Fitch Ratings

Fitch Rates Codelco's Senior Unsecured Notes due 2025 'A+(EXP)'

Fitch Ratings-Chicago/Santiago-09 September 2015: Fitch Ratings has assigned an 'A+(EXP)' rating to Corporacion Nacional del Cobre de Chile's (Codelco) senior unsecured bonds due 2025. Proceeds from these proposed notes will be used to refinance a portion of shorter-term debt, partially finance the company's significant capital expenditures, and for general corporate purposes.

KEY RATING DRIVERS

100% Sovereign Ownership:

The company's 'A+' rating reflects Codelco's 100% ownership by the government of Chile and its strategic importance to the country. Due to its status as a state-owned enterprise, Codelco is subject to a law that stipulates its entire net income be transferred to the Chilean Treasury, in addition to taxes and dividends paid. The government of Chile announced a capitalization measure in 2014 intended to finance part of Codelco's ambitious capex program ending in 2018 that consisted of a $3 billion capital increase and $1 billion of retained earnings, of which $425 million has been authorized to be retained, to date. The capex program is essential to maintain current copper volume output levels in light of declining ore grades at its aging mines.

Increasing Pressure on Credit Profile:

Codelco exhibits a weakened standalone credit profile as a result of higher debt levels used to finance its large capex program. As of June 30, 2015, the company had almost USD14 billion of total debt compared to USD13 billion as of June 30, 2014. Codelco's total debt-to-latest 12 months (LTM) EBITDA ratio for the same period was 3.6x compared to 2.5x in June 2014, and its net debt-to EBITDA ratio was 3.4x versus 2.3x. These leverage ratios include the debt of USD750 million used to acquire the 20% stake in Anglo-American Sur (AAS) with Mitsui that is non-recourse to Codelco. Excluding the non-recourse debt, these ratios stand at 3.4x and 3.2x, respectively, for the period. The higher leverage ratios have also been exacerbated by lower copper prices of around USD2.30/lb currently compared to USD3/lb in 2014. Fitch expects the government to continue to support the company during this critical period.

Rating Ties to the Sovereign:

Despite the company's standalone credit profile deterioration, rating fundamentals remain solid based on the strategic importance of Codelco to the Republic of Chile. These ties were reinforced following the government funding measures announced in 2014 that demonstrates a level of commitment by the sovereign to support Codelco. Fitch's base case for Codelco projects EBITDA of around $4billion, corresponding to a net debt/EBITDA ratio of around 3.5x in 2015. This ratio is expected to climb to about 3.8x in 2016 as the company continues its capex financing strategy through a combination of retained earnings, cash flow, a capital injection and additional debt, while volumes remain relatively stable at current levels until post-2020. These leverage ratios include Codelco's nonrecourse debt with Mitsui.

Key Strategic Asset for Chile:

Codelco possesses immense copper deposits, accounting for 8% of the world's known proven and probable reserves and holds a leading global position in the copper mining industry, accounting for 10% of the world's annual copper output with approximately 1.8 million metric tons of production. This includes output from its respective shares of the El Abra mine deposit and AAS. Fitch views Codelco's long-life reserves as a strategic asset because it should allow the company to remain an important contributor to government revenues in the future. Fitch has witnessed financial support from the government in the form of lower dividends and the permitting of larger allocations of capital so that the company can improve its capital structure to fund its investment program. The commitment of the largest capitalization for a state-owned company in Chilean history further signifies Codelco's strategic importance for the country.

Second-Quartile Cost Position:

The company's position as a second-quartile cash-cost producer of copper also provides a cushion against future volatility in copper price fluctuations. Codelco's cash cost of production including by-products for 1H'15 was USD1.40/lb, an improvement on USD1.58/lb during 1H'14, mainly as a result of savings in materials, energy, and exchange rate differences. Copper prices currently remain around USD2.30/lb. As a result, Codelco's financial performance was resilient for the LTM to June 30, 2015, with USD13 billion of revenues. However, LTM EBITDA of USD4 billion is subject to large tax obligations, pressuring funds from operations (FFO), and debt is higher than historical levels due to the elevated capex.

KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for Codelco include:

--Copper prices at Fitch's mid-cycle price assumptions rising to $2.92/lb in 2017 and beyond;
--Stable copper volume production and sales;
--Continued financial support by the sovereign.

RATING SENSITIVITIES

Codelco's operational and financial challenges mainly concern its ambitious capital expenditure plans up to 2020. The capex plan relates to maintaining and increasing current volume output levels and improving average ore grades that are essential to maintaining the company's global position as a producer of copper in the future. The capitalization bill put forward by the government demonstrates commitment to the company during this period. Because of its 100% ownership by the government of Chile, sovereign rating actions on the country in the form of an Outlook revision, upgrade or downgrade will be reflected in Codelco's ratings.

Continuing government support to Codelco in the form of lower dividends, capitalizations, asset sales and/or a combination of all three during the next five years are integral to maintain a standalone investment-grade profile for Codelco's capital structure. Should this support not be forthcoming to the level Fitch would expect in order to maintain the rating linkage between Codelco and the Republic of Chile, and credit metrics remain significantly elevated beyond Fitch's Base Case assumptions for an extended period, a decoupling of the ratings could take place.

LIQUIDITY

Liquidity Remains Solid:

Due to the nature of Codelco's government ownership, the company historically held a comfortable cash and marketable securities balance in relation to its short-term debt but not at the very high levels as seen with other large mining companies in Latin America. As of June 30, 2015, cash and marketable securities was USD638 million and the company's liquidity position was solid with cash + marketable securities + CFFO to short-term debt coverage at 3.7x. The government commitment of $4 billion in equity that is due to Codelco will further bolster liquidity, with the government expected to announce the payment details and schedule at the end of 2015.

FULL LIST OF RATING ACTIONS

Fitch currently rates Codelco as follows:

--Foreign currency Issuer Default Rating (IDR) 'A+';
--Local currency IDR 'AA-';
--US$950 million 5.625% bonds due Oct. 18, 2043 'A+;
--EUR 600 notes due July 9, 2024 'A+'
--US$500 million 5.625% notes due Sept. 21, 2035 'A+';
--US$500 million 6.15% notes due Oct. 24, 2036 'A+';
--US$600 million 7.5% notes due Jan. 15, 2019 'A+';
--US$1 billion 3.75% notes due November 2020 'A+';
--US$1.15 billion 3.875% notes due November 2021 'A+';
--US$1.25 billion 3% notes due July 17, 2022 'A+';
--US$750 million 4.25% notes due July 17, 2042 'A+';
--US$750 million 4.5% notes due Aug. 13, 2023 'A+';
--US$980 million 4.875% notes due Nov.4, 2044 'A+';
--National scale rating 'AAA(cl)';
--UF6.9 million 3.29% notes due April 25, 2025 'AAA(cl)';
--UF11 million Undrawn Line Program No. 608 'AAA(cl)'.

Fitch has assigned an 'A+(EXP)' rating to the following Codelco bonds:

--Senior unsecured notes due September 2025.

The Rating Outlook is Stable.

Contact:

Primary Analyst
Jay Djemal
Director
+1-312-368-3134
Fitch Ratings, Inc.
70 West Madison Street
Chicago, IL 60602 USA

Secondary Analyst
Alejandra Fernandez
Director
+562-499-33-23

Committee Chairperson
Monica Bonar
Senior Director
+1-212-908-0579

Media Relations: Alyssa Castelli, New York, Tel: +1 (212) 908 0540, Email: alyssa.castelli@fitchratings.com.

Date of Relevant Rating Committee: Oct. 3, 2014.

Additional information is available on www.fitchratings.com.

Applicable Criteria

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362&cft=0&cft=0)
National Scale Ratings Criteria (pub. 30 Oct 2013) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720082&cft=0&cft=0)

Additional Disclosures
Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=990565)
Endorsement Policy (https://www.fitchratings.com/jsp/creditdesk/PolicyRegulation.faces?context=2&detail=31)

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (https://www.fitchratings.com/regulatory) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.