

## CAP S.A.

## 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 First Class	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.)	12/31/11	12/31/10
Total Equity	2,970	2,686
Total Debt	628	1,001
Net Revenue	2,787	1,994
Net Income	630	822
EBITDA		
Margin (%)	41.0	37.1
ROAE (%)	22.3	43.9
FFO Adjusted		
Leverage (x)	1.0	1.1

## Related Research

[How Fitch Uses Commodity Prices in Its Projections, Oct. 27, 2011](#)

[Global Economic Outlook, June 28, 2011](#)

## Analysts

Jay Djemal  
+1 312 368-3134  
[jay.djemal@fitchratings.com](mailto:jay.djemal@fitchratings.com)

Alejandra Fernandez  
+56 2 499-3323  
[alejandra.fernandez@fitchratings.com](mailto:alejandra.fernandez@fitchratings.com)

## Key Rating Drivers

**Sustained Conservative Capital Structure:** CAP S.A.'s investment-grade ratings reflect the company's sustained conservative capital structure and strong credit metrics. This position was achieved despite a period of extraordinary operational challenges in 2009 and 2010, demonstrated by its five-year average net debt-to-EBITDA ratio of below 1.0x. The company has also demonstrated two years of strong revenue and EBITDA growth alongside improving profitability as a result of growing iron ore volumes from CMP.

**Leverage is Low:** CAP's commitment to maintaining low leverage ratios has been strong. Leverage ratios peaked for the company during the 2009 credit crisis with a total debt-to-EBITDA ratio of 4.7x and a net debt-to-EBITDA ratio of 2.6x but swiftly trended back down to pre-crisis levels of 1.4x for total debt, and had a net cash position at the end of 2010. This deleveraging took place in February 2010 during the challenges posed by the Chilean earthquake and tsunami. These events curtailed the company's steel operations until June of that year.

**Strong Credit Metrics:** Following the 37% reduction in CAP's total debt to USD628 million during 2011 from USD1 billion in 2010, CAP's year-end total debt-to-EBITDA ratio was 0.6x and its net debt-to-EBITDA ratio was negative due to its net cash position. The company's coverage ratios in 2011 also remained robust, as demonstrated by its FFO interest coverage ratio of 6.8x and EBITDA-to-gross interest expense ratio of 12.8x. Cash flow from operations grew to USD582 million in 2011 from USD508 million in 2010, benefitting from working capital inflows of USD70 million.

**Profitability of CMP:** Strong financial performance has resulted in the company generating record EBITDA of USD1.1 billion during 2011 compared to USD740 million during 2010. CAP's total 2011 revenues were USD2.8 billion, of which USD1.8 billion were generated by CMP. This compares to 2010 revenues of USD2 billion, corresponding to 39.8% revenue growth in 2011. On a consolidated basis, CAP's EBITDA margins improved close to 40% on average for 2010 and 2011, compared to average normalized levels of around 25% historically as a result of higher iron ore volumes and prices.

**Transition to Iron Ore:** CAP has transitioned into Chile's leading ferrous metals company, with 94% of EBITDA in 2011 and 97% of EBITDA in 2010 generated by its iron ore mining division, CMP. CAP's steel processing division, SPG, accounted for the remaining 6% of EBITDA during 2011. CAP's steel production, while back to full capacity following the business interruption in 2010, made a negligible contribution to EBITDA in 2011. This was an improvement from a negative 3% impact to EBITDA during 2010 as a result of the earthquake and tsunami.

## What Could Trigger a Rating Action

**High Iron Ore Dependency:** CAP is exposed to inherent risks within the mining and steel industries. A negative rating action — in either the form of a downgrade, Negative Outlook, or both — could result from deterioration in the company's capital structure that is not addressed in the short term. 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 could also result in a negative rating action, as could a significant and prolonged deterioration in CAP's liquidity position.

## Liquidity and Debt Structure

### Robust Liquidity and Low Debt

CAP's credit profile is bolstered by its robust liquidity position. For 2011, the company held cash and marketable securities of USD883 million compared to total debt of USD628 million. Total debt decreased following the redemption of two local and one international bond issues. At year-end 2011, CAP's debt was composed of bank loans (62%), local bonds (27%), and international bonds (11%).

