FitchRatings

FITCH AFFIRMS CODELCO'S FC IDR AT 'A+' & NATIONAL RATING AT 'AAA(CL)'; OUTLOOK STABLE

Fitch Ratings-Chicago/Santiago-22 September 2015: Fitch Ratings has affirmed Corporacion Nacional del Cobre de Chile's (Codelco) foreign currency Issuer Default Rating (IDR) at 'A+', local currency IDR at 'AA-' and national scale rating at 'AAA(cl)'. The Rating Outlook is Stable. A full list of ratings is provided at the end of this release.

KEY RATING DRIVERS

100% Sovereign Ownership:

The company's 'A+' rating reflects Codelco's 100% ownership by the government of Chile and its strategic importance to the country. Due to its status as a state-owned enterprise, Codelco is subject to a law that stipulates its entire net income be transferred to the Chilean Treasury, in addition to taxes and dividends paid. In October 2014, Chile's congress approved a capitalization law intended to finance part of Codelco's ambitious capex program ending in 2018. The capitalization consisted of a USD3 billion capital increase and USD1 billion of retained earnings for the four-year period ending in 2018 of which $425 million has been authorized to be retained to date. The capex program is essential to maintain current copper volume output levels in light of declining ore grades at its aging mines.

Increasing Pressure on Credit Profile:

Codelco exhibits a weakened standalone credit profile as a result of higher debt levels used to finance its large capex program. As of June 30, 2015, the company had almost USD14 billion of total debt compared to USD13 billion as of June 30, 2014. Codelco's total debt-to-latest 12 months (LTM) EBITDA ratio for the same period was 3.6x compared to 2.5x in June 2014, and its net debt-to EBITDA ratio was 3.4x versus 2.3x. Higher gross debt has been exacerbated by a drop in copper prices to around USD2.50/lb in 2015 from USD3.11/lb in 2014. Fitch expects the government to continue to support the company during this critical period.

Elevated Leverage to Remain:

Despite the company's standalone credit profile deterioration, rating linkage to the sovereign remains solid based on the strategic importance of Codelco to the Republic of Chile. These ties were reinforced following the government funding measures announced in 2014 that demonstrates a robust level of commitment by the sovereign to support Codelco. Fitch expects Codelco will continue to slowly increase its debt levels over the next three years, considering the current low copper price environment, high capex, and pending debt maturities, offset by the capital contributions committed in the capitalization law. Fitch's base case net debt/EBITDA ratio accordingly increases to close to 4.0x for the period and should remain around this level throughout the capex duration. These expectations include the continued depreciation of the Chilean peso further improving operating costs, and an expected recovery in copper prices in 2017 and 2018 when Fitch expects a deficit in copper supply, increasing Codelco's EBITDA in line with the increased debt projected for the company.

Key Strategic Asset for Chile:

Codelco possesses immense copper deposits, accounting for 8% of the world's known proven and probable reserves and holds a leading global position in the copper mining industry, accounting for 10% of the world's annual copper output with approximately 1.8 million metric tons of production. This includes output from its respective shares of the El Abra mine deposit and AAS. Fitch views Codelco's long-life reserves as a strategic asset because it should allow the company to remain an important contributor to government revenues in the future. Fitch has witnessed financial support from the government in the form of lower dividends and the permitting of larger allocations of capital so that the company can improve its capital structure to fund its investment program. The commitment of the largest capitalization for a state-owned company in Chilean history further signifies Codelco's strategic importance for the country.

Second-Quartile Cost Position:

The company's position as a second-quartile cash-cost producer of copper also provides a cushion against future volatility in copper price fluctuations. Codelco's cash cost of production including by-products for 1H'15 was USD1.40/lb, an improvement on USD1.58/lb during 1H'14, mainly as a result of savings in materials, energy, and exchange rate differences. Copper prices currently remain around USD2.30/lb. As a result, Codelco's financial performance was resilient for the LTM to June 30, 2015, with USD13 billion of revenues. However, LTM EBITDA of USD4 billion is subject to large tax obligations, pressuring funds from operations (FFO), and debt is higher than historical levels due to the elevated capex.

KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for Codelco include:

--Copper price at Fitch's mid cycle price assumptions USD2.50/lb in 2015, USD 2.50/lb in 2016, USD2.72/lb in 2017 and USD2.95/lb in 2018 and beyond;
--Stable Production volume and sales at around 1.7 to 1.8 metric tons;
--Average CLP/USD exchange rate at around $650 in 2015, and $700 in 2016 and beyond;
--Molybdenum production at around 26 metric tons;
--Capex of USD 3.2 billion in 2015, USD3.6 billion in 2016 and USD5 billion in 2017;
--Treasury Capital Contributions of USD 3 billion divided into three USD1 billion instalments each year from 2015, 2016 and 2017;
--Cash Costs USD1.40/lb in 2015, USD1.38/lb in 2016 and USD 1.35/lb in 2017 and 2018.

RATING SENSITIVITIES

Codelco's ratings remain closely linked to the sovereign due to its 100% ownership by the government of Chile. The company is in a challenging situation of investing high capex to maintain production volumes as ore grades deteriorate against a backdrop of declining prices for every commodity worldwide, including copper. Support from the sovereign is now more essential than in the past when copper prices were much higher, a time when Codelco contributed much more to government revenues. Accordingly, the government passed a law in 2014 capitalizing Codelco for the next few years. Fitch expects the government to deliver on this commitment between now and 2018. Economically, Chile is facing a more challenging business scenario that may restrict the government's ability to deliver further support, and is considered a key risk.

Currently an upgrade is unlikely due to the weaker financial conditions of Chile, and Codelco's rating linkage to the sovereign.

LIQUIDITY

Ongoing Refinancing Expected:

As of June 30, 2015, the company's liquidity position remains adequate with cash and marketable securities of USD638 million and short term debt of USD1.1 billion that is expected to be refinanced following the recent successful issuance of a USD2 billion 10 year 4.5% bond due 2025 during September 2016. The company has increased its debt levels in line with the significant cash requirements due to its structural investment projects while its cash generation has decreased due to the lower price environment. Codelco's free cash flow generation is limited due to the full payment of its profits to the Chilean treasury in the form of dividends, export taxes and royalties. The company's total debt is expected to be at around USD14.8 billion at the end of 2015.

FULL LIST OF RATING ACTIONS

Fitch affirms Codelco's ratings as follows:

--Foreign currency IDR at 'A+';
--Local currency IDR at 'AA-';
--US$950 million 5.625% bonds due Oct. 18, 2043 at 'A+;
--US$EUR 600 notes due July 2024 at 'A+';
--US$980 million 4.875% notes due Nov. 4, 2044 at 'A+';
--US$500 million 5.625% notes due Sept. 21, 2035 at 'A+';
--US$500 million 6.15% notes due Oct. 24, 2036 at 'A+';
--US$600 million 7.5% notes due Jan. 15, 2019 at 'A+';
--US$1 billion 3.75% notes due November 2020 at 'A+';
--US$1.15 billion 3.875% notes due November 2021 at 'A+';
--US$1.25 billion 3% notes due July 17, 2022 at 'A+';
--US$750 million 4.25% notes due July 17, 2042 at 'A+';
--US$750 million 4.5% notes due Aug. 13, 2023 at 'A+'
--US$2 billion 4.5% notes due September 2025 at 'A+';
--National scale rating at 'AAA(cl)';
--UF6.9 million 3.29% notes due April 1, 2025 at 'AAA(cl)';
--UF11 million Undrawn Line Program No. 608 at 'AAA(cl)'.

The Rating Outlook is Stable.

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Date of Relevant Rating Committee: Sept. 21, 2015.

Additional information is available on www.fitchratings.com.

Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362
National Scale Ratings Criteria (pub. 30 Oct 2013)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720082

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