CAP S.A. Outlook Revised To Negative From Stable On Higher Leverage, 'BB+' Issuer Credit Rating Affirmed; 2031 Debt Rating Lowered To 'BB'

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Rating Action Overview

- CAP S.A. reported a significant decline in EBITDA generation in fiscal year 2024 due to a decrease in realized prices and lower shipments, explained by a contingency at Los Colorados mine.
- As a result, CAP's consolidated leverage was 2.9x as of Dec. 31, 2024, above our downside threshold of 2.5x.
- Therefore, we revised our outlook on CAP to negative from stable and affirmed our 'BB+' issuer credit rating on the company. We also affirmed the issue rating on its senior unsecured notes due 2036 and lowered our issue rating to ‘BB’ from ‘BB+’ on the senior unsecured notes due 2031, reflecting increased priority debt.
- The negative outlook reflects that we expect ongoing issues at Los Colorados mine will weigh on CAP's results in the first half of 2025 and this, coupled with lower iron ore prices, will continue to pressure leverage metrics, leading to a possible downgrade if the company cannot recover operations and make progress in reducing leverage toward or below 2.5x.

Rating Action Rationale

The outlook revision reflects CAP's higher leverage and ongoing challenges in rebounding metrics in the short term. In October 2024, CAP experienced a geotechnical issue at the Los Colorados mine that led to a temporary halt in mining activities. This resulted in a 10% decrease in shipment volumes in 2024. Additionally, a 7.6% decline in realized prices and a negative mark-to-market effect (MtM) of $151 million significantly reduced EBITDA generation, which dropped to $553 million in December 2024 from $819 million in 2023.

While there was some relief from improved cash costs due to a reduction in coal tariffs and the depreciation of the Chilean peso, these factors were insufficient to offset the overall decline in performance and leverage peaked at 2.9x at the end of 2024.

We expect the group to work toward resolving the contingency at the Los Colorados mine and recover production, but we are uncertain how long it will take to bring leverage back to historical levels.

Lower iron ore prices are likely to weigh on CAP's credit metrics over the next two years. S&P Global Ratings expects that iron ore prices will drop to $100 per ton in 2025 and further decline to $90 per ton in 2026. This decrease is driven by uncertainties surrounding China demand and geopolitical risk, including tariffs, which could pose additional challenges for CAP's EBITDA recovery.

Additionally, we anticipate that ongoing issues at Los Colorados mine will hamper shipment volumes in 2025, particularly in the first half of the year, leading to higher cash costs and EBITDA of $500 million.

In 2026, although we project a recovery in shipment volumes and a reduction in cash costs due to lower energy expenses, lower iron ore prices will continue to weigh on EBITDA. We are forecasting EBITDA to stay between $450 million and $500 million, with leverage remaining around 3x for at least the next two years.

We believe CAP has adequate liquidity to meet its commitments over the next 12 months. As of Dec. 31, 2024, CAP had $412 million unrestricted cash, $450 million available revolving credit facility, and short-term debt of $592 million, primarily related to working capital lines. Additionally, the company plans to reduce capital expenditures to maintenance levels of approximately $275 million and will propose at next shareholders meeting not to distribute dividends this year due to reported losses in 2024 in order to preserve cash. These measures should help manage liquidity during this challenging period.

We lowered our issue rating on CAP's senior unsecured notes due 2031 to 'BB' from 'BB+'--a notch below the issuer credit rating--to reflect its structural subordination to increased priority debt. As of December 2024, CAP's priority debt was around 70%.

In absolute terms, the company's debt has nearly doubled to $1.7 billion in 2024 from $1 billion in 2022. This increase is primarily attributed to bank loans at the subsidiary level. While management is actively working to reduce debt at the subsidiary level, we believe this could take some time. Consequently, the company is likely to maintain a priority debt of above our 50% threshold at least for the next two years.

Outlook

The negative outlook reflects the possibility that we will lower our issuer credit rating in the next 12 months if the company cannot make substantial progress in recovering operations and reduce leverage toward or below 2.5x. Our outlook also considers the company maintaining adequate liquidity.

