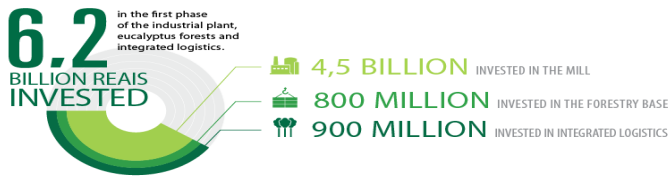


Case Study Credit:



INSTALLED PULP PRODUCTION CAPACITY

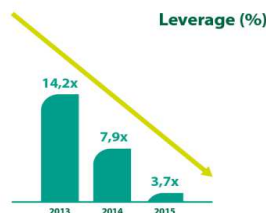
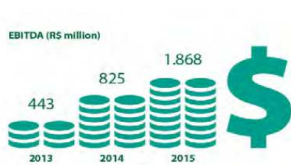


„Eldorado Brasil is one of the most modern and competitive pulp companies in the world. Its differentials lie in having its own forests that are certified by the Forest Stewardship Council® (FSC®), its own energy generation from biomass, the reuse of resources, and an innovative, competitive and low-carbon logistics model. It also promotes social and economic development in the communities it operates in.

With an investment of R\$ 6.2 billion, it was built in record time and began operating in late 2012. Its industrial and forest base are located in Mato Grosso do Sul and it has a nursery in São Paulo, with a production capacity of 35 million seedlings a year. It distributes its pulp to Brazil and the rest of the world.

To provide quality, it has modern, clean and efficient industrial processes, a renewable forestry base and excellent distribution processes.“

[<http://www.eldoradobrasil.com.br>]



[2015 annual report]

1-Jul-2016: Reuters

**„Brazil police raid pulpmaker controlled by billionaire Batista family**

Brazilian police on Friday raided offices of pulpmaker Eldorado Celulose controlled by the billionaire Batista family, a company spokesman said, in the latest stage of the country's biggest-ever corruption investigation.

Brazilian media had reported that police targeted JBS SA, the world's largest meatpacker which is also controlled by the Batistas. JBS said neither the company nor its executives were targeted in Friday's police operation.

As part of the raid on Eldorado Celulose, police served one arrest warrant and conducted search-and-seizure operations at 19 locations in four states, prosecutors said in a statement, without giving details about the operation. "Eldorado has always acted in a transparent way and all its activities have been conducted according to the law," the company said in a statement, adding that it had fully complied with authorities' requests for information.

Brazilian media said an arrest warrant was issued against lobbyist Lucio Funaro, but representatives for the police or Funaro did not immediately respond to requests for comment. The Batista family, through holding J&F Investimentos SA, has stakes in pulp, agribusiness, cosmetics, home cleaning products and finance. Batista is a relatively common surname in Brazil, and the family has no relation to fallen commodities tycoon Eike Batista.

Finance Minister Henrique Meirelles chaired J&F's board until this year, but said in a radio interview on Friday that he no longer had any links to the company.

Dozens of executives and politicians have been jailed in the two-year probe over price-fixing and corruption at state-run firms, especially oil producer Petrobras. The political mayhem from the scandal helped topple President Dilma Rousseff and ministers in the interim administration of President Michel Temer.

26-Jul-2016: BTG Pactual Credit Pack

**„Eldorado Brasil (B+ / B+)**

Eldorado reported 2Q16 results and hosted its first public conference call since issuing a US\$350mn bond back in June. Revenues came in at R\$812mn (+10% q/q & -5% y/y) as sales volumes rose 31% q/q & 6% y/y to a record 465kt. In turn, reported EBITDA came in at R\$469mn (+9% q/q and +23% y/y), with a 58% EBITDA margin. Adjusting the figures for income from tax credits (R\$36mn in ICMS and R\$74mn in PIS & COFINS), we see EBITDA at R\$358mn (-4% q/q & +2% y/y), with a 44% EBITDA margin, which we deem a more comparable figure to peers.

Net debt declined 6.5% q/q to R\$7.6bn, mainly on the back of a stronger BRL and partially offset by cash burn to the tune of -R\$270mn (-R\$850mn YTD, largely driven by losses with derivatives). On the flipside, the company unwound its USD hedging positions in April, avoiding

