FitchRatings

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Fitch Downgrades CAP's IDR to 'BB+'; Outlook Stable

Fitch Ratings - New York - 07 Feb 2025: Fitch Ratings has downgraded CAP S.A.'s (CAP) Long Term Foreign and Local Currency Issuer Default Ratings (IDRs) and senior unsecured notes to 'BB+' from 'BBB-'. Fitch has also downgraded CAP's National Long-Term Ratings to 'A+(cl)' from 'AA-(cl)'. Fitch has affirmed CAP's National Equity Rating at First Class Level '2(cl)'. The Rating Outlook is Stable.

The downgrade reflects the weakening of CAP's financial structure due to its main subsidiaries' performance, together with runoffs that the company experienced in 2024. CAP's mid-sized mining operations, limited operational diversification, high-exposure to a single commodity, despite its profitable long-lived iron ore business, moderate capital structure and remaining challenges to improve if its financial flexibility are more consistent with 'BB' rating category.

CAP's net leverage is expected to peak at 2.9x in 2025, considering Fitch's midcycle price assumptions. The Stable Outlook reflects the expectations that CAP will stabilize leverage at around 2.5x in the projected horizon.

Key Rating Drivers

Leverage to Peak in 2025: CAP's leverage is expected to rise in 2025, reaching 2.9x by YE due to weaker operating performance and increased debt. Fitch anticipates that as the company's performance begins to recover, cash cost decreases mainly due to lower energy costs and the effects of one-time impacts dissipate, CAP will stabilize leverage ratios at approximately 2.5x in the medium term, assuming no new significant investments. CAP has the challenge to manage its capital structure and investments opportunities in the medium term as it seeks to further improve its high-grade iron ore share through optimization of current assets and new brownfields projects.

Structurally Lower Operational Performance: The company's EBITDA, including dividends to minorities, is expected to decrease to USD508 million in 2025, USD544 million in 2026, and USD513 million in 2027, based on Fitch's price estimates of USD90 per tonne in 2025, USD85 per ton in 2026, and USD75 per tonne in 2027. FCF is projected at -USD13 million in 2025, USD85 million in 2026, and USD24 million in 2027, considering a moderation in both capital expenditures and dividends under a low-price scenario assumption.

CSH's Suspension to Eliminate Cash Burn: In 2024, Siderúrgica Huachipato's CAP integrated steelmaking subsidiary, was indefinitely suspended due to consistently negative EBITDA, which resulted from increased penetration of low-priced Chinese imports that markedly affected steel-making margins and prompted the local industry. This suspension of operations is expected to have a net impact in cash of between USD120 million and USD140 million, most of which has already occurred during 2024.

Reserves Offset Low Diversification: Over 90% of CAP's consolidated EBITDA comes from iron ore mining, which has significantly stronger profitability, market position and more stable than the steelmaking and processing businesses. Fitch considers the long reserve life of CAP's iron ore mining business as a positive factor. CAP's iron ore mining business had 622 million tonnes of iron ore contained in reserves in 2023, which represents less than 50 years of mine life at an expected production rate of around 17 million tonnes per year.

Average Cost Position: CAP's iron ore mining business shows an average cost position at the low part of the third quartile on the business cost curve for seaborne iron ore according to CRU, which could vary according to the production blend into more competitive valleys, such as that of the Los Colorados mine. In addition, the company has the flexibility to change its production mix depending on the value of premiums and iron price, being able to focus on the production of products with larger margins. This has historically helped the company to maintain healthy profitability during different iron ore price scenarios.

Equity Rating: CAP's equity rating is based on the company's strong credit profile, its long track record in the stock market, and a market presence of 100%. CAP also reports market capitalization of USD814 million, as an important player in the Santiago stock market, and high levels of daily trading volume that averaged USD1 million over the last month (as of Feb. 3, 2025).

Derivation Summary

CAP's ratings are constrained by its small size relative to the global mining industry and low mining and geographic diversification. Ferrexpo plc (Ferrexpo; CCC+), compared to CAP, exports globally at 12 million tonnes of pellets (pre-war) compared with CAP's pellet production capacity of 4.0 million tonnes. CAP also has a capacity of 12.5 million tonnes of pellet feed and sinter feed, reaching a total production capacity of 16.5 million tonnes. Ferrexpo benefits from a slightly better position along the global iron ore cost curve. However, Ferrexpo's rating also reflects its heightened operating risk for the company following Ukraine's military invasion by Russia and several legal claims.

