

Research Update:

CAP S.A. Downgraded To 'BB' From 'BB+' On Elevated Leverage; Outlook Negative

November 28, 2025

Rating Action Overview

- The Chilean iron ore producer CAP S.A. has maintained leverage much higher than historical levels after recently missing EBITDA expectations due to operational issues at Los Colorados mine and lower-than-expected premiums for pellets.
- Moreover, its nominal debt almost doubled in three years as a result of higher capital expenditure, interest payments, and dividend distributions.
- On Nov. 28, 2025, S&P Global Ratings lowered its global scale issuer credit rating on CAP to 'BB' from 'BB+'. At the same time, we downgraded its 2036 senior bonds to 'BB' from 'BB+' and its 2031 senior notes to 'BB-' from 'BB'.
- The negative outlook reflects the possibility of another downgrade in the next 12-18 months if CAP is unable to improve and maintain leverage below 3.0x and if negative free operating cash flow pressures liquidity and the ability to reduce leverage.

Rating Action Rationale

The downgrade of CAP S.A. reflects our expectation that adjusted leverage will remain above historical levels at around 3.0x-3.5x in the next two years. We also now forecast EBITDA of \$445 million in 2025, down from our previous forecast of \$507 million, mainly due to lower pellet premiums, which we forecast at \$35-\$38 per ton in 2025, compared with \$42.5 in 2024. Meanwhile, volumes should remain overall stable in 2025, leading to debt to EBITDA at 3.6x by year-end 2025, compared with our previous expectation of 3.1x.

For 2026, CAP's guidance for volumes is now 15.1-15.6 metric tons, slightly above 2025 and aligned with third-quarter results. However, lower prices will counterbalance the better volumes. S&P Global Ratings' price forecast for iron ore is \$90 per ton in 2026 (from an average of around \$101.5 so far in 2025), and expected stable premiums for pellets next year will limit upside for EBITDA and leverage, which we forecast at \$470 million and 3.4x, respectively, in 2026.

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Our leverage metrics differ from the ones reported by the company because we add leases, asset retirement and pension obligations to its total net debt. Those adjustments added \$ 305 million to the adjusted debt on Sept. 30, 2025.

Recent EBITDA misses relative to our base case and lower business diversification have weighed on profitability. CAP has faced ongoing operational issues since the port accident that temporarily suspended operations in 2021, the full suspension of the steel operations under Compañía Siderúrgica Huachipato S.A. in 2024, and the drop in higher-quality output, with pellets now representing close to 6% of its sales mix, compared with 15% in 2020. Those factors, combined with the inherent price volatility of its products, have resulted in volatile nominal EBITDA and overall profitability, which could weigh on our view of the company's business risk.

High investments to support growth will limit free operating cash flow (FOCF). We forecast annual capital expenditure (capex) of \$275 million in 2025, \$300 million in 2026, and \$350 million in 2027. CAP's main projects focus on production growth, portfolio diversification into critical minerals, and increasing cost efficiency through operational improvements. These projects include:

- Los Colorados mine's Phase 6 development to restore iron ore production above 16 metric tons by 2027,
- The transition to underground mining at Romeral, and
- The Cerro Negro Norte optimization project, aiming for a 5.7-metric-ton output increase by 2031.

Also, a strategic investment in Aclara Resources expands exposure to rare earth deposits, positioning the company to benefit from the growth in the decarbonization market.

In our base case, the company won't distribute dividends and will continue to improve working capital through accelerating receivables, inventory prepayments, and negotiations to improve payables' tenors. Still, such high investments will keep FOCF pressured in the next two years, with only marginal generation in 2025 and close to \$50 million in 2026. This will continue to limit CAP's flexibility to reduce nominal debt, absent other nonrecurrent cash inflows.

Asset sales could accelerate deleveraging, but they could also reduce the company's diversification. Management has stated that it could pursue sales of real estate and nonoperational assets under Cintac, the subsidiary responsible for the industrial segment, with proceeds potentially contributing to reducing debt. Still, given no clarity in the timing and final value of those sales, we do not include them in our base-case scenario.

