

Fitch Publishes Minsur's 'BBB-' IDR 'BBB-(EXP)' Rating on Proposed Sr. Unsecured Notes

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings has published a long-term foreign currency Issuer Default Rating (IDR) and a long-term local currency IDR of 'BBB-' for Minsur S.A. (Minsur).

Fitch has also published the 'BBB-(EXP)' rating on Minsur's proposed senior unsecured notes of up to USD400 million due 2024. Proceeds from the proposed notes will be used to refinance approximately USD200 million of existing long term debt with the remainder used as a cash cushion and for general corporate purposes including capex.

A complete list of rating actions is provided at the end of this release.

KEY RATING DRIVERS

Leading Position in the Industry:

Minsur's investment grade ratings are supported by its position as the world's third largest tin (Sn) producer based on 2013 output with production of around 28,000 metric tons (MT) per year. In addition, Minsur's cash cost of production is in the first quartile of the industry as verified by the International Tin Research Institute (ITRI). This low cost of production allows the company to generate positive CFFO during periods of low tin prices.

Minsur's main asset is the San Rafael underground tin mine in Peru, the largest underground tin mine in the world with an average Sn grade of 2.71% in 2013 - the highest in the industry according to ITRI. San Rafael exhibited a cash cost of USD7,779/MT Sn compared to an average tin price of USD22,041/MT for the nine months ended September 2013.

Low Leverage Historically:

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Minsur has a historical track record of very low leverage. For the LTM ending Sept. 30, 2013, Minsur's total-debt-to-EBITDA ratio was 1.3x while its net-debt-to-EBITDA ratio was 0.9x on a consolidated basis. Minsur's 2009-2012 average FFO adjusted leverage ratio was 1.7x.

Total consolidated debt as of Sept. 30, 2013 was USD546 million with approximately USD269 million of this figure related to Minsur's 73.9% owned Chilean cement business Cementos Melon (Melon), which has no recourse to Minsur's mining operations. Excluding the cement business, Minsur's mining business had a total-debt-to-EBITDA ratio of 0.8x, net-debt-to-EBITDA ratio of 0.3x, and FFO adjusted leverage of 1.5x for the same period.

Modest Increase in Leverage Forecasted:

Fitch's base case for the standalone mining operations indicates total- and net-debt to EBITDA to be around 1.5x and 0.7x, respectively, at year-end 2014 taking into account the proposed issuance and consequent debt refinancing. These leverage ratios are expected to peak at 1.6x and 0.8x, respectively, in 2015. FFO adjusted leverage is expected to increase from around 1.4x in 2013 to 1.6x in 2014 and 1.7x in 2015, declining thereafter.

Leverage ratios are projected to increase as a result of higher capex during the next few years mainly related to the Pitinga and Bofedall II projects and Fitch's projected dividends of around USD75 million per year. Fitch's key assumptions include average tin prices of around USD20,600/MT to 2015 and sales volumes of between 28,000 to 27,000 MT annually.

Strong Mining Cash Flow Generation:

Minsur's mining operations generated USD352 million of EBITDA with a 44% margin and USD222 million of CFFO as of the LTM to Sept. 30, 2013. At the consolidated level including the cement business, Minsur generated USD406 million of EBITDA with a margin of 32% and USD232 million of CFFO for the same period. Due to increased capex of

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USD180 million and a dividend payment of USD150 million in 2012, Minsur had negative FCF of USD178 million in 2012 compared to positive FCF of USD22 million in 2011.

Fitch's Base Case indicates negative to neutral FCF generation for the next three years for the mining business as a result of planned projects. Fitch expects the company to pay lower dividends during its higher investment period.

Robust Liquidity Position:

Minsur has a robust cash balance and ready access to additional liquidity, if required. On a consolidated basis the company held cash and marketable securities of USD208 million and short term debt of USD147 million as of Sept. 30, 2013, corresponding to a cash to short-term debt ratio of 1.4x. Minsur also has highly liquid inventories of refined Sn ingots and concentrates that amount to approximately USD136 million at current market prices that can be sold in the spot market very quickly.

In addition, the company has recourse to additional liquidity from Inversiones Breca (Breca), its parent company. Breca has cash and marketable securities of USD820 million as of Sept. 30, 2013 that is held as a contingency for its subsidiaries, with no debt at the holdco level. Minsur also has uncommitted credit lines with a number of banks in Peru totaling USD100 million.

High Grade Tin Assets:

Minsur's leading cost position will be enhanced over the next few years through Bofedal II, a Brownfield expansion project that will process San Rafael mine's old high grade tailings that have Sn content of 1.1%, the highest grade undeveloped tin project currently in the global pipeline according to ITRI. Bofedal II is due to begin production in 2016 with annual tin production of around 6,300/MT per year. The expected cash cost of production for the project is very economical at USD1,800/MT with total capex of USD165 million.

