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# Research:
## Summary: Corporacion Nacional del Cobre de Chile

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| | Local Currency | Foreign Currency |
|---|---|---|
| **Credit Rating:** | AA-/Stable/-- | A-/Positive/-- |

## Rationale

The ratings on Chile's leading copper producer, Corporación Nacional del Cobre de Chile (Codelco), reflect the company's position as the world's largest copper mining company with ample, high-grade ore reserves, a low cost structure, and a conservative financial risk profile. These factors are balanced by the inherent cyclicality of the industry, volatile metal prices, a lack of geographic diversification in the production side, and the high tax and dividend payout ratio imposed by the Chilean government, which owns 100% of Codelco. The foreign currency corporate credit rating is the same as the sovereign rating of the Republic of Chile.

Codelco is the world's largest integrated copper producer, accounting for an approximately 16% share of Western market copper production, which is sold to a relatively well regionally-diversified client base. The company's ample high-grade copper ore reserves account for approximately 20% of global proven and probable reserves. Although copper accounts for approximately 78.5% of total sales, the company also benefits from its position as the world's second-largest producer of molybdenum. Codelco has made continued improvements to its cost structure, and with an average cash cost of 40.7 cents per pound of copper produced by the end of fiscal 2001, it ranks among the world's lowest-cost copper producers. The main drivers for this improvement are: increased copper production, improved mining plans, the incorporation of low-cost solvent extraction electrowinning facilities, the reduction of the labor force, and the improvement in operating efficiencies.

With all of its mines located in Chile, Codelco faces limited geographic diversification compared with other global metal producers. However, the mines are spread out among different regions in the country, which helps limit the impact of Chilean geological and environmental risks. In addition, separate labor union agreements, negotiated through each of the mining divisions, mitigate labor risks. Codelco's creditworthiness is supported by its strategic links to the government, including its position as Chile's largest nongovernmental employer and its importance for export generation. The company represented about 18% of Chile's exports, compared with the overall copper mining sector, which comprised 40% of Chile's total exports. In Standard & Poor's opinion, although Codelco may continue to develop new projects via joint ventures with the private sector such as recent agreements signed with major Latin American copper producers (such as Companhia Vale do Rio Doce and Southern Peru Copper Corp.), privatization is unlikely in the medium term. Thus, the company's close links with the government will continue to influence its credit quality.

Weak copper pricing for most of 2001 translated into relatively weaker cash flow protection measures, such as 9.9 times (x) EBITDA interest coverage and 33.1% FFO to debt by the end of fiscal 2001. Yet, operating margins at 28.9% compared well with global industry peers, and over the cycle measures were still adequate for the rating category.

## Outlook

The local currency outlook reflects the expectation that Codelco will maintain its strong business position and prudent financial profile, even as it continues to analyze new national and international business opportunities. The foreign currency outlook reflects the outlook on the ratings of the Republic of Chile.