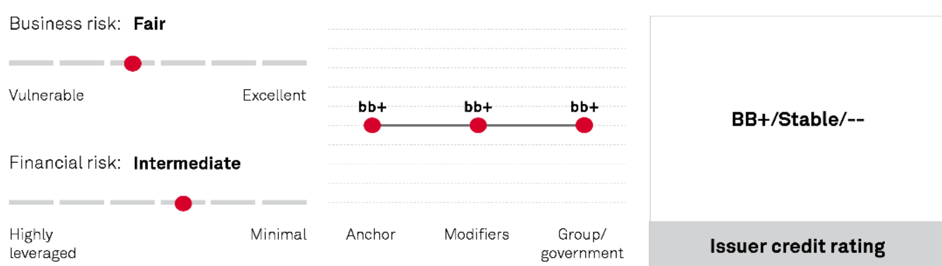
CAP S.A.

May 12, 2022

Ratings Score Snapshot



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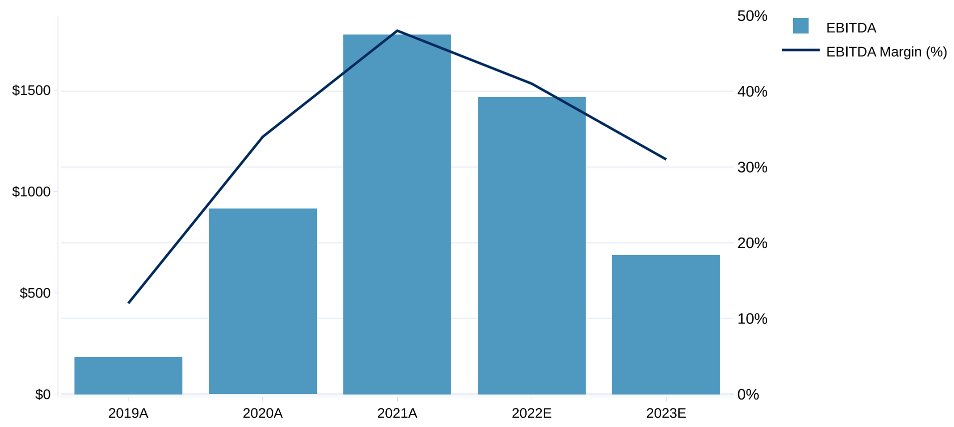
Credit Highlights

Overview

Key strengths	Key risks
Well positioned in the high-grade iron ore pellet market.	High exposure to commodity prices, generating volatility in credit metrics.
Strong balance sheet with negative net financial debt and 76% of maturities in the long term.	Limited product and asset diversification, as well as sales concentration to China.
Long life of reserves (about 50 years).	A smaller scale of operations than those of global peers.
Very favorable prices.	Risk of policy changes in Chile and uncertainty over the new royalty payment scheme.

Soaring metal prices and record-high EBITDA in 2021. Global iron ore prices have reached record-high levels during 2021 and remain high during 2022, boosting CAP S.A.'s profitability and EBITDA. High prices and the production normalization more than compensate for inflationary pressures across the supply chain (logistic bottlenecks and weather issues). Although the company is exposed to the volatility of its commodity-based business, which we factor into our financial risk assessment through its capacity to maintain metrics during a weaker cycle, cash flows are currently protected by low debt. In addition, stronger liquidity provides cushion to ratings. We expect leverage to remain well below 1.5x and free operating cash flow (FOCF) above 70% in the next 24 months.

