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## THE SALE OF ELDORADO

The offer for the sale of Eldorado resulted in an intense bidding process that attracted a number of contenders from Latin America, China and Indonesia. While Paper Excellence B.V. emerged as the winner, paying 15 billion Reais (approximately USD 4.7 billion) and fully assuming Eldorado's debt of almost USD 2.6 billion, Indonesia's APP is the de facto owner due to a network of connections between the two entities.

My colleague and Fisher Senior Consultant, Urban Lundberg, just completed a review of the sale and I'd like to share some noteworthy highlights.

A young company producing market pulp since only 2012, Eldorado's Três Lagoas site has a single pulp line with an annual output of 1.7 million metric tons - the highest capacity pulp line in the world. It is located less than 700 km from the port of Santos and can be reached by waterway, road, and rail. The company owns a 240,000-hectare fast-growing eucalyptus plantation, significantly contributing to its excellent cost position as shown in Figure 1.

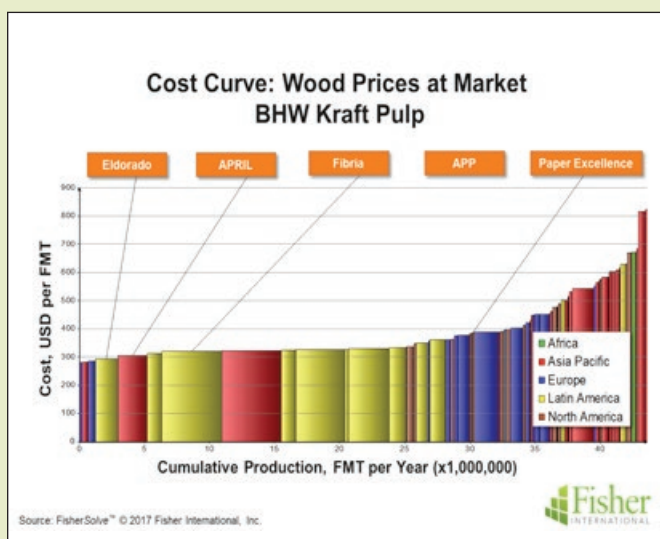


Figure 1

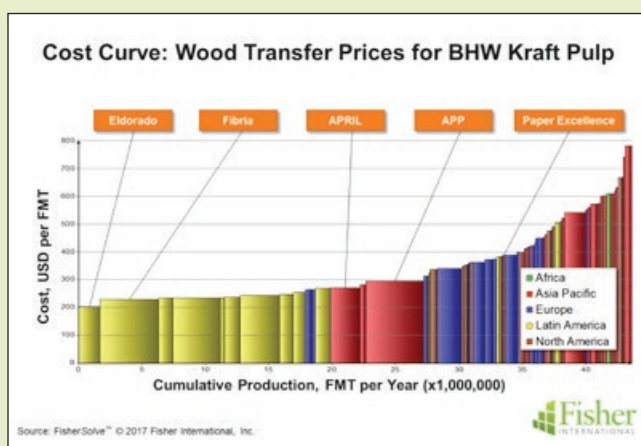


Figure 2

The Latin American advantage on the cost curve gets even bigger when considering its integrated wood supply and estimated wood transfer prices, with Eldorado considerably ahead even among these best-positioned peers (Figure 2). China is the single biggest market for Eldorado, followed closely by Europe.

