FitchRatings

RATING ACTION COMMENTARY

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

Fri 17 Mar, 2023 - 4:10 PM ET

Fitch Ratings - New York - 17 Mar 2023: 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 and senior unsecured ratings at 'AA'(cl) and 'AAA(mex)', and Equity Rating at First Class Level '3(cl)'. The Rating Outlook is Stable.

Fitch also assigned a national rating of 'AAA(mex)' to the proposed issuance of "certificados bursátiles": MOLYMET 23 and MOLYMET 23-2, with a maturity up to 1,092 days and up to 2,548 days, respectively, for a total aggregate amount of up to MXN6,000 million.

The issues are unsecured and are to be used to refinance liabilities, and other corporate purposes.

Molymet's ratings reflect its conservative capital structure with an average net leverage ratio of 0.9x over the last 10 years, low risk business model that is reflected in its stable EBITDA generation over the years and the company's leading global market share, as well as capacity to affect ferro molybdenum prices.

The Stable Outlook reflects the company's strong operating performance and leverage ratios within Fitch sensitivity headroom. The agency projects that 2023 net leverage ratio will be temporarily elevated at 2.3x, but will revert back to below 2x over the rating horizon. The temporary elevated leverage is driven by expected molybdenum prices.

Fitch Ratings has chosen to withdraw the international rating to the Mexican senior unsecured Long-Term debt of Molibdenos y Metales S.A. for commercial reasons. The issuer no longer requires the rating.

KEY RATING DRIVERS

Strong Overall Performance in 2022: Molymet reported strong EBITDA of USD188 million in YE 2022, among the highest in the company's history, due to Molybdenum prices rising by 20% to USD18.8/lb. Higher volume sales of rhenium also contributed to strong results. The company's "Own Sales" segment represented close to 70% of the company's EBITDA, while tolling and rhenium business lines together represented the remaining 30%. The company ended 2022 with a solid net debt to EBITDA ratio at 1.7x.

Leverage Pressures Expected in 2023: The company is exposed to temporary deviations on its leverage ratios when facing severe increases in moly prices, which will pressure working capital related debt. This is expected to occur in 2023, consistent with Fitch price assumptions. Fitch's base case assumption considers moly prices to reach USD30/lb in 2023, USD24 /lb in 2024 and USD21/lb in 2025 compared with USD24/lb at YE 2022, resulting in net leverage ratios of 2.3x in 2023, but an improvement in leverage reaching 1.8x in 2024 and 1.3x in 2025.

Business Model Mitigates Price Risk: Molymet's investment-grade rating is supported by the company's strong business model, which has resulted in stable EBITDA generation, even in periods of relevant moly price movements. Price increase is fully translated into EBITDA in the spot sales of by-product and processed materials recovered on top of committed volumes. This is a smaller portion of total sales though, as generally, price variations are translated into EBITDA in a limited proportion. The tolling business segment receives a fee for roasting, a high portion of rhenium is commercialized under a price established in long-term contracts, and in the Own Sales segment the purchase price is usually linked to the sale price.

Working Capital Pressures: Price increases could result in relevant working capital expenses that may partially be funded with debt, which Fitch estimates will be mitigated by the growing EBITDA generation, high cash holdings and good access to bank financing related to the company's historically strong financial profile. Conversely, when moly prices fall the company's cash flow benefits from the release of working capital resources.

Decline in Processed Materials: In the last year, the market has experienced a reduction of molybdenite to be processed. The risk related to the reduction of raw material is mitigated by the company's relevant market share globally, which offers its suppliers continuity of operations, long-term relationships, and a beneficial location given its proximity to several sources of material. In addition, the state-of- the- art -technology of its plants allows for the processing of low-quality raw materials that few competitors would have the ability to roast. Finally, decreases in volumes to be processed and its effects on EBITDA are expected to be partially mitigated by resulting price increases.

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 has a small market presence in the Chilean stock market, in line with a free float lower than 3%. Last month's average daily volume estimated at USD0.3 million as of March 10, 2023. Molymet's market capitalization was USD581 million.

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, which 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 showed a capital structure in line with the 'BBB' rating category median in Fitch's Latin America rated portfolio, with a net debt-to-EBITDA ratio close to 2.0x in YE 2021.

KEY ASSUMPTIONS

--Exchange rate at CLP810/lb for the whole period;

--Moly Price at USD30/lb in 2023, USD24/lb in 2024 and 21/lb in 2025;

--Rhenium prices of USD614/lb in 2023; USD622/lb in 2024; USD622/lb in 2025;

--Capex of USD57 million in 2023, USD32million in 2024 and USD17 million in 2025;

--Dividend payout ratio at 40% for the whole projected period.

RATING SENSITIVITIES

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

--A positive rating action 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 of the Outlook to Negative, or both, could result from deterioration in the company's capital structure, which 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

Healthy Liquidity Levels: The company is expected to raise close to USD 300 million in Mexican bonds to be used to cover the maturity of the USD 80 million bond maturing in 2023, and to finance expected growing working capital requirements on the back of projected price increases. Half of the new issuance would mature in two years, while the other USD150 million would be raised for a six or seven-year tenor. Mexican financial market conditions are favorable for the company and the new issuance would enhance the company's financial flexibility and improve its maturity profile.

The company had cash of USD170 million to finance short term debt of USD114 million at YE 2022, from this amount USD80 million correspond to the Mexican bond. Molymet shows a comfortable debt repayment schedule; with the next relevant maturity of USD170 million in 2025; and USD120 million in 2027. The company has a strong credit profile that support the availability of bank lines for USD600 million. Molymet's shareholders show a continued strong commitment to preserving the company's capital structure and conservative approach to dividends.

ISSUER PROFILE

Molymet is the main processor of molybdenum and rhenium concentrates in the world, with a share in the global processing capacity of approximately 35% and 70%, respectively. The company has productive operations in 4 countries: Chile, Mexico, Belgium, and Germany.

SUMMARY OF FINANCIAL ADJUSTMENTS

Leases excluded from financial debt.

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

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR

Molibdenos y Metales S.A. (Molymet)	Natl LT	AAA(mex) Rating Outlook Stable Affirmed	AAA(mex) Rating Outlook Stable
senior unsecured	LT	WD Withdrawn	BBB
senior unsecured	Natl LT	AAA(mex) Affirmed	AAA(mex)
senior unsecured	Natl LT	AAA(mex) New Rating	
Molibdenos y Metales S.A. (Molymet)	LT IDR	BBB Rating Outlook Stable Affirmed	BBB Rating Outlook Stable
	LC LT IDR	BBB Rating Outlook Stable Affirmed	BBB Rating Outlook Stable
	Natl LT	AA(cl) Rating Outlook Stable Affirmed	AA(cl) Rating Outlook Stable
	Nat Equity Rating	Primera Clase Nivel 3(cl) Affirmed	Primera Clase Nivel 3(cl)
senior unsecured	Natl LT	AA(cl) Rating Outlook Stable Affirmed	AA(cl) Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Metodología de Calificaciones en Escala Nacional (pub. 22 Dec 2020)

Metodología de Clasificación de Acciones en Chile (pub. 10 Aug 2021)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub. 28 Oct 2022)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

Metodología de Calificación de Finanzas Corporativas (pub. 29 Dec 2022)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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

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