EBITDA & EBITDA Margin

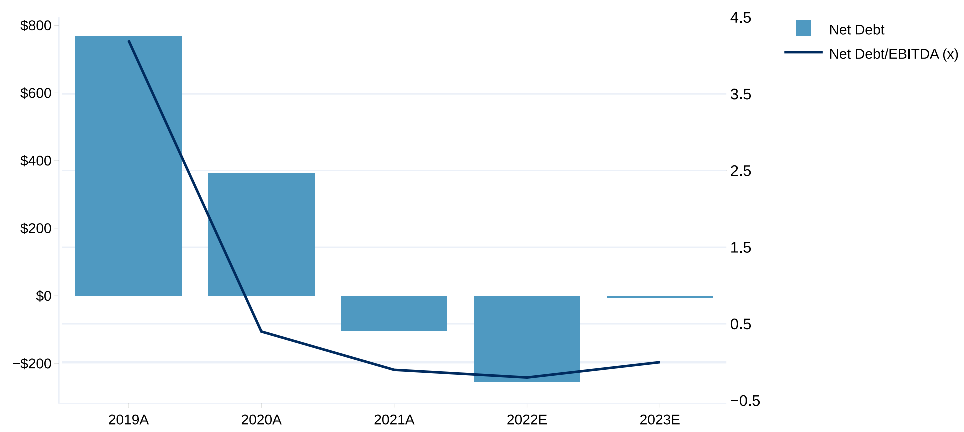


Source: S&P Global Ratings.

Strong balance sheet. Favorable price momentum bolstered the company's cash flows and balance sheet, reaching negative net financial debt. Moreover, CAP refinanced debt in 2021 by issuing the 10-year $300 million senior unsecured notes and $152 million amortizing bank loan through Clanairtech, a subsidiary. As a result, liquidity and capital structure improved considerably resulting in higher cash position and 76% of maturities in the long term and lowering average interest rate on dollar-denominated debt from 3.35% in December 2020 to 2.30% in December 2021.

Net Debt & Net Debt/EBITDA

As of December 31, 2021



Source: S&P Global Ratings.

The risk of policy changes in Chile. The constituent convention in Chile is redrafting the constitution, and there's uncertainty over the fiscal impact and its implications. The constitutional changes require approval by plebiscite and of two-thirds of Chile's Congress, all of which should take place during 2022. Also, Congress is debating a new royalty payment scheme to increase payments from mining companies, along with other important topics for that industry are on the agenda, such as private water rights and mining restrictions in indigenous lands.

Outlook

The stable outlook on CAP reflects its strong credit metrics amid robust iron ore and steel prices, and its sound cash balance and liquidity position. Therefore, we expect leverage to remain below 1.5x and FOCF to debt above 70% in the next 12-18 months despite potential price swings.

Downside scenario

We could take a negative rating action if iron ore prices were to plummet or the company's volume output falls considerably, which could increase logistics costs and penalize values. In that scenario, debt to EBITDA would be consistently close to 2.5x, funds from operations (FFO) to debt below 45%, and FOCF to debt below 5%.

Upside scenario

We view an upgrade unlikely because of CAP's limited business scale and portfolio concentration. In the medium term, we could raise ratings if CAP increases its operational scale and diversification that will boost profitability and stabilize cash flow metrics.

Our Base-Case Scenario

Assumptions

- Chile's GDP growth of 2.1% in 2022 and 2.4% in 2023;
- Chile's inflation rate of 7.9% in 2022 and 3.5% in 2023;
- Average foreign exchange (FX) rate of CLP815 per $1 in 2022 and of CLP818 per $1 in 2023;
- Average iron ore prices (62% Fe) of $133 per ton in 2022 (considering realized months) and $90 per ton in 2023;
- Average steel rebar (Shanghai Future Exchange [SHFE]) prices of $674 per ton in 2022 and $457 per ton in 2023;
- Coal prices of $350 per ton in 2022 and $190 per ton in 2023;
- Pellet premiums of about $45 per ton in 2022 and $25 per ton in 2023;
- Cash costs about $46 per ton in 2022, decreasing to about $41 in 2023;
- Freight costs of $25 per ton in 2022 and $20 per ton in 2023;
- Total iron ore production of 16 million tons in 2022 and 2023;
- Capital expenditures (capex) of about $560 million in 2022 and $400 million in 2023, 80% at the iron ore division and about 60% for maintenance purposes; and
- A dividend payout at 50% of previous year's net income.

