FitchRatings

19 OCT 2021

Fitch Rates Minsur's Senior Unsecured Notes 'BBB-'

Fitch Ratings - New York - 19 Oct 2021: Fitch Ratings has assigned a 'BBB-' rating to Minsur S.A.'s (Minsur) benchmark proposed senior unsecured notes with intermediate maturity. Proceeds from the proposed notes will be used for general corporate purposes including debt refinancing. The transaction will allow Minsur to improve its liquidity and debt structure amid a favorable copper and tin environment due to elevated prices. The new bond is not expected to increase the company's net leverage ratio.

Key Rating Drivers

Increased Product Diversification: The startup of the Mina Justa mine after more than USD1.6 billion of capex increases Minsur's product diversification and FCF generation. Fitch forecasts that the share of tin in the revenue will drop to about 35% in 2022 from 71% in 2020, while copper will now account for approximately 60% of sales. Mina Justa's cash cost is expected to be in the second quartile of the global copper cost curve with levels around USD1.00/lb during the first four years of operation, when output will average above 130,000 metric tons per year (MT/yr).

Positive FCF: Minsur's EBITDA adjusted by dividends paid to Mina Justa's minority shareholders is projected to exceed USD900 million on 2021 and remain above USD700 million per year on average till 2024. This compares with USD268 million in 2020 and USD249 million in 2019. Minsur's net FCF is projected to be positive in 2021 following an outflow of USD450 million in 2020. Following the conclusion of the project, capex will lower significantly since reaching USD554 million in 2020.

Declining Net Debt: The company's consolidated net debt should be below USD1.0 billion at YE 2021, a lower figure than one year prior. As Mina Justa achieves full production amid a supportive copper environment, net debt is expected to decline to about USD700 million in 2023. The decline in net debt due to free cash flow, plus the increase in operating cash flow, should lead to a reduction in Minsur's Fitch-defined net leverage ratio from 3.9x in 2020 to 1.0x in 2021 and further decline towards 0.8x by 2024. This ratio might differ from the one in the Marcobre covenant.

Low Cost Tin Producer: The company's low-cost, high-grade production in tin is an additional positive credit consideration. The San Rafael tin mine produced 17,458MT of tin in 2020, a decline from the prior year due to government mandated closures of the mine for nearly two months due to the coronavirus pandemic. Fitch forecasts that this mine will produce around 22,000MT of tin in 2021. The company's 2020 cash cost of production of USD8,472/MT remained among the lowest in the world, located in the second quartile it ranks amongst the best when including sustaining capex. Output has been bolstered by the ramping up of B2, a processing plant of an old high-grade tailings deposit, approximately 1.1% of tin, that Fitch expects will add 3,700MT of additional tin in 2021.

Ownership by Breca: Minsur's voting rights are owned by the Breca group. Breca is one of Peru's largest family-owned conglomerates owning companies in the industrial, financial, mining, real estate, healthcare, insurance and services sectors. Breca also has a strategic 50/50 joint venture with BBVA from Spain in Banco BBVA Peru (BBB+/Negative), the second largest bank in Peru. Minsur is a key strategic unit for the group.

Sustainable, Conflict-Free Tin: Minsur continues to benefit from the growing importance for global tin consumers to source conflict-free and environmentally responsible sources of tin, mainly as a result of the Dodd-Frank Act. Tin supplies from sources such as Myanmar are not Dodd-Frank compliant. Large international consumer electronic corporations with tin in their products are placing pressure on suppliers to source tin sustainably and from conflict-free zones. This benefits Minsur's position as a supplier to these companies due to its status as a Dodd-Frank compliant supplier of tin.

Derivation Summary

Minsur's rating reflects the company's business position as one of the world's largest and lowest-cost producers of tin, which partially offsets its low diversification. Minsur is a small-scale company, although it ranked as the world's third-largest tin producer because the global market size for tin is relatively minor relative to other base metals.

Minsur benefits from a second-quartile cash cost position in tin at its San Rafael mine and amongst the best worldwide when incuding sustaining capex, which compensates for its lower diversification when compared with mining peers Volcan Compania Minera S.A.A. (BB/Positive), Nexa Resources S.A. (BBB-/Stable) and Compania de Minas Buenaventura S.A.A. (BB/Stable).

