



RATING ACTION COMMENTARY

Fitch Affirms CAP S.A. at 'BBB-'; Outlook Revised to Stable

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Fitch Ratings - Chicago - 05 Mar 2021: Fitch Ratings has affirmed CAP S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB-' and upgraded its National Long-Term Rating to AA- (cl) from 'A+(cl)'. Fitch also affirmed CAP's National Equity Rating at First Class Level '2(cl)'. The Rating Outlook is revised to Stable from Negative.

The Outlook revision to Stable reflects CAP's cash-flow generation full recovery after the YE2018 port accident. YE2020 EBITDA grew to USD940 million from USD196 million in 2019 due to an increase in shipments to 16.5 million tonnes from 9.3 million tonnes coupled with very high iron ore prices.

These factors resulted in sound leverage metrics with a net debt to EBITDA at 0.4x, which was far below the 2x established by Fitch's sensitivity for stabilizing the company's rating Outlook. The significant improvement on its credit metrics together with the very positive perspectives for iron ore positions CAP as a strong 'BBB-' and has led to an upgrade of its National Long Term Ratings.

KEY RATING DRIVERS

Solid Financial Profile The company has shown a historically strong capital structure with an average net leverage ratio of 1.3x in the last 10 years despite high iron ore price

volatility. CAP reported a net debt leverage ratio of 0.4x and a gross leverage ratio of 0.9x in 2020, which is a marked improvement from 3.9x and 5.5x, respectively in 2019. Fitch projects CAP to maintain sound credit metrics with a Net Debt/EBITDA ratio of around 0.2x in 2021 and 0.7x in 2022 due to continued excellent market conditions for premium iron ore products and despite increased investments.

Outstanding Iron Ore Market Conditions: Iron ore prices (62% Fe content) rallied throughout 2020, averaging USD109/tonne, an increase from USD94/tonne in 2019. Demand was supported by record steel production in China throughout the pandemic, while supply was disrupted in Brazil and Australia among others. CRU expects the market to remain undersupplied in 2021 mainly supported by strong Chinese demand. Supply risks remain which together with low inventory levels are expected to keep prices high.

Strong Cash Flow Generation: CAP reported a strong year of earnings in 2020. The company generated an EBITDA of USD940 million compared with USD196 million in 2019. Fitch forecasts EBITDA of USD1.2 billion in 2021 and USD 693 million in 2022 based upon forecast iron ore prices of USD125/tonne and USD95/tonne, respectively. The latter enhanced with shipments estimated close to 16.7 million tonnes and a gradual recovery of CAP's cash costs that significantly suffered due to the accident. The company is projected to generate FCF of USD95 million in 2021, which is expected to turn negative in 2022 due to high investments in maintenance and sustainability.

Cash Costs Gradually Reducing: CAP reported cash costs of USD53/tonne in 2020 a reduction compared with USD59/tonne in 2019 when it shipped only 9.3 million tonnes of iron ore. 1Q20 was still affected by more costly inventories explaining the high 2020 average, despite the depreciation of the CLP compared with the dollar that contributes significantly to reduce cash costs.

Fitch anticipates for 2021 and 2022, cash costs at USD43 per tonne, significantly below the one registered on 2020. The improvement should be driven by the normalization of its operations and considering a product mix with higher participation of pellet, a more expensive to produce. Higher pellet production is related to current elevated premiums that Fitch is conservatively projecting at USD33/tonne, 10% lower than CRU's estimations. CAP shows an average cost position at the upper part of the second quartile on the business cost curve for iron ore, that could vary according to the production blend.

Competitive Business Model: CAP benefits from its niche market position as a producer of high-grade iron ore products (67% iron content), which it receives a premium over market prices. The company has demonstrated the ability to adjust its product blend in response to

lower premiums in order to take advantage of its competitive cost structure and maintain good margins.

Long Life Reserves and Resources: CAP had 2.91 billion tonnes of iron ore reserves and 7.97 billion tonnes of resources in 2020, which equates to over 60 years of mine life at an expected production rate of 16.5 million tonnes per year. The company owns and operates four mines across two regions in northern Chile.

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 reports market capitalization of USD2.1 billion, as an important player in the Santiago stock market, and high levels of daily trading volume that averaged USD6.1 million over the last month (as of February 2021).

DERIVATION SUMMARY

CAP's ratings are constrained by CAP's small size relative to its industry and a lack of mine diversification. Iron ore comprised 89% of its EBITDA generation at YE2020. The latter is somewhat compensated by a conservative financial management reflected in a resilient financial profile through the cycle.

