CAP S.A. (/gws/en/esp/issr/80360935)

FitchRatings

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

Fitch Ratings-Chicago-24 March 2017: Fitch Ratings has affirmed CAP S.A.'s (CAP) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB-' and National Long-Term rating at 'A+(cl)'. Fitch has also affirmed CAP's National Equity Rating at First Class Level '2(cl)'. The Rating Outlook is Stable. A full list of rating actions follows the end of this release.

The company's 'BBB-' rating reflects its strong financial condition that shows an improvement in 2016 based on the iron ore price increase. The company has demonstrated resilience in a period of relevant price deterioration. CAP was able to face difficult market conditions with strong liquidity and robust free cash flow (FCF) generation on the basis of a strong cost cutting program, financial discipline and flexibility to adjust production to market changes.

As of year-end (YE) 2016, CAP improved its financial performance reaching a debt to EBITDA of 3.0x and a net leverage indicator at 1.4x a relevant improvement compared with those ratios at 5.2x and 3.0x respectively at YE 2015. .

Fitch revised its iron ore price assumptions to USD55/tonne in 2017 and to USD45/t thereafter driven by iron ore market expected oversupply. Despite projected tighter market conditions, Fitch forecasts that CAP would reach a net debt/EBITDA ratio around 1.1x in 2017 and 1.4x in 2018 and close to those figures going forward, on the basis of robust liquidity, gained efficiencies, streamlining of its business operations and low cash needs..

KEY RATING DRIVERS

Operating Results Improvement:

In 2016, CAP's EBITDA improved by 55% to USD443 million compared with YE 2015 driven by improved mining operations performance that accounts for 78% of the consolidated figures and despite lower results of the steel unit that represents only a 3% of the consolidated EBITDA. CAP's average effective iron ore prices increased by 15% to USD56/tonne and sales volume grew 17% to 16,757 thousand metric tonnes, while operating costs showed a small increase despite a product mix change towards more pellet production.

CAP's mining unit accounted for 78% of its consolidated EBITDA during 2016; while its steel business accounted for 3%; steel processing, Cintac, for 7%; and the company's fledgling infrastructure division comprising 12%.

FCF Generation:

In 2016, the company generated a FCF of USD282 million, from which USD141 million was used to pay debt and the remaining was basically invested in short-term instruments. The company has the flexibility to keep capex low when facing depressed market conditions. The latter contributes to a positive FCF going forward and cash to be maintained above USD600 million. If the iron ore price deteriorates to an extremely low level for a prolonged period, CAP has the alternative to reduce net debt through asset sales.

Financial Debt Trending Down:

As of YE 2016, the company's debt amount to USD1.3 billion (excluding USD15 million of hedging liabilities) a reduction from USD1.4 billion due to the lower use of short-term revolving lines consistent with higher cash flow generation. The debt is 58% from banks, 34% bonds fully linked to USD and 77% in the long term. It is expected a debt reduction going forward despite price pressure in 2018 in line with strong cash availability and low cash requirements.

Further Reduction in Cash Cost is Limited:

CAP was able to maintain its cash cost in around USD33.6/tonne on a FOB basis in 2016, a slight increase compared with USD33.2/tonne in 2015 and after a sharp reduction from USD49/tonne in 2014. Further cost reductions are difficult to achieve as major cost reductions and restructuring have already been made. Exchange rate is expected to remain at similar level than 2016 contributing to a low cost structure.

Long Life Reserves and Resources, Vertically-Integrated Assets:

CAP has 2.3 billion tonnes of iron ore reserves and 7.5 billion tonnes of resources in 2016. This equates to over 60 years of mine life at an expected production rate of 16 million tonnes per year. The company owns and operates four mines distributed across two regions in northern Chile. These operations are complemented by three ports at equal distances across the two regions, a pellet plant with current capacity of 5.2 million tonnes per year, a magnetite plant, a desalination plant, a power transmission line, and an 80 km iron ore slurry pipeline that results in low logistical costs for the company. CAP's vertical integration is further complemented by a long steel mill with one operating blast furnace, and a specialty steel company with operations in Chile, Peru and Argentina. The company has developed the infrastructure business which has proven a source of stable cash flow at around USD50 million.

Equity Rating:

The company's equity rating in level 2 is based on its highly liquid equity indicators. CAP has a long trading history with over 30 years in the Santiago stock exchange market, standing out as a valuable company in the local market. As of March 2017, the company's market capitalization was USD1.841 billion (USD442 million in March 2016). The company's shares show a market presence of 100% with last year's daily average volume estimated at USD8.107 billion as of March 2016 (USD1.342 billion).

KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for CAP S.A. include:
--Fitch mid cycle price assumptions at USD55/t iron ore in 2017, USD45/t being the long-term price;
--Iron ore cash cost of around USD35/for 2017, USD37 for 2018 and 2019;
--Iron ore volumes around 16 million tonnes for the projected period
--Similar product mix than the one of 2016 increasing slightly sinter feed when prices hit USD45/ton;
--Cleanairtech and Tecnocap EBITDA of around $50 million per year, on average;
--Capex of around USD120 million in 2017 coming down to around USD60 million in 2018 and 2019.

RATING SENSITIVITIES
CAP is exposed to inherent risks within the mining and steel industries. A negative rating action -- in either the form of a downgrade, 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 a significant loss of sales volumes due to a more accelerated slowdown in Chinese iron ore consumption that prevents the company's net debt to EBITDA ratio from declining to 2.5x and below on a sustained basis could also result in a negative rating action, as could a significant and prolonged deterioration in CAP's liquidity position and persistent negative FCF.

Positive rating action on CAP is not anticipated in the medium term.

LIQUIDITY

Robust Liquidity:

CAP's credit profile is further supported by its robust liquidity position. As of December 2016, the company held cash and marketable securities of USD733 million compared to total debt of USD1.34 billion. Cash to short-term debt coverage is good at 2.3x compared with 1.6x in 2015 and 0.8x in 2014. Fitch excludes $52 million held in its subsidiary Cleanairtech, as part of its project finance structure. The company's debt payment schedule is comfortable, with amortizations of USD297 million in 2017, USD283 million in 2018 and USD265 million in 2019.

FULL LIST OF RATING ACTIONS

Fitch has affirmed the following ratings:

CAP S.A.
--Long-Term Foreign Currency IDR at 'BBB-';
--Long-Term Local Currency IDR at 'BBB-';
--Yankee bonds due 2036 'BBB-';
--National-scale rating at 'A+(cl)';
--National equity rating at Primera Clase Nivel 2(cl);
--Local debt issuance program No. 434 (serie F) at 'A+(cl)';
--Local debt issuance program No. 435 at 'A+(cl)';
--Local debt issuance program No. 591 (serie G) at 'A+(cl)';
--Local debt issuance program No. 592 (serie H) at 'A+(cl)'.

The Rating Outlook is Stable.

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Date of Relevant Rating Committee: March 23, 2017

Additional information is available on www.fitchratings.com

Applicable Criteria
Criteria for Rating Non-Financial Corporates (pub. 10 Mar 2017) (https://www.fitchratings.com/site/re/895493)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1021066&cft=0)
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