Nevertheless, if and once any asset sale is announced, we would also need to account for any potential impact on CAP's EBITDA contribution, particularly if we perceived any material impact that would reduce its scale and diversification. Mining represents the bulk of EBITDA at close to 85%, which increases exposure to volatility in that industry. But CAP's plan to increase its exposure to infrastructure, industrial solutions, and rare earth could increase diversification and be key to maintaining its competitive position.

Outlook

The negative outlook reflects a 1-in-3 chance of a downgrade in the next 12-18 months. We could downgrade CAP if it is unable to reduce its adjusted leverage to close to 3.0x in 2026 and below that in 2027, whether because of further operational issues, weaker iron ore prices and premiums, or a more aggressive approach toward investments. A downgrade could also reflect

mounting strains on liquidity, given lower-than-expected cash generation, persistently high cash outflows, or an inability to renew with anticipation its revolving facility.

Downside scenario

We could downgrade CAP in the next 12 months if operating performance further deteriorates or if ongoing volume and EBITDA projection misses lead us to revise our view of its business risk. Production disruptions or delays in the ramp-up of expansion projects, along with price pressures, could accelerate this revision. In that scenario, we would expect debt to EBITDA above 3.5x and negative FOCF on a consistent basis. We could also lower the ratings if liquidity becomes strained.

Upside scenario

We could revise the outlook to stable over the next 12 months if CAP improves its operations and if profitability recovers amid less volatile cash flows. In this scenario, we would expect debt to EBITDA consistently below 3.0x and positive FOCF, coupled with the maintenance of adequate liquidity cushion.

Company Description

CAP is a Chilean iron ore producer that focuses on high-grade iron ore production (around 67% iron) for export markets, especially China. It operates across three mining complexes and six production plants. Its total production capacity is around 18 million tons, with a sales mix divided between fines (representing on average 20% historically), pellet feeds (79%), and pellets (10%). The iron ore division generally represents around 85% of the company's EBITDA.

In 2024, CAP announced the indefinite suspension of Compañía Siderúrgica Huachipato, which was the leading steel producer in Chile. However, CAP continues operating the steel solution business, with presences in Chile, Peru, and Argentina. This business should represent close to 5% of the company's EBITDA expected for 2025.

CAP also has small operations in the infrastructure business, which includes port, water, and energy assets that provide services to the mining and steel businesses and to third-party customers located close to areas of operation. The infrastructure segment generally represents close to 10% of the company's EBITDA.

Invercap S.A., a group formed by families that participated in CAP's original privatization, owns and controls 43.3% of the company, while Mitsubishi Corp. owns 12.5%. The remaining is free floated.

Our Base-Case Scenario

Assumptions

- Chilean GDP growth of 2.5% in 2025, 2.3% in 2026, and 2.2% in 2027.
- Average foreign exchange rate of Chilean peso (CLP) 957 per \$1 in 2025, CLP963 per \$1 in 2026, and CLP968 per \$1 in 2027.
- Chilean inflation of 4.4% in 2025, 3.5% in 2026, and 3.0% in 2027.

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- Average realized iron ore prices of \$101.5 per ton in the 11 months ended Nov. 27, 2025, \$100 in the remainder of 2025, and \$90 in 2026 and in 2027.
- Pellet premium prices of about \$35 per ton in 2025, 2026, and 2027.
- Freight cost of \$21 per ton for the next three years.
- Cash costs of \$53.8 per ton in 2025, \$52.4 per ton in 2026, and \$50.5 per ton in 2027.
- Total iron ore sales of 15.3 million tons in 2025, 15.5 million tons in 2026, and 16.5 million tons in 2027.
- Capex of about \$275 million in 2025, \$300 million in 2026, and \$350 million in 2027.
- No dividend payments for the next three years.
- No new debt.

