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Summary:

Corporacion Nacional del Cobre de Chile

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	Foreign Currency
Credit Rating:	A/Stable/--

Rationale

Standard & Poor's Ratings Services' 'A' foreign currency rating on Chile-based, state-owned copper producer Corporación Nacional del Cobre de Chile (Codelco) reflects our opinion that the Republic of Chile is highly likely to provide timely and sufficient extraordinary support to Codelco in the event of financial distress. We also assess Codelco's stand-alone credit profile (SACP) to be 'bbb-'. The outlook is stable.

In accordance with our criteria for government-related entities, our view of a very high likelihood of extraordinary government support is based on:

- Codelco's very important role in the Chilean economy because it represents a large portion of the country's exports and fiscal revenues
- The very strong link with the Chilean government, based mainly on its 100% ownership of Codelco, which, in our view, should continue to influence the company's credit quality

Codelco's stand-alone credit profile reflects its strong business risk profile and significant financial risk profile. Codelco benefits from its strong market position as the world's largest integrated copper mining company and second-largest producer of molybdenum, with ample high-grade copper ore reserves, a globally competitive cost structure, and integrated operations including copper refining and smelting. However, somewhat offsetting these strengths are the industry's inherent cyclicality, resulting in volatile copper and molybdenum prices and cash flow generation, lack of geographic diversification for production because all operations are in Chile, heavy tax and dividend burden from the government, and an aggressive financial policy.

High capital expenditures and an aggressive dividend policy have resulted in a significant increase in debt in the past five years. Total adjusted debt to EBITDA, which reached about 1.3x for the last 12 months ended March 31, 2011, could increase to about 2.5x by fiscal 2013, mainly as a result of the strong projected capital expenditures (assuming long-term copper prices of $2 per pound), while funds from operations (FFO) to total debt would likely be 20% to 30%, still commensurate with the company's stand-alone credit profile. Massive capital expenditures and an aggressive dividend policy could result in potentially large negative free cash flows, which, combined with the need to rely on refinancing of debt maturities, could strain the stand-alone credit profile in the medium term.

Liquidity

We assess Codelco's liquidity position as adequate based on the company's strong financial flexibility and good standing in credit markets, which government ownership enhances. These factors offset the expected recurring low-to-negative free operating cash flow generation and an aggressive dividend policy. As of March 31, 2011, the company had about $2 billion in cash and cash equivalents and short-term principal maturities for about $650 million.

Cash balances as of March 2011 are extraordinary and incorporate proceeds from Codelco's sale in February 2011 of its 40% stake in Chilean power generator E-CL S.A. We expect Codelco to use such proceeds mainly to partially finance its heavy capital expenditures that could reach up to $3 billion in 2011.

Although the company does not have committed credit lines, it enjoys very strong access to banking and capital markets, enhanced by government ownership. Codelco's outstanding debt does not include financial covenants.

Outlook

The stable outlook incorporates our expectation that the Chilean government would provide timely and sufficient extraordinary support to Codelco in the event of financial distress. We could raise the ratings if there is a significant improvement in the company's financial profile, which in turn would depend on a more conservative financial policy. We could lower the ratings if Codelco's financial profile significantly deteriorates (for example, total debt to EBITDA exceeding 3x), the company's importance to the Chilean government diminishes, or the government privatizes the company.