Compared with Brazilian steel maker and high-grade iron ore miner Companhia Siderurgica Nacional (CSN) (BB/Stable), CAP is less diversified based on the share of iron ore and steel in EBITDA (share of +90% - the rest from Infrastructure and steel processing - against 70% expected for CSN - the rest from cement, energy and transportation- in 2025), worse positioned in costs and profitability (third quartile vs first to second quartile in seaborne iron ore business costs), and smaller in size (16 million tons of iron ore vs 42 million tons and about 30% of CSN's EBITDA generation). However, CAP's net leverage is lower (2.7x vs 3.4x expected for 2024), its managerial strategy is more conservative and lacks the key person risk that CSN has.

In comparison with Brazilian pellets producer Samarco Mineracao S.A. em Recuperacao Judicial (Samarco)(B-/Stable), CAP is smaller in size (2 million tons vs 9.5 million tons of pellets) and in EBITDA generation (about 60% to 50% of Samarco), albeit almost as operationally and geographically concentrated. However, CAP has lower leverage (2.7x vs 5.0x expected for 2024) higher financial flexibility and does not deal with the remediation expenses after a past environmental incident the way Samarco does.

Key Assumptions

--Fitch's mid-cycle prices are at USD110/tonne for 2024; USD90/tonne for 2025; USD85/tonne for 2026 and USD75/tonne for 2027;

--Cash costs of around USD53/tonne for 2024 and 2025 and USD47/tonne for 2026;

--Compania Minera del Pacifico S.A.'s shipments of approximately 15.3 million tonnes for 2024; 16.1 million tonnes for 2025; 16.0, million tonnes for 2026;

--Freight costs of USD20/tonne for the whole projected period;

--Capex at USD350 million in 2024 and 2025, and USD312 million in 2026;

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Total debt/EBITDA and Net debt/EBITDA above 3.5x and 3.0x, on a sustained basis;

--Consolidated cost profile consistent with the fourth quartile;

--A significant and prolonged deterioration in liquidity and persistent negative FCF.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Total debt/EBITDA and Net debt/EBITDA below 2.5x and 2.0x, on a sustained basis;

--Improvement of maturity profile, reducing short to medium term refinancing risks;

--Consolidated cost profile consistent with the second quartile.

Liquidity and Debt Structure

CAP has a track record of being exposed to ongoing refinancing risks and dependence on access credit market. As of September 2024, CAP reported USD460 million in cash and an available revolving credit facility of USD450 million (with USD320 million fully available, as per CAP Management the RCF availability has increased to USD450 million as of December 2024), and short-term debt of USD560 million. This short-term debt primarily corresponds to working capital funding via trade lines.

Cintac restructured liabilities amounting to USD143 million through a syndicated loan that begins amortization in 2027. During 2024, CAP, on a consolidated basis, adjusted its debt maturity profile, making it more manageable compared to YE 2023.

Issuer Profile

CAP is a medium- to small-scale Chilean iron ore miner focused on high-quality iron ore production with a significant proportion of EBITDA derived from the mining activity. Iron ore production is exported mainly to China.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
CAP S.A.	LT IDR	BB+	Downgrade		BBB-
	LC LT IDR	BB+	Downgrade		BBB-
	Natl LT	A+(cl)	Downgrade		AA-(cl)
	Nat Equity Rating	Primera Clase Nivel 2	Affirmed		Primera Clase Nivel 2
• senior unsecured	LT	BB+	Downgrade		BBB-
• senior unsecured	Natl LT	A+(cl)	Downgrade		AA-(cl)

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Chilean Equity Rating Criteria (pub.22 Jul 2024)

Corporate Rating Criteria (pub.06 Dec 2024) (including rating assumption sensitivity)

Metodología de Calificaciones en Escala Nacional (pub.22 Dec 2020)

Metodología de Calificación de Finanzas Corporativas (pub.22 Dec 2023)

Metodología de Clasificación de Acciones en Chile (pub.19 Jul 2024)

National Scale Rating Criteria (pub.22 Dec 2020)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.06 Dec 2024)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

CAP S.A.	EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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