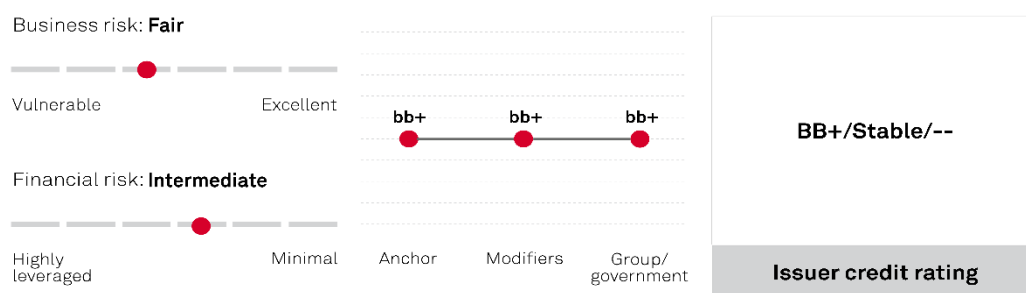


CAP S.A.

May 18, 2023

Ratings Score Snapshot



Primary contact

Francisco Gomez Comelli
Buenos Aires
54-11-4891-2112
Francisco.Comelli
@spglobal.com

Additional contact

Amalia E Bulacios
Buenos Aires
54-11-4891-2141
amalia.bulacios
@spglobal.com

Credit Highlights

Overview

Key strengths

- Well-positioned in the high-grade iron ore pellet market
- Low leverage and adequate liquidity
- Long life of reserves (about 50 years)
- Favorable iron ore prices

Key risks

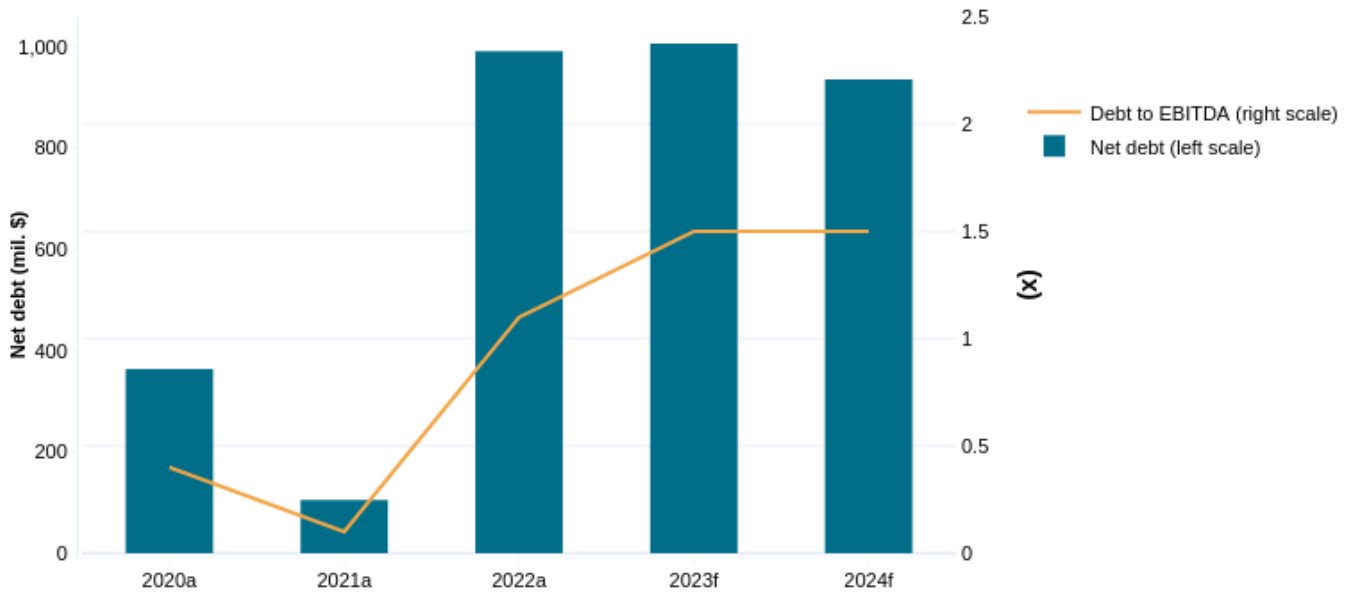
- High exposure to commodity prices adding volatility to credit metrics
- Limited product and asset diversification, as well as sales concentration to China
- Smaller scale of operations than those of global peers
- Underperformance of the steel business unit

CAP's leverage increased given weaker prices and high working capital, taxes, and dividends. In 2022, working capital needs increased to around \$200 million due to overstocking and the price of iron ore falling to \$122 per ton from \$157 per ton in 2021. At the same time, outstanding results in 2021 generated high tax payments of around \$475 million and CAP distributed around

CAP S.A.