Key metrics

CAP S.A.--Key Metrics*

Mil. $	2020A	2021A	2022E	2023F	2024F
Iron ore price 62% Fe ($/ton)	110.0	157.0	133.0	90.0	80.0

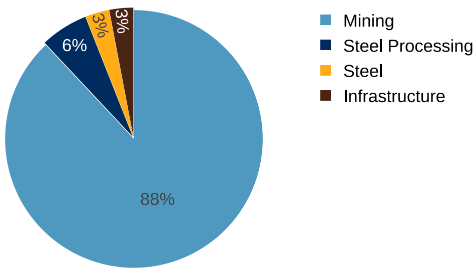
Steel Rebar SHFE ($/ton)	534.2	769.5	674.4	456.5	405.8
Revenue	2,679.0	3,676.9	3,311.3	2,304.2	2,062.9
Revenue growth (%)	68.5	37.2	-9.9	-30.4	-10.5
EBITDA	915.3	1,774.3	1,288.7	759.2	633.8
EBITDA margin (%)	34.2	48.3	38.9	32.9	30.7
Funds from operations (FFO)	728.6	1,235.1	1,004.4	617.4	526.2
Capital expenditure	248.9	404.9	561.0	400.0	400.0
Free operating cash flow (FOCF)	564.8	969.9	544.4	178.2	119.2
Dividends	82.7	462.3	496.6	353.1	150.3
Debt	725.9	703.5	703.5	703.5	703.5
Debt to EBITDA (x)	0.4	NM	NM	NM	0.1
FFO to debt (%)	200.3	NM	NM	4,947.7	1,300.7
FOCF to debt (%)	155.3	NM	NM	1,428.5	294.6
EBITDA interest coverage (x)	11.0	17.2	35.5	20.9	17.4
FFO interest coverage (x)	8.7	12.8	28.6	18.0	15.5

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Company Description

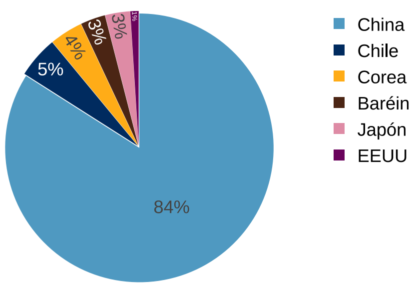
CAP is a Chilean iron ore producer that focuses on high-grade iron ore production (about 67% of iron) for export markets, especially to China. The company has a total iron ore production capacity of about 18 million tons across six production plants. The iron ore division currently generates about 88% of the company's EBITDA. In addition, CAP produces and distributes steel to the domestic market, including for infrastructure, manufacturing, and construction, as well as to other markets such as Argentina and Peru. The company also has a processing capacity of about 1 million tons of steel. Steel production and steel processing divisions currently represent about 9% of the company's EBITDA. CAP also operates a water desalination plant, power transmission line, and multipurpose port, which currently represents about 3% 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.

Contribution to FY - 2021 EBITDA



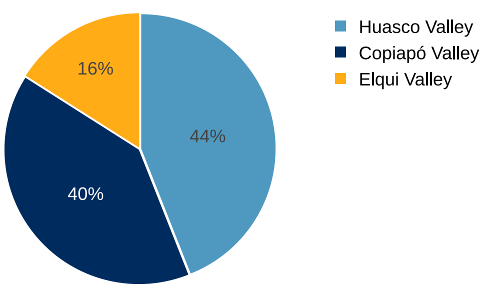
Source: S&P Global Ratings.

Sales per market 2021



Source: S&P Global Ratings.

Production per valley 2021



Source: S&P Global Ratings.

