

## **PORTUCEL, S.A.**

Public Company

Headquarters: Mitrena – Apartado 55, 2901-861 Setúbal  
Corporate Entity: 503025798; Share Capital: 767,500,000€  
Registered at the Commercial Registry

### **PRIVILEGED INFORMATION**

In accordance with article 248 of the Portuguese Securities Code, Portucel S.A. informs that the rating agency Moody's has upgraded the Corporate Family Rating of Portucel S.A. to Ba2 from Ba3, with a stable outlook.

According to Moody's, this upgrade was essentially due to "Portucel's track record of consistently strong performance through periods of price volatility and structural demand decline in uncoated fine paper while maintaining a conservative financial profile throughout".

Attached is Moody's rating action report.

Setúbal, March 7<sup>th</sup> 2016

The Board of Directors



## Rating Action: Moody's upgrades Portucel to Ba2, outlook stable

Global Credit Research - 07 Mar 2016

Frankfurt am Main, March 07, 2016 -- Moody's Investors Service, ("Moody's") has today upgraded the Corporate Family Rating ("CFR") of Portucel, S.A. (Portucel) to Ba2 from Ba3 and the Probability of Default Rating ("PDR") to Ba2-PD from Ba3-PD. Concurrently, the instrument ratings of the senior unsecured notes issued by Portucel were upgraded to Ba2 (LGD4) from Ba3 (LGD4). The outlook is stable.

"We have upgraded the CFR because of the Portucel's track record of consistently strong performance through periods of price volatility and structural demand decline in uncoated fine paper while maintaining a conservative financial profile throughout", says Matthias Volkmer, a Moody's Senior Analyst and lead analyst for Portucel. "Importantly, we understand that following rising dividend demands in recent years, majority shareholder Semapa intends to substantially decrease its dividend requirements in support of Portucel's new strategic and capital-intensive projects in tissue, pellets and forestry, which will help to gradually diversify the business profile in the coming years", Volkmer added.

### RATINGS RATIONALE

The Ba2 CFR balances Portucel's solid business profile, healthy capital structure and strong free cash generation ability on a stand-alone basis. However, during 2015 Portucel made substantial dividend payments in amount of EUR440 million, which was credit negative, but helped majority shareholder Semapa (who reduced its equity stake in Portucel to 64.8% from 75.9% in 2015) reduce the holding's net debt by -27% to EUR673 million in 2015 down from EUR918 million in 2014. Moody's understands that the investment holding endeavors to further de-leverage over the next few years while reducing required dividend payments from Portucel to a more sustainable level. Notwithstanding, in its analysis of Portucel's financial strength, Moody's continues to consider the net debt position owed by Semapa Holding, that would lead to a leverage ratio of app. 3.6x (down from 5.3x as per FY 2014).

More fundamentally, the rating is supported by (i) Portucel's well-invested and cost efficient asset base (ii) its full integration into pulp and energy; (iii) a long-standing track record of stable and - despite structural weakening since 2010 - comparatively high profitability with adjusted EBITDA margins consistently above 20% historically, which is evidence of the efficiency of Portucel's asset base given the difficult market conditions for paper producers in Europe; (iv) the positive prospects of Portucel's diversification strategy into tissue and pellets.

On a more negative note, the rating is constrained by (i) the inherent volatility of the industry with paper demand having proven to be highly cyclical and closely linked to overall macroeconomic conditions as well as the overall declining paper markets in Europe, (ii) the fairly small scale as indicated by sales of EUR 1.6 billion during 2015 as well as limited geographic diversification with operations predominantly based in Portugal yet with over 40% of sales generated outside Western Europe ; (iii) the highly focused product portfolio with uncoated fine paper production generating over 75% of group sales, and (iv) expected marginal FCF generation driven by growth capital expenditures going forward in combination with gradually reducing dividend payments as Semapa deleverages over time.

### OUTLOOK

The stable outlook reflects Moody's expectation that Portucel will maintain solid credit protection measures for its rating as indicated by debt/EBITDA (as defined by Moody's) remaining below 2.5x times (1.9x per December 2015) excluding the holding debt at Semapa. The stable outlook also takes into account the high likelihood of a moderate deterioration in leverage metrics in the next two years, driven by Portucel's investment program in combination with continued dividend pay outs as well as some expected pressure on profit margins.

### LIQUIDITY

Portucel's operations have been very cash generative yet following dividend payments in an amount of 440million during 2015, Portucel's previously sizeable cash position diminished to EUR73m as per end of December 2015 (down from EUR499 million as per end of December 2014). Notwithstanding, we regard Portucel's liquidity profile as good with primary funding sources with expected funds from operations of around EUR300million for 2016, a cash position of EUR 73 million as of December 2015 and access to approximately EUR 125 million currently unused commercial paper programs, due in 2020. Various of Portucel's facility agreements contain conditionality language, including financial covenants, under which Portucel currently has solid headroom. Cash uses during 2016 largely relate to ongoing high capex due to sizeable growth investments and reduced but still substantial dividend payments, seasonal swings as well as structural build up in working capital.

### WHAT COULD CHANGE THE RATING UP

Less likely in the intermediate term but following further evidence of Semapa's deleveraging and thus less reliance on Portucel's cash generation ability, a higher rating would require Portucel maintaining its financial profile while improving its portfolio diversification including successful execution of its pursued strategic projects as well as maintaining a diversified long-term funding profile with continued access to international capital markets.

## WHAT COULD CHANGE THE RATING DOWN

Downward rating pressure could result from a deterioration in earnings and cash flow including a more permanent increase in leverage to above 2.5x debt/EBITDA and a declining EBITDA margin towards the mid-teens. Moreover, a financial policy favoring shareholders over creditors including high shareholder returns, large debt funded acquisitions or investments and failure to return to a debt/ EBITDA ratio to 2.5x or below, could lead to a negative rating action.

The principal methodology used in these ratings was Global Paper and Forest Products Industry published in October 2013. Please see the Ratings Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

Portucel, S.A. (to be renamed in April, following the recent rebranding of Portucel Soporcel Group into THE NAVIGATOR COMPANY), based in Lisbon (Portugal), is a leading producer of premium and branded office paper, market pulp as well as operations in energy and tissue with revenues generated in 2015 of EUR 1.6 billion. The group employs more than 2,400 employees at two integrated paper mills, a pulp mill and its recently acquired tissue operations in Portugal, its pellet mill project in South Carolina (USA) and its forestry project in Mozambique. Portucel is listed on the Lisbon stock exchange and its market capitalization as of December 2015 amounted to EUR 2.76 billion. Majority shareholder Semapa, an investment holding company, is holding 64.8% of shares.

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