

## CAP S.A.

CAP  
Full Rating Report

## Ratings

## Foreign Currency

Long-Term IDR	BBB
Senior Unsecured	BBB

## Local Currency

Long-Term IDR	BBB
Senior Unsecured	BBB

## National

Long-Term Rating	AA-(cl)
Senior Unsecured	AA-(cl)

## National

Equity Rating Primera Clase	Level 1(cl)
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## Rating Outlooks

Long-Term Foreign Currency IDR	Stable
Long-Term Local Currency IDR	Stable
National Long-Term Rating	Stable

## Financial Data

CAP S.A. (USD Mil.)	2/31/12	12/31/11
Total Equity	3,108	2,970
Total Debt	719	628
Net Revenue	2,470	2,787
Net Income	328	630
EBITDA Margin (%)	30.9	41.0
ROAE (%)	10.8	22.3
FFO Adjusted Leverage (x)	0.9	1.0

Source: CAP S.A., Fitch.

## Related Research

[2013 Outlook: Base Metals – Managing for Slower Growth \(January 2013\)](#)[2013 Outlook: Latin American Metals and Mining \(December 2012\)](#)[How Fitch Uses Commodity Prices in Its Projections \(October 2011\)](#)

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## Key Rating Drivers

**Conservative Capital Structure:** CAP S.A.'s (CAP) investment-grade ratings reflect the company's sustained conservative capital structure and strong credit metrics, demonstrated by its five-year average net debt-to-EBITDA ratio of less than 1.0x. Fitch Rating's base case assumptions for CAP indicate a net debt-to-EBITDA ratio range of 1.0x to 1.3x in the next three years, reducing to below 1.0x again in 2016. CAP's year-end 2012 total debt-to-EBITDA ratio was low at 0.9x and its net debt to EBITDA was almost neutral.

**Comfortable Liquidity Profile:** CAP's credit profile also is bolstered by its comfortable liquidity position and debt maturity profile. For 2012, the company held cash and marketable securities of USD711 million compared with short-term debt of USD111 million and total debt of USD719 million. Total debt increased from USD628 million in 2011 as a result of the desalination plant investment and an increase in short-term debt, alongside ongoing expansion in CAP's iron ore mining division, Compañía Minera del Pacifico S.A. (CMP).

**Iron Ore Production Ramp-Up:** Increased iron ore shipments of 12.2 million metric tons in 2012 compared with 11.5 million metric tons in 2011 helped CMP partially offset lower average iron ore prices of USD110 per ton compared with USD154 per ton in 2011. On a consolidated basis, CAP's EBITDA margins fell to 31% in 2012 from 41% in 2011 due to the lower price environment and increased operating costs. The 2012 EBITDA margin compares well to pre-2009 average normalized levels of around 25%, prior to CAP's expansion into iron ore.

**Cash Flow Funds Capex:** Fitch anticipates CAP will finance its sizeable capex plans of USD1.1 billion in 2013 and USD311 million in 2014 mostly from internal cash flow, enabling the company to maintain its conservative capital structure. This capex relates mainly to CMP's projects to increase iron ore production to more than 18 million metric tons per year by 2015.

**Rating Outlook:** CAP's ratings have a Stable Outlook, reflecting the company's solid credit profile.

## Rating Sensitivities

**Maintaining Healthy Credit Metrics:** Positive rating action on CAP could follow as a result of one or more of the following factors: more diversified revenue stream, a significant increase in CMP's iron ore output to make it a top five global producer, or maintaining conservative credit metrics with an average net debt-to-EBITDA ratio less than 1.0x.

**High Iron Ore Dependency:** A sustained period of depressed iron ore prices and/or a significant loss of sales volumes due to a slowdown in Chinese iron ore consumption that increases the company's net debt-to-EBITDA ratio to more than 2.5x on a sustained basis could result in a negative rating action. Also, a significant and prolonged deterioration in CAP's liquidity position and persistent negative FCF could bring a negative rating action.

## Liquidity and Debt Structure

**Robust Liquidity, Low Debt:** CAP held cash and marketable securities of USD711 million compared to total debt of USD719 million in 2012, with a comfortable debt amortization schedule.