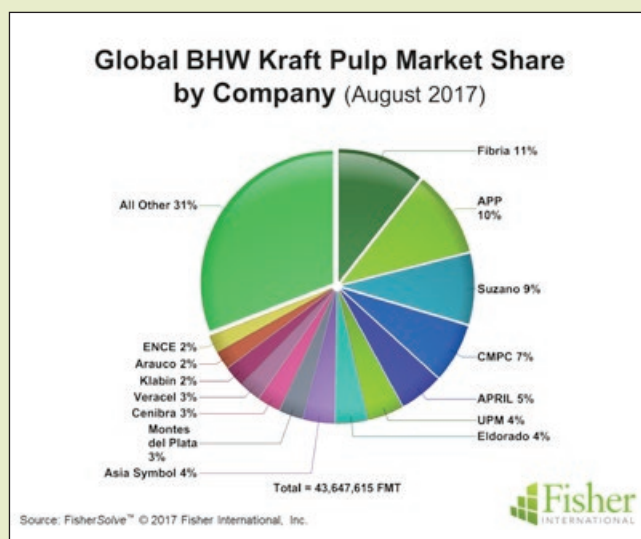


Figure 3

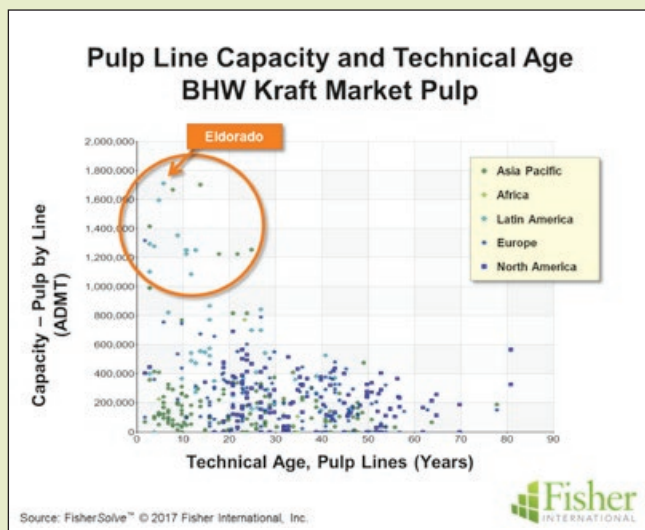


Figure 4

Despite its strong cost position, Eldorado is in need of a strategic partner capable of securing financing for its ambitious expansion project at the Três Lagoas mill. The project, which will more than double its current capacity to 4.2 million MTPY, is scheduled for completion in 2020.

The BHW Kraft Pulp market has a relatively low level of concentration with the top 5 players accounting for 42% of the total (Figure 3). Fibria, the leading producer, has 11% of total capacity and this will increase once Fibria's new pulp line is fully up and running, eventually adding 1.7 million MTPY of new capacity.

There are about 320 Kraft market pulp lines operating in the world with a clear trend of increasingly bigger pulp lines. All lines with an annual capacity exceeding one million MT are located either in Latin America or Asia. The only exception is the newly started pulp line at the Metsä Fibre Äänekoski mill (Figure 4).

Netherlands-based Paper Excellence, winner of the Eldorado bid, is a relatively small player in the global pulp industry. But its strong connection with APP (owned by the huge Indonesian Conglomerate, Sinar Mas) makes it more influential and powerful than its mere size may suggest.

With this deal, APP will become the world's number one BHW Kraft pulp producer with a 15% capacity share.

According to the FisherSolve™ database, Paper Excellence has

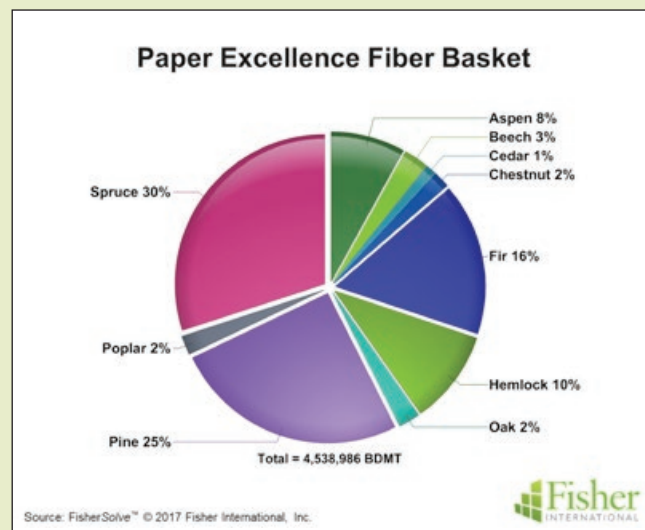


Figure 5

a market pulp capacity of about 2 million MTPY, mainly Kraft pulp. It operates 7 mills in Canada and France, producing both softwood and hardwood market pulp. The Eldorado acquisition will add Eucalyptus to its current predominantly diverse fiber basket (Figure 5). Considered by many to have a more sustainable track record versus acacia, Eucalyptus may also help APP expand its market positions in Europe and North America.

Eldorado is clearly a very attractive acquisition. What are the potential risks? The planned capacity expansion is very capital intensive and project difficulties and delays could increase the financial burden. Another risk is the political instability Brazil is currently experiencing and the threat of an appreciation of the Brazilian Real. All factors considered, the potential benefits should outweigh the risks.

The global Kraft pulp market will, in the coming few years, see some major changes. The degree of market consolidation is still relatively low and presents opportunities for mergers. A higher degree of consolidation could cause pulp-price volatility to drop and, possibly, increase average margins. The growing Tissue market offers opportunities for profitable forward integration.

Market consolidation is set to continue with other mergers on the horizon. So, when will we finally see the first Chinese acquisition of a major global market pulp producer? And what about the highly touted merger between Fibria and Suzano? ■