; Financial Flexibility	3
Employee Wellbeing	3	Employee health and safety	Diversification; Profitability; Financial Flexibility	2
Exposure to Social Impacts	3	Shifting social preferences; social resistance to major projects or operations that leads to delays or cost increases	Operating Environment; Sector Trend; Company's Market Position; Diversification; Profitability	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

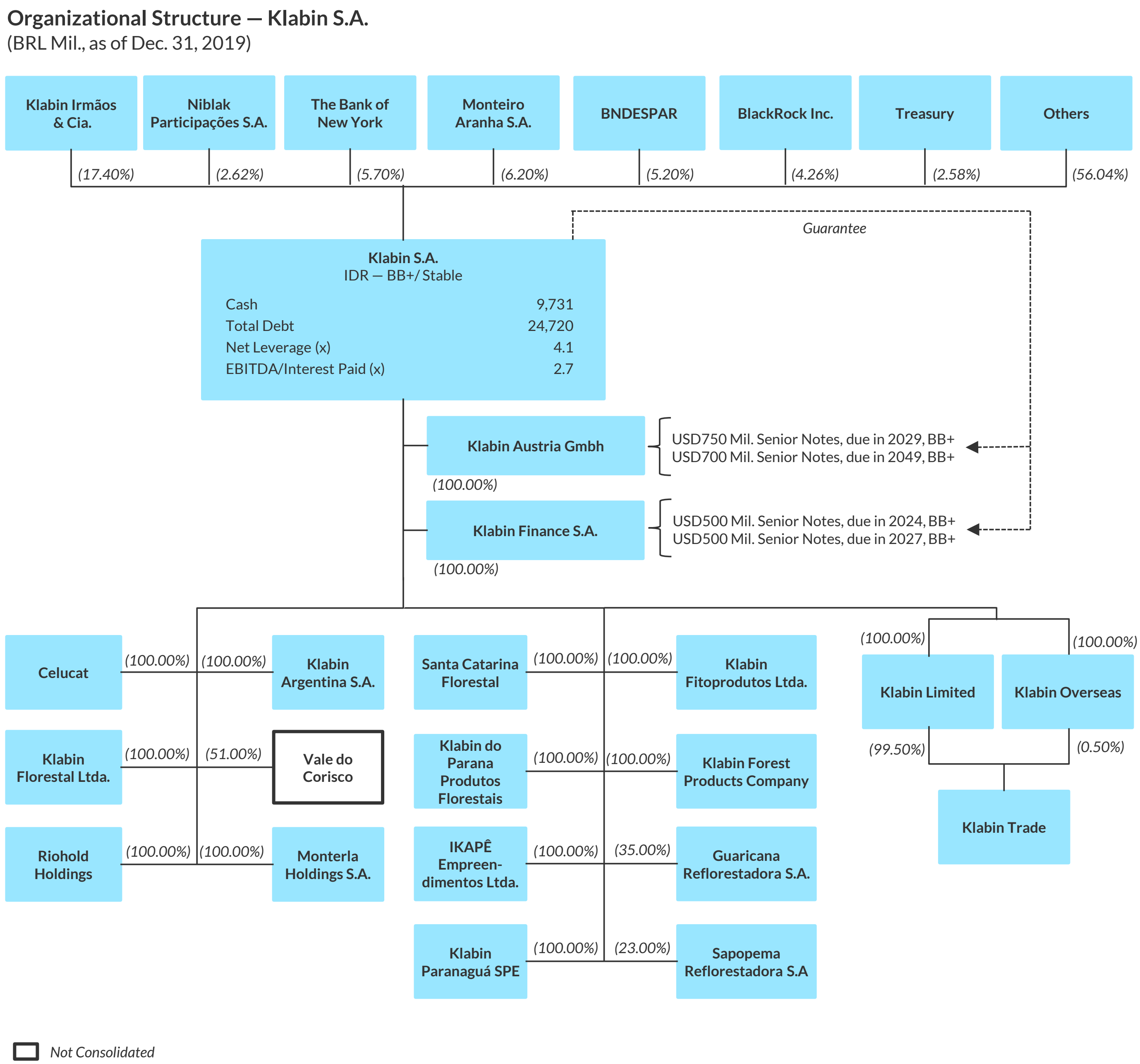
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



IDR – Issuer Default Rating. BNDESPAR – Banco Nacional de Desenvolvimento Participações S.A.
Source: Fitch Ratings, Fitch Solutions, Klabin S.A.