- This document focuses on the key credit issues relating to the issuer, and assumes background knowledge of CAP S.A. and its industry.

## Key Rating Issues

### Sector Risk

CAP is exposed to inherent risks within the mining and steel industries. A negative rating action—either a downgrade, Negative Outlook, or both—could result from deterioration in the company’s capital structure not addressed in the short term.

### Zero Profitability in Steel Unit

CAP’s steel division, Compañía Siderúrgica Huachipato S.A. (CSH), had a negative 2% contribution to CAP’s consolidated EBITDA in 2012, following a neutral contribution in 2011, and a negative 3% contribution in 2010. This was due to steel imports flooding Chile’s domestic market as a result of its open free trade agreements and strong currency, bolstered by the strong sentiment for copper globally.

### Maintaining Steel Market Share

The loss in steel business profitability is due to increased raw material and energy costs. The strategy to compete with cheaper steel imports does not allow these costs to be passed on to customers. By adopting a competitive but loss-making strategy, CAP has been able to recover its leading steel market share following the loss in market share during 2010 when its operations were offline for half of the year as a result of the Chilean earthquake and tsunami.

### Challenges for Future Growth

Energy and water projects are expensive in Chile, and the environmental impact of new mines and expansions could lead to issues with local communities.

## Financial Overview

### Liquidity and Debt Structure

CAP’s credit profile is bolstered by its robust liquidity position. In 2012, the company held cash and marketable securities of USD711 million compared with short-term debt of USD111 million. Total debt increased to USD719 million in 2012 from USD628 million in 2011 as a result of the project finance investment relating to the 51%-owned desalination plant consolidated by CAP, and the increase in short-term bank debt at CINTAC. CAP’s debt was composed of bank loans (58%), local bonds (23%), and international bonds (9%), with the remainder in financial leases and hedging instruments.

### Debt Maturities and Liquidity

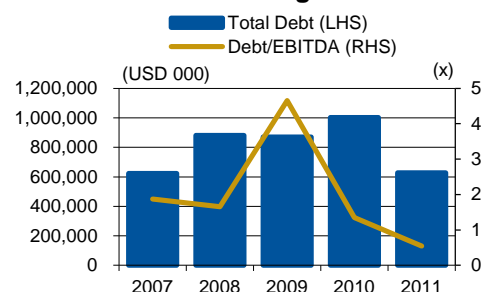
(Year End Dec. 31, 2012)

#### Debt Maturities

2013	156,480
2014	19,711
2015	104,677
2016	73,358
After 2016	364,459
Cash and Cash Equivalents	711,333

Source CAP.S.A.

### Total Debt and Leverage



Source CAP.S.A., Fitch.

### Related Criteria

[Corporate Rating Methodology \(August 2012\)](#)

[Parent and Subsidiary Rating Linkage \(August 2012\)](#)

[National Ratings Criteria \(January 2011\)](#)

During the next three years, CAP has USD280 million of debt maturities due with USD156 million due in 2013, USD20 million due in 2014, and USD105 million due in 2015. Cash to short-term debt coverage is strong at 4.5x. The company also has additional credit lines with local banks, should they be required.

The company's coverage ratios in 2012 remain strong as demonstrated by its FFO interest coverage ratio of 16.9x and EBITDA-to-gross-interest-expense ratio of 15.4x.

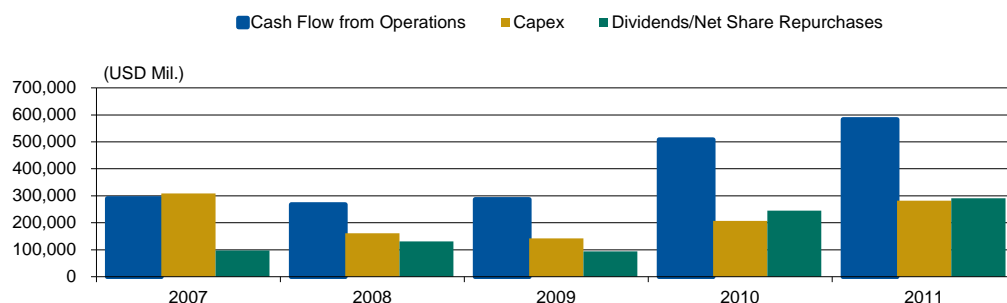
CAP has debt covenant requirements for its bank debt facilities and comfortably met the quarterly test requirements in the past year, with net financial debt to EBITDA below the threshold of 4.0x, and EBITDA to net financial expenses more than 2.5x. Fitch's financial projections for CAP indicate it will continue to meet its covenant requirements comfortably the next four years.