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Bofedall II is expected to increase the company's reserves and resources of tin by an additional 65,700/MT in 2014 to a total of 676,000/MT for Minsur's combined tin assets. Bofedal II and San Rafael's combined Sn reserves and resources total around 10 years at current production. Minsur's San Rafael mine is fully integrated through the company's smelter in Pisco. The tin produced from the San Rafael mine totals approximately 41,000/MT per year with an average grade of 60% in concentrate form. The Pisco smelter is classed as the second largest tin refinery in the world by ITRI with 24,132/MT of refined tin being produced in 2013.

Other Low Cost Assets:

Minsur's other mining assets include 100% ownership of Pucamarca, a gold mine with a low cash cost of production at USD266/Oz during the third quarter of 2013. Pucamarca has reserves of over 1 million metric Oz of contained gold and resources of 1.52 million Oz. Minsur also owns other assets that together comprise the Minsur S.A. y Subsidiarias group.

These consist of a 70% ownership of Marcobre, a Peruvian copper company, 99.9% of Taboca in Brazil that is comprised of the Pitinga mine and the Pirapora Tin Smelter.

In addition, the company owns 99.9% of Minera Barbastro, a subsidiary with exploration prospects in Huancavelica region of Peru, and 99.9% of Minera Andes del Sur that has exploration prospects in Chile for copper and gold. Minsur also owns 73.9% of Inversiones Cordillera del Sur (Cordillera), a holding company that in turn owns 100% of Melon, the largest cement and concrete company in Chile. This last business unit is ring-fenced financially and operationally from the rest of the group.

Ownership by Breca:

Minsur is 68.8% owned by the Breca group, owning 100% of Minsur's voting rights. Breca is one of Peru's largest family-owned conglomerates owning companies in the industrial, financial, mining, real estate, healthcare, insurance and services sectors. Breca also has a strategic 50/50 joint venture with BBVA from Spain in BBVA Banco Continental (Fitch LT FC IDR 'BBB+/'Stable), the 2nd largest bank in Peru.

Breca's consolidated revenues were USD3.5 billion and EBITDA USD983 million

including the group's proportional share of BBVA Continental in 2012. Minsur accounted for approximately 40% of Breca's consolidated EBITDA in 2012 and is a key strategic unit for the group.

Diversification into other Commodities:

Tin accounted for 96% of Minsur's mining segment revenues in 2012, with the remaining 4% from niobium and tantalum. The company plans to increase its investments in copper and gold to reduce its complete reliance on tin. While tin is a metal with strong supply and demand fundamentals and is a vital component in a wide range of manufacturing sectors including the electronic industry, it is not immune from commodity volatility, as seen during the international credit crisis during 2008 and 2009.

Minsur expects its Pucamarca gold mine to produce over 100,000/Oz of gold in 2013 following a four year capex program of USD200 million and comprise 17% of its total revenues, with niobium and tantalum increasing to 8% as output from Taboca increases, and tin accounting for 75% for last year. The company's long-term strategy is to grow copper to represent around half of its revenues by 2020.

Reserves and Resources Dynamics:

Reserve life at core operations is sound and geographically diversified. The group has a strong pipeline of new expansion projects to counter the ongoing depletion of reserves. As of December 2012, Taboca, located in Brazil, had resources of 420,000 tons with an average mine life of 27 years, while San Rafael's reserves and resources were 276,000 tons with average mine life of seven years. The Bofedal II tailings project has an average reserve life of eight years. San Rafael has been operating for 40 years and has exhibited a track record of replenishing and extending reserves.

RATING SENSITIVITIES:

High Dependency on Tin:

Minsur's financial performance is inextricably linked to the price and demand of tin. While tin fundamentals remain strong and the company is a low cost producer, profitability will be largely affected by price volatility. Should leverage and coverage ratios weaken on a sustained basis, with net-debt to EBITDA above 2.5x, and negative FCF continues outside of the planned investment cycle, a Negative Outlook or downgrade could follow.

Diversification of Revenues and Operations:

Minsur's ratings could be upgraded once the company has diluted its exposure to tin by increasing its revenues into copper and gold as currently planned, while retaining its historically conservative approach to leverage with net-debt to EBITDA levels below 1.0x. Key to a positive outlook or rating upgrade is consistently strong FCF generation. Diversification of the company's operations into other geographical areas will also dilute operational risk and provide further impetus for positive credit developments.

Fitch publishes the following credit ratings for Minsur:

--Foreign Currency Long-Term IDR 'BBB-';

--Local Currency Long-Term IDR 'BBB-'.

--Senior Unsecured Notes rating 'BBB-(exp)'.

The Rating Outlook is Stable.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (August 2013);

--'Parent and Subsidiary Rating Linkage' (August 2013);

--'Evaluating Corporate Governance' (December 2012).

Applicable Criteria and Related Research:

Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139

Evaluating Corporate Governance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=694649

Additional Disclosure

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