

CHICAGO & SANTIAGO, Chile--([BUSINESS WIRE](#))--Fitch Ratings has assigned an 'A+(EXP)' rating to Corporacion Nacional del Cobre de Chile's (Codelco) benchmark size senior unsecured Euro bonds due 2024. Proceeds from these proposed notes will be used to partially finance capital expenditure, repay portions of short-term debt, and for general corporate purposes.

KEY RATING DRIVERS

Sovereign Ownership: The ratings reflect Codelco's 100% ownership by the government of Chile and its strategic importance to the country. The recent announcement by the government to capitalize Codelco demonstrates a different approach from the previous administration that acknowledges that the company requires more help during this pivotal moment in its history to transform its operations while retaining its solid investment grade credit profile. The government also made a change in the company's board of directors, including the appointment of a new chairman, Oscar Landerretche who has a background as an economist, further highlighting the strategic importance of the company to Chile.

Unprecedented Investment Period: The company's investment program of around USD4 billion per year to 2020 is essential to maintain current copper volume output levels in light of declining ore grades at its aging mines, with a long-term aim of increasing annual copper output to above 2 million metric tons by around 2022. These investments are expected to be funded by a combination of capitalizations by the Chilean government, cash that the company is permitted to retain, and debt.

Elevated Debt Levels to Remain: Debt levels will remain high during the next few years, reflecting the large investments. This large undertaking coincides with a period of lower copper prices, currently at around USD3.20 per pound in March 2014 compared to around USD3.60 per pound in March 2013. Codelco's total adjusted debt to EBITDA ratios increased to 2.3x and net adjusted debt to EBITDA increased to 2.0x as of the last twelve months (LTM) to March 31, 2014 from 1.2x and 1.0x, respectively as of the LTM to March 31, 2013. This increase in leverage reflects the company's lower LTM EBITDA of USD5.8 billion for March 2014 as copper prices declined over the period, a decrease from LTM EBITDA of USD8.5 billion for March 2013. Fitch's base case for Codelco indicates net debt to EBITDA ratio to be at around 2.0x in 2014 and around 2.5x in 2015.

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 during the first quarter 2014 decreased to USD1.60 per pound, from USD1.70 per pound during the first quarter 2013, mainly as a result of savings in materials, services and input costs and a beneficial foreign exchange rate. Copper prices currently remain above USD3.00 per pound. Due to the nature of Codelco's government ownership, the company historically held an adequate cash and marketable securities balance in relation to its short-term debt. As of March 31, 2014, cash and marketable securities was USD962 million and the company's liquidity position was solid with cash + marketable securities + CFFO to short-term debt coverage at 2.3x.

Key Strategic Asset for Chile: Codelco possesses immense copper deposits that account for 9% of the world's known proven and probable reserves and 10% of the world's annual copper output with around 1.8 million metric tons of production. This includes normal output levels from its El Abra and Anglo American Sur proportional shares. 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 enhance its capital structure to fund its investment program.

RATING SENSITIVITIES

Going forward, the company's operational and financial challenges mainly concern its ambitious capital expenditure plans to 2020. The capex plan relates to maintaining and increasing current volume output levels and improving average ore grades. Should Fitch witness a change in the levels of financial support from the Chilean government during this critical period, a downgrade could take place.

Because of its 100% ownership by the government of Chile, sovereign rating actions on the country, in the form of an Outlook revision, or upgrade or downgrade, will also be reflected in Codelco's ratings.

Fitch Rates Codelco's Senior Unsecured Euro Notes due 2024 'A+(EXP)'

Written by Australian Business

Fitch currently rates Codelco as follows:

--Foreign currency Issuer Default Rating (IDR) at 'A+';

--Local currency IDR at 'AA-';

--US\$500 million 5.5% notes due Oct. 15, 2013 at 'A+';

--US\$500 million 4.75% notes due Oct. 15, 2014 at 'A+';

--US\$500 million 5.625% notes due Sept. 21, 2035 at 'A+';

--US\$500 million 6.15% notes due Oct. 24, 2036 at 'A+';

--US\$600 million 7.5% notes due Jan. 15, 2019 at 'A+';

--US\$1 billion 3.75% notes due November 2020 at 'A+';

--US\$1.15 billion 3.875% notes due November 2021 at 'A+';

--US\$1.25 billion 3% notes due July 17, 2022 at 'A+';

Fitch Rates Codelco's Senior Unsecured Euro Notes due 2024 'A+(EXP)'

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--US\$750 million 4.25% notes due July 17, 2042 at 'A+';

--US\$750 million 4.5% notes due Aug. 13, 2023 at 'A+';

--US\$950 million 5.625% bonds due Oct. 18, 2043 at 'A+';

--National scale rating at 'AAA(cl)';

--UF6.9 million 3.29% notes due April 1, 2025 at 'AAA(cl)';

--UF11 million Undrawn Line Program No. 608 at 'AAA(cl)'.

The Rating Outlook is Stable.

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

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (May. 28, 2014);

--'National Ratings Criteria' (Jan. 19, 2011).

Applicable Criteria and Related Research:

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

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