MOODY'S INVESTORS SERVICE

Credit Opinion: Grupo Papelero Scribe, S.A. de C.V.

Global Credit Research - 31 May 2013

Mexico, Mexico

Ratings

Category	Moody's Rating
Outlook	Stable
Corporate Family Rating -Dom Curr	B1
Senior Unsecured	B1

Contacts

Analyst	Phone
Alonso Sanchez/Mexico	52.55.1253.5700
Anna Zubets-Anderson/New York City	1.212.553.1653
Brian Oak/New York City	

Key Indicators

[1][2]**Grupo Papelero Scribe, S.A. de C.V.**

	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
Revenues (USD Billion)	**$0.5**	**$0.5**	**$0.5**	**$0.4**	**$0.5**
RCF / Debt	**16.5%**	**-0.6%**	**14.6%**	**24.7%**	**7.0%**
(RCF - CAPEX) / Debt	**14.9%**	**-3.9%**	**13.6%**	**21.9%**	**5.5%**
(EBITDA - CAPEX) / Interest Expense	**2.2x**	**1.5x**	**2.0x**	**4.1x**	**1.8x**
EBITDA Margin %	**17.5%**	**13.6%**	**12.1%**	**18.9%**	**11.1%**
EBITA / Average Assets	**6.0%**	**3.8%**	**6.7%**	**14.6%**	**6.1%**

[1] All ratios are calculated using Moody's Standard Accounting Adjustments. [2] Based on financial data as of December 31,2012; Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

-Improved credit metrics, although margin volatility remains

- Leading positions in Mexican printing and writing paper and notebooks markets with continued competition from imported products

- Positive free cash flow expected to continue

- Limited scale and diversification relative to international peers

Corporate Profile

Grupo Papelero Scribe, S.A. de C.V. (Scribe) is Mexico's largest producer of printing and writing paper and notebooks based on sales volume, with MXN5,994 million of revenues in 2012. Scribe markets its products under a brand portfolio that offers different price point categories and, among others, includes "Scribe", a brand that has been a household name for notebooks in Mexico for more than 50 years. The company operates four mills with an installed capacity of 395 thousand tons for paper (including tissue) and 97 thousand tons for wood pulp. Scribe was formed in 2006 and is currently owned by Impulso de Desarrollos Estrat?gicos, S.A. de C.V. (Impulso), a privately-held Mexican company, and Eton Park Capital Management, LP, a US-based financial investor. Impulso and Eton Park together control 100% of Corporaci?n Scribe, S.A.P.I de C.V., Scribe's parent company.

Scribe is organized under two lines of business, Paper and Notebooks, which in 2012 accounted for about 68.5% and 31.5% of revenues, respectively. The Paper division manufactures printing and writing paper, including rolls of paper, uncoated cut-size papers, and uncoated sheets while the Notebooks division manufactures notebooks and notepads. The Paper division also manufactures tissue paper. Cut-size paper and notebooks products are primarily sold to individual consumer markets (about 69% of revenues in 2012) while sheets and rolls of paper address the needs of industrial clients (31%).

SUMMARY RATING RATIONALE

Scribe's rating reflects the company's modest financial leverage and strong interest coverage for the rating category, its moderate operating scale and business diversification compared to international paper industry peers, and the exposure to commodity input costs (primarily pulp and energy) and foreign exchange risk, which can cause significant earnings volatility. The rating also takes into account the seasonality of the company's notebook business, which results in significant intra-year working capital swings. The rating incorporates the company's leading presence in the Mexican printing and writing paper and notebook markets with branded and consumer-oriented product content and the company's free cash flow generation. Furthermore, the rating also reflects Scribe's adequate liquidity, its broad nationwide distribution system and the significant industry experience of its senior management team.

DETAILED RATING CONSIDERATIONS

IMPROVED CREDIT METRICS ALTHOUGH VOLATILITY REMAINS

In 2012 Scribe posted an increase in revenues of about 6% mainly led by the increase in writing and printing paper sales which more than offset the decrease in tissue segment sales. Higher writing and printing paper sales were driven in turn by increased demand by the government and in the publishing and editorial industry. The company posted Moody's adjusted EBITDA margin of 17.5% which positively compares to 13.6% in 2011. As a consequence of higher EBITDA, Moody's adjusted leverage (measured as debt to EBITDA) as of December 31, 2012 was 4.2 times compared to 6.0 times a year before. The increase in margins, despite a volatile exchange rate, is partly due to an approximately 11% decrease in pulp prices, operating efficiencies and the lack of extraordinary expenses incurred in 2011.

Scribe's margins are largely affected by commodity price volatility and exchange rates. The company's profitability depends heavily on pulp and energy prices and its competitiveness vis-?-vis imported paper (which is largely driven by the strength of the Mexican peso), which can also cause earnings volatility. Pulp alone represents around 60% of the company's cost of goods sold and is largely obtained at international prices, while energy and water account for another important part of the cost. Scribe has some vertical integration in its pulp and paper business as it produces internally about 30% of its pulp needs. This number is expected to increase close to 40% by the end of 2013 when the company harvests and process for the first time its own fiber to obtain pulp for self consumption.

Going forward, credit metrics should largely continue to follow earnings trends with limited potential for improvement from debt reduction, besides the amortizing loan the company entered in to finance the acquisition of the Colombian operation (around 6% of total debt), as the bulk of the debt or the USD300 million notes due 2020 cannot be called before 2015. Nonetheless, favorable earnings trends could improve leverage over time as the company is able to generate additional EBITDA.