The company shows lower diversification compared with its Latam peers such as Buenaventura (BB+/Stable), Volcan (BB/Positive) and Nexa Resources (BBB-/Negative) but has significantly better capital structure, liquidity and much longer mine life. CAP cash flow concentration from minerals is similar to Minsur (BBB-/Negative), which produces mainly tin. However, Minsur is in the first quartile of the tin cost curve with a relevant participation in the global tin market while CAP is in the second and third quartile with a small presence in the seaborne iron ore market but present in a niche market due to its high-quality mineral.

CAP's business profile is similar to Ferrexpo plc (BB-/Stable), which is among the top five pellet exporters globally at 12.4 million tonnes of pellets, compared to CAP's pellet production capacity of 4 million tonnes and pellets feed of 9.7 million tonnes. CAP also produces sinter feed which drives its total iron ore shipments towards 16 million tonnes. Ferrexpo benefits from a slightly better position along the global iron ore cost curve, and both companies boast conservative financial profiles with net leverage around 1.0x. However, Ferrexpo's rating is constrained by the country ceiling of Ukraine which shows a high operating risk, and it is rated two notches above the sovereign.

KEY ASSUMPTIONS

--Fitch Mid Cycle Prices at USD125 per tonne for 2021; USD90 per tonne for 2022 and USD80 for 2023;

--Cash costs USD43 per tonne for the whole projected period;

--CMP' shipments of approx. 16,600 per tonne for 2021; 16,700 per tonne for 2022 and 17,900 per tonne for 2023;

--Freight costs of USD15 for 2021, and USD17 for 2022 and 2023;

--50% dividend policy.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

A positive rating action for CAP is currently unlikely due to the company's lack of commodity diversification and overall scale of operations.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A negative rating action, either in the form of a downgrade, revision to a Negative Outlook, or both, could result from deterioration in the company's capital structure that is not addressed in the short term;

--A sustained period of depressed iron ore prices and/or significant cash outflows due to acquisitions, capex or dividends that lead to net debt/EBITDA over 2.0x on a sustained basis;

--A significant and prolonged deterioration in CAP's liquidity position and persistent negative FCF.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

LIQUIDITY AND DEBT STRUCTURE

Robust Liquidity: Cap has historically maintained good liquidity levels despite the cyclicity of its business. As of YE 2020, the company had USD497 million of cash and cash equivalents in addition to USD500 million in committed credit lines maturing in 2022 and 2023. Short term maturities could be fully financed with its cash and equivalent position. The company's cash plus projected CFO to short-term debt ratio is 3x.

Short-term debt of USD822 million includes a Fitch adjustment for USD121 million of confirming transactions of its subsidiary Cintac, USD255million in local bonds expected to be refinanced in the international markets and the remaining in working capital pre-export bank facilities.

CAP is currently working on the issuance of a USD300 million 10-year 144A expected to be completed at the end of March. CAP has low refinancing risk due to its strong credit profile and good access to diversified sources of financing.

The company's debt amortization schedule is comfortable. In 2022 the company has bank debt principal payments due of around USD 42 million, USD69 million due in 2023, and USD100 million in 2024 and beyond.

SUMMARY OF FINANCIAL ADJUSTMENTS

--Restricted cash;

--EBITDA adjusted by dividend to minorities;

--Debt adjusted by confirming transactions.

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.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit

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RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
CAP S.A.	LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Negative
	LC LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Negative
	Natl LT	AA-(cl) Rating Outlook Stable	Upgrade	A+ (cl) Rating Outlook Negative
	Nat Equity Rating	Primera Clase Nivel 2(cl)	Affirmed	Primera Clase Nivel 2(cl)

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FITCH RATINGS ANALYSTS**Hector Collantes**

Associate Director

Primary Rating Analyst

+1 212 908 0369

Fitch Ratings, Inc.

Hearst Tower 300 W. 57th Street New York, NY 10019

Alejandra Fernandez

Director

Secondary Rating Analyst

+56 2 2499 3323

Jay Djemal

Senior Director

Committee Chairperson

+1 312 368 3134

MEDIA CONTACTS**Jaqueline Carvalho**

Rio de Janeiro

+55 21 4503 2623

jaqueline.carvalho@thefitchgroup.com

Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Metodología de Clasificación de Acciones en Chile \(pub. 31 Jul 2018\)](#)[Metodología de Calificación de Finanzas Corporativas \(pub. 26 Jun 2020\)](#)[Sector Navigators - Addendum to the Corporate Rating Criteria \(pub. 21 Dec 2020\)](#)[Corporate Rating Criteria \(pub. 21 Dec 2020\) \(including rating assumption sensitivity\)](#)[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)**APPLICABLE MODELS**

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

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CAP S.A.

EU Endorsed, UK Endorsed

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