Lima, 21 de setiembre de 2020

Señores
Registro Público del Mercado de Valores
Superintendencia del Mercado de Valores - SMV
Presente.-

Referencia.- Hechos de Importancia

De nuestra consideración:

Minsur S.A. (en adelante, "Minsur"), de conformidad con lo dispuesto por el artículo 28° de la Ley del Mercado de Valores y el artículo 9.1 del Reglamento de Hechos de Importancia e Información Reservada, aprobado por Resolución SMV Nº 005-2014-SMV/01, cumple con informar en calidad de hecho de importancia, lo siguiente:

Que estamos adjuntando al presente, copia del reporte emitido por los señores S&P Global Ratings, quienes han revisado la calificación de los bonos emitidos por Minsur.

Sin otro particular, quedamos de ustedes.

Atentamente,

MINSUR S.A.
EMILIO ALFAGEME RODRÍGUEZ LARRAÍN
REPRESENTANTE BURSÁTIL

S&P Global
Ratings

RatingsDirect®

Research Update:

Minsur Downgraded To 'BB+' On Parent's Weakening Credit Metrics, Stand-Alone Credit Profile Unchanged And Outlook Stable

September 21, 2020

Rating Action Overview

- Peru-based mining company, Minsur S.A., is a 99.99% owned subsidiary of Breca Mineria S.A.C., with $612 million and $212 million in revenue and EBITDA, respectively, for the 12 months ended June 2020.
- On Sept. 21, 2020, S&P Global Ratings lowered its long-term global scale issuer credit and issue-level ratings on Minsur to 'BB+' from 'BBB-', given our expectation that the group credit profile (GCP) will deteriorate in 2020 beyond our previous expectations.
- We expect the parent's credit metrics to weaken following the closure of its Raura mine at least during 2020 while Minsur's leverage to be high at around 6.0x this year, which we consider high for the current rating level.
- Nonetheless, Minsur's 'bb' stand-alone-credit-profile (SACP) remains unchanged because we expect a substantial deleveraging in 2021 once the Marcobre project starts producing (102,250 metric tons [MT] of copper capacity in that year).
- The stable outlook reflects our expectation that despite a peak in Minsur's net leverage at 6.0x in year-end, it will plummet to 2.0x starting in 2021, coupled with a recovery on base metals prices in recent months.

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Rating Action Rationale

Minsur's downgrade reflects a deterioration of the parent's GCP because we expect its credit metrics to weaken in 2020 and 2021. Our revised forecast considers a deterioration in Breca Mineria's revenue, EBITDA, and credit metrics because its Raura mine will be closed at least during 2020. In addition, Minsur's net leverage for 2020 will be well above our previous expectations due to COVID-19 and the still large investments required to finalize its Marcobre project. Therefore, the likely erosion of Breca Mineria's credit metrics is triggering a one-notch downgrade of Minsur to 'BB+', given that the latter is a core subsidiary of Breca Mineria.

We expect Minsur's 2020 credit metrics to weaken due to the temporary suspension of activities amid COVID-19 and debt required to finish the Marcobre project. On March 15, 2020, the Peruvian government declared a state of emergency and approved several restrictions designed to protect the country, including the mining sector, against the spread of COVID-19. Minsur had to stop operations for a month and a half, which will inevitably reduce its revenues and EBITDA by about 10.7% and 8.2%, respectively in 2020. We estimate lower tin production at San Rafael and Pitinga, as well as lower tin price for the period, while gold production will also decline from 2019 levels. Moreover, we expect that Minsur will increase debt by about $420 million in 2020 to finish its Marcobre project. Therefore, we expect Minsur's net leverage metric to rise to around 6.0x in 2020, which significantly deviates from our expectations of 5.0x in our last year base-case assumption, and which we consider as high for the rating.

