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Research Update:

Corporacion Nacional del Cobre de Chile 'A+' Ratings Affirmed; Outlook Stable

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Table Of Contents

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Overview

- Increased capital contributions from the owner, combined with a reduced capex program and better copper prices, are likely to contain Codelco's leverage below 5.0x and reduce the need for debt-financing in 2017 and 2018.
- We're affirming our 'A+' ratings on the company, including the ratings on its bonds. At the same time, we are upgrading the SACP to 'bb' from 'bb-', on improved leverage metrics.
- The stable outlook reflects our is expectations of debt to EBITDA between 4.5x and 5.0x, funds from operations (FFO) to debt between 15% and 20%, and our perception that the likelihood of an extraordinary government support, in case of need, is extremely high.

Rating Action

We are affirming the 'A+' ratings on Corporacion Nacional del Cobre de Chile's, including the ratings on its bonds. We are also upgrading its stand-alone credit profile (SACP) to 'bb' from 'bb-'. The outlook remains stable.

Rationale

The rating affirmation is driven mainly by the manifested explicit support the Chilean government is providing to the company by injecting money-in for about $3.3 billion to $3.5 billion in the 2016-2019 period (according to our calculations) and by a better price scenario for copper over the next three years. These two factors, combined with a reduced capital expenditure program, would allow Codelco's leverage to mildly recover from a low point in 2016.

In our opinion, Codelco enjoys an 'extremely high' likelihood of getting financial support from the Chile (AA-/Negative/A-1+) were it to face bankruptcy risks. In reaching that conclusion we have particularly weighted-in past capital injections as well as the commitment to further deploy capital, that stems from the Capitalization Law and the government's decision to return a portion of the funds the company contributed for the financing of the Chilean Army (Ley Reservada), in 2016 and 2017. It is also likely that such obligation (to finance the national army) would be alleviated in the future, although that would need Congressional approval and is not likely to happen before 2018.

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In late 2016, the government decided to return to Codelco $475 million, and a similar amount is expected in 2017 out of the monies Codelco transfers to the treasury due to the Ley Reservada, --roughly $900 million-$1,000 million per year. On top of that, the government deployed $500 million in December 2016 from the Capitalization Law and is expected to contribute $630 million per year through 2019 to comply with this law.

Copper prices have recently rebounded to $5,500-$5,800 per ton, and we now believe there is a chance they will remain higher than last year. Our updated copper price assumptions incorporate a 10% increase compared to the previous ones (for more details please read "S&P Global Ratings Revises Its Price Assumptions For Metals For 2017-2018 And Adds Assumptions For 2019", published January 17, 2017 on RatingsDirect).

Our updated case shows no additional cash needs in 2017 and a manageable operating cash flow deficit in 2018 of around $500 million before debt maturities. That is also aligned with an adjusted debt-to-EBITDA metric of 4.5x-5.0x and FFO-to-debt ratio of 15%-20% in 2017-2019. Our base-case also incorporates additional reductions in the investment plan, that now consists of the main two expansion projects Chuquicamata Underground (367 thousand tons per year in 2019) and El Teniente New Mine level (432kt per year in 2023) and other smaller projects like the Andina plant relocation and the overhaul of operations to comply with the new emissions standards. Other important assumptions in our base case include:

- Average Chilean peso (CLP) exchange rate of CLP675 per dollar in 2017 and CLP685 in 2018;
- Inflation rates of 2.8% in 2017 and 3.0% in 2018;
- Copper prices of $5,070 per ton in 2017 and $5,290 per ton in 2018;
- Copper output of about 1.7 million tons per year through 2018;
- A 10% tax rate on exports, according to Law 13.196 (Ley Reservada);
- A 40% additional tax rate on Codelco's earnings before taxes, according to Decree Law 2.398;
- Capex of $3.8 billion in 2017 and $3.9 billion in 2018; and
- Capital injections of $1.6 billion in 2017 (comprising two amounts of $475 million corresponding to "Ley Reservada" reimbursements for 2016 and 2017, and a $630 million capitalization) in 2017 and $630 million in 2018.

Liquidity

We continue to assess Codelco's liquidity as adequate because we expect cash sources to exceed uses by at least 20% in the next 12 months and that the company will continue to generate positive cash over uses even if EBITDA were to decline by 15%, compared to our base case.

We also believe the company has strong financial flexibility and open access to credit markets due to its government ownership, which is reflected in the low spreads in its bonds compared with other frequent corporate debt issuers. Also, the company has no covenants in any of its debts. These factors offset the risks associated with the company's bold capex in the next 12 months and its lack of committed credit lines.

Liquidity Sources:
- Cash position of around $500 million as of Dec. 31, 2016;
- Potential seasonal working capital needs of up to $300 million;
- No dividends;
- FFO of $2.4 billion; and
- Capital injections of $1.6 billion.

Liquidity Uses:
- Short-term debt maturities of $50 million; and
- Full capital expenditures disbursements of $3.8 billion.

Outlook

The stable outlook reflects our views that no immediate changes to Codelco's leverage profile are envisioned, nor to our assessment of support from the Chilean Government--even in a scenario of better regulation to Codelco. It is also consistent with a potential one-notch downgrade of the sovereign local currency rating, as the outlook on that rating is currently negative. Our ratings and outlook are aligned with adjusted debt-to-EBITDA ratios of 4.5x-5.0x and FFO-to-debt of 15%-20%.

Downside scenario

Assuming no changes to our support assessment, a one-notch downgrade scenario could arise from the following situations: i) Codelco's SACP is lowered to 'b+' or ii) Chile's local currency ratings are lowered two notches to 'A+'. The first situation could materialize under debt-to-EBITDA ratios higher than 5.0x, and FFO-to-debt below 12% on a consistent basis.

Upside scenario

Although very unlikely at this moment, we could raise the rating on Codelco to 'AA-' if we were to upgrade its SACP to 'bb+', assuming no changes to our support assessment and 'AA' local currency rating on Chile. For that, the company would need to maintain leverage metrics below 4.0x and FFO-to-debt above 20% consistently, with improving prospects.

Ratings Score Snapshot

Corporate Credit Rating: A+/Stable/--

Business risk: Satisfactory
- Country risk: Intermediate
- Industry risk: Moderately high
- Competitive position: Satisfactory

Financial risk: Aggressive
- Cash flow/Leverage: Aggressive

Anchor: bb
Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bb
Sovereign foreign currency rating: AA-
Likelihood of government support: Extremely high

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Metals And Mining Upstream Industry, Dec. 20, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed

Corporacion Nacional del Cobre de Chile	
Corporate Credit Rating	
Foreign Currency	A+/Stable/--
Senior Unsecured	A+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.