\$600 million in dividends. As a result, the company had to increase debt (by around \$250 million versus 2021) amid lower prices and EBITDA normalization, which led leverage to increase to 1.1x in 2022 versus 0.1x in 2021. For 2023-2024, we expect prices to be \$90-\$115 per ton, EBITDA levels of \$615 million-\$680 million, and leverage to stabilize around 1.5x.

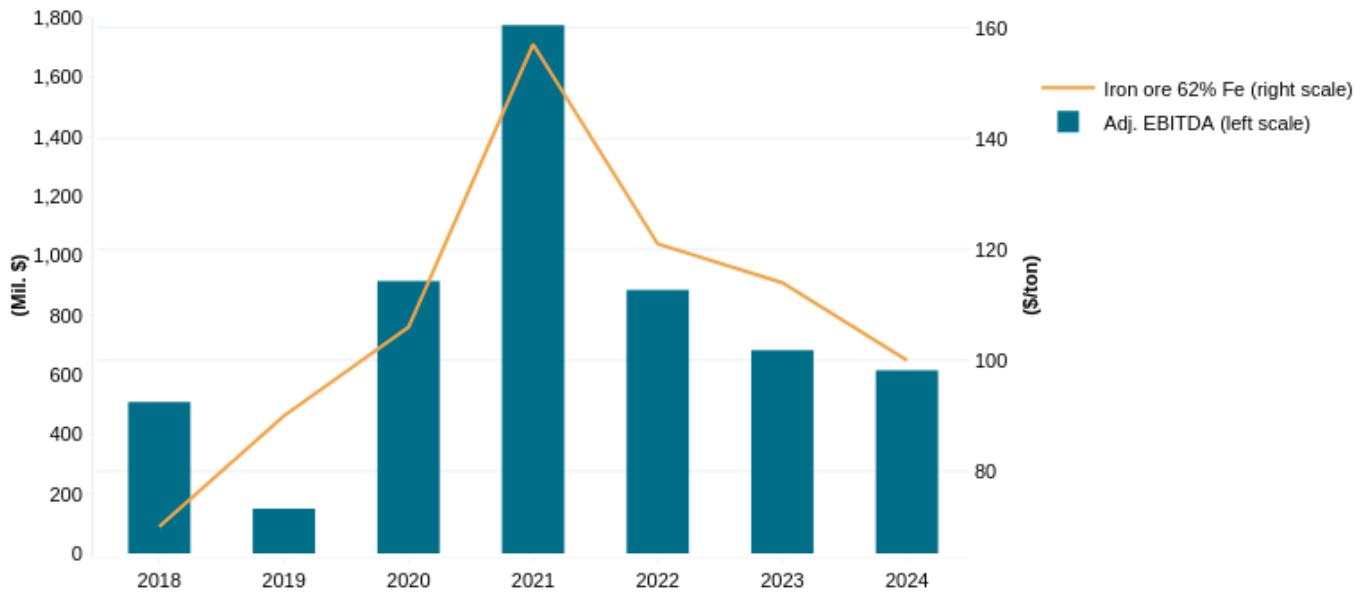
CAP S.A. leverage



a--Actual. f--Forecast. Source: S&P Global Ratings.

Iron ore prices falling from all-time highs but remaining reasonable would support EBITDA generation. Global iron ore prices hit record highs during 2021, with an average of \$157 per ton, and remained high during 2022 at an average of \$122 per ton. For 2023, we expect prices at \$110-\$120 per ton, and \$10 per ton lower for 2024. Following China's exit from its zero-COVID-19 policy, we've increased our 2023 China GDP forecast to 5.5%, which should support robust iron ore prices. On the supply side, we expect a modest increase in capacity from the three major iron ore producers based in Western Australia's Pilbara region (such as Fortescue Metals Group Ltd.'s 22 million ton Iron Bridge project) and Brazil-based Vale S.A. to maintain volumes as the company seeks to maximize price increases over material growth in production. Our price assumptions seem right in the middle of the cycle, and we expect CAP to maintain production volumes and generate healthy EBITDA levels of \$615 million-\$680 million in 2023-2024.