Eldorado Highlights (R\$m)	2014	2015	1Q16	2Q16	2016	2017	1H15	1H16	%YoY
Pulp, US\$/ton	745	784	765	696	705	650	764	730	-4.4%
BRL, avg	2.3	3.3	3.9	3.5	3.5	3.3	3.0	3.7	24.5%
Pulp Sales, kt	1,561	1,562	354	465	1,686	1,666	803	819	2.0%
<b>Revenues</b>	<b>2,199</b>	<b>3,237</b>	<b>741</b>	<b>812</b>	<b>3,003</b>	<b>2,689</b>	<b>1,506</b>	<b>1,553</b>	<b>3.1%</b>
<b>EBITDA, reported</b>	<b>825</b>	<b>1,868</b>	<b>483</b>	<b>469</b>	<b>1,665</b>	<b>1,260</b>	<b>682</b>	<b>952</b>	<b>39.6%</b>
% margin	38%	58%	65%	58%	55%	47%	45%	61%	16.0%
<b>Adjusted EBITDA</b>	<b>600</b>	<b>1,552</b>	<b>372</b>	<b>358</b>	<b>1,352</b>	<b>1,100</b>	<b>593</b>	<b>731</b>	<b>23.3%</b>
% margin	27%	48%	50%	44%	45%	41%	39%	47%	7.7%
Net Income	(419)	281	(182)	414	646	498	(66)	232	-
Net Debt	7,478	8,102	8,243	7,833	7,322	9,592	7,896	7,833	-0.8%
<b>Net Debt / EBITDA, reported</b>	<b>9.1x</b>	<b>4.3x</b>	<b>4.0x</b>	<b>3.7x</b>	<b>4.4x</b>	<b>7.6x</b>	<b>6.4x</b>	<b>3.7x</b>	<b>-0.4x</b>
<b>Net Debt / EBITDA, adjusted</b>	<b>12.5x</b>	<b>5.2x</b>	<b>4.8x</b>	<b>4.6x</b>	<b>5.4x</b>	<b>8.7x</b>	<b>6.9x</b>	<b>4.6x</b>	<b>-0.3x</b>
Interest Coverage	0.9	1.7	0.4	0.9	0.8	1.4	0.5	0.7	0.3

Source: Company Data / BTG Pactual

additional losses in May and June, as the BRL appreciated further (losses from derivatives amounted to R\$154mn in Q2 vs. R\$746mn in Q1). In turn, net leverage, as reported by the company, decreased

to 3.7x in Q2 (vs. 4.0x in Q1); considering the Adj. EBITDA figure, we see net leverage at 4.6x (vs. 4.8x in Q1).

Beyond issuing the bond, the company indicated it also signed a R\$358mn credit line with BNDES for forestry expansion (9Y with 7Y grace period) and took out a US\$100mn credit line with Banco do Brasil, whilst showing no intent to repurchase

the bonds in the secondary market following the strong price drop. Eldorado provided some disclosure on the recent developments involving the search-and-seizure process at Eldorado's headquarters, saying that it has retained independent advisers and that there has been no impact on its operations nor on the availability of export credit lines. We view its ability to refinance large ST debt obligations as the key concern in this scenario, but expect no shortage of credit availability (especially export lines) at this stage.

We do believe, however, that the ongoing developments may eventually drive a delay in the Vanguarda 2.0 expansion project, as it could delay the structuring of the necessary funding sources. Management expects to have a go-ahead decision on the project by year-end, pending the conclusion of the funding structure. We'd actually see a delay in the expansion project as positive, considering the higher uncertainty ahead for pulp (weaker price outlook and stronger BRL). At the time of the bond issuance, rating agencies were considering much more favorable inputs; when Fitch assigned a B+ rating to Eldorado, it was considering a BRL of 3.9, pulp prices of US\$700/t and leverage rising above 5x in 2017.

Considering a revised BRL forecast at 3.3 and lower pulp prices (US\$650/t), if the company decides to go ahead with the expansion as planned, we'd see a much stronger (temporary) credit metric deterioration (possibly double-digit leverage

metrics) whilst incurring higher risks upon the start-up and ensuing (expected) deleveraging - as the scenario for pulp prices that far down the road remains completely unknown - unless the company decides to increase the share of equity funding (we see strong shareholder support as a positive).

Nonetheless, cash costs, which increased a marginal 5% q/q to R\$669/t (vs. R\$637/t in Q1), may provide a silver lining if they indeed trend down as management has been guiding, as the company boosts the use of own wood (towards 95% own wood in 2018, before the expansion start-up) while reducing the average distance from forest to mill by ~100km.

We are less concerned about the recent negative newsflow (which was the key driver of underperformance) than the revised BRL & pulp price scenario and expansion plan, as we see this as a greater source of pressure on credit metrics. As such, we see the bonds as significantly discounted for the wrong reasons. Some relief on the pricing front, as expected by Eldorado's management, could provide room to be more optimistic. Nonetheless, Eldorado bonds have already sold off significantly to ~\$75, having partially recovered to \$85 now (12.7% YTM and 1150bps of z-spread), which already incorporates more than enough of a carry, until concerns on the expansion & pulp price scenario become clearer and negative newsflow dissipates."

