

31 MAR 2021

## Fitch Affirms Molymet's IDR at 'BBB'; Outlook Stable

Fitch Ratings - New York - 31 Mar 2021: Fitch Ratings has affirmed Molibdenos y Metales S.A.'s (Molymet) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB'. Fitch has also affirmed Molymet's National Long-Term ratings of 'AAA(col)' and 'AAA(mex)'. In addition, Fitch has affirmed Molymet's National Equity Rating at First Class Level '3(cl)'.

In addition to these rating actions, Fitch has upgraded Molymet's National Long-Term Rating to 'AA (cl)' from 'AA-(cl)'. The upgrade of the company's Chilean National Scale rating is a result of Molymet's sound credit profile that positions it as a strong 'BBB'.

The Rating Outlook for all of Molymet's ratings is Stable.

The rating affirmations are based on the company's robust capital structure and factor in its business model, which protects the company from moly price variations. The ratings incorporate the company's important market position with a 35% global market share.

### Key Rating Drivers

**Sound Credit Profile:** Molymet improved its solid financial profile, ending the year with a net debt-to-EBITDA ratio of 0.2x. The company's 2020 EBITDA declined by 8% to USD112 million due, in part, to a 20% drop in the molybdenum oxide price to USD8.69/pound. For 2021 and 2022, Fitch estimates net leverage ratios will remain strong at 0.5x and 0.3x respectively. The company is expected to raise approximately USD100 million between 2021 and 2022 that would be used to finance new investments and the increase in working capital needs.

**Working Capital Volatility:** The ratings factor the volatility of the company's working capital requirements related to changes in moly prices, and related effects on cash flow from operations (CFO). However, there is a virtuous cycle with this correlation, as when prices go down, the company's cash flow benefited from the release of working capital resources; however, when prices go up, rising working capital requirements are financed by growing FFO generation.

**Solid FCF:** Molymet generated cash flow from operations (CFFO) of USD118 million in 2020, due to a working capital inflow of USD51 million that resulted from lower moly prices. FCF was positive at USD51 million after capex of USD32 million and dividends of USD34 million. The company is investing in environmentally friendly modernizations in the plant in Chile. Molymet used its strong operating cash flow to reduce debt by USD40 million in 2020.

**Solid Business Profile:** Molymet's investment-grade rating is supported by its moderate exposure to volatility in molybdenum prices, as a relevant proportion of its consolidated EBITDA is derived from business lines that are secured by long-term price contracts. The company has the ability to adjust its product mix to better meet market conditions, such as increasing production in its tolling business when facing low molybdenum prices. Molymet's molybdenum processing expertise and plants with state-of-the-art technology, result in high recovery of other metals and operating efficiencies, which enhance profitability margins.

**Coronavirus Disruption:** The effect of the pandemic did not materially impact the company's 2020 financial profile. Molymet was able to maintain the operational continuity of its plants and to exceed last year's production levels despite the coronavirus contingency.

**Equity Rating:** Molymet's equity rating, at first class level 3(cl), is constrained by its liquidity ratio despite the company's solid financial profile. The company's market presence in the Chilean stock market is low with last month's average daily volume estimated at USD3.3 million as of March 26, 2021. Molymet's market capitalization was USD1.02 billion.

## **Derivation Summary**

There is no direct peer for Molymet in Fitch's global rating portfolio, given the unique characteristics of the company's business and fundamentals of its market. Molymet has a diversified supplier base, with many under long-term contracts. Price risk is limited due to the tolling component of the business that provides stability and predictability to EBITDA generation.

Molymet's output is significant to the global supply of molybdenum products, as evidenced by its 35% market share, despite the overall small size of this market compared to other global commodities. The company's strong position in the molybdenum market is a key differentiating factor from other commodity processors, in addition to the increasing contribution in its product mix of high value-added material.

Molymet has a solid capital structure relative to the 'BBB' rating category median in Fitch's Latin America rated portfolio with a net debt-to-EBITDA ratio at 2.8x, compared with the 0.6x of Molymet as of YE 2019.

