



RATING ACTION COMMENTARY

Fitch Downgrades Molymet's IDR to 'BBB-'; Outlook Stable

Tue 12 Mar, 2024 - 17:39 ET

Fitch Ratings - New York - 12 Mar 2024: Fitch Ratings has downgraded Molibdenos y Metales S.A.'s (Molymet) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'BBB-' from 'BBB' and Molymet's National Long-Term and senior unsecured ratings to 'AA-(cl)' from 'AA'(cl). Fitch has also affirmed Molymet's National Long-Term and senior unsecured ratings at 'AAA(mex)', and Equity Rating at First Class Level '3(cl)'. The Rating Outlook is Stable.

The downgrade reflects the weakening of Molymet's financial structure and financial flexibility which presently fall short of the benchmarks associated with a 'BBB' rating. Molymet is exposed to the challenges related to the volatility of the molybdenum prices and its effects on working capital requirements, which deteriorated the company's credit metrics and increased the company's exposure to refinancing risks.

Fitch expects Molymet's financial performance to improve during 2024 with a more stable price behavior across the year reaching levels in the neighborhood of USD19 per pound. The operating cash flow expansion should enhance liquidity and alleviate refinancing risk. Any major deviation on this scenario, could lead to further rating pressure.

KEY RATING DRIVERS

Deterioration in Credit Metrics in 2023: 2023 presented relevant challenges for the company, marked by significant volatility in the molybdenum market. Prices experienced exceptional fluctuations, which led to an unanticipated decline in EBITDA, dropping to USD114 million from USD181 million, a figure notably below our projected figure of USD190 million. In addition, the company faced an atypical surge in its working capital needs, exerting additional pressure on its financial position.

Consequently, the debt burden escalated, concluding the year at USD665 million, a substantial increase from the previous year's USD472 million. Molymet ended with a gross leverage ratio at 5.8x and a net debt ratio of 2.5x in 2023 that are expected to improve to 3.8x and 1.2 respectively in 2024. EBITDA coverage ratio was 2.6x in 2023.

Low Diversification and Working Capital Volatility: Molymet's credit ratings are constrained by the company's limited commodity diversification, primarily focusing on the molybdenum and rhenium markets. In addition to the fact that its own sales business segment, has a considerable influence on its working capital requirements. In scenarios where there is a sharp increase in molybdenum prices, this could lead to a substantial impact on the company's cash flows. The resulting strain on financial resources may necessitate a greater reliance on short-term debt to manage liquidity.

Increased Medium Term Refinancing: Molymet has around USD361 million of Mexican bonds coming due by 2025, of which USD189 million corresponded to working capital financing. At Dec. 31, 2023, the company total debt was USD665 million and its cash position was USD375 million. Molymet has the challenge to boost its operating EBITDA generation to USD170 million in 2024.

Expected Cash Flow Recovery: The financial profile of Molymet is anticipated to see improvement in the upcoming years, with Fitch forecasting an EBITDA of around USD170 million for 2024 and USD183 million by 2025. This positive shift is expected to be fueled by projected molybdenum prices of USD 19.5 per pound in 2024, escalating to USD23 per pound in 2025 and new contracts in the tolling business.

The company's cash flow from operations (CFFO) is also projected to climb to USD144 million in 2024, reaching a more robust USD140 million in 2025, which includes the anticipated release of around USD15 million in 2024 and USD9 million in 2025 tied up in working capital. This release is in line with expectations of a decrease in molybdenum prices towards the end of 2023, compared to their average 2023 price at USD24 per pound. With these projections, Molymet's FCF is expected to be in the green, with USD84 million in 2024 and USD65 million in 2025, indicating a more favorable financial position for the company.

Robust Standing in its Market: The company's relevant presence in the molybdenum market as the largest global processor of molybdenum, holding a 35% market share. Additionally, the company's dominance extends to the processing of rhenium, where it boasts a 70% of the global market. This leading position affords the company certain

bargaining power with both suppliers and clients which together with state-of-the-art plants result in high metal recovery which enhance profitability margins.

Solid Business Profile: Molymet's investment-grade rating is supported by its low exposure to volatility in molybdenum prices, in line with its business model, which protects it from price movement. The own sales business representing 70% of its EBITDA eliminates price risk as sales prices are linked to the costs of purchase from copper miners. The rating also reflects the company's tolling business segment, which is secured by long-term price contracts with large copper producers with whom the company has a long-standing relationship. These contracts account for approximately 15% of Molymet's EBITDA and provide stability to the EBITDA regardless of the volatility of molybdenum prices.