### Comfortable Debt Amortization Schedule

During the next three years, CAP has USD86 million of debt maturities due with USD16 million due in 2012, USD11 million due in 2013, and USD59 million due in 2014. Cash to short-term debt is therefore strong at 7.3x. CAP also has access to additional credit lines with local banks, should they be required.

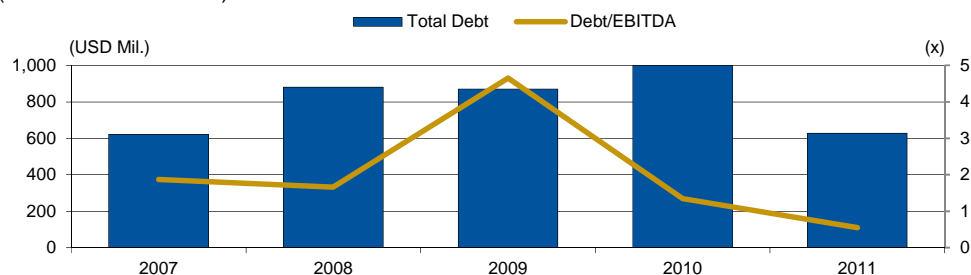
### Covenant Headroom

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

CAP also has relatively small derivative exposure positions, with a cross currency swap amounting to USD44 million and forward 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 during May 2018.

### Total Debt and Leverage Ratio

(Years Ended Dec. 31)



Source: CAP S.A.

## Recent Financial Performance

### Record EBITDA Generation due to Iron Ore

CAP's consolidated revenues, fuelled by the increasing iron ore production at CMP, grew to USD2.8 billion in 2011 from USD1.9 billion in 2010, a 40% year-on-year increase. Accordingly, EBITDA generated was a record USD1.1 billion in 2011 compared to the previous record of USD740 million in 2010. Due to the high profitability of the iron ore division, the company's consolidated EBITDA margin grew to 41% for 2011 from 37% in 2010.

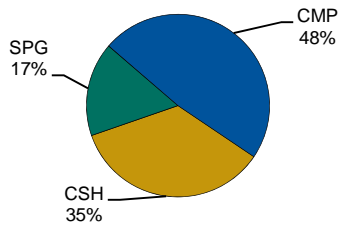
#### Related Criteria

[Corporate Rating Methodology, Aug. 12, 2011](#)

[Parent and Subsidiary Rating Linkage, Aug. 12, 2011](#)

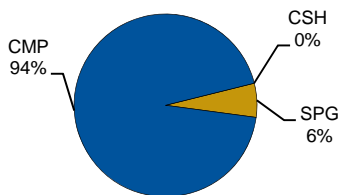
[National Ratings Criteria, Jan. 19, 2011](#)

**CAP S.A. Net Sales by Business Unit**  
(Full Year 2011)



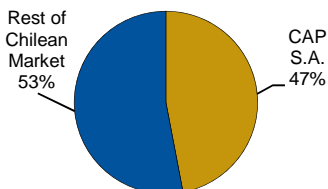
Source: CAP S.A.

**CAP S.A. EBITDA by Business Unit**  
(Full Year 2011)



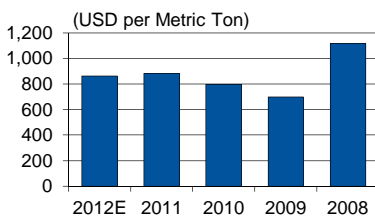
Source: CAP S.A.

**CAP S.A. Total Steel Market Share**  
(Full Year 2011)



Source: CAP S.A.

**CAP S.A. Average Steel Prices**



Source: CAP S.A.

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. This compares favorably to CMP's average cost of production of about USD50 per metric ton for the year. The average price for steel sold by CSH was USD883 per metric ton based on sales volumes of 1.1 million metric tons, with SPG achieving average prices of USD1,252 per metric ton based on sales volumes of 370,000 metric tons for 2011.