Peer Comparison

CAP S.A.--Peer Comparisons

	CAP S.A.	Vale S.A.	Usinas Siderurgicas de Minas Gerais S.A.	Fortescue Metals Group Ltd.	Companhia Siderurgica Nacional
Foreign currency issuer credit rating	BB+/Stable/--	BBB-/Stable/--	BB/Stable/--	BB+/Stable/--	BB/Positive/--
Local currency issuer credit rating	BB+/Stable/--	BBB-/Stable/--	BB/Stable/--	BB+/Stable/--	BB/Positive/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-06-30	2021-12-31
Mil.	$	$	$	$	$
Revenue	3,677	54,502	6,055	22,284	8,599
EBITDA	1,774	31,674	1,991	16,701	4,108
Funds from operations (FFO)	1,235	26,537	1,612	12,310	3,159
Interest	103	957	49	142	392
Cash interest paid	105	752	62	313	399
Operating cash flow (OCF)	1,311	25,620	928	12,497	2,765
Capital expenditure	342	4,974	266	3,382	498
Free operating cash flow (FOCF)	970	20,646	661	9,115	2,266
Discretionary cash flow (DCF)	508	1,587	329	3,310	1,403
Cash and short-term investments	943	11,905	1,261	6,930	3,035
Gross available cash	943	11,905	1,261	6,930	3,035
Debt	0	27,192	1,171	0	4,853
Equity	3,667	35,306	4,372	17,735	4,195
EBITDA margin (%)	48.3	58.1	32.9	74.9	47.8
Return on capital (%)	40.7	44.3	36.2	95.3	45.1
EBITDA interest coverage (x)	17.2	33.1	40.3	117.6	10.5
FFO cash interest coverage (x)	12.8	36.3	27.1	40.3	8.9
Debt/EBITDA (x)	0.0	0.9	0.6	0.0	1.2
FFO/debt (%)	NM	97.6	137.6	NM	65.1
OCF/debt (%)	NM	94.2	79.2	NM	57.0
FOCF/debt (%)	NM	75.9	56.5	NM	46.7
DCF/debt (%)	NM	5.8	28.1	NM	28.9

Business Risk

Our assessment of CAP's business risk profile as fair reflects its niche market position in high-grade iron ore production (about 67% iron content) with a large reserve life of about 50 years. CAP is also the sole integrated steel operator in the small Chilean market. These mitigating factors are its smaller size as an iron ore and steel producer than those of global peers, which results in lower economies of scale and higher cost structure. However, the company is focusing on improving operating efficiency through iron-ore pelletizing, compensating for its high cash cost, but also through its ability to adapt production mix (pellets, pellet feed, and fines) to market demand and premium payments, which strengthens cash flows. CAP enjoys a dominant position in the high-grade pellet feed iron ore niche market. Currently, the very strong iron ore and steel prices are behind the sharp increase in the company's EBITDA and overall margins, which reached 48% in 2021 and are likely to remain at 30%-40% in the next two years. Our assessment of CAP's business profile also incorporates product concentration in iron ore, which currently represents about 90% of EBITDA. At the same time, about 84% of iron ore production comes from only two mines, Los Colorados in Huasco Valley and Cerro Negro Norte in Copiapó Valley. Our analysis also incorporates that 84% of the company's exports are to China, demand from which could abate after recent lockdowns following a new outbreak of COVID-19 in some regions. These factors increase volatility of CAP's cash generation and susceptibility to price shocks or adverse events.

