STANDARD &POOR'S

My Credit Profile
Corporacion Nacional del Cobre de Chile, 'A/Stable/--'

Table of Contents

Summary: Corporacion Nacional del Cobre de Chile

Publication date: 04-Aug-2009
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Rationale

The ratings on Chile-based, 100% state-owned copper producer Corporación Nacional del Cobre de Chile (Codelco) reflect our opinion that there is a very high likelihood that the Republic of Chile (Foreign Currency: A+/Stable/A-1; Local Currency: AA/Stable/A-1+) would provide timely and sufficient extraordinary support to Codelco in the event of financial distress. In addition, we assess Codelco's stand-alone credit profile to be in the 'BBB' category.

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

- Codelco's "very important" role for the Chilean economy as it represents a large portion of the country's exports and fiscal revenues.
- The "very strong" link with the Chilean government mainly based on its 100% ownership of Codelco, which should continue to influence its credit quality, as we consider its privatization unlikely.

Codelco's standalone credit profile incorporates its strong market position as the world's largest integrated copper mining company, with ample high-grade copper ore reserves, and its globally competitive cost structure. These strengths are partly mitigated by the industry's inherent cyclicality, which results in volatile copper prices and cash flow generation; a lack of geographic diversification on the production side, with all operations in Chile; the heavy tax and dividend burden imposed by the government; and the company's aggressive financial policy.

Codelco accounts for about 11% of global copper production, and the copper products are sold to a relatively well-diversified client base. Copper accounts for 80%-90% of the company's total sales, but Codelco also benefits from its position as the world's second-largest producer of molybdenum with about 10% of 2008's global production. Codelco's ample high-grade copper ore reserves account for about 10% of proven reserves worldwide, and have enabled the company to achieve large economies of scale and to become a low-cost copper producer. Although Codelco's cash production costs (including the positive impact of by-products in the production cost) increased significantly to 70 cents per pound in fiscal 2008 compared with 40 cents per pound in fiscal 2007, we expect that the company's cost profile will still remain highly competitive on a global basis.

During 2008, Codelco continued reporting relatively high profitability and cash flow generation due to the very favorable pricing environment for copper that reached an average of $3.15 per pound in the London Metals Exchange. However, Codelco's EBITDA margin dropped to 43%, compared with 55% in fiscal

2007 and 60% in 2006. This was mainly due to lower-ore grade and higher cost of energy, steel and chemical products, as well as higher labor costs due to the revaluation of the Chilean peso, etc. As a result, debt increased to about $6.0 billion ($5.2 billion net debt), including commercial debt with China's state-owned Minmetals Nonferrous Metals Co. Ltd. as of March 31 2009, mainly driven by high capital expenditures ($2.0 billion in 2008) and dividend payments ($3.2 billion in 2008). On Feb. 12, 2007, the Chilean Ministry of Economy announced a $313.5 million capitalization of Codelco's 2006 earnings and the creation of a $400 million reserve fund to finance capital expenditures. In addition, about $200 million of Codelco's 2007 earnings were retained, and on Jan. 5, 2009, the Chilean government announced its plan to capitalize $1 billion of 2008 earnings to finance about 50% of the capital expenditures for 2009. These measures should provide an important relief to Codelco's high cash needs and result in an improvement of its adjusted cash flow ratios. However, given the sporadic nature of these capitalizations and as long as there is no clear mechanism for future capitalizations, we do not expect the stand alone rating to substantially benefit from this measure.

Liquidity

Codelco enjoys a very good liquidity and financial flexibility, which allows it to refinance its debt maturities at relatively attractive terms, given its overall good credit risk profile. This is evidenced by the $600 million, 10-year bond placement in January 2009 amid the global credit crunch. This flexibility is supported by its strong business risk profile and 100% ownership by, and strategic importance to, the Republic of Chile. However, the company routinely has significant negative free cash flow due to its 100% dividend payout to the government and partly debt-financed capital expenditures. Codelco faces no debt maturities in the second half of 2009 and about $550 million in 2010. The company does not have committed bank lines. A fair number of the company's debt instruments contains, among other non-financial covenants, a change-of-control clause that allows for the acceleration of most of its debt on the loss of majority ownership by the Chilean Republic.

Outlook

The stable outlook incorporates our expectations that the Chilean government, if necessary, will support Codelco, given the company's strategic importance to the national economy. Ratings upside depends on a significant improvement in Codelco's financial profile and would require a more conservative financial policy. We could lower the ratings if Codelco's financial profile significantly deteriorates, and/or the company's importance to the Chilean government diminishes, or the government privatizes the company.