The company also has relatively small derivative exposure positions, with a cross currency swap amounting to USD44 million and forward Chilean peso (CLP)/USD derivatives totaling USD271 million, with both maturing in 2012. In addition, the company holds an interest rate swap of USD172 million that matures in May 2018.

**Cash Flow Analysis**

CAP's FCF of negative USD64 million for 2012 was better than Fitch's expectations of negative USD248 million for the year. FCF was negative because of the ongoing investment program with capex of USD777 million and dividends of USD265 million in 2012. This compares with FCF of negative USD22 million following capex of USD282 million and dividend payments of USD322 million in 2011. Fitch expects the company to return to positive FCF generation in 2014, subject to dividends. CAP traditionally exhibits strong FCF during normal investment periods.

**CFO and Cash Use**



Source: Company data, Fitch.

Fitch expects CAP to finance its sizeable capex plans of USD1.1 billion in 2013 and USD311 million in 2014 mostly from internal cash flow. This will enable the company to maintain its conservative capital structure. This capex relates mainly to CMP's projects to increase iron ore production to more than 18 million metric tons per year by 2015 from around 12 million metric tons per year.

CAP generated USD979 million of CFFO in 2012, following a working capital inflow from a high FFO of USD787 million. The working capital increase came from improved inventories and payables terms. This compares with CFFO of USD582 million in 2011.

From 2011–2012, CMP accounted for 94% of CAP's consolidated EBITDA. EBITDA generated in 2012 was USD764 million compared with USD1.1 billion in 2011. In 2012, the average price of iron ore sold by CMP was USD110 per metric ton based on sales volumes of 12.2 million metric tons.

In 2011, the average price for iron ore sold by CMP was USD154 per metric ton based on sales volumes of 11.5 million metric tons. The reason for the year-on-year decrease in revenues and EBITDA was from the 29% reduction in average prices, partially compensated for by an increase in production during 2012.

CMP's average cost of production was about USD50 per metric ton for the year. The average price for steel sold by CSH was USD819 per metric ton based on sales volumes of 1.1 million metric tons, achieving average prices of USD1,167 per metric ton based on sales volumes of 400,000 metric tons for 2012.

Historically, CAP has demonstrated discipline with dividend payments when operating conditions require more liquidity, as seen with the low dividend of USD94 million in 2009. The company also is able to scale back, or delay, its sizeable capex to bolster cash flow in the next two years, if required.

## Peer Group

Issuer	Country
<b>BBB+</b>	
Vale S.A.	Brazil
<b>BBB-</b>	
Companhia Siderurgica Nacional (CSN)	Brazil
Gerdau S.A.	Brazil

<b>BB+</b>	
Usinas Siderurgicas de Minas Gerais S.A. (Usiminas)	Brazil

Source: Fitch.

## Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
March 14, 2013	BBB	Stable
March 16, 2012	BBB	Stable
March 28, 2011	BBB-	Stable
April 6, 2010	BBB-	Stable
Dec. 30, 2008	BBB-	Stable
Oct. 1, 2007	BBB-	Stable
Sept. 1, 2006	BBB-	Stable

Source: Fitch.