Starting in 2021, we expect a substantial deleveraging trend as the Marcobre project revenue streams will double Minsur's revenue base to around $1.3 billion, shoring up the company's stand-alone credit profile (SACP). The construction of the Marcobre project is 86% complete and remains broadly on schedule despite the company's suspension of operations earlier this year. This is because before the declaration of national emergency, the progress of the project was ahead of schedule. We consider Marcobre as a transformational event for Minsur, because revenue contribution from this mine will double the company's total revenues to $1.3 billion and completely revamp the revenue breakdown. We now expect copper to represent about 48% of the company's revenue for 2021 and around 58% for 2022 and onwards, and tin for around 40% and 33%, respectively. (As a reference, we expect tin to represent 70% of total revenue in 2020 and gold represents for 21%.) Given this incremental revenues, coupled with the expected debt amortization schedule and no additional debt, we believe the company's net leverage to fall sharply to 2.0x in 2021 and below 1.5x afterwards. Yet, the company remains exposed to metal price volatility that could, from time to time, distort is credit metrics.

Environmental, social, and governance (ESG) credit factors for this credit rating change

- Health and safety

Outlook

The stable outlook signals our expectation that although Minsur's net leverage will peak at 6.0x by the end of 2020, it will fall to around 2.0x in 2021. This is mostly due to our expectation that Marcobre should start production in early 2021, significantly increasing Minsur's sales, EBITDA, cash flows, and strengthening its credit metrics. The stable outlook also reflects the sharp recovery in prices for Minsur's main metals (tin, copper, and gold). This is because in recent months, given the global economy dynamic, speculation is taking a decisive role supporting some metal prices, such as copper and tin, and gold is by far the asset that most preserves its value in times of crisis.

Downside scenario

We could revise downwards Minsur's SACP in the next 12 months if any of the following scenarios happen:

- Marcobre project's production date is considerably delayed from the first quarter of 2021, denting the expected production for that year.

- Significantly higher-than-expected capex and debt to finalize the project.
- Copper and tin prices sharply lower than our expectations.
- A one-notch downgrade is possible if we have no clear visibility in the next 12 months that Minsur's leverage metric falls below 4.0x and free operating cash flow (FOCF) to debt above 10% during 2021.

If Breca Mineria's GCP further deteriorates stemming from lower-than-expected revenue or EBITDA at any of its businesses, we could lower the issuer credit rating (ICR) on Minsur.

Upside scenario

An upward revision in Minsur's SACP in the next 12 months is possible if the company's FOCF to debt is consistently above 15%, while keeping its debt to EBITDA below 3.0x. A higher SACP could also occur for the following reasons:

- We have sufficient evidence that Minsur deleverages in 2021, with adjusted debt to EBITDA below 3.0x;
- This is possible if the company completes its Marcobre project on time and within budget, and starts operations in the first quarter of 2021, coupled with metals prices in line with our expectations; and
- The company doesn't incur additional expansion capex for new projects.

Although unlikely in the next 24 months, we could only raise our issuer credit rating on Minsur if Breca Mineria's GCP improves given by the following factors:

- Greater diversification;
- Major scale and scope;
- Higher profitability;
- Sustainability of financial metrics; and
- Breca's debt to EBITDA is below 1.5x and FOCF to debt above 40% on a consistent basis.

Company Description

Minsur is a leading Peruvian mining company that engages in the exploration, exploitation, and processing of mineral deposits in the country. The company has been operating for more than 35 years and it's the largest supplier of tin in the Western Hemisphere. Aside from tin, Minsur also processes gold and will start processing copper starting in 2021. It owns the San Rafael mine, which is the world's largest tin mine. It also owns a highly profitable small-scale gold mine (Pucamarca), and has a large copper deposit mine (Mina Justa), construction of which 86% complete. It extracts tin, niobium, and tantalum from the Pitinga mine located in the Amazon region, Brazil. Minsur is directly owned by Breca Mineria SAC (99.99%), which is ultimately owned by the Brescia family.

