Research Update:

Molibdenos y Metales S.A. Outlook Revised To Stable From Negative On Deleveraging; 'BBB-' Rating Affirmed

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Rating Action Overview

- Chile-based Molibdenos y Metales S.A. (Molymet) has improved its financial performance and credit metrics during 2024, increasing EBITDA and cash flow while considerably reducing leverage.
- As a result, we revised the outlook on Molymet to stable from negative and affirmed the 'BBB-' global scale long-term issuer credit rating.
- The stable outlook reflects our expectation of higher profitability and cash flow amid relatively stable molybdenum prices, leading to leverage of 1.7x in 2024 and 1.2x in 2025, as well as the company's comfortable liquidity with no maturities until December 2027.

Rating Action Rationale

Molymet's credit metrics and overall financial profile are stronger amid molybdenum price stability. Prices stabilized at about $20-$25 per pound in the past 12 months, resulting in higher profitability in sales contracts and significant working capital cash inflows. This allowed for gross debt reduction to $430 million in September 2024 versus $764 million in December 2023 and improving credit metrics. The company's EBITDA margin increased to 7.7% in the first nine months of 2024 from 4.7% in 2023 and free operating cash flow (FOCF) to debt improved to 25% from 15% in the same period. In addition, net leverage dropped to 1.7x in third-quarter 2024 from 2.7x in December 2023. Going forward, we expect Molymet to continue improving its credits metrics, which is consistent with a stronger financial risk profile.

We now see a stronger capital structure and comfortable liquidity for the company, with no maturities until December 2027. Molymet's cash generation in the past 12 months allowed for short-term debt repayment while keeping cash at a healthy $200 million as of September 2024.

Moreover, liability management performed during July 2024 pushed maturities forward and strengthened the company’s capital structure. Consequently, we expect cash sources to exceed cash uses by much more than 20% in the next 12-24 months, providing enough of a liquidity cushion to withstand potential molybdenum price volatility without the need to significantly increase debt.

Outlook

The stable outlook reflects our expectation of higher profitability and cash flow amid relatively stable molybdenum prices, leading to leverage of 1.7x in 2024 and 1.2x in 2025, as well as the company's comfortable liquidity with no maturities until December 2027.

Downside scenario

We could lower the ratings in the next 12 months if:

- The company faces higher-than-expected working capital needs and liquidity weakens with sources to uses persistently below 1.2x; or
- Credit metrics deteriorate with adjusted leverage consistently above 2.0x.

Upside scenario

An upgrade is unlikely in the next 12 months because it would depend on Molymet increasing the scale and diversity of its operations, while maintaining debt to EBITDA consistently below 2.0x and funds from operations (FFO) to debt above 45%.

Company Description

Molymet is the world's largest player in the molybdenum processing industry, with 35% of total global roasting capacity, and has a 70% global market share in rhenium. The company gets most of its revenue from processing molybdenite and delivering molybdenum oxide, ferromolybdenum, and other byproducts such as rhenium. Molymet generated US$2.5 billion in revenue and US$116 million of EBITDA in 2023. The company operates through three divisions:

- Own sales: Molymet buys molybdenite from miners and uses its own technology to treat and process the concentrate to produce and sell a variety of molybdenum products.
- Tolling: This unit charges a fee to companies in the mining industry to process their molybdenite.
- Byproducts: This unit recovers rhenium and other byproducts from the roasting and oxidation process at the other two business units.

The company benefits from resilient EBITDA generation despite volatility in molybdenum prices. This is because its tolling unit receives a defined fee while its own sales unit finalizes the payment to suppliers after it sells the final product to the market.