## Peer and Sector Analysis

### Peer Group Analysis

(USD Mil.)	CAP S.A.	Vale S.A.	Companhia Siderurgica Nacional (CSN)	Gerdau S.A.
LTM as of	12/31/2012	12/31/2012	12/31/2012	12/31/2012
Long-term IDR	BBB	BBB+	BBB-	BBB-
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable

### Financial Statistics

Revenue	2,470	47,694	8,448	18,584
YoY Revenue Growth (%)	(11.38)	(19.15)	(14.36)	(12.36)
EBITDA	764	18,593	2,273	2,043
EBITDA Margin (%)	30.93	38.98	26.91	2.70
Free Cash Flow	(63)	(5,182)	(428)	501
Total Adjusted Debt	719	33,224	15,076	7,246
Cash and Cash Equivalents	711	5,832	7,222	1,233
Funds Flow from Operations	787	15,159	1,431	2,590
Capex	(777)	(15,777)	(1,572)	(1,530)

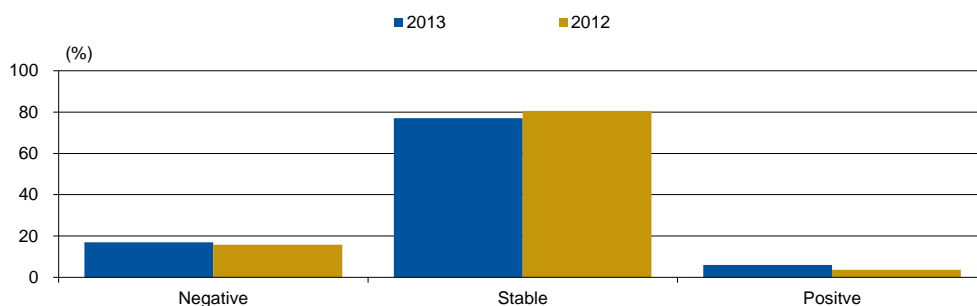
### Credit Metrics (x)

EBITDA/Gross Interest Coverage	15.42	7.70	2.28	4.38
FFO Adjusted Leverage	0.86	1.87	6.21	2.37
Adjusted Net Debt/EBITDAR	0.02	1.40	3.45	2.94
FFO Interest Coverage	16.89	7.28	2.44	6.56
Capex/Revenues	(0.31)	(0.33)	(0.19)	(0.08)
FCF/Total Debt with Equity Credit	(0.09)	(0.16)	(0.03)	0.17

YoY – Year over year.

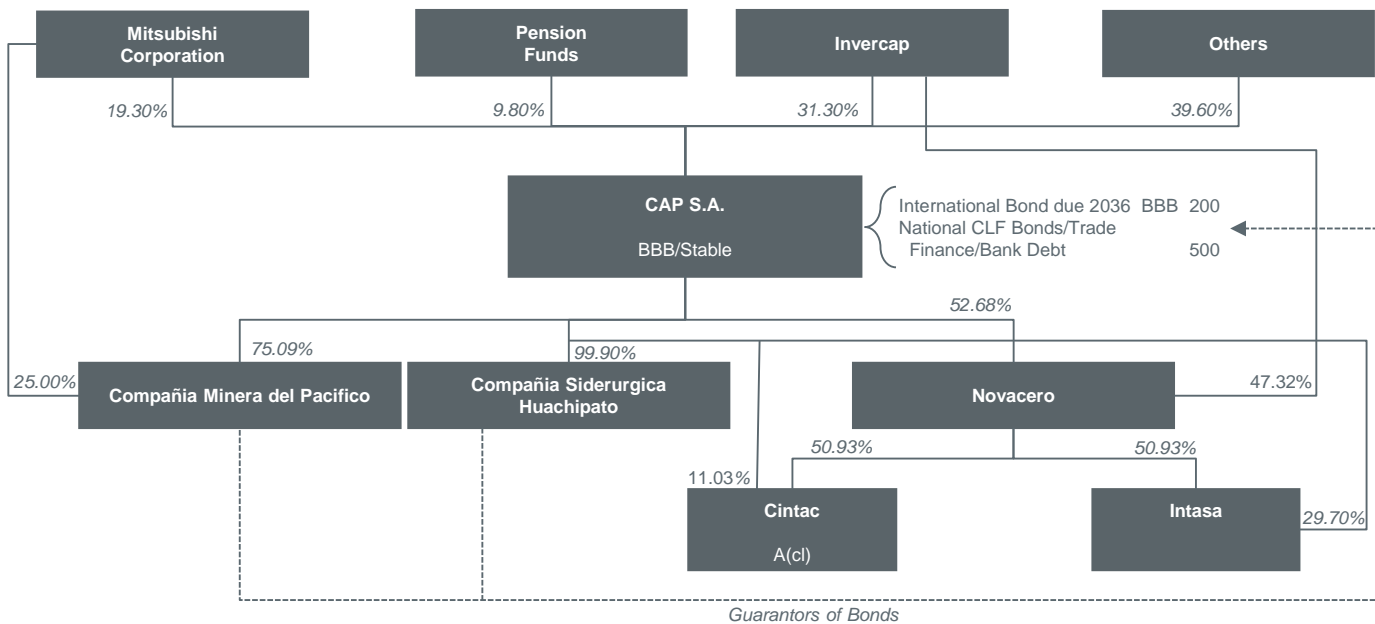
Source: Company data, Fitch.

