

Rating Action: Moody's assigns Ba1 corporate family rating to Klabin; stable outlook

22 Dec 2021

New York, December 22, 2021 -- Moody's Investors Service ("Moody's") has today assigned Ba1 corporate family rating (CFR) to Klabin S.A. ("Klabin"). The outlook is stable.

This is the first time Moody's assigns ratings to Klabin.

Assignments:

..Issuer: Klabin S.A.

.....Corporate Family Rating, Assigned Ba1

Outlook:

..Issuer: Klabin S.A.

.....Outlook, Assigned Stable

RATINGS RATIONALE

Klabin's Ba1 rating reflects the company's good liquidity profile, historically strong EBITDA margins, product diversification through market pulp and paper and packaging products, which include kraftliner, coated boards, industrial bags and corrugated boxes, as well as well-balanced revenue and EBITDA sources. The rating also incorporates Klabin's solid market position as one of the largest integrated pulp and paper packaging producers in Latin America. The company benefits from a flexible business model, which allows for rebalancing of export volumes or changes in the product mix to respond to shifts in demand. This flexibility is a competitive advantage and helps mitigate the risks of operating in the volatile and cyclical pulp and paper industry. The Puma II expansion project, which has been essentially prefunded, will add to this flexible capacity and position the company for long term growth without significantly weighting on credit metrics.

Klabin has maintained strong margins over time, with Moody's adjusted EBITDA margin averaging 45% since 2015. However, the company lacks scale when compared to global peers, with \$3.0bn (BRL16.2 billion) in net revenues and \$1.35bn (BRL7.4 billion) in EBITDA for the last twelve months ending September 2021.

The rating is also constrained by Klabin's higher leverage relative to similarly rated global peers, and negative free cash flow (FCF) generation resulting from the sizable investments necessary to fund the Puma II expansion project and significant dividend distributions. The company is exposed to the inherent volatility in the pulp industry, with pulp representing 55% of EBITDA for the twelve months ending September 2021, as well as to economic growth and volatility in key markets for paper packaging products.

Klabin's debt levels have increased since 2019 due to the Puma II expansion project and should stabilize at current levels around BRL27 billion (\$4.9 billion). Over the next two years, leverage should benefit from EBITDA growth, however it will remain relatively high compared to global peers. Moody's expects adjusted gross debt/EBITDA to decrease from 4.0x as of September 2021 to 3.7x in 2022 and 3.4x in 2023.

Klabin has a comfortable debt amortization schedule and ample liquidity, with cash balance of BRL 8.95 billion (\$1.63 billion) as of September 2021 and a fully available revolving credit facility (RCF) in the amount of \$500mm (BRL2.72 billion) maturing in October 2026.

Governance considerations are relevant for the company's credit quality as well. Klabin is majority-owned and controlled by the Klabin family via Irmaos Klabin S.A and Niblak Participacoes S.A., which together hold 52.23% of outstanding common shares and 19.36% of total outstanding shares. Klabin's shares and Units are traded on the B3 stock exchange under the Level 2 of corporate governance. The founding family is not involved in the company's daily management but holds nine seats on the board of directors (out of 13). As per Klabin's policy, at least 20% of the board members must be independent.

Furthermore, the company has a good level of overall financial and operational disclosure, including disclosures of dividend, liquidity, and financial leverage policies, as well as risk management policies. However, the company lacks track-record of compliance with these policies, that have been established in June 2020, and display relatively aggressive leverage limits and dividend distribution range when compared to global peers for expansion periods.

RATING OUTLOOK

The stable outlook incorporates Moody's expectation that Klabin will maintain good liquidity and manage capital spending and dividend distribution prudently, without compromising its leverage and liquidity in the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

The ratings could be upgraded if Klabin maintains a strong liquidity position and demonstrates conservative financial policies. An upward rating movement would also be subject to the relative position of Brazil's sovereign rating. Quantitatively, an upgrade of the company's rating would depend on leverage below 3.0x adjusted total debt/EBITDA on an ongoing basis; improvement in retained cash flow to above 20% adjusted retained cash flow/gross debt; and positive free cash flow generation on a consistent basis.

The ratings could be downgraded if Klabin's operating environment deteriorates significantly, leading to weaker operating performance and liquidity, or if the company's expansion cycle starts to weigh on leverage metrics. Additionally, a downgrade of Brazil's sovereign rating could strain Klabin's rating. Quantitatively, the ratings could be downgraded if adjusted total debt/EBITDA exceeds 4.5x on a consistent basis, or free cash flow is persistently negative.

The principal methodology used in this rating was Paper and Forest Products Industry published in December 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1299152. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Headquartered in São Paulo, Brazil, Klabin S.A is an integrated and diversified pulp and paper packaging producer with 3.7 million tons of pulp capacity per year -- 1.6 million tons of market pulp and 2.1 million tons of paperboard, part of which is converted into 1.2 million tons of packaging products. The company is the largest producer, exporter and recycler of packaging paper in Brazil, and one of the largest integrated producers in Latin America. In the twelve months ending September 2021 Klabin reported BRL16,2 billion (\$3.0bn) in net revenues.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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