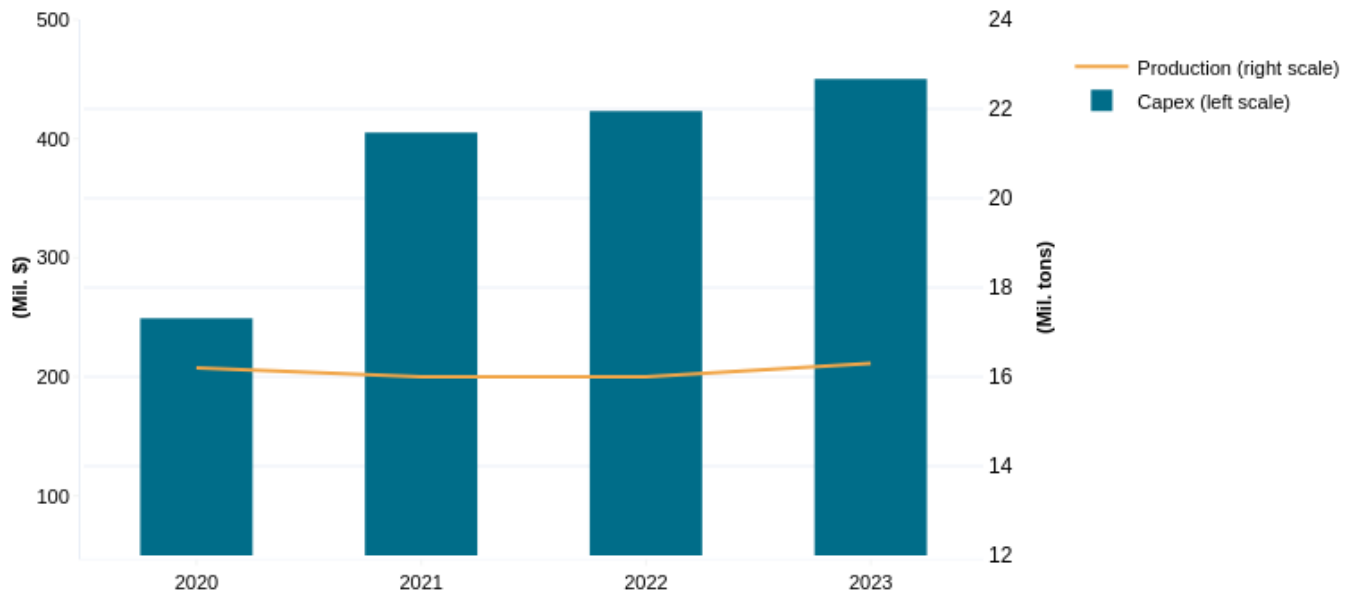
CAP S.A. EBITDA and iron ore price evolution



Source: S&P Global Ratings.

Capital expenditure (capex) remains high to compensate for delayed investments. CAP registered high capital investments of \$423 million in 2022 and \$405 million in 2021. Although we expect \$450 million of outflow in 2023, the company guidance is \$500 million. Still, production volumes have remained fairly flat over the years. Higher capex seems to be the result of delayed maintenance rather than expansionary investments to improve capacity and production.

CAP S.A. iron ore production and capex evolution



Source: S&P Global Ratings.

CAP's steel business unit underperformed in 2022. CAP's steel division dragged down EBITDA by \$87 million during 2022. Underperformance was related to problems with the blast furnace during the first quarter of 2022. At that time, the company purchased raw material at high prices, especially metallurgic coal. By the time the recovery boiler was fixed, steel prices had decreased. As a result of high costs and lower prices, margins reduced. Currently, international prices remain weak, mainly due to sluggish internal demand in China, resulting in higher steel exports from that country and therefore lower global prices. In the Chilean market, the weaker prices derive from weak demand in the construction and mining sectors. Because of the current dynamics, CAP's steel processing subsidiary Cintac reported losses and began a debt restructuring process that involved asking creditors for covenant waivers. However, this subsidiary is not material for the group and there is no cross-default with CAP. Going forward, we expect CAP's steel division to recover slightly, following some demand recovery after the apparent bottoming out of the Chinese housing sector. On top of this, CAP exports could benefit from Chinese government's ban on new capacity increases to achieve higher energy efficiency and lower carbon emissions.

