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Summary:

CAP S.A.

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Summary:

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Corporate Credit Rating	BBB-/Stable/--

Profile Assessments

BUSINESS RISK	SATISFACTORY	Vulnerable — Excellent
FINANCIAL RISK	INTERMEDIATE	Highly leveraged — Minimal

Rationale

Business Risk: Satisfactory	Financial Risk: Intermediate
• Cost competitive iron ore operation • Long life of iron reserves (around 59 years at current production levels) • Dominant position in Chile's flat and long steel market, although currently unprofitable • Exposure to volatile iron prices • Asset concentration	• Strong liquidity • Low debt • Ample operating cash generation ability • Bold investment program

Outlook: Stable

The stable outlook reflects our expectation that CAP's financial performance will remain balanced through the investment phase and that its "strong" liquidity provides a great deal of flexibility to buffer cash-flow volatility.

Downside scenario

We assess the likelihood for a downgrade as rather low, due to CAP's robust cash reserves and low financial leverage.

Upside scenario

A potential upside of the ratings is somewhat unlikely at the moment as we believe CAP's asset concentration in a few mines in Chile and overall small business scale limit its business risk profile, even though we consider its cost position in iron as favorable, but still lagging in the middle of the global cost curve.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics
• Iron prices of $120 per ton (sinter feed CFR, China 62% FE content) in 2013 and $110 per ton in 2014. • Iron volumes of 12.5 million tons in 2013 and 15.3 million tons in 2014, as expansion for Cerro Negro Norte and Los Colorados mines advance • Stable iron cash costs of $49 per ton and steel prices 6% lower than in 2012 • Capital expenditures in 2013 of $1.1 billion, declining to $400 million in 2014--well above maintenance levels of around $100 million--as we believe forecasted business conditions may prompt further investments in iron projects	see table below

	2012A	2013E	2014E
EBITDA Margin	28.4%	26%	26%
Debt/EBITDA	1.2x	2x	2x
FFO/Debt	88.4%	36%-38%	36%-38%

A--Actual. E--Estimate

Business Risk: Satisfactory

CAP's "satisfactory" business risk profile mainly reflects its profitable--though small--iron ore production, which stems from its large magnetite iron reserves and efficient logistics. The company also benefits from its control of 50%-60% of the Chilean flat and long steel markets and its presence in the Chilean, Peruvian, and Argentine markets for steel-based products. These strengths are partly offset by its exposure to volatile iron and steel prices, its modest scale compared with global iron producers, and its asset concentration in a few mines in a single country, although quite attractive for mining activities.

Financial Risk: Intermediate

CAP's "strong" liquidity and low debt underpin its "intermediate" financial risk profile. The inherent volatility of its commodity-type cash flows and significant investment program partially offset those factors.

Under our assumptions, the increase in volumes would partly offset softer prices, leading to expected EBITDA generation of $630 million in 2013 and $650 million in 2014. We also assumed lower prices for steel, due to expected increasing competition from steel imports. Our base case suggests a cash shortfall of around $500 million that we believe would be financed with a combination of existing cash reserves and/or new debt. That expected rise in leverage, together with vendor financings for $400 million, would slightly weaken credit metrics but still in line with its "intermediate" financial risk profile.

Liquidity: Strong

We view CAP's liquidity as "strong." We expect cash sources to exceed uses by at least 50% in 2013 and free cash flow to remain positive in the next 24 months. In addition, we expect cash sources to exceed uses even if EBITDA were to decline by 30%. Although CAP does not benefit from committed credit lines with creditworthy financial institutions, we don't see that as a constraining factor, given the company's robust cash balances. Also, CAP's financial flexibility benefits from ample room under the current covenant for its domestic bonds and very good standing in the Chilean debt market. Our liquidity assessment incorporates the following assumptions:

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and near-term investments of $711 million as of Dec. 31, 2012, • Cash flow from operations of about $470 million, • Approved financings of $400 million.	• Short-term debt commitments of $164 million, • Capital expenditures of $600 million although our base case incorporate a total capex of $1.1 billion, we believe there is a good level of discretion, • Dividend payments of $131 million.

Related Criteria And Research

- Standard & Poor's Revises Its Metals Price Assumptions For 2013, 2014, And 2015, Feb. 4, 2013
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk					
Business Risk	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.