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## Fitch Downgrades Votorantim Celulose e Papel; Places Aracruz on Watch Positive

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02 Feb 2009 2:58 PM (EST)

Fitch Ratings-Chicago-02 February 2009: Fitch Ratings has downgraded the Issuer Default Ratings (IDRs) and national scale rating for Votorantim Celulose e Papel (VCP):

- Local currency IDR to 'BB+' from 'BBB-';
- Foreign currency IDR to 'BB+' from 'BBB-';
- National scale rating to 'AA-(bra)' from 'AA(bra)'.

VCP remains on Rating Watch Negative by Fitch. In conjunction with this rating action, Fitch has placed the following ratings of Aracruz Celulose S.A. (Aracruz) on Rating Watch Positive:

- Local currency IDR at 'BB-';
- Foreign currency IDR at 'BB-';
- National scale rating at 'A (bra)'.

Fitch took these rating actions following the announcement by VCP that it had concluded negotiations with Arapar to acquire 28.03% of the voting capital of Aracruz for BRL2.71 billion. This agreement was reached after Aracruz had agreed to a repayment schedule with banks representing more than 80% of its \$2.13 billion of derivative losses. The acquisition of Arapar's stake in Aracruz will be paid for over a three-year time period. It will increase VCP's voting stake in Aracruz to 56% from 28%, and its total economic stake in the company to 24.8%. The first payment of BRL500 million has already been made by VCP through funds received from Votorantim Industrial S.A. (VID), VCP's controlling shareholder, through an Advance on a Future Capital Increase. The downgrade of VCP's ratings to 'BB+' and 'AA-(bra)' reflects the leveraging impact on VCP's stand-alone capital structure due to the acquisition, as well as the very high debt burden of Aracruz.

Arainvest Participacoes S.A. (Arainvest), a part of the Safra Group, also owns 28.03% of the voting shares of Aracruz. Under an existing shareholders agreement, Arainvest has a right of first refusal, which would allow it to acquire the shares sold by Arapar. Fitch's downgrade of VCP's credit ratings and the placement of Aracruz's ratings on Rating Watch Positive reflects Fitch's view that it is unlikely that Arainvest will exercise its right of first refusal and purchase the shares of Arapar. Under an existing shareholder agreement, Arainvest also has the right to sell its common shares in Aracruz to VCP for BRL2.71 billion under similar terms and conditions.

VCP has outlined for the market a plan in which it intends to increase its capital by BRL4.254 billion to finance the acquisition of both Arainvest and Arapar's common shares in Aracruz. BNDESPAR, a subsidiary of the Brazilian development bank BNDES, would be the main subscriber to the equity issuance. Some of the capital increase would not be in cash, however, as BNDESPAR would swap its common shares of Aracruz for preferred shares of VCP. After the capital increase, VCP intends to execute a series of transactions that would result in Aracruz becoming a 100% owned subsidiary of VCP, which would in turn be 27.3% owned by VID and 26.3% owned by BNDESPAR (assuming a 50% subscription rate by minorities).

VCP's ratings remain VCP's ratings on Rating Watch Negative due to concern that if these transactions are executed in a manner as described, the combined net debt-to-EBITDA ratios of VCP and Aracruz, as estimated by Fitch, would be about 6.0 times (x) in 2009 and could exceed 3.5x in 2010. Without additional equity being infused by VID or BNDESPAR, or a more favorable price outlook, the ratings of the combined entity would likely be below 'BB+' and 'AA-(bra)'.

For the last 12 months (LTM) ended Sept. 30, 2008, VCP generated \$445 million of EBITDA. The company had \$464 million of cash and marketable securities and \$1.871 billion of total debt at the end of September. These figures represent a total debt-to-EBITDA ratio of 4.2x and net debt-to-EBITDA ratio of 3.2x. In a few months, VCP will open a new pulp mill at Tres Lagoas. This mill will increase the company's market pulp capacity to 2.5 million tons per year from 1.2 million tons per year and will contribute significantly to the deleveraging of the companies in 2010 and 2011.

During the LTM ended Sept. 30, 2008, Aracruz generated \$827 million of EBITDA. It had \$594 million of cash and

marketable securities and \$2.25 billion of total debt. Adjusting for the \$2.13 billion of derivative losses, its adjusted total debt-to-EBITDA ratio is 5.3x and its net debt-to-EBITDA ratio is 4.6x.

A merged VCP and Aracruz would be the leading global producer of market pulp, with estimated sales of about 5.8 million tons of market pulp, in addition to sales of about 400,000 tons of paper. With operations based in Brazil, one of the world's lowest cost locations for market pulp productions, the company would enjoy both economies of scale and a cost structure that would be unrivaled in the market. Once the company would work through a deleveraging process, it could pursue projects that would increase its pulp capacity to about 9.3 million tons by 2020.

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