Our Base-Case Scenario

Assumptions

- End-of-period exchange rates of Chilean peso (CLP) 930 per $1 in 2024, CLP935 per $1 in 2025, and CLP935 per $1 in 2026.
- GDP growth in Chile of 2.4% in 2024, 2.2% in 2025, and 2.5% in 2026.
- Molybdenum oxide average prices of about $22 per pound in 2024, $20 per pound in 2025, and $18 per pound in 2026.
- Tolling fees of about $1.4-$1.5 per pound of molybdenite concentrate processed for the next three years.
- Rhenium products average prices of about $550 per pound in 2024 and $600 per pound in in the next two years.
- Own molybdenum processed volumes of about 92 million pounds in 2024, and about 100 million pounds in 2025 and 2026.
- Tolling volumes processed of about 26 million pounds in 2024, 30 million pounds in 2025, and 35 million pounds in 2026.
- Rhenium volumes of about 135,000 pounds in 2024, about 135,000 pounds in 2025, and about 160,000 pounds in 2026 due to penetration of new markets.
- Adjusted net debt of $270 million in 2024, $220 million in 2025, and $140 million in 2026.
- Capital expenditure (capex) of about $40 million in 2024-2026, 40% of which is maintenance capex.
- Dividend distributions of about $13 million in 2024 and a 40% payout ratio going forward.

Key metrics

Molibdenos y Metales S.A.--Key metrics

	--Fiscal year ended Dec. 31--					
(Mil. $)	**2021a**	**2022a**	**2023a**	**2024e**	**2025f**	**2026f**
Revenue	1,453.4	1,883.1	2,475.1	1,941.5	1,995.8	1,963.9
EBITDA (Adjusted)	192.7	187.9	115.9	154.1	178.3	196.5
Funds from operations (FFO)	172.6	108.6	21.1	95.5	120.5	132.7
Interest expense	12.6	21.6	47.7	31.2	22.8	22.8
Cash flow from operations (CFO)	(301.6)	198.0	85.5	148.0	110.9	155.0
Capital expenditure (capex)	32.2	41.8	38.5	39.0	39.0	39.0
Free operating cash flow (FOCF)	(333.8)	156.2	47.1	109.0	71.9	116.0
Dividends	53.6	41.1	28.1	13.1	26.6	33.7
Discretionary cash flow (DCF)	(387.4)	115.1	19.0	95.9	45.4	82.3
Debt (Adjusted)	459.1	334.5	315.0	267.5	222.2	139.8
Cash and Equivalents (reported)	156.7	174.1	376.3	187.4	232.2	314.3
Adjusted ratios						
Debt/EBITDA (x)	2.4	1.8	2.7	1.7	1.2	0.7

FFO/debt (%)	37.6	32.5	6.7	35.7	54.2	94.9
EBITDA interest coverage (x)	15.4	8.7	2.4	4.9	7.8	8.6
CFO/debt (%)	(65.7)	59.2	27.2	55.3	49.9	110.9
FOCF/debt (%)	(72.7)	46.7	14.9	40.7	32.4	83.0
DCF/debt (%)	(84.4)	34.4	6.0	35.9	20.4	58.9
EBITDA margin (%)	13.3	10.0	4.7	7.9	8.9	10.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast

Liquidity

We assess Molymet's liquidity as adequate. We expect sources to exceed uses by more than 1.2x in the next 12 months, and we think sources will remain above uses even if EBITDA declines 15%. Our liquidity assessment reflects low debt maturities but potentially high working capital requirements. Moreover, the company has a good refinancing track record and overall prudent financial risk management.

Principal liquidity sources

- Cash position of US$189 million as of Dec. 31, 2024, and
- FFO of $120 million over the next 12 months.

Principal liquidity uses

- Short-term debt maturities of $14 million as of Sept. 30, 2024;
- Potential intra-year working capital outflows of $155 million in the next 12 months;
- Capex of about $40 million in the next 12 months; and
- Dividend distributions of $23 million in the next 12 months.

Covenants

For some debt, Molymet is subject to certain financial acceleration covenants that are measured annually. These require interest coverage of at least 5.0x and liabilities to equity below 1.75x.

Although the company has a waiver on its interest coverage covenant until December 2024, we expect it will remain compliant and have ample headroom of above 40% in 2024 and above 100% going forward.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB-/STABLE/--
Local currency issuer credit rating	BBB-/STABLE/--
Business risk	4 - Fair
Country risk	3 - Intermediate Risk
Industry risk	4 - Moderately High Risk
Competitive position	4 - Fair
Financial risk	2 - Modest
Cash flow/leverage	2 - Modest
Anchor	bbb-
Diversification/portfolio effect	3 - Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings list

Ratings Affirmed; Outlook Action		
	To	**From**

Ratings list		
Molibdenos y Metales S.A.		
Issuer Credit Rating	BBB-/Stable/--	BBB-/Negative/--