

MOODY'S

RATINGS

Rating Action: Moody's affirms CMPC's Baa3 ratings; stable outlook

26 Sep 2023

New York, September 26, 2023 -- Moody's Investors Service ("Moody's") has affirmed the Baa3 ratings of Inversiones CMPC S.A. senior unsecured notes, which are fully guaranteed by Empresas CMPC S.A. The outlook is stable.

RATINGS RATIONALE

CMPC's Baa3 ratings are supported by its standing as one of the world's biggest and most cost-effective pulp producers with integrated paper operations across Latin America, a well-distributed revenue source divided into Pulp, Softys and Biopackaging. The company's diverse product mix has traditionally provided a degree of margin stability, helping to buffer the impacts of pulp price fluctuations. This has been enhanced by the growing significance of the Softys business following acquisitions in 2022-2023. As a result, adjusted EBITDA margins have stayed around 20%-25% (including Moody's adjustments) from 2017 through June 2023, despite experiencing additional volatility during the peaks and troughs of the pulp cycle. The company's prudent financial policy, historically low debt levels and strong management history also reinforce its credit profile.

The company's ratings consider its reliance on cash flow and susceptibility to fluctuating market pulp prices, largely influenced by China and demand in developed markets, especially Europe. Despite the diverse product range in the company's primary operating segments, pulp is the main contributor to cash flow, constituting 41% of the consolidated reported EBITDA in Q2 2023 (a decrease from 51% in Q2 2022, partially due to reduced pulp prices), followed by Softys at 45% (up from 34% in Q2 2023, partially due to recent acquisitions) and Biopackaging at 15%.

Moody's expects CMPC's EBITDA (including Moody's adjustments) will lower to around \$1.4 billion in 2023-2024, from \$2.0 billion in 2022 and \$1.6 billion in 2021, mainly because of lower pulp prices for the period (our base case incorporates a 23%-30% drop in pulp prices in 2023 from 2022; followed by around 12% drop through 2024), but this is partially balanced by higher EBITDA generated by CMPC's Softys

business which will benefit from higher volumes following recent acquisitions and lower pulp costs. At the same time, Moody's expects reported debt levels will rise to around \$5.6 billion by year-end 2023, from \$5.0 billion in 2022 and \$4.6 billion in 2021, but will lower to \$5.2 billion through December 2024 as cash requirements from capital expenditures lower following the conclusion of Bio-CMPC project. As a result, gross debt to EBITDA will increase to around 4.1x in 2023 and 3.6x in 2024, from 2.5-2.8x in 2021-2022.

Moody's expects CMPC's budget for capital spending and strategic acquisitions to rise in 2023 to around \$1 billion, up from \$832 million in 2022 and \$424 million in 2021, but it will lower to around \$500 million in 2024-2025. Higher investment spending during 2022-2023 is related to acquisitions (mainly \$268.6 million in Productos Internacionales Mabe, S.A. de C.V. in May 2023, and \$272 million for the acquisition of Carta Fabril S.A. in June 2022 and Iguazu Celulose, Papel S.A. in April 2022), but also to CMPC's \$530 million BioCMPC Project, which by year-end 2023 will increase Guaiba's line capacity from 1.9 million tonnes of hardwood production per year to 2.3 million tonnes.

As of June 30, 2023, CMPC had about \$836 million in cash; \$300 million fully available under committed credit facilities (unrated) and we expect around \$1.1 billion in cash flow from operations in 2023 and \$850 million in 2024; these compare favorably with \$309 million in short term debt (unrated) maturities. As of June 30, 2023, CMPC's main debt maturity coming due in the next 24 months are the \$500 million notes due in September 2024.

The stable outlook incorporates Moody's expectation that CMPC will maintain adequate liquidity and manage capital spending and dividend distribution prudently, without compromising its leverage and cash flow in the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upward rating movement would require CMPC to maintain a strong liquidity position and sound credits metrics even in a lower pulp price environment. Quantitatively, the rating could be upgraded if debt to EBITDA is sustained at around 2.5x or below and retained cash flow to debt remains consistently over 30%.

The ratings could be lowered if CMPC's financial policy becomes more accepting of leverage and/or liquidity risks. In terms of numbers, the ratings could be reduced if CMPC's debt to EBITDA consistently exceeds 3.0x (even though it may surpass this level during the low points of the pulp cycles) or if the ratio of retained cash flow to debt consistently drops below 20%.

Headquartered in Santiago, Chile, Empresas CMPC S.A. is vertically integrated and diversified producer of pulp, tissue, paper, forest and packaging products. Its wholly owned subsidiary, Inversiones CMPC S.A. (CMPC), is an intermediate holding

company and the issuer of rated debt securities. CMPC produces and sells a wide range of products, including sawn timber, millwork products, plywood, bleached softwood and hardwood kraft pulp, sackraft paper, containerboard, boxboard, corrugated boxes, multiwall bags, molded trays, consumer tissue products, diapers and feminine care products. As of December 31, 2022, the company's forestry base consisted of 1,308,000 hectares of land, of which 768,000 hectares were planted in Chile (67%), Brazil (32%) and Argentina (1%). As of the last twelve months ended in March 2023, CMPC generated total revenue of \$8.2 billion.

The principal methodology used in these ratings was Paper and Forest Products published in December 2021 and available at <https://ratings.moodys.com/rmc-documents/360648>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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