Peer Financial Summary

Company	Issuer Default Rating	Financial Statement Date	Operating EBITDA (Before Income from Associates) (USD Mil.)	Readily Available Cash and Equivalents (USD Mil.)	Total Adjusted Debt with Equity Credit (USD Mil.)	Cash Flow from Operations (Fitch Defined) (USD Mil.)	Total Adjusted Net Debt/ Operating EBITDAR (x)
Klabin S.A.	BB+						
	BB+	2019	901,179	2,414,559	6,010,381	685,678	4.1
	BB+	2018	1,101,443	1,819,009	5,056,738	676,492	3.1
	BB+	2017	841,893	2,500,936	6,053,176	655,888	4.4
Suzano S.A.	BBB–						
	BBB–	2019	2,557,464	2,332,388	16,816,100	2,013,732	5.8
	BBB–	2018	1,866,618	6,578,395	9,583,016	1,444,757	1.7
	BBB–	2017	1,396,961	818,872	3,976,959	949,222	2.3
Eldorado Brasil Celulose S.A.	BB–						
	BB–	2019	485,076	223,193	1,691,390	398,415	3.1
	B	2018	743,332	213,823	1,895,313	599,215	2.4
	B	2017	540,449	180,457	2,444,013	283,244	4.3
Celulosa Arauco y Constitucion S.A.	BBB						
	BBB	2019	927,737	1,560,012	5,985,216	616,875	4.7
	BBB	2018	1,801,538	1,075,942	4,581,875	1,350,365	1.9
	BBB	2017	1,301,953	589,886	4,337,475	1,067,125	2.9
Empresas CMPC S.A.	BBB						
	BBB	2019	1,122,691	615,038	4,049,044	481,089	3.1
	BBB	2018	1,816,183	967,504	3,959,886	1,116,812	1.6
	BBB	2017	1,078,287	682,754	4,318,218	721,499	3.4

Source: Fitch Ratings, Fitch Solutions.

Reconciliation of Key Financial Metrics

(BRL 000, as reported)	Dec. 31, 2019
Income Statement Summary	
Operating EBITDA	3,550,000
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	**3,550,000**
+ Operating Lease Expense Treated as Capitalised (h)	**0**
= Operating EBITDAR after Associates and Minorities (j)	**3,550,000**
Debt & Cash Summary	
Total Debt with Equity Credit (l)	**24,222,436**
+ Lease-Equivalent Debt	0
+ Other Off-Balance-Sheet Debt (p)	0
= Total Adjusted Debt with Equity Credit (a)	**24,222,436**
Readily Available Cash [Fitch-Defined]	9,730,915
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	**9,730,915**
Total Adjusted Net Debt (b)	**14,491,521**
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	**0**
Interest Received	541,487
+ Interest (Paid) (d)	**(1,334,104)**
= Net Finance Charge (e)	**(792,617)**
Funds From Operations [FFO] (c)	**2,882,376**
+ Change in Working Capital [Fitch-Defined]	(181,299)
= Cash Flow from Operations [CFO] (n)	2,701,077
Capital Expenditures (m)	**(2,574,075)**
Multiple applied to Capitalised Leases	**5.0**
Gross Leverage	
Total Adjusted Debt/Op. EBITDAR[a] [x] (a/j)	**6.8**
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	**6.6**
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
FFO Leverage [x] ((l+p)/(c-e+h-f))	**6.6**
(Total Debt + Other Debt)/(FFO - Net Finance Charge - Pref. Div. Paid)	
Total Debt with Equity Credit/Op. EBITDA[a] [x] (l/k)	**6.8**
CFO-Capex/Total Debt with Equity Credit (%)	**0.5**
Net Leverage	
Total Adjusted Net Debt/Op. EBITDAR[a] [x] (b/j)	**4.1**
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	**3.9**
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
FFO Net Leverage [x] ((l+p-o)/(c-e+h-f))	**3.9**
Total Adjusted Net Debt/(FFO - Net Finance Charge - Pref. Div. Paid)	
Total Net Debt/(CFO - Capex) [x] ((l-o)/(n+m))	**114.1**
CFO-Capex/Total Net Debt with Equity Credit (%)	**0.9**
Coverage	
Op. EBITDAR/(Interest Paid + Lease Expense)[a] [x] (j/-d+h)	**2.7**
Op. EBITDA/Interest Paid[a] [x] (k/(-d))	**2.7**
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	**2.8**
(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid)/(Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	**2.8**
(FFO + Net Finance Charge - Pref. Div Paid)/(Gross Int. Paid - Pref. Div. Paid)	

[a]EBITDA/R after dividends to associates and minorities.
Source: Fitch Ratings, Fitch Solutions, Klabin S.A.