Equity Rating: Molymet's equity rating, at first class level '3(c)', 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 USD5.3 million as of March, 2024. Molymet's market capitalization was USD506 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's rating (BBB-/Stable) is assessed the same as metals processor Jinchuan Group's Standalone Credit Profile (SCP) of 'BBB-' with a rating at 'BBB+/'Stable as its rating is linked to the Chinese government. Jinchuan's has a larger absolute scale, higher margins, degree of vertical integration, and significant position in larger global markets of copper, nickel and cobalt processing. While Molymet rating is explained by its strong market position and market power, being the world largest molybdenum processor. In addition to its solid business model and technological capabilities that enable to process low quality material. Both companies have similar geographical diversification.

Molymet's rating is assessed lower than that of international commodity processing and trading companies such as oilseed processor and trader Bunge Limited (BBB/Rating Watch Positive) due to Bunge's less cyclical business, much larger scale, expected margin improvements, and better geographical diversification than Molymet. Bunge is expected to strengthen its oilseed platform, expand refined and specialty oils product solutions and increase exposure to renewable feedstock capacity and plant proteins.

Molymet is assessed higher than Brazil grains producer Andre Maggi Participacoes S.A. (BB/Stable) despite its higher scale given Molymet's better market position relative to their respective markets and better geographical diversification.

KEY ASSUMPTIONS

- Exchange rate of CLP850/lb for the whole period;
- Moly prices of USD19/lb in 2024, USD22.8/lb in 2025 and USD22.8/lb in 2026;
- Rhenium prices of USD579/lb in the whole projected period;
- Capex of USD50 million in 2024, USD40 million in 2025 and USD40 million in 2026.

RATING SENSITIVITIES

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

- Total debt/EBITDA and Net debt/EBITDA below 2.5x and 2.0x, on a sustained basis;
- EBITDA Interest Coverage consistently above 5.5x.

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

- Weaker than expected operating cash flow recovery, leading to liquidity deterioration and/or exposure to refinancing risks within 18-months period horizon;
- Total debt/EBITDA ratio above 3.0x and/or net debt/EBITDA ratio above 2.5x;
- EBITDA Interest Coverage consistently below 4.0x.

LIQUIDITY AND DEBT STRUCTURE

Medium Term Refinancing Risks: The company concluded the year with a robust cash position, totaling USD375 million, set against no short-term obligations. In 2025 the company faces maturities amounting to USD360 million. This amount represents two bond maturities in Mexico: USD189 million maturing in April and USD171 million in December. The USD189 million bond was issued in 2023 to primarily finance heightened working capital needs.

Fitch's base case projection anticipates that the company's cash reserves will rise to approximately USD455 million at the end of 2024, a level anticipated to be enough to fulfill the impending short-term debts remaining with enough cash.

The company has good access to diversified sources of financing with credit facilities available from local and foreign banks amounting to USD600 million to finance temporary increases in short-term debt related to molybdenum price variations. In addition, the company has bond lines available in Chile, Mexico. The company faces an adequate debt repayment schedule after 2025 with USD121 million in 2027, USD81 million in 2028 and USD120 million in 2029.

ISSUER PROFILE

Molybdenum 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 four countries: Chile, Mexico, Belgium, and Germany.

SUMMARY OF FINANCIAL ADJUSTMENTS

--Leases excluded from financial debt;

--Hedging assets reduces 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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Molibdenos y Metales S.A. (Molymet)	Natl LT	AAA(mex) Rating Outlook Stable	AAA(mex) Rating Outlook Stable
	Affirmed		
senior unsecured	Natl LT	AAA(mex) Affirmed	AAA(mex)
Molibdenos y Metales S.A. (Molymet)	LT IDR	BBB- Rating Outlook Stable	BBB Rating Outlook Stable
	Downgrade		
	LC LT IDR	BBB- Rating Outlook Stable	BBB Rating Outlook Stable
	Downgrade		
	Natl LT	AA-(cl) Rating Outlook Stable	AA(cl) Rating Outlook Stable
	Downgrade		
	Nat Equity Rating		Primera Clase Nivel 3(cl)
	Primera Clase Nivel 3(cl)	Affirmed	

senior unsecured

Natl LT AA-(cl) Rating Outlook Stable

AA(cl) Rating

Outlook

Stable

Downgrade

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APPLICABLE CRITERIA

[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

[Metodología de Clasificación de Acciones en Chile \(pub. 10 Aug 2021\)](#)

[Corporate Rating Criteria \(pub. 03 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 03 Nov 2023\)](#)

[Metodología de Calificación de Finanzas Corporativas \(pub. 22 Dec 2023\)](#)

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

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Molibdenos y Metales S.A. (Molymet)

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Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

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