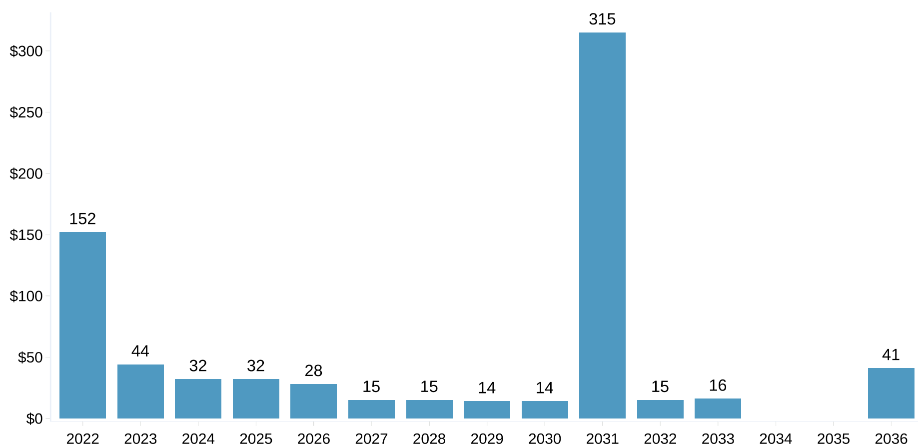
Financial Risk

Our assessment of CAP's financial risk profile reflects its high EBITDA and EBITDA margin, as well as its strong credit metrics with negative net financial debt as of Dec. 31, 2021. The financial risk profile also incorporates the company's high exposure to commodity prices, adding volatility to cash flows and credit metrics amid cycle downturns. Still, we expect CAP to maintain net debt to EBITDA consistently below 1.5x and FOCF to debt above 100%. Currently high iron ore and steel prices, with pellet premium of about $45 per ton, support the company's higher investment cycle, with expected capex of about $560 million in 2022 and $400 million in 2023, as well as higher dividend payment of about $500 million in the next 12 months.

Debt maturities

The following is CAP's debt maturity profile as of December 2021:

Debt maturity profile (US$ millions)
As of December 31, 2021



Source: S&P Global Ratings.

CAP S.A.--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	$	$	$	$	$	$
Revenues	1,636	1,932	1,917	1,590	2,679	3,677
EBITDA	433	567	508	183	915	1,774
Funds from operations (FFO)	365	444	315	82	729	1,235
Interest expense	52	55	51	51	83	103

CAP S.A.--Financial Summary

Cash interest paid	19	53	51	53	94	105
Operating cash flow (OCF)	354	441	284	41	785	1,311
Capital expenditure	58	99	143	249	220	342
Free operating cash flow (FOCF)	295	342	141	(208)	565	970
Discretionary cash flow (DCF)	284	261	28	(250)	482	508
Cash and short-term investments	786	700	475	339	557	943
Gross available cash	786	700	475	339	557	943
Debt	712	514	464	767	364	0
Common equity	3,178	3,264	3,342	3,243	3,450	3,667
Adjusted ratios						
EBITDA margin (%)	26.5	29.4	26.5	11.5	34.2	48.3
Return on capital (%)	5.7	9.7	8.7	0.3	18.0	40.7
EBITDA interest coverage (x)	8.3	10.3	10.0	3.6	11.0	17.2
FFO cash interest coverage (x)	20.5	9.3	7.2	2.5	8.7	12.8
Debt/EBITDA (x)	1.6	0.9	0.9	4.2	0.4	0.0
FFO/debt (%)	51.3	86.4	67.9	10.7	200.3	NM
OCF/debt (%)	49.7	85.9	61.2	5.3	215.7	NM
FOCF/debt (%)	41.5	66.6	30.4	(27.1)	155.3	NM
DCF/debt (%)	39.9	50.8	6.0	(32.6)	132.5	NM

Reconciliation Of CAP S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	703	2,243	3,677	1,774	1,521	40	1,774	1,416	462	405
Cash taxes paid	-	-	-	-	-	-	(435)	-	-	-
Cash interest paid	-	-	-	-	-	-	(41)	-	-	-
Lease liabilities	43	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(848)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	63	(63)	(63)	-	(63)
Nonoperating income (expense)	-	-	-	-	2	-	-	-	-	-

Reconciliation Of CAP S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(41)	-	-
Noncontrolling/ minority interest	-	1,425	-	-	-	-	-	-	-	-
Total adjustments	(805)	1,425	-	-	2	63	(539)	(105)	-	(63)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	-	3,667	3,677	1,774	1,523	103	1,235	1,311	462	342

Liquidity

We assess CAP's liquidity as adequate. We expect liquidity sources to be about 1.8x its uses in the next 12 months thanks to the company’s strong balance sheet, high cash position, and 78% of maturities in the long term. However, we believe that the currently stronger cash on hand and FFO stem from high commodity prices, rather than from the company’s financial policy. Although we expect capex of about $560 million in 2022 and $400 million in 2023, the company's $525 million fully available committed credit lines also support our liquidity assessment, even factoring in a dividend payout at 50% of net income.

Principal liquidity sources

Cash and liquid investments of $773 million as of March 30, 2022 (excluding restricted cash at Cleanirtech);

FFO of about $900 million for the next 12 months; and

$525 million in fully available committed credit facilities (of which $375 million are due 2026 and $150 million due 2023).