## **Key Assumptions**

Exchange rate at CLP750/lb for the whole period;

Moly Price at USD9/lb in 2021, USD10/lb in 2022 and 10/lb in 2023;

Rhenium prices of USD718/lb in 2021, USD871/lb in 2022 and USD835/lb in 2023;

Capex of USD42 million per year during 2021 and 2022 to decrease to USD30 million in 2023;

Dividend of USD26 million in 2021 and payout ratio at 40% of net profits for 2022 and 2023.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A positive rating action for Molymet is currently constrained by the company's small scale of operations and revenue base concentration in a commodity with a relatively small market for its 'BBB' rating category.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A negative rating action, either in the form of a downgrade, revision to a Negative Outlook, or both, could result from deterioration in the company's capital structure that is not addressed in the short term;

--A large acquisition or a significant investment plan that increases the company's net debt/EBITDA above 2.5x for a sustained period, could also result in a negative rating action, as could a significant loss of existing tolling contracts that weakens the company's business profile and/or a prolonged deterioration in the company's liquidity position and persistent negative FCF.

## **Best/Worst Case Rating Scenario**

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **Liquidity and Debt Structure**

**Robust Liquidity:** Molymet's strong credit profile is reinforced by its solid liquidity position. At the end of 2020 the company has a cash balance of USD210 million compared with almost no short-term debt (USD500 thousand).

The company has access to diversified sources of financing with credit facilities available from local and foreign banks amounting to USD500 million together with bond lines available in Chile, Mexico and Colombia. Molymet has a comfortable debt repayment schedule; with long-term debt maturities of USD69 million in 2022, USD80 million in 2023 with no outstanding maturities until 2028, when it will need to pay USD81 million. Molymet's shareholders continued a strong commitment to preserving the

company's capital structure and conservative approach to dividends.

Molymet's debt amounted to USD237 million as of Dec. 31, 2020, down from USD279 million in 2019 after the payment of short-term working capital facilities of USD40 million. Molymet has historically maintained low net debt despite cash-flow volatilities related to price movements. Molymet's financial debt was comprised of 81% bonds issued in Chile, Mexico and Colombia; 1% in banks, and the 19% remainder primarily corresponding to foreign exchange hedging liabilities. Almost all debt is long-term.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

### ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

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## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Molibdenos y Metales S.A. (Molymet)	Natl LT	AAA(mex) ●	Affirmed	AAA(mex) ●
	• senior unsecured <sup>LT</sup>	BBB	Affirmed	BBB
	• senior unsecured <sup>Natl LT</sup>	AAA(mex)	Affirmed	AAA(mex)
Molibdenos y Metales S.A. (Molymet)	Natl LT	AAA(col) ●	Affirmed	AAA(col) ●
	• senior unsecured <sup>Natl LT</sup>	AAA(col)	Affirmed	AAA(col)
Molibdenos y Metales S.A. (Molymet)	LT IDR	BBB ●	Affirmed	BBB ●
	LC LT IDR	BBB ●	Affirmed	BBB ●
	Natl LT	AA(cl) ●	Upgrade	AA-(cl) ●
	Nat Equity Rating	Primera Clase Nivel 3(cl)	Affirmed	Primera Clase Nivel 3(cl)

## RATINGS KEY OUTLOOK WATCH

POSITIVE



## RATINGS KEY OUTLOOK WATCH

NEGATIVE	●	◊
EVOLVING	◊	◆
STABLE	○	

### Applicable Criteria

[Corporate Rating Criteria \(pub.21 Dec 2020\) \(including rating assumption sensitivity\)](#)

[Metodología de Calificación de Finanzas Corporativas \(pub.26 Jun 2020\)](#)

[Metodología de Clasificación de Acciones en Chile \(pub.31 Jul 2018\)](#)

### Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 [\(1\)](#)

### Additional Disclosures

[Solicitation Status](#)

### Endorsement Status

Molibdenos y Metales S.A. (Molymet) EU Endorsed, UK Endorsed

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