Downside scenario

We could lower the ratings on CAP in the next 12 months if iron ore prices continue to decline or the company's volume output doesn't stabilize, which would increase logistics costs. In that scenario, we expect debt to EBITDA to remain above 2.5x, free operating cash flow to debt below 5%, and funds from operations to debt below 45%. 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 its profitability recovers amid less volatile cash flow metrics. Under this scenario, we expect debt to EBITDA consistently below 2.0x and free operating cash flow to debt above 25%.

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 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.

During 2024, CAP announced the indefinite suspension of Compañia Siderurgica Huachipatio, the leading steel producer in Chile. However, the company continues operating the steel solution business with a presence in Chile, Peru, and Argentina. The steel solution business division represents less than 10% of the company's EBITDA.

CAP also has small operations in the infrastructure business that includes port, water, and energy assets that provide services to their mining and steel business, and other customers located in the area of operation, which generally represent around 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%.

Our Base-Case Scenario

Assumptions

- Chile GDP growth of 2.2% in 2025, 2.4% in 2026, and of 2.5% in 2027
- Average foreign exchange (FX) rate of Chilean peso (CLP) 985 per $1 in 2025, and CLP980 per $1 in 2026 and in 2027
- Average iron ore prices of $100 per ton in 2024 and $90 per ton in 2026 and in 2027
- Pellet premiums prices of about $42 per ton in 2025, 2026, and 2027
- Freight cost of $21 per ton for the next three years
- Cash costs of about $54.5 per ton in 2025, $51.5 per ton in 2026, and $50 per ton in 2027;
- Total iron ore sales of 15.5 million tons in 2025, 16.3 million tons in 2026, and 16.5 million tons in 2027
- Capex of about $275 million in 2025 and 2026, and around $350million in 2027
- No dividend payments for the next three years

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

CAP S.A.--Forecast summary

(Mil. $)	2021a	2022a	2023a	2024a	2025e	2026f	2027f	2028f
Revenue	3,677	3,006	2,965	1,801	1,770	1,750	1,894	1,894
Gross profit	1,965	1,058	1,013	708	643	585	679	686
EBITDA (reported)	1,774	885	818	552	506	464	554	556
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	--	5	2	1	1	1	1	1
EBITDA	1,774	890	820	553	507	465	555	558
Less: Cash interest paid	(41)	(52)	(94)	(121)	(115)	(115)	(115)	(115)
Less: Cash taxes paid	(435)	(474)	(210)	(15)	(14)	(4)	(33)	(35)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	1,298	363	515	417	377	346	407	408
EBIT	1,523	604	363	173	165	131	228	232
Interest expense	40	64	104	112	117	117	117	117
Cash flow from operations (CFO)	1,375	180	374	288	334	396	396	428
Capital expenditure (capex)	405	423	516	301	275	275	350	350
Free operating cash flow (FOCF)	970	(242)	(143)	(12)	59	121	46	78
Dividends	462	603	219	45	--	--	--	(32)
Share repurchases (reported)	--	--	--	--	--	--	--	--
Discretionary cash flow (DCF)	508	(845)	(362)	(58)	59	121	46	109
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	74	74	74	74
Plus: Pension and other postretirement debt	31	79	85	36	36	36	36	36
Less: Accessible cash and liquid Investments	(848)	(301)	(541)	(417)	(463)	(572)	(614)	(712)
Plus/(less): Other	175	193	204	209	209	209	209	209
Debt	105	1,056	1,454	1,613	1,566	1,457	1,416	1,318
Equity	3,667	3,700	3,661	3,186	3,219	3,230	3,307	3,420
FOCF (adjusted for lease capex)	967	(290)	(153)	(57)	59	121	46	78
Interest expense (reported)	40	63	101	110	115	115	115	115
Capex (reported)	405	423	516	301	275	275	350	350
Cash and short-term investments (reported)	943	351	579	455	515	635	682	791
Adjusted ratios								
Debt/EBITDA (x)	0.1	1.2	1.8	2.9	3.1	3.1	2.5	2.4
FFO/debt (%)	1,237.3	34.4	35.4	25.8	24.1	23.7	28.7	30.9
FFO cash interest coverage (x)	32.6	8.0	6.5	4.4	4.3	4.0	4.5	4.5
EBITDA interest coverage (x)	44.8	13.8	7.9	4.9	4.3	4.0	4.7	4.7
CFO/debt (%)	1,310.0	17.1	25.7	17.9	21.3	27.2	28.0	32.5
FOCF/debt (%)	924.2	(22.9)	(9.8)	(0.8)	3.8	8.3	3.3	5.9
DCF/debt (%)	483.7	(80.0)	(24.9)	(3.6)	3.8	8.3	3.3	8.3