**Imports Erode Steel Profitability**

CSH had a neutral contribution to CAP's consolidated EBITDA during 2011, following a negative 3% contribution in 2010. The loss in steel business profitability during 2011 was due to increased raw material and energy costs and the strategy to compete with cheap steel imports.

These imports flooded Chile's domestic market as a result of its open free trade agreements and strong currency, bolstered by the strong sentiment for copper globally. By adopting this competitive strategy, CAP has been able to recover its leading steel market share following the loss in market share during 2010 due to its operations being offline for half of the year.

**Robust Cash Flow Generation**

The company generated USD583 million of CFFO in 2011, following a working capital inflow of USD70 million from FFO of USD512 million. This compares to CFFO of USD508 million in 2010. FCF for 2011 was negative USD22 million following capex of USD282 million and dividend payments of USD322 million.

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

CAP's actual FCF generated for 2011 was better than Fitch's previous expectations of negative USD109 million for the year. Fitch expects the company to return to positive FCF generation in 2012 compared to previous expectations of 2013, subject to dividends. CAP traditionally exhibits strong FCF during normal investment periods.

**Cash Flow to fund Capex**

Fitch expects CAP to finance its sizeable capital expenditure plans of USD783 million and USD718 million in 2012 and 2013, respectively, 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 over 18 million metric tons per year by 2015 from around 12 million metric tons. During 2011, the company's FCF was negative USD22 million following capex of USD282 million and dividends of USD322 million.

**Company Overview**

**Market Leader in Ferrous Metals**

CAP has a 60% domestic market share in its target steel markets and a 47% total steel market share during 2011. CMP has a dominant position in Chilean iron ore mining, with close to

11.5 million metric tons of iron ore shipped in 2011 compared to 10.2 million metric tons in 2010, and projections of over 12 million metric tons for 2012.

During 2011, 16% of CMP's iron ore was destined for internal consumption in Chile, with 64% of production exported to China. The company's solid financial performance during 2011 was mainly due to higher shipment volumes and robust prices for iron ore.

CAP, through its steel subsidiary, CSH, produces both flat steel products (46%) and long steel products (54%). Chilean apparent steel consumption grew at an average annual rate of 5.5% over the last 20 years. During 2011, total Chilean steel consumption was 2.5 million metric tons. The growth rate of apparent steel consumption per capita was 4% between 1988 and 2008, with GDP per capita growing at an average rate of 6.5% over the same period. Fitch calculates that GDP in Chile will grow by 3.7% in 2012 and 4.5% in 2013.

Financial Summary CAP S.A.

(IFRS, USD Mil., Years Ended Dec. 31)