Our Base-Case Scenario

- Global GDP to contract 5.9% in 2020 and grow 5.0% in 2020, while Peru's GDP to contract 12% in 2020 and grow 10.5% in 2021.
- Average copper prices of $5,900 per MT in 2020 and $6,100 per MT in 2021.
- Average tin prices of $16,000 per MT in 2020 and 2021.
- Average gold price of $1,650 per ounce in 2020 and $1,400 per ounce in 2021.
- Copper production at Marcobre of 102,252 MT in 2021.
- Total refined tin production of 27,800 MT in 2020 and 33,000 MT in 2021 due to B2 incremental production for both years, and higher ore grades at the San Rafael and Pitinga mines in 2021.
- Gold production at Pucamarca of 79,300 ounces in 2020 and decreasing to 66,900 ounces in 2021 due to lower volume fed to the leaching pad.
- Ferroalloys production of 3.5 million tons in 2020 and slightly increasing to 3.8 million tons in 2021.
- A revenue decline of about 10.7% in 2020 due to the temporary closure of mines and a 14% decrease in tin prices year over year. Volumes from the Marcobre mine, coupled with a 3.4% increase in copper prices, and higher tin volume due to higher ore grades treated at the B2, San Rafael and Pitinga mines to raise revenue 106.2% in 2021.
- All-in cash cost per treated ton in San Rafael of $100 for 2020 and $106 for 2021, at Pitinga $15 and $14, respectively, and at B2 of $30 for both years.
- All-in cash cost per treated ton of $5.3 in 2020 and $5.5 in 2021 at Pucamarca.
- All-in cash cost per pounds real of $1.0 in 2021 at Marcobre.
- We expect these costs to help maintain the company's EBITDA margin at around 37% in 2020 and 46% in 2021.
- Capex of about $639 million in 2020 and $247.9 million in 2021, mainly to develop the Marcobre project.
- Cash injection from the partner (Alxar) of about $104 million in 2020 and $50 million in 2021.
- Net debt issuance for about $420 million in 2020 mainly to cover the construction of the Marcobre project, and no new debt starting in 2021.
- No dividend payment for 2020 and afterwards.

Key metrics

We arrive at the following credit metrics:

- Debt to EBITDA of 6.0x in 2020 and 2.0x in 2021;
- EBITDA interest coverage of 3.8x in 2020 and 8.4x in 2021; and
- FOCF to debt of around -28% in 2020 and 14% in 2021.

Liquidity

We assess Minsur's liquidity as adequate. We expect liquidity sources to exceed uses by more than 1.2x in the next 12 months and its sources minus uses to remain positive even if EBITDA were to decline by 15%. Moreover, in our opinion, the company has a generally prudent risk management, as demonstrated by its various initiatives to increase operating efficiencies to offset the price volatility impact on its operations, profits, and cash generation. In addition, Minsur has sound relationships with banks, as seen in the various credit lines from Citibank, Banco Itau, JP Morgan, and Santander among others, which support our assessment.

Principal Liquidity Sources:

- Cash position of about $301 million as of June 2020;
- $234.0 million of undrawn committed credit lines available to fund the Marcobre project;
- Projected cash FFO of around $280 million for the next 12 months; and
- Working capital inflows of around $54 million in the next 12 months.

Principal Liquidity Uses:

- Short-term debt maturities of $82 million in the next 12 months; and
- Capital expenditures of $528 million for the next 12 months.

Covenants

Minsur has a covenant-lite structure; thus, it isn't subject to comply with any financial maintenance covenants.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of June 2020, Minsur's total outstanding debt was of $1.26 billion, $444.1 million of which consist of the senior unsecured notes issued at Minsur's level. The company also has $165.6 million borrowed at its Taboca subsidiary on a senior unsecured basis but guaranteed by Minsur. The remaining $649.5 million is related to the syndicated loan to finance the Marcobre project.

Analytical conclusions

We rate Minsur's senior unsecured notes at 'BB+', the same level as the issuer credit rating, because there's no significant subordination risk present in the capital structure, and we expect that the priority debt ratio will remain below 50%.

Ratings Score Snapshot

Issuer Credit Rating: BB+/Stable/--

Business risk: Fair

- Country risk: Moderately high
- Industry risk: Moderately high
- Competitive position: Fair

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bb

Modifiers

- Diversification/Portfolio effect: Neutral
- Capital structure: Neutral
- Liquidity: Adequate
- Financial policy: Neutral
- Management and governance: Fair
- Comparable rating analysis: Neutral

Stand-alone credit profile: bb

- Entity status within group: Core

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Metal Price Assumptions: Gold Shines, While Slow Recovery Flattens Other Metal Prices, July 1, 2020

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Minsur S.A.		
Issuer Credit Rating	BB+/Stable/--	BBB-/Watch Neg/--
Minsur S.A.		
Senior Unsecured	BB+	BBB-/Watch Neg