LEADING POSITIONS IN MEXICAN PRINTING AND WRITING PAPER AND NOTEBOOK MARKETS

Scribe's Paper division has a leading presence in the Mexican printing and writing paper market with about 32% market share as per the company estimates, ahead of the two other large domestic paper companies, Bio-Pappel and Copamex. Scribe also competes with foreign companies that import printing and writing paper into Mexico. Through its Notebook division Scribe also has a dominant position in notebooks in Mexico, with a fairly stable estimated 75-85% share of the domestic market, in various end segments, over the past several years. Competition in notebooks mainly comes from two smaller local companies and imports.

Mexican paper companies have been exposed to foreign competition for several years now as trade barriers were eliminated under NAFTA. Furthermore, they have faced continued competition with the appreciation of the Mexican Peso, which fosters imports of paper from Brazil and notebooks from the U.S., Chile and Asia (including China). Despite the fact that in 2012 the Mexican government imposed import tariffs to all bond paper imports from Brazil, we believe that competition from imported products could increase as a result of the appreciation of the Mexican Peso near to MXN12/12.5 per USD (vs. an average of MXN13.14/USD in 2012).

In 2012 paper prices increased 9.6% year over year and in the last quarter of 2012 paper prices increased 4.9%. We believe that during 2013 the company's ability to increase prices or volumes in its products could be restrained by a more competitive environment.

POSITIVE FREE CASH FLOW EXPECTED TO CONTINUE

Scribe had recorded negative free cash flow (defined as cash flow from operations after working capital changes, dividends and capex) until 2011. Nevertheless, during 2012 the company posted positive free cash flow of MXN641 million (or 14.5% of free cash flow to debt) driven by an improved operating performance and low capital expenditures and working capital needs.

During 2013 we expect an increase in capital expenditures to reach USD15 million, which negatively compares to USD5 million incurred during 2012 and that should reduce the company's free cash flow. Nonetheless, we expect positive free cash flow to continue given our expectation of stable and strong margins and the lack dividend distributions.

Liquidity

Scribe's liquidity is adequate. We expect the company to generate continued positive free cash flow and maintain a conservative debt maturity profile. Liquidity is tempered by the seasonality of the notebook business, which requires working capital to be built in the first half of each calendar year in preparation of the Mexican back-to-school season, with collections in the second half of the year. Scribe's acquisition in Colombia, although small, provided some degree of geographic diversification and mitigates its working capital peak, given the fact that the back-to-school season starts in the first quarter of the year in that country.

Scribe maintains uncommitted working capital revolving credit facilities for approximately MXN400 million with several domestic and international banks and a USD20 million line of credit with a foreign bank, which provides additional sources of liquidity for working capital requirements.

As an alternate source of working capital financing, Scribe also has a fully available five-year USD50 million-equivalent committed revolving credit facility, which expires in 2015 and should further reduce exposure to seasonal liquidity requirements. The company's USD65 million in cash on hand as of December 31, 2012, or 19% of total debt as adjusted by Moody's, is enough to cover 4.81 times the company's short term debt and positively compares to the company's debt maturities of about USD8 million from 2013 to 2016.

Rating Outlook

The stable outlook reflects our expectation that Scribe will be able to sustain its margins despite of negative effects of imports of paper and notebooks from competitors driven in turn by the appreciation of the Mexican Peso and given the lower pressure on its cost structure due to lower pulp prices anticipated for the next several months. The outlook also incorporates our belief that the company will generate positive free cash flow due to stronger cash from operations.

What Could Change the Rating - Up

We could consider an upgrade of the ratings if operating margin improves while maintaining limited margin volatility and adequate liquidity. To be considered for an upgrade free cash flow should be positive and EBITDA generation should increase such that debt/EBITDA declines below 4.5 times on a sustained basis.

What Could Change the Rating - Down

Ratings could come under pressure because of weaker than anticipated trends in operating margins and credit metrics, for example because of a combination of higher pulp costs and a depreciation of the peso, such that adjusted Debt/EBITDA remains above 6 times and EBITDA/Interest remains at 2 times or below for a prolonged period of time. Rating pressure could also emerge if free cash flow turns negative and liquidity deteriorates.

Rating Factors

Grupo Papelero Scribe, S.A. de C.V.

Paper & Forest Products [1][2]	**Current LTM 12/31/2012**		**Moody's 12-18 month Forward View**	
Factor 1: Scale and Diversification (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenues (USD Billion)	$0.5	B	<$1.5	B
b) Product Line Segments - Revenues or EBIT > 10%	X	B	B	B
c) Geographic Segments - Revenues or EBIT > 10%	X	B	B	B
Factor 2: Financial Policies - Tolerance for Leverage (55%)				
a) RCF / Debt	16.5%	Ba	20.0% - 30.0%	Baa
b) (RCF - CapEx) / Debt	14.9%	Baa	12.0% - 20.0%	Baa
c) Debt / EBITDA	4.2x	Ba	3.00x - 4.50x	Ba
d) (EBITDA - CapEx) / Interest Expense	2.2x	Ba	1.0x - 3.0x	Ba
e) EBITDA / Interest Expense	2.4x	B	2.5x - 4.5x	Ba
Factor 3: Operational Efficiency (15%)				
a) Vertical Integration	B	B	B	B
b) EBITDA Margin %	17.5%	Baa	16.0% - 23.0%	Baa
c) EBITA / Average Assets	6.0%	Ba	6.9% - 13.4%	Baa
Factor 4: Margin Stability (15%)				
a) 5-Year Modified Average % Change in EBITDA Margin	7.4%	Ba	5.8% - 8.2%	Ba
Rating:				
Indicated Rating from Grid Factors 1-4	Ba2	Ba2	Ba2	Ba2
Prop of TD Rep by Pre-Tax Value of Free-Hold Timberlands	0.00	0.00	0.00	0.00
a) Indicated Rating from Grid	Ba2	Ba2	Ba2	Ba2
b) Actual Rating Assigned	B1	B1	B1	B1

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