Key metrics

CAP S.A.--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. \$)	2021a	2022a	2023a	2024a	2025e	2026f	2027f	2028f
Revenue	3,677	3,006	2,965	1,801	1,718	1,727	1,918	1,977
Gross profit	1,965	1,058	1,013	708	580	590	697	745
EBITDA (reported)	1,774	885	818	552	443	469	572	616
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	--	5	2	1	1	1	1	1
EBITDA	1,774	890	820	553	444	470	573	617
Less: Cash interest paid	(41)	(52)	(94)	(121)	(117)	(117)	(117)	(117)
Less: Cash taxes paid	(435)	(474)	(210)	(15)	(15)	(15)	(15)	(15)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	1,298	363	515	417	313	338	441	485
EBIT	1,523	604	363	173	66	100	207	254
Interest expense	40	64	104	112	119	119	119	119
Cash flow from operations (CFO)	1,375	180	374	288	283	347	414	484
Capital expenditure (capex)	405	423	516	301	275	300	350	350
Free operating cash flow (FOCF)	970	(242)	(143)	(12)	8	47	64	134
Dividends	462	603	219	45	--	--	--	32
Share repurchases (reported)	--	--	--	--	--	--	--	--

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Discretionary cash flow (DCF)	508	(845)	(362)	(58)	8	47	64	103
Debt (reported)	703	1,013	1,638	1,710	1,710	1,710	1,710	1,710
Plus: Lease liabilities debt	43	71	69	74	78	83	87	93
Plus: Pension and other postretirement debt	31	79	85	36	36	36	36	36
Less: Accessible cash and liquid investments	(848)	(301)	(541)	(417)	(418)	(419)	(438)	(495)
Plus/(less): Other	175	193	204	209	209	209	209	209
Debt	105	1,056	1,454	1,613	1,616	1,619	1,606	1,553
Equity	3,667	3,700	3,661	3,186	3,134	2,683	2,312	1,943
FOCF (adjusted for lease capex)	967	(290)	(153)	(57)	(17)	22	39	109
Interest expense (reported)	40	63	101	110	117	117	117	117
Capex (reported)	405	423	516	301	275	300	350	350
Cash and short-term investments (reported)	943	351	579	455	418	419	438	495
Adjusted ratios								
Debt/EBITDA (x)	0.1	1.2	1.8	2.9	3.6	3.4	2.8	2.5
FFO/debt (%)	1,237.3	34.4	35.4	25.8	19.3	20.9	27.5	31.2
FFO cash interest coverage (x)	32.6	8.0	6.5	4.4	3.7	3.9	4.8	5.2
EBITDA interest coverage (x)	44.8	13.8	7.9	4.9	3.7	4.0	4.8	5.2
CFO/debt (%)	1,310.0	17.1	25.7	17.9	17.5	21.4	25.8	31.2
FOCF/debt (%)	924.2	(22.9)	(9.8)	(0.8)	0.5	2.9	4.0	8.6
DCF/debt (%)	483.7	(80.0)	(24.9)	(3.6)	0.5	2.9	4.0	6.6
Lease capex-adjusted FOCF/debt (%)	921.8	(27.5)	(10.5)	(3.6)	(1.1)	1.3	2.4	7.0
Annual revenue growth (%)	37.2	(18.2)	(1.4)	(39.2)	(4.6)	0.5	11.1	3.0
Gross margin (%)	53.4	35.2	34.2	39.3	33.8	34.2	36.3	37.7
EBITDA margin (%)	48.3	29.6	27.6	30.7	25.9	27.2	29.9	31.2
Return on capital (%)	40.2	14.2	7.4	3.5	1.4	2.2	5.0	6.9
Return on total assets (%)	24.4	9.2	5.3	2.6	1.0	1.6	3.7	4.8
EBITDA/cash interest (x)	43.1	17.1	8.7	4.6	3.8	4.0	4.9	5.3
EBIT interest coverage (x)	38.5	9.4	3.5	1.5	0.6	0.8	1.7	2.1

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CAP S.A.--Forecast summary

Debt/debt and equity (%)	2.8	22.2	28.4	33.6	34.0	37.6	41.0	44.4
Debt fixed-charge coverage (x)	44.8	13.8	7.9	4.9	3.7	4.0	4.8	5.2
Debt/debt and undepreciated equity (%)	2.8	22.2	28.4	33.6	34.0	37.6	41.0	44.4

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. \$--U.S. dollar.