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 free operating cash flow (FOCF) to debt above 70% in the next 12-18 months despite potential price swings.

Downside scenario

We could lower the ratings on CAP if iron ore prices were to plummet or the company's volume output fell 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 as unlikely because of CAP's limited business scale and portfolio concentration. In the medium term, we could raise the ratings if CAP increases its operational scale and diversification, which would boost profitability and stabilize cash flow metrics.

Our Base-Case Scenario

Assumptions

- Chile's GDP growth of -0.4% in 2023 and 2.6% in 2024
- Chile's inflation rate of 7.9% in 2023 and 4.1% in 2024
- Average foreign exchange (FX) rate of CLP822 per \$1 in 2023 and of CLP863 per \$1 in 2024
- Average iron ore prices (62% Fe) of \$115 per ton in 2023 (considering realized months) and \$100 per ton in 2024
- Average steel rebar (Shanghai Future Exchange – SHFE) prices of \$570 per ton in 2023 and \$555 per ton in 2024
- Coal prices of \$250 per ton in 2023 and \$190 per ton in 2024
- Pellet feed premiums of about \$45 per ton in 2023 and 2024, aligned with historical averages for the company's 67% Fe content pellet feed
- Cash costs around \$53 per ton in 2023 decreasing to around \$47 in 2024
- Freight costs of \$20 per ton in 2023 and 2024, similar to reported figure in first quarter 2023
- Total iron ore production of 16.3 million tons in 2023 and 2024
- Capex of about \$450 million in 2023 and \$350 million in 2024, 80% at the iron ore division and around 85% for maintenance purposes (including cost reduction and sustainability investments); an
- A dividend payout at 50% of previous year's net income

Key metrics

CAP S.A.--key metrics

(Mil. \$)	2021a	2022a	2023e	2024f	2025f
Iron ore price 62% Fe (\$/ton)	157.0	121.0	115.0	100.0	90.0
Steel rebar SHFE (\$/ton)	771.0	645.0	568.0	554.0	568.0
Revenue	3,676.9	3,006.0	2,558.2	2,343.2	2,216.9
Revenue growth (%)	37.2	(18.2)	(14.9)	(8.4)	(5.4)
EBITDA	1,774.3	885.0	681.9	615.3	572.3
EBITDA margin (%)	48.3	29.4	26.7	26.3	25.8
Funds from operations (FFO)	1,298.5	358.5	522.9	480.9	450.5
Capital expenditure	404.9	422.6	450.0	350.0	350.0
Free operating cash flow (FOCF)	969.9	(242.4)	151.0	198.4	155.7
Dividends	462.3	603.0	167.5	119.3	90.6
Debt	104.9	992.1	1,006.9	935.7	877.2
Debt to EBITDA (x)	0.1	1.1	1.5	1.5	1.5
FFO to debt (%)	1,237.3	36.1	51.9	51.4	51.4
FOCF to debt (%)	924.2	(24.4)	15.0	21.2	17.7
EBITDA interest coverage (x)	44.8	20.0	12.0	10.8	10.1
FFO interest coverage (x)	32.6	7.9	10.2	9.5	8.9

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 (around 67% iron) for export markets, especially China. It has a total iron ore production capacity of around 18 million tons across six production plants. The iron ore division generally represents more than 85% of the company's EBITDA.

In addition, CAP produces and distributes steel to Chilean sectors such as infrastructure, manufacturing, and construction, as well as to other markets such as Argentina and Peru. The company also has around 1 million tons of steel processing capacity. Steel production and steel processing divisions generally represent less than 10% of the company's EBITDA.

CAP also has small operations in water desalinization, a power transmission line, and a multipurpose port, which generally represent around 5% 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%.