### Sector Outlook Distribution



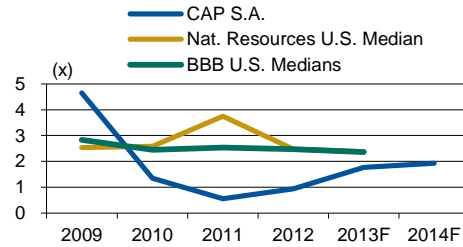
Source: Company data, Fitch.

## Organization Structure — CAP S.A. (USD Mil.)



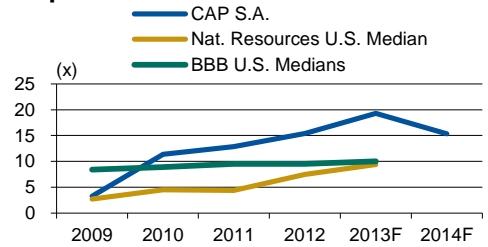
Note: Information in this diagram was compiled in a simplified format from public sources for users' convenience — other support, lending and management relationships may exist. All information is subject to change over time.  
Source: Fitch and CAP financial statements.

### Leverage: Total Adj. Debt/Op. EBITDAR



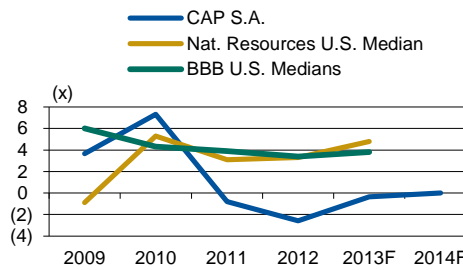
F - Forecast.  
Source: Company data, Fitch.

### Int. Coverage: Op EBITDA/Gross Int. Exp.



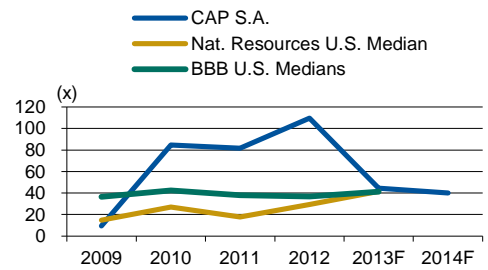
F - Forecast.  
Source: Company data, Fitch.

### FCF/Revenues



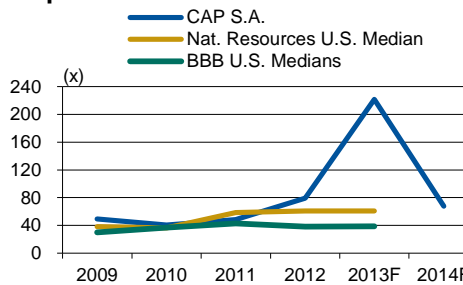
F - Forecast.  
Source: Company data, Fitch.