Liquidity

We view CAP's liquidity as adequate. We expect liquidity sources to exceed uses by around 1.2x in the next 12 months, and we think this ratio would remain positive even if EBITDA declined by 15% in the next 12 months. The company holds a solid cash position, which along with funds from operations (FFO) generation can support its large capex plan. We also think the company could reduce capex if needed to support its liquidity cushion.

CAP's subsidiary Compañía Minera del Pacífico S.A. has two fully available committed credit lines, one for \$375 million due September 2026 and one for \$75 million due December 2026. We do not include the first as a liquidity source, given its maturity date is within 12 months. Still, we believe the company could use its standing in capital markets to renew both facilities, as it has done before, and refinance its short-term maturities.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none">• Cash and liquid investments of \$315 million as of Sept. 30, 2025.• FFO of \$322 million for the next 12 months.• \$75 million in fully available committed credit facilities due December 2026.	<ul style="list-style-type: none">• Short-term debt of \$455 million as of Sept. 30, 2025.• Working capital outflows of around \$12 million for the next 12 months.• Maintenance capex of about \$125 million in the next 12 months.• No dividends or shares repurchases.

Covenants

Requirements

Covenant requirements include maximum net debt to EBITDA of 4.0x and minimum consolidated net interest coverage of 2.5x. These debt acceleration covenants correspond to committed credit lines not withdrawn at the moment and other bank loans. Our metrics differ from the ones used for covenant calculations because we add leases and asset retirement and pension obligations to debt, and we do not consider interest income for coverage ratios.

Compliance expectations

We don't expect pressure on covenants given we forecast CAP to have headroom of more than 25% on these covenants in 2025 and 2026.

Environmental, Social, And Governance

Environmental, social, and governance factors are a negative consideration in our credit rating analysis of CAP. Our views on the first two factors align with those for industry peers.

CAP's lack of asset diversification makes it particularly vulnerable to external events, such as the fatal accident at the Guacolda port in 2021 and the incident at Los Colorados mine in 2024, both of which hurt the company's export capabilities and credit quality. Water scarcity also remains a significant risk for mining operations in Chile, leading to tensions with local communities.

However, CAP has taken steps to mitigate this risk through its desalinization plant, with a production capacity of 400 liters per second (and environmental permits already secured to expand to up to 600 liters per second, if needed) and a target to reduce water extraction by 35% by 2030. Additionally, the company has committed to transitioning to 100% renewable energy by 2026.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of September 2025, CAP's capital structure mainly consisted of \$1.5 million in bank loans and other instruments, \$300 million in senior unsecured notes due 2031, and \$41 million in senior unsecured notes due 2036. Around 25% of debt was short term. Around 85% was dollar-denominated, and around 15% was denominated in Chilean pesos.

Analytical conclusions

We rate CAP's 2036 senior unsecured notes at the same level as the issuer credit rating. The 2036 notes receive full and unconditional upstream guarantees from CAP's main cash-generating subsidiaries, Compañía Minera del Pacífico S.A. (which holds the entirety of the iron ore mining operations) and Compañía Siderúrgica Huachipato S.A. (which used to hold the steel production and still operates related services). Combined, these subsidiaries generate over 85% of CAP's EBITDA.

We rate CAP's 2031 senior unsecured notes one notch below the issuer credit rating. In contrast with the 2036 notes, the 2031 notes don't have upstream guarantees from the company's main cash-generating subsidiaries. Our pro forma debt priority calculation, excluding nonrecourse debt at Cleanairtech, results in a debt priority ratio above 70%. Although we believe this ratio is temporarily high due to a recent debt increase at the subsidiary level, we don't expect a decrease in the near term.

Rating Component Scores

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Component	
Foreign currency issuer credit rating	BB/Negative/--
Local currency issuer credit rating	BB/Negative/--
Business risk	Fair
Country risk	Intermediate risk
Industry risk	Moderately high risk
Competitive position	Fair
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bb
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Moderately negative
Comparable rating analysis	Neutral
Stand-alone credit profile	bb

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Ratings List

Ratings List

Downgraded

	To	From
CAP S.A.		
Issuer Credit Rating	BB/Negative/--	BB+/Negative/--
Senior Unsecured	BB	BB+
Senior Unsecured	BB-	BB

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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