CAP S.A.--Forecast summary

Lease capex-adjusted FOCF/debt (%)	921.8	(27.5)	(10.5)	(3.6)	3.8	8.3	3.3	5.9
Annual revenue growth (%)	37.2	(18.2)	(1.4)	(39.2)	(1.8)	(1.1)	8.2	(0.0)
Gross margin (%)	53.4	35.2	34.2	39.3	36.3	33.4	35.9	36.2
EBITDA margin (%)	48.3	29.6	27.6	30.7	28.7	26.6	29.3	29.5
Return on capital (%)	40.2	14.2	7.4	3.5	3.4	2.8	4.8	4.9
Return on total assets (%)	24.4	9.2	5.3	2.6	2.6	2.1	3.5	3.5
EBITDA/cash interest (x)	43.1	17.1	8.7	4.6	4.4	4.0	4.8	4.8
EBIT interest coverage (x)	38.5	9.4	3.5	1.5	1.4	1.1	1.9	2.0
Debt/debt and equity (%)	2.8	22.2	28.4	33.6	32.7	31.1	30.0	27.8
Debt fixed-charge coverage (x)	44.8	13.8	7.9	4.9	4.3	4.0	4.7	4.7
Debt/debt and undepreciated equity (%)	2.8	22.2	28.4	33.6	32.7	31.1	30.0	27.8

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

Liquidity

We assess CAP's liquidity as adequate. We expect liquidity sources to be above 1.2x uses in the next 12 months. The company holds a relevant cash position, and 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 needed. CAP's subsidiary Compañía Minera del Pacífico S.A.'s $450 million fully available committed credit lines, with $375 million maturing in September 2026 and $75 maturing in December 2026, also support our liquidity assessment.

Principal liquidity sources

- Cash and liquid investments of $412 million as of Dec. 31, 2024
- Funds from operations of about $390 million for the next 12 months
- $450 million in fully available committed credit facilities (of which $375 million are due September 2026 and $75 million in December 2026)

Principal liquidity uses

- Short-term debt of $592 million as of Dec. 31, 2024
- Working capital outflows of around $56 million for the next 12 months
- Maintenance capex of about $200 million-$250 million in 2024

Covenants

Requirements

Covenant requirements include a reported 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 yet withdrawn.

Compliance expectations

We don't expect covenant pressures, given we forecast CAP to have headroom of more than 40% 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. The assessment of the first two factors is aligned 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 recent incident at the Los Colorados mine, both of which have hurt the company's export capabilities and credit quality. Water scarcity remains a significant concern for mining operations in Chile, leading to tensions with local communities. However, CAP has taken steps to mitigate this risk through its desalinization plant, established in 2014, with a production capacity of 400 liters per second (with the potential to increase to up to 600 liters per second) 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 December 2024, CAP's capital structure mainly consisted of $1.3 million in bank loans, $300 million senior unsecured notes due 2031, $41 million senior unsecured notes due 2036, and $20 million of other instruments. Around 30% of debt is short term. Around 85% is dollar-denominated, and around 30% is denominated in Chilean peso.

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. (an iron ore mining subsidiary) and Compañía Siderúrgica Huachipato S.A. (a steel production subsidiary). 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, the reversion would not happen in the short term.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB+/NEGATIVE/--
Local currency issuer credit rating	BB+/NEGATIVE/--
Business risk	4 - Fair
Country risk	3 - Intermediate Risk
Industry risk	4 - Moderately High Risk
Competitive position	4 - Fair
Financial risk	3 - Intermediate
Cash flow/leverage	3 - Intermediate
Anchor	bb+
Diversification/portfolio effect	3 - 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, April 4, 2024
- 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		
Ratings Affirmed; Outlook Action		
	To	**From**
CAP S.A.		
Issuer Credit Rating	BB+/Negative/--	BB+/Stable/--
Downgraded		
	To	**From**
CAP S.A.		
Senior Unsecured	BB	BB+
Ratings Affirmed		
CAP S.A.		
Senior Unsecured	BB+	