### FFO/Debt



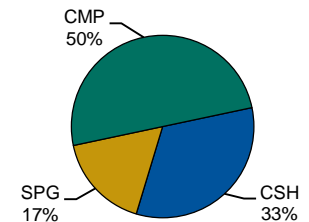
F - Forecast.  
Source: Company data, Fitch.

### Capex/CFO



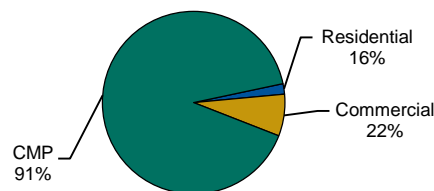
F - Forecast.  
Source: Company data, Fitch.

### CAP S.A. Net Sales by Business Unit (2012)



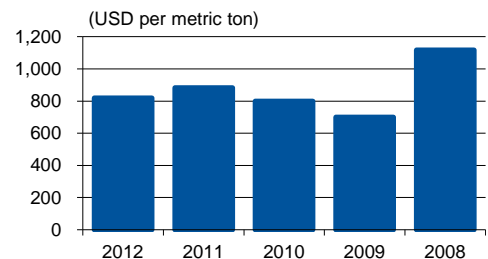
Source: CAP S.A..

### CAP S.A. EBITDA by Business Unit (2012)



Source: CAP S.A.

### CAP S.A. Average Steel Prices



Source: CAP S.A.

### Company Profile

CAP's strengths lie in its vertical integration into iron ore, its No.1 position in its domestic market, and conservative policies regarding capital structure management. While being the market leader in Chile benefits CAP, it also contributes to the company's weakness of predominantly catering for just one, relatively small, market.

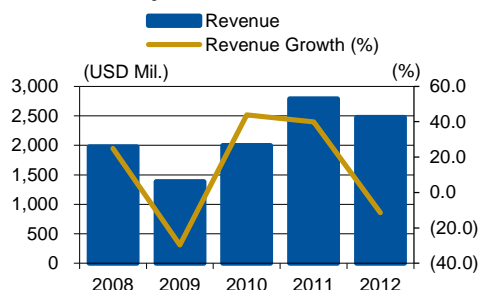
CAP had a 50% domestic market share in its target steel markets and a 38% total steel market share in 2012. CMP has a dominant position in Chilean iron ore mining, with more than 12.2 million metric tons of iron ore shipped in 2012 compared with approximately 11.5 million metric tons in 2011, and projections of more than 12.8 million metric tons for 2012.

During 2012, 15% of CMP's iron ore was destined for internal consumption in Chile, while 67% of production exported to China.

CAP, through CSH, produces both flat steel products (40%) and long steel products (60%). Chilean apparent steel consumption grew at an average annual rate of 5.5% in the last 20 years.

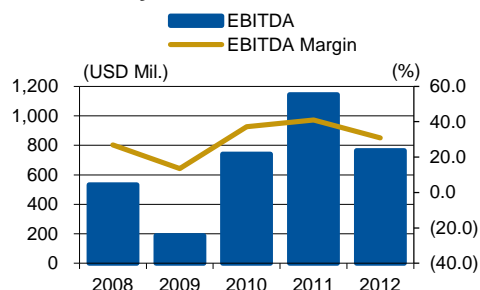
According to the Latin American Steel Association (Asociación Latinoamericana del Acero [Alacero]), total Chilean steel consumption was 3 million metric tons in 2012 compared with 2.5 million metric tons in 2011. Alacero forecasts consumption to grow to 3.4 million metric tons in 2013. Chilean GDP growth in 2012 was 5.6% and Fitch calculates that it will grow by 4.7% in 2013 and 4.9% in 2014.

#### Revenue Dynamics



Source: CAP S.A., Fitch.

