

FITCH AFFIRMS MOLYMET'S IDRS AT 'BBB'; OUTLOOK STABLE

Fitch Ratings-Chicago-24 April 2017: Fitch Ratings has affirmed Molibdenos y Metales S.A.'s (Molymet) foreign and local currency long-term Issuer Default Ratings (IDRs) at 'BBB', and its national scale ratings at 'AAA(col)' and 'AA+(mex)'.

Fitch also has upgraded the national scale long-term ratings to 'AA-(cl)' from 'A+(cl)'. The strengthening of the company's credit metrics and its stronger business profile are more consistent with 'AA-(cl)' rating category in the National Scale.

KEY RATING DRIVERS

Conservative Capital Structure: Molymet's investment-grade ratings reflect the company's robust capital structure, as demonstrated by its five-year average net debt-to-EBITDA ratio of 1.7x, despite weak molybdenum prices and the relevant loss of Molycorp investment for about USD600 million. As of year-end (YE) 2016, the company recovered its cash holding to levels previous to the Molycorp acquisition and it has been improving its credit metrics reaching a net debt-to-EBITDA ratio at 0.6x (0.9x in 2015), which is expected to be close to zero at YE 2017.

Business Model Supports Stable Credit Profile: The company benefits from a stable EBITDA generation despite price volatility. The tolling and by-product business lines, which accounted for about 55% of 2016's EBITDA, provides cash flow stability and visibility due its long-term contracts. However, relevant molybdenum (Mo) price variations have an impact on the working capital flows resulting in higher volatility of the cash flow from operations (CFFO) and of the net debt leverage ratio. The company's large cash holding constitute a buffer to this volatility.

Unwavering Shareholder Support: The continued strong support of Molymet's shareholders to preserve the company's capital structure and its conservative approach towards dividends has enabled the company to sustain its robust through-the-cycle credit profile.

Resilient Operating Performance: Molymet increased its EBITDA to USD162 million in 2016 compared with the previous year at USD158 million, despite a weak Mo price that decreased slightly to USD6.48 per pound. The latter based on an improvement on its sales mix towards higher value added products. Free cash flow (FCF) was positive at USD38 million following capex of over USD17 million and dividends of USD21 million in 2016, compared to a higher FCF of USD164 million following capex of USD24 million and dividends of USD2 million in 2015.

Healthy Credit Metrics to Remain: Fitch forecasts Molymet's revenue generation at around USD767 million during 2017, with EBITDA of approximately USD152 million in the same line of 2016. Funds from operations (FFO) are expected to be around USD150 million in 2017. Projected capex of USD33 million and USD55 million dividend payments and a working capital outflow should result in a positive FCF of around USD95 million. Fitch projects an improvement in Molymet's net debt-to-EBITDA ratio that would be close zero after debt payments. The company faces the maturity of its Mexican bond for USD125 million and the first instalment of its syndicated facility for USD40 million.

National Equity Rating Rationale: Molymet's equity rating at level 3 is constrained by its liquidity ratio despite the company's solid financial profile. The company's market presence in the Chilean

Stock Market is at 13%, with last year's average volume daily estimated at USD26 million as of April 2017. Molymet's market capitalization was USD1,506 million as of the same date.

KEY ASSUMPTIONS

Fitch's key assumptions within the rating case for Molymet include:

- Molybdenum average prices of USD7.1 lb in 2017, USD8.5 lb in 2018 and USD8.8 lb in 2019.
- Rhenium prices of USD1,182 lb in 2017 and beyond.
- Sales volumes of 146 million lb in 2017, 155 million lb in 2018 and 165 million lb in 2019
- Net revenues of USD767 million in 2017, USD931 million in 2018 and USD1,072 million in 2019.
- EBITDA of USD152 million in 2017, USD147 million in 2018 and USD157 million in 2019.
- Capex of USD33 million in 2017, USD55 million in 2018 and USD17 million in 2019.

RATING SENSITIVITIES

A Positive Outlook or rating upgrade is unlikely due to the company's small scale of operations and low operating diversification for its 'BBB' rating category.

A Negative Outlook or rating downgrade could be triggered by a combination of some of the following factors: a loss of major processing clients, a large acquisition that increases net debt to EBITDA above 2.5x for sustained period, a substantial loss or weakening of existing tolling contracts, or a long term increase in leverage throughout the next business cycle.

LIQUIDITY

Comfortable Liquidity Position: Molymet's strong liquidity position is supported by its stable and predictable cash flow generation and its healthy cash position of USD528 million which compares favourably to its short-term debt of USD174 million, corresponding to a cash-to-short-term debt ratio at 3.0x and a CFFO plus cash-to-short-term debt at 3.5x. The company also has access to available lines of credit totalling more than USD1 billion. Molymet has a positive FCF. The company has a comfortable debt payment schedule and amply complies with the covenants imposed in their long-term bank debt.

FULL LIST OF RATING ACTIONS

Fitch has taken the following rating actions:

Molibdenos y Metales S.A.

- Foreign currency long-term IDR affirmed at 'BBB';
- Local currency long-term IDR affirmed at 'BBB';
- Senior unsecured debt rating affirmed at 'BBB';
- National scale rating upgraded to 'AA-(cl)' from 'A+(cl)';
- National scale rating affirmed at 'AA+(mex)';
- National scale rating affirmed at 'AAA(col)';
- Senior unsecured debt rating upgraded to 'AA-(cl)' from 'A+(cl)';
- Certificados Bursatiles affirmed at 'AA+(mex)';
- National Equity Rating affirmed at Level3(cl).

Fitch also publishes the following rating for Molymet:

- Senior unsecured debt rating at 'AAA(col)'.

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Date of Relevant Rating Committee: April 21, 2017.

Additional information is available on www.fitchratings.com

Applicable Criteria

Criteria for Rating Non-Financial Corporates (pub. 10 Mar 2017)

<https://www.fitchratings.com/site/re/895493>

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