Peer Comparison

CAP S.A.--peer comparisons

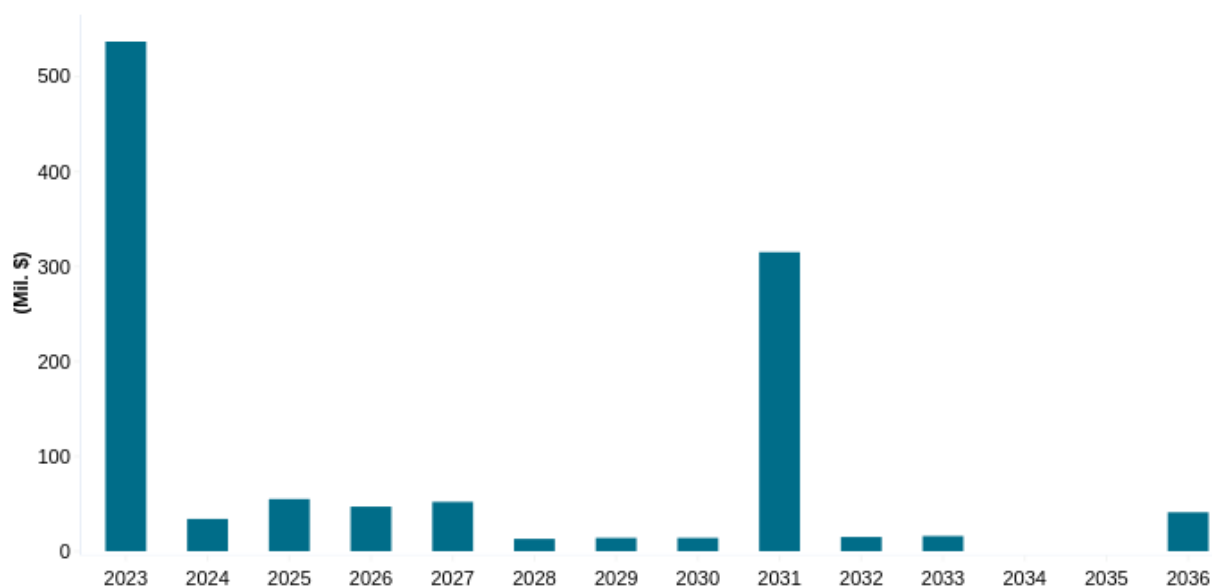
	CAP S.A.	Vale S.A.	Usinas Siderurgicas de Minas Gerais S.A.	Fortescue Metals Group Ltd.	Companhia Siderurgica Nacional
Foreign currency issuer credit rating	BB+/Stable/--	BBB-/Stable/--	BB/Stable/--	BB+/Stable/--	BB/Stable/--
Local currency issuer credit rating	BB+/Stable/--	BBB-/Stable/--	BB/Stable/--	BB+/Stable/--	BB/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-06-30	2022-12-31
000's	\$	\$	\$	\$	\$
Revenue	3,538	43,839,000	6,142,057	17,390,000	8,391,450
EBITDA	1,042	20,076,000	919,954	10,811,000	2,130,530
Funds from operations (FFO)	422	14,607,000	585,104	6,875,000	1,192,952
Interest	52	821,000	72,452	149,000	516,449
Cash interest paid	61	832,000	110,550	242,000	463,594
Operating cash flow (OCF)	212	11,438,000	162,650	6,618,000	257,165
Capital expenditure	497	5,399,000	395,695	2,803,000	608,515
Free operating cash flow (FOCF)	(285)	6,039,000	(233,045)	3,815,000	(351,350)
Discretionary cash flow (DCF)	(995)	(6,612,000)	(466,319)	(3,022,000)	(1,139,630)
Cash and short-term investments	413	4,797,000	959,478	5,224,000	2,319,634
Gross available cash	413	4,797,000	959,478	5,224,000	2,319,634
Debt	1,168	28,086,260	1,389,404	1,517,400	6,993,575
Equity	4,355	37,358,000	4,896,875	17,345,000	4,126,679
EBITDA margin (%)	29.4	45.8	15.0	62.2	25.4
Return on capital (%)	14.2	28.1	10.0	49.8	18.1
EBITDA interest coverage (x)	20.0	24.5	12.7	72.6	4.1
FFO cash interest coverage (x)	7.9	18.6	6.3	29.4	3.6
Debt/EBITDA (x)	1.1	1.4	1.5	0.1	3.3
FFO/debt (%)	36.1	52.0	42.1	453.1	17.1
OCF/debt (%)	18.2	40.7	11.7	436.1	3.7
FOCF/debt (%)	(24.4)	21.5	(16.8)	251.4	(5.0)
DCF/debt (%)	(85.2)	(23.5)	(33.6)	(199.2)	(16.3)

Financial Risk

Debt maturities

CAP S.A. debt maturity profile

As of March 2023



Source: S&P Global Ratings.