#### EBITDA Dynamics



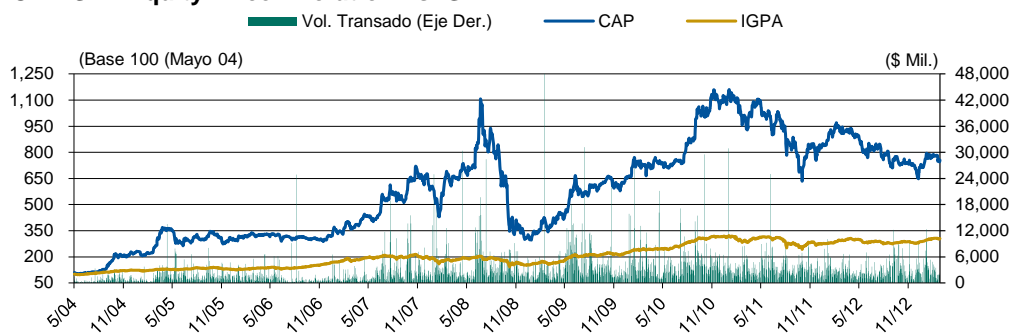
Source: CAP S.A., Fitch.



### Equity Instrument

CAP has a long trading history with more than 30 years listed on the Santiago stock exchange, standing out as one of the largest companies with a market capitalization of USD 5,375 million as of Jan. 31, 2013. The company's shares are highly liquid with a market presence of 100%, and with 2012 average volumes estimated at USD 6.029 million as of Jan. 31, 2013. Equity indicators position CAP well into the level 1 category.

#### CAP S.A. Equity Price Evolution vs IGPA



Source: Source: Santiago Stock Exchange, Fitch.

#### CAP S.A. — Market Data

Closing Price (USD)	17.012
Price Range (USD) (52 Weeks)	21.301–14.560
Market Capitalization (USD Mil.) <sup>a</sup>	5,375.5
Economic Value of Assets (USD Mil.) <sup>b</sup>	5,798.8

##### Liquidity

Market Presence	100.00
Average Volume Last Month (USD Mil.)	4,624
Average Volume Last Year (USD Mil.)	6,029
Does it Belong to the IPSA	Yes
Part. in the IGPA (Rolling Year January 2012) (%)	3.09
Free Float (%)	49.41

##### Profitability

Ret. Shareholding (Rolling Year January 2012) (%)	(17.47)
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<sup>a</sup>Market Capitalization = Number of Shares \* Closing Price. <sup>b</sup>Asset Economic Value (EV) = Market Capitalization + Net Debt. Exchange Rate as of 31/01/12 (USD488.75).

Source: Santiago Stock Exchange, Fitch.