Principal liquidity uses

Short-term debt of $165 million as of March 30, 2022;

Seasonal working capital outflows of about $100 million for the next 12 months;

Maintenance and expansion capex of about $520 million in the next 12 months; and

Dividend payment of about $500 million.

Covenant Analysis

Requirements

Covenant requirements include net debt to EBITDA of maximum of 4.0x and consolidated net interest coverage of minimum of 2.5x. These debt payment acceleration covenants correspond to committed credit lines not withdrawn at the moment.

Compliance expectations

We don't expect covenant pressures, given that we forecast CAP to have headroom of more than 90% on these covenants in 2022 and 2023. Still, we take into consideration the company’s track record of asking local bondholders to consent to relax covenants between the third quarter of 2019 and third quarter of 2020 due to the accident at the Guacolda 2 port.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	**E-3**	E-4	E-5	S-1	S-2	**S-3**	S-4	S-5	G-1	G-2	**G-3**	G-4	G-5

- Waste and pollution
- Climate transition risks

- Social capital
- Health and safety
- Human capital

- Risk management, culture, and oversight
- Other governance factors

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental, social, and governance factors are a moderately negative consideration in our credit rating analysis of CAP. The assessment of the first two factors is in line with those of industry peers. The lack of asset diversification caused output to decline 37% in 2019 from the forecast following a fatal accident in the port of Guacolda that limited the company's ability to export pellets. Water scarcity for Chilean mining operations is a source of friction with the local communities, but this risk is mitigated by CAP's desalinization plant, which the company constructed in 2014 with a maximum production capacity of 600 liters per second. Also, in July 2019, the spillage of 40 cubic feet of hydrocarbons occurred at CAP's facility at Guarello Island, which prompted us to revise downward our assessment of the company's ability to map and control risks. Moreover, on March 28, 2022, CAP estimated a $14.5 million financial impact from the production disruption at the Talcahuano steel plant. The output loss was estimated at about 50,000 tons of steel products, equivalent to approximately 6% of annual production. The delivery of steel products to customers was marginally affected, given inventories at the plant. Having restored production of liquid steel, the company is reviewing its annual production plan to recover inventory levels for the remainder of the year.

See "General Criteria: Environmental, Social, And Governance Principles In Credit Ratings," published Oct. 10, 2021.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of December 2021, CAP's capital structure mainly consisted of $330.6 million in bank loans, $300.0 million senior unsecured notes due 2031, $40.9 million senior unsecured notes due 2036, $43.1 million in financial leases, and $29.0 million in hedging and other instruments.

Analytical conclusions

We rate CAP's existing senior unsecured notes at the same level as the issuer credit rating, given that the notes receive a full and unconditional upstream guarantee from CAP's main cash generating subsidiaries, Compañía Minera del Pacífico S.A. (an iron ore mining subsidiary) and Compañía Siderúrgica Huachipato S.A. (a steel production subsidiary). Combined, these subsidiaries generate over 90% of CAP's EBITDA. In contrast with 2036 notes, the 2031 notes don't have upstream guarantees from the company's main cash generating subsidiaries. However, our pro forma debt priority calculation including the $300 million senior unsecured notes with upstream guarantees and debt at operating subsidiaries excluding non-recourse debt at Cleanairtech, results in a debt priority ratio below 50%. Therefore, we rate CAP's $300 million senior unsecured notes at the same level as the issuer credit rating. If the company increases debt at the holding without guarantees, having this ratio consistently above 50%, we could lower the issue-level rating.

Rating Component Scores

Foreign currency issuer credit rating	**BB+/Stable/--**
Local currency issuer credit rating	**BB+/Stable/--**
Business risk	**Fair**
Country risk	Intermediate
Industry risk	Moderately High
Competitive position	Fair
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bb+**

Related Criteria

- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of May 12, 2022)*

CAP S.A.	
Issuer Credit Rating	BB+/Stable/--
Senior Unsecured	BB+
Issuer Credit Ratings History	
01-Mar-2021	BB+/Stable/--

Ratings Detail (as of May 12, 2022)*

06-Mar-2020	BB+/Negative/--
12-Apr-2017	BB+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.