CAP S.A.--financial summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	\$	\$	\$	\$	\$	\$
Revenues	1,932	1,917	1,590	2,679	3,677	3,006
EBITDA	567	508	183	915	1,774	885
Funds from operations (FFO)	444	315	82	758	1,298	358
Interest expense	55	51	51	54	40	44
Cash interest paid	53	51	53	65	41	52
Operating cash flow (OCF)	441	284	41	814	1,375	180
Capital expenditure	99	143	249	249	405	423
Free operating cash flow (FOCF)	342	141	(208)	565	970	(242)
Discretionary cash flow (DCF)	261	28	(250)	482	508	(845)

CAP S.A.--financial summary

Cash and short-term investments	700	475	339	557	943	351
Gross available cash	700	475	339	557	943	351
Debt	514	464	767	364	105	992
Common equity	3,264	3,342	3,243	3,450	3,667	3,700
Adjusted ratios						
EBITDA margin (%)	29.4	26.5	11.5	34.2	48.3	29.4
Return on capital (%)	9.7	8.7	0.3	18.0	40.2	14.2
EBITDA interest coverage (x)	10.3	10.0	3.6	16.9	44.8	20.0
FFO cash interest coverage (x)	9.3	7.2	2.5	12.6	32.6	7.9
Debt/EBITDA (x)	0.9	0.9	4.2	0.4	0.1	1.1
FFO/debt (%)	86.4	67.9	10.7	208.3	1,237.3	36.1
OCF/debt (%)	85.9	61.2	5.3	223.7	1,310.0	18.2
FOCF/debt (%)	66.6	30.4	(27.1)	155.3	924.2	(24.4)
DCF/debt (%)	50.8	6.0	(32.6)	132.5	483.7	(85.2)

Liquidity

We assess CAP's liquidity as adequate. We expect liquidity sources to be above 1.2x uses in the next 12 months. Even though we forecast working capital inflows during 2023, for the purpose of this exercise we stress the liquidity calculation with \$50 million intra-year working capital outflow. Our liquidity ratio also incorporates a 50% dividend payout ratio, but we believe the company has flexibility to reduce it if liquidity weakens. We estimate that minimum maintenance capex should be approximately \$200 million-\$250 million, so we believe that there is some room for capex reduction too, if required. CAP's subsidiary, Compañía Minera del Pacífico S.A.'s \$375 million fully available committed credit lines also support our liquidity assessment. The company is in the process of renegotiating an additional \$150 million revolving credit facility.

Principal liquidity sources

- Cash and liquid investments of \$300 million as of March 30, 2023
- FFO of about \$515 million for the next 12 months
- \$375 million in fully available committed credit facilities (of which \$375 million are due 2026)

Principal liquidity uses

- Short-term debt of \$543 million as of March 30, 2023
- Intra-year working capital outflows of around \$50 million for the next 12 months
- Maintenance capex of about \$200 million-250 million in 2023
- Dividend payment of around \$150 million

Covenant Analysis

Requirements

Covenant requirements include a net debt to EBITDA maximum of 4.0x and a consolidated net interest coverage 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 we forecast CAP to have headroom of more than 75% on these covenants in 2023 and 2024. Still, we note 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
<ul style="list-style-type: none"> - Waste and pollution - Climate transition risks 					<ul style="list-style-type: none"> - Social capital - Health and safety - Human capital 					<ul style="list-style-type: none"> - 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 alphanumeric 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 was 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 at the company's facility at Guarello Island prompted us to lower 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 production disruption due to problems with the blast furnace of the Talcahuano steel plant. The production deficit was estimated at around 50,000 tons of steel products, equivalent to approximately 6% of annual production.

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

Issue Ratings--Subordination Risk Analysis

Capital structure

As of March 2023, CAP's capital structure mainly consisted of \$731 million in bank loans, \$300 million senior unsecured notes due 2031, \$41 million senior unsecured notes due 2036, \$70 million in financial leases, and \$29 million in hedging and other instruments. Around 50% of debt is short-term. Around 85% is dollar-denominated and around 15% is denominated in UF (Unidad de Fomento, a Chilean unit of account).

Analytical conclusions

CAP S.A.

We rate CAP's existing 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. (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 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 non-recourse debt at Cleanairtech, results in a debt priority ratio above 50%. However, we believe this ratio is temporarily high due to a recent debt increase at the subsidiary level that should revert in the near term. If the company keeps the debt priority 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

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- 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 18, 2023)*

CAP S.A.

Issuer Credit Rating	BB+/Stable/--
Senior Unsecured	BB+

Issuer Credit Ratings History

01-Mar-2021	BB+/Stable/--
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.

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