## Financial Summary — CAP S.A.

(USD Thousands)	2008	2009	2010	2011	LTM Ended 12/31/2012
<b>Profitability</b>					
Operating EBITDA	531,505.00	187,020.00	740,468.00	1,142,853.00	764,000.00
Operating EBITDAR	531,505.00	187,020.00	740,468.00	1,142,853.00	764,000.00
Operating EBITDA Margin	26.96	13.49	37.14	41.01	30.93
Operating EBITDAR Margin	26.96	13.49	37.14	41.01	30.93
FFO Return on Adjusted Capital (%)	22.10	7.26	24.76	16.71	21.86
Free Cash Flow Margin (%)	(1.24)	3.65	7.32	(0.80)	(2.58)
Return on Average Equity (%)	27.62	(1.35)	43.89	22.28	10.78
<b>Coverage</b>					
FFO Interest Coverage	7.66	2.44	14.06	6.75	16.89
Operating EBITDA/Interest Expense	9.15	3.26	11.40	12.84	15.42
Operating EBITDAR/Interest Expense + Rents	9.15	3.26	11.40	12.84	15.42
Operating EBITDA/Debt Service Coverage	3.14	1.85	2.60	5.44	3.71
Operating EBITDAR/Debt Service Coverage	3.14	1.85	2.60	5.44	3.71
FFO Fixed Charge Coverage	7.66	2.44	14.06	6.75	16.89
FCF Debt Service Coverage	0.20	1.07	0.74	0.32	(0.07)
(FCF + Cash and Marketable Securities)/Debt Service Coverage	2.43	4.90	4.19	4.52	3.38
Cash Flow from Operations/Capital Expenditures	1.66	2.02	2.46	2.06	1.26
<b>Capital Structure and Leverage (x)</b>					
FFO Adjusted Leverage	1.98	6.21	1.10	1.04	0.86
Total Debt with Equity Credit/Operating EBITDA	1.66	4.65	1.35	0.55	0.94
Total Net Debt with Equity Credit/Operating EBITDA	0.94	2.58	0.03	(0.22)	0.01
Total Adjusted Debt/Operating EBITDAR	1.66	4.65	1.35	0.55	0.94
Total Adjusted Net Debt/Operating EBITDAR	0.94	2.58	0.03	(0.22)	0.01
Implied Cost of Funds (%)	7.74	6.56	6.94	10.93	7.36
Secured Debt/Total Debt	—	—	—	—	—
Short-Term Debt/Total Debt	0.13	0.05	0.22	0.19	0.22
<b>Balance Sheet</b>					
Total Assets	2,484,533.00	2,414,038.00	4,869,503.00	4,770,952.00	5,166,626.00
Cash and Marketable Securities	378,530.00	387,309.00	980,605.00	883,244.00	711,333.00
Short-Term Debt	111,311.00	43,773.00	219,335.00	120,977.00	156,480.00
Long-Term Debt	768,720.00	825,818.00	781,544.00	506,897.00	562,205.00
Total Debt	880,031.00	869,591.00	1,000,879.00	627,874.00	718,685.00
Equity Credit	—	—	—	—	—
Total Debt with Equity Credit	880,031.00	869,591.00	1,000,879.00	627,874.00	718,685.00
Off-Balance Sheet Debt	—	—	—	—	—
<b>Total Adjusted Debt with Equity Credit</b>	<b>880,031.00</b>	<b>869,591.00</b>	<b>1,000,879.00</b>	<b>627,874.00</b>	<b>718,685.00</b>
Total Equity	1,134,391.00	1,060,454.00	2,686,160.00	2,970,426.00	3,108,410.00
<b>Total Adjusted Capital</b>	<b>2,014,422.00</b>	<b>1,930,045.00</b>	<b>3,687,039.00</b>	<b>3,598,300.00</b>	<b>3,827,095.00</b>
<b>Cash Flow</b>					
Funds from Operations	387,096.00	82,641.00	847,908.00	512,214.00	786,897.00
Change in Operating Working Capital	(120,011.00)	204,098.00	(340,000.00)	70,365.00	192,094.00
Cash Flow from Operations	267,085.00	286,739.00	507,908.00	582,579.00	978,991.00
Total Non-Operating/Non-Recurring Cash Flow	—	—	—	—	—
Capital Expenditures	(161,155.00)	(141,802.00)	(206,619.00)	(282,447.00)	(777,379.00)
Dividends	(130,461.00)	(94,300.00)	(155,399.00)	(322,320.00)	(265,229.00)
Free Cash Flow	(24,531.00)	50,637.00	145,890.00	(22,188.00)	(63,617.00)
Net Acquisitions and Divestitures	(237,856.00)	106,134.00	3,746.00	1,531.00	484.00
Other Investments, Net	(5,746.00)	(2,696.00)	(362,711.00)	(46,808.00)	322,426.00
Net Debt Proceeds	256,543.00	(90,213.00)	64,681.00	(258,481.00)	(74,804.00)
Net Equity Proceeds	—	—	401,000.00	31,937.00	5,672.00
Other Financing, Net	(7,000.00)	26,895.00	(23,775.00)	(1,092.00)	(28,331.00)
Total Change in Cash	(18,590.00)	90,757.00	228,831.00	(295,101.00)	161,830.00
<b>Income Statement</b>					
Net Revenues	1,971,741.00	1,386,322.00	1,993,583.00	2,787,033.00	2,470,003.00
Revenue Growth (%)	24.82	(29.69)	43.80	39.80	(11.38)
Operating EBIT	346,507.00	53,582.00	637,771.00	979,474.00	512,834.00
Gross Interest Expense	58,080.00	57,408.00	64,928.00	89,044.00	49,529.00
Rental Expense	—	—	—	—	—
Net Income	292,981.00	(14,849.00)	822,206.00	630,194.00	327,506.00

Source: CAP S.A., Fitch calculations.

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