	2011	2010	2009	2008	2007	2006
<b>Profitability</b>						
Operating EBITDA	1,143	740	187	532	333	251
Operating EBITDAR	1,143	740	187	532	333	251
Operating EBITDA Margin (%)	41.0	37.1	13.5	27.0	21.1	25.2
Operating EBITDAR Margin (%)	41.0	37.1	13.5	27.0	21.1	25.2
FFO Return on Adjusted Capital (%)	16.7	24.8	7.3	22.1	18.1	15.3
Free Cash Flow Margin (%)	(0.8)	7.3	3.7	(1.2)	(7.5)	(2.3)
Return on Average Equity (%)	22.3	43.9	(1.4)	27.6	26.2	22.6
<b>Coverage (x)</b>						
FFO Interest Coverage	6.8	14.1	2.4	7.7	6.2	7.3
Operating EBITDA/Gross Interest Expense	12.8	11.4	3.3	9.2	7.1	8.3
Operating EBITDAR/(Interest Expense + Rental Expenses)	12.8	11.4	3.3	9.2	7.1	8.3
Operating EBITDA/Debt Service Coverage	5.4	2.6	1.8	3.1	2.6	2.0
Operating EBITDAR/Debt Service Coverage	5.4	2.6	1.8	3.1	2.6	2.0
FFO Fixed-Charge Coverage	6.8	14.1	2.4	7.7	6.2	7.3
FCF Debt Service Coverage	0.3	0.7	1.1	0.2	(0.6)	0.1
(Free Cash Flow + Cash and Marketable Securities)/Debt Service Coverage	4.5	2.2	4.9	2.4	0.9	2.0
Cash Flow from Operations/Capital Expenditures	2.1	2.5	2.0	1.7	0.9	1.5
<b>Capital Structure and Leverage (x)</b>						
FFO Adjusted Leverage	1.0	1.1	6.2	2.0	2.1	2.9
Total Debt with Equity Credit/Operating EBITDA	0.5	1.4	4.6	1.7	1.9	2.5
Total Net Debt with Equity Credit/Operating EBITDA	(0.2)	0.8	2.6	0.9	1.3	1.6
Total Adjusted Debt/Operating EBITDAR	0.5	1.4	4.6	1.7	1.9	2.5
Total Adjusted Net Debt/Operating EBITDAR	(0.2)	0.8	2.6	0.9	1.3	1.6
Implied Cost of Funds (%)	10.9	6.9	6.6	7.7	7.4	5.8
Secured Debt/Total Debt	—	—	—	—	—	—
Short-Term Debt/Total Debt	0.2	0.2	0.1	0.1	0.1	0.2
<b>Balance Sheet</b>						
Total Assets	4,771	4,870	2,414	2,485	2,050	1,772
Cash and Marketable Securities	883	429	387	379	184	242
Short-Term Debt	121	219	44	111	80	97
Long-Term Debt	507	782	826	769	541	539
<b>Total Debt</b>	<b>628</b>	<b>1,001</b>	<b>870</b>	<b>880</b>	<b>622</b>	<b>636</b>
Equity Credit	0	0	0	0	0	0
<b>Total Debt with Equity Credit</b>	<b>628</b>	<b>1,001</b>	<b>870</b>	<b>880</b>	<b>622</b>	<b>636</b>
Off-Balance Sheet Debt	0	0	0	0	0	0
<b>Total Adjusted Debt with Equity Credit</b>	<b>628</b>	<b>1,001</b>	<b>870</b>	<b>880</b>	<b>622</b>	<b>636</b>
Total Equity	2,970	2,686	1,060	1,134	987	815
<b>Total Adjusted Capital</b>	<b>3,598</b>	<b>3,687</b>	<b>1,930</b>	<b>2,014</b>	<b>1,609</b>	<b>1,451</b>
<b>Cash Flow</b>						
Funds from Operations	512	848	83	387	244	192
Change in Working Capital	70	(340)	204	(120)	45	(12)
<b>Cash Flow from Operations</b>	<b>583</b>	<b>508</b>	<b>287</b>	<b>267</b>	<b>289</b>	<b>180</b>
Total Non-Operating/Nonrecurring Cash Flow	0	0	0	0	0	0
Capital Expenditures	(282)	(207)	(142)	(161)	(309)	(119)
Dividends	(322)	(155)	(94)	(130)	(98)	(84)
<b>Free Cash Flow</b>	<b>(22)</b>	<b>146</b>	<b>51</b>	<b>(25)</b>	<b>(118)</b>	<b>(23)</b>
Net Acquisitions and Divestitures	2	4	106	(238)	252	(23)
Other Investments, Net	(47)	(363)	(3)	(6)	0	(1)
Net Debt Proceeds	(258)	65	(90)	257	(51)	133
Net Equity Proceeds	32	401	0	0	1	0
Other, Financing Activities	(1)	(24)	27	(7)	4	1
<b>Total Change in Cash</b>	<b>(295)</b>	<b>229</b>	<b>91</b>	<b>(19)</b>	<b>88</b>	<b>88</b>
<b>Income Statement</b>						
Net Revenue	2,787	1,994	1,386	1,972	1,580	997
Revenue Growth (%)	39.8	43.8	(29.7)	24.8	58.4	13.4
Operating EBIT	979	638	54	347	210	135
Gross Interest Expense	89	65	57	58	47	30
Rental Expense	0	0	0	0	0	0
Net Income	630	822	(15)	293	236	165

Source: Fitch calculations using CAP S.A.'s consolidated financial statements.



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