Fitch Financial Adjustments — Summary Financials

(BRL 000, as reported)	Reported Values Dec. 31, 2019	Sum of Fitch Adjustments	- CORP - Factoring	CORP - Lease Treatment	Other Adjustment	Adjusted Values
Income Statement Summary						
Revenue	10,271,839	0	—	—	—	10,271,839
Operating EBITDAR	4,322,498	(772,498)	—	(141,877)	(630,621)	3,550,000
Operating EBITDAR after Associates and Minorities	4,322,498	(772,498)	—	(141,877)	(630,621)	3,550,000
Operating Lease Expense	0	0	—			0
Operating EBITDA	4,322,498	(772,498)	—	(141,877)	(630,621)	3,550,000
Operating EBITDA after Associates and Minorities	4,322,498	(772,498)	—	(141,877)	(630,621)	3,550,000
Operating EBIT	2,129,084	(686,611)	—	(55,990)	(630,621)	1,442,473
Debt & Cash Summary						
Total Debt with Equity Credit	24,085,272	137,164	137,164	—	—	24,222,436
Total Adjusted Debt with Equity Credit	24,085,272	137,164	137,164	—	—	24,222,436
Lease-Equivalent Debt	0	0	—	—	—	0
Other Off-Balance Sheet Debt	0	0	—	—	—	0
Readily Available Cash & Equivalents	9,730,915	0	—	—	—	9,730,915
Not Readily Available Cash & Equivalents	0	0	—	—	—	0
Cash-Flow Summary						
Preferred Dividends (Paid)	0	0	—	—	—	0
Interest Received	541,487	0	—	—	—	541,487
Interest (Paid)	(1,185,147)	(148,957)	—	—	(148,957)	(1,334,104)
Funds from Operations [FFO]	3,219,581	(337,205)	—	(188,248)	(148,957)	2,882,376
Change in Working Capital [Fitch-Defined]	(189,278)	7,979	7,979	—	—	(181,299)
Cash Flow from Operations [CFO]	3,030,303	(329,226)	7,979	(188,248)	(148,957)	2,701,077
Non-Operating/Non-Recurring Cash Flow	0	0	—	—	—	0
Capital (Expenditures)	(2,574,075)	0	—	—	—	(2,574,075)
Common Dividends (Paid)	(965,348)	0	—	—	—	(965,348)
Free Cash Flow [FCF]	(509,120)	(329,226)	7,979	(188,248)	(148,957)	(838,346)
Gross Leverage						
Total Adjusted Debt/Op. EBITDAR[a] [x]	5.6	—	—	—	—	6.8
FFO Adjusted Leverage [x]	6.2	—	—	—	—	6.6
FFO Leverage [x]	6.2	—	—	—	—	6.6
Total Debt with Equity Credit/Op. EBITDA[a] [x]	5.6	—	—	—	—	6.8
CFO-Capex/Total Debt with Equity Credit (%)	1.9	—	—	—	—	0.5
Net Leverage						
Total Adjusted Net Debt/Op. EBITDAR[a] [x]	3.3	—	—	—	—	4.1
FFO Adjusted Net Leverage [x]	3.7	—	—	—	—	3.9
FFO Net Leverage [x]	3.7	—	—	—	—	3.9
Total Net Debt/(CFO - Capex) [x]	31.5	—	—	—	—	114.1
CFO-Capex/Total Net Debt with Equity Credit (%)	3.2	—	—	—	—	0.9
Coverage						
Op. EBITDAR/(Interest Paid + Lease Expense)[a] [x]	3.6	—	—	—	—	2.7

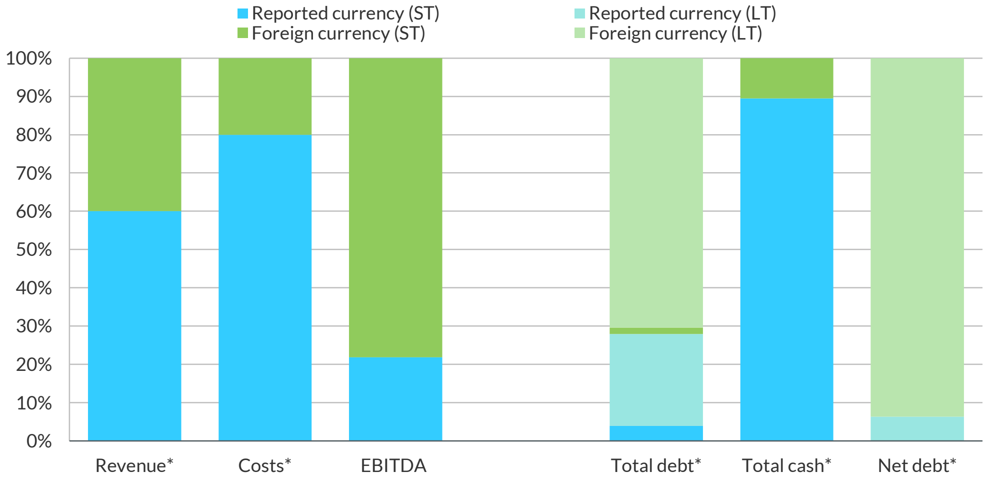
[a]EBITDA/R after dividends to associates and minorities.
Source: Fitch Ratings, Fitch Solutions, Klabin S.A.

FX Screener

Exports made up about 40% of Klabin's sales in the LTM ended March 31, 2020. About 72% of total debt is U.S. dollar-denominated, and a 20% depreciation of the Brazilian real would likely increase net leverage by about 0.2x. About 11% of total cash and marketable securities were invested in hard currency as of March 31, 2020. Klabin does not hedge its foreign currency debt.

Fitch FX Screener

(Klabin S.A. — BB+/Stable, LTM March 20, BRL 000)



* Post hedge, absolute figures displayed are Fitch's analytical estimates, based on publicly available information
Source: Fitch Ratings

Covenant Summary

Klabin does not have financial covenants.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.