Minsur historically has boasted a stronger capital structure than Volcan and Nexa, and its credit metrics are projected to strengthen with the start of its USD1.6 billion copper mine. Minsur's cash flow generation has been historically less volatile than Buenaventura's, given its sustained low-cost production of tin.

Similar to peers, Minsur has demonstrated a willingness and ability to reduce development and exploration expenditures during periods of lower commodity prices to preserve cash flow. The company has been able to extend the mine life within its San Rafael district to at least eight years, but it still remains on the low end of mine life.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Base Case for the Issuer

--Tin prices of USD30,000/MT in 2021, USD25,000/MT in 2022 and USD18,000/MT thereafter;

--San Rafael tin output of 22,000MT in 2021 and 20,000MT thereafter;

--Taboca tin output of 6,500MT in 2021 and thereafter;

--B2 tin output of 3,700MT in 2021 and 4,000MT thereafter;

--Gold prices of USD1,800/oz in 2021, USD1,500/oz in 2022, and USD1,200/oz thereafter -the effects of hedging 85% of production below 1,450/oz Au are included;

--Pucamarca gold output of 65,000oz in 2021, 60,000oz in 2022 and 58,000oz in 2023;

--Mina Justa has 83,800MT of copper output in 2021, 127,300MT in 2022 and 168,700MT in 2023;

--Copper prices of USD9,200/MT in 2021, USD7,500/MT in 2022 and USD6,700/MT thereafter.

RATING SENSITIVITIES

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

-- A sustained net debt/EBITDA ratio of less than 1.0x;

-- Additional mine diversification in products and geography;

-- Longer average mine life exceeding 15 years.

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

-- A sustained net debt/EBITDA ratio of more than 2.0x with an unwillingness or inability to deleverage;

-- An adverse change in the overall framework toward mining projects in Peru.

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 Cash Balance: Minsur has historically maintained a robust cash balance. The company held cash and marketable securities of USD325 million and short-term debt of USD392 million as of Jun. 30, 2021. The company has potential access to additional liquidity if required from Breca Group, its parent company, and has a strong partner for its Mina Justa project, Alxar, which is owned by Copec.

Total debt at Minsur as of June 30, 2021 was USD1.614 billion, mainly composed of the company's USD450 million senior unsecured 6.25% notes due in 2024 and USD900 million of debt at Marcobre related to its Mina Justa copper project. The balance of the company's debt is primarily comprised of USD95 million unsecured bank loans for the company's tin and gold operations in Peru, USD66 million for Marcobre and the balance for the Taboca subsidiary, in Brazil.

In July 2021, Minsur repurchased USD264 million of its notes due in 2024 with the proceeds of a USD300 million senior unsecured term loan due in 2026. The company intends to refinance with a benchmark size bond due in 2031 the loan due in 2026, USD95 million of short-term debt, around USD50 million of the outstanding notes due in 2024, or more, and obtain about USD50 million for working capital and other general corporate uses.

Fitch expects Minsur's total debt, including 100% of the project finance debt, to have peaked in 2020 and then decline thereafter once its copper project ramps up into commercial production. It is expected to stay below USD900 million by 2022.

Issuer Profile

Minsur is the world's third largest tin miner with integrated operations in Peru and Brazil. Through its subsidiary Marcobre, it started the Mina Justa copper mine in Peru. The company also produces gold in Peru and ferro-niobium-tantalum in Brazil.

Date of Relevant Committee

16 April 2021

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

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Minsur S.A.					
• senior unsecured	LT	BBB-	New Rating		

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⭘	◆
STABLE	⭘	

Applicable Criteria

Corporates Recovery Ratings and Instrument Ratings Criteria (pub.09 Apr 2021) (including rating assumption sensitivity)

Sector Navigators - Addendum to the Corporate Rating Criteria - Effective from 30 April 2021 to 15 October 2021 (pub.30 Apr 2021)

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

Minsur S.A.	EU Endorsed, UK Endorsed

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