5-Sep-2016: The Wall Street Journal

### **Brazilian Police Launch Investigation Into Alleged Fraud at Pension Funds**

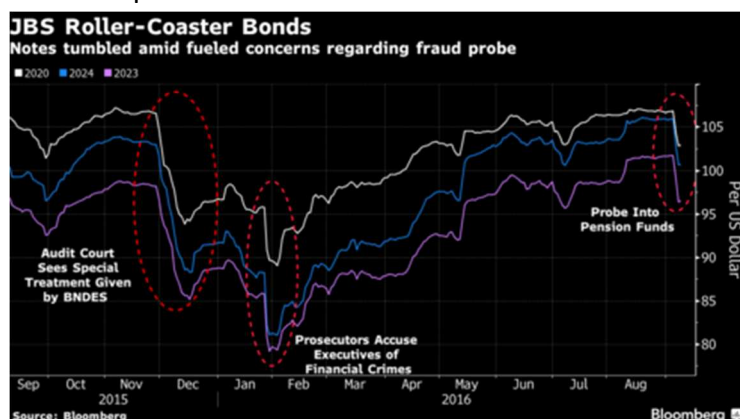
SÃO PAULO—Brazilian police on Monday said they launched an investigation into alleged fraud of as much as 8 billion reais (\$2.5 billion) at the country's four largest pension funds, all of which are linked to state-controlled companies. [...] The alleged fraud consisted mainly of the pension funds buying shares in independent investment vehicles that themselves had paid too much for company stocks or bonds based on valuations that were "unreal and technically irregular," according to court documents released by prosecutors. The valuations were based on information provided by the companies seeking investment in at least some of the cases, according to the documents. As part of the same operation, according to a spokeswoman for the prosecutors office, the police raided offices of Eldorado Brasil, a pulp-making unit of J&F Investimentos—the holding company that controls [JBS SA](#), the world's largest meatpacker. Wesley Batista was detained by police for questioning in São Paulo.[...]

9-Sep-2016: Bloomberg Markets

### Scandal-Plagued JBS's Bond Woes May Be a Buying Opportunity

JBS's \$7.1 billion of notes have tumbled 4 percent since Monday, when Brazilian police raided the offices of parent J&F Investimentos SA as part of a probe into alleged pension-fund fraud. In January, JBS's notes also sank when a prosecutor accused Chairman Joesley Batista of financial crimes involving a series of loans to related companies. Two months earlier, a federal audit court said it found evidence JBS received "special treatment" from state-run development bank BNDES and expanded its probe.

Despite JBS's seemingly never-ending legal problems, its notes have managed to bounce back each time. The company has sidestepped the slump in Brazil's economy because more than 80 percent of its sales are in dollars and include revenue from Pilgrim's Pride Corp., the U.S.-based poultry company it controls. JBS now has major operations on four continents, making it one of the world's biggest food companies.



"There are valuable assets behind all of these companies -- they are behemoths," said David Tawil, co-founder of New York-based hedge fund Maglan Capital. "I don't see anything particularly alarming on a relative basis in this investigation. And with respect to its industry, JBS is too big to fail. It's the largest meat processor in the world."

The police searched the offices of J&F Investimentos and those of its pulp and paper producer, Eldorado Brasil Celulose SA, early Monday, a press officer said. It was the second time Eldorado was raided since June, when it first sold bonds. In a statement, J&F said two of Brazil's largest pension funds invested 550 million reais (\$171 million) in Eldorado in 2009 and owned a stake valued at 3 billion reais as of December 2015. Wesley Batista, JBS's chief executive officer, accompanied police to give testimony in the investigation after the search, the press official said. His brother Joesley Batista was out of the country, the official added.

The market value of bonds sold by JBS and Eldorado has plunged by \$317 million since Monday, according to data compiled by Bloomberg. The yield on JBS's \$1 billion of notes due in October 2020 fell 0.34 percentage point to 6.36 percent as of 1:33 p.m. in New York.

"The market selloff looks to be the making of an interesting opportunity," said Ian McCall, a money manager at Quesnell, whose fund is outperforming 91 percent of its peers in the past month. "I see them surviving and with the price of their bonds having been beaten up, that is exciting and interesting as an investor."

He said he's bought Eldorado bonds during the slump and is looking to buy more. In JBS's case, McCall said he's following the "situation closely with a view toward acting."

"Both of these are very large companies, important players in their respective markets that have staying power beyond any fines they may face from the alleged misconduct," he said.

Questions:

1. What happened here?
2. How could a credit analyst anticipate this case?
3. How do you see the outlook for the company?
4. Do you think this bond is now a buying opportunity?

Issuer Information				Identifiers	
Name	ELDORADO INTL FIN GMBH			ID Number	LW4069735
Industry	Forest & Paper Products Manufacturing			ISIN	USA18007AA16
Security Information				FIGI	BBG00D2QYK45
Mkt Iss	Euro-Dollar		Bond Ratings		
Country	AT	Currency	USD	S&P	B+
Rank	Sr Unsecured	Series	REGS	Fitch	B+
Coupon	8.625000	Type	Fixed	Composite	B+
Cpn Freq	S/A		Issuance & Trading		
Day Cnt	ISMA-30/360	Iss Price	99.00800	Aggregated Amount Issued/Out	
Maturity	06/16/2021		USD 350,000.00 (M) /		
MAKE WHOLE @50.000000 until 06/16/19/ CALL 06/16/19@10...				USD 350,000.00 (M)	
Iss Sprd	Min Piece/Increment				
Calc Type	(1)STREET CONVENTION			200,000.00 / 1,000.00	
Announcement Date	06/09/2016			Par Amount	1,000.00
Interest Accrual Date	06/16/2016			Book Runner	JOINT LEADS
1st Settle Date	06/16/2016			Reporting	TRACE
1st Coupon Date	12/16/2016				

