

CREDIT OPINION

4 June 2019

Update

✓ Rate this Research

RATINGS

Inversiones CMPC S.A.

Domicile	Chile
Long Term Rating	Baa3
Type	Senior Unsecured - Fgn Curr
Outlook	Positive

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Inversiones CMPC S.A.

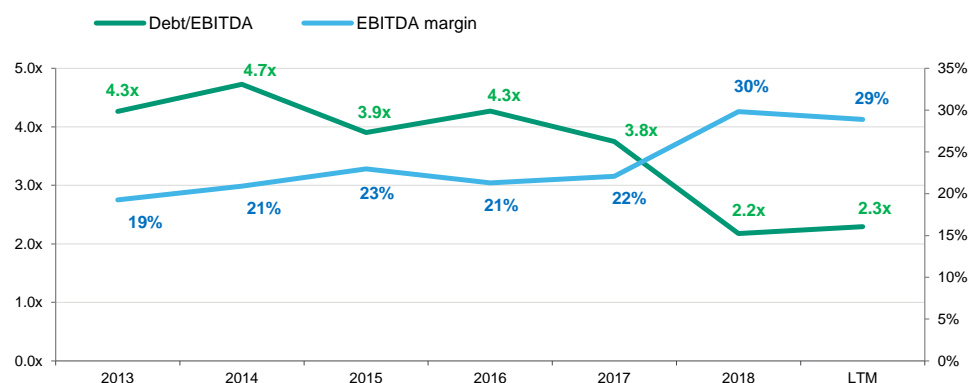
Update following change in outlook to positive

Summary

On June 3, 2019, we affirmed [Inversiones CMPC S.A.](#)'s (wholly owned subsidiary of Empresas CMPC S.A.) Baa3 ratings and changed the outlook to positive from stable, reflecting improvements in the company's operational and financial performance, which have strengthened its business profile and create favorable growth conditions for its main segments.

Exhibit 1

Leverage reduction and EBITDA margin recovery



Source: Moody's Financial Metrics™

This rating action was also influenced by governance considerations. Since 2017-18, CMPC has implemented a more conservative financial policy with clear targets for leverage (between 2.5x and 3.5x net debt/EBITDA), minimum cash and interest coverage, while the company has contracted committed credit facilities in the amount of \$400 million to enhance its liquidity buffer.

The Baa3 ratings remain supported by the company's market position as one of the world's largest and low-cost pulp producers with integrated paper and tissue operations throughout Latin America, and its well-balanced revenue source, split into pulp (50%), tissue (34%) and paper (16%) in the first quarter of 2019.

CMPC's ratings also incorporate its cash flow dependence and exposure to volatile market pulp prices, which are largely driven by China and by the demand in developed markets. Additional constraints to the ratings are the lower growth in paper, tissue and sanitary products in some countries in Latin America in 2016-18, but we expect to see improved

performance in the tissue and packaging segments, supported by the reorganization carried out in those segments, aiming at achieving operational efficiencies and synergies.

Credit strengths

- » Low-cost manufacturer of wood, pulp, tissue and paper and packaging products in Latin America
- » Large scale and relevant market share in its main markets and segments
- » Good product and geographic diversification within the region
- » Presence in less volatile segments such as tissue, paper and packaging

Credit challenges

- » Exposure to the inherent volatility of the pulp industry, with pulp representing most of the company's EBITDA
- » Lower economic growth in key markets for packaging, tissue and sanitary products in Latin America
- » Exposure to exchange-rate volatility in local markets as well as to hyperinflationary economies

Rating outlook

The positive outlook reflects our expectation that CMPC will continue to present steady credit metrics in the next 12-18 months, despite the expected volatility in hardwood and softwood pulp prices in the period. Expansions in tissue and packaging should translate into larger scales and market shares, supporting higher profitability. The outlook also incorporates our expectations that the company will maintain an adequate liquidity profile and manage capital spending and dividend distribution in a prudent manner, and avoid compromising its leverage and cash flow.

Factors that could lead to an upgrade

An upward rating movement would require CMPC to maintain a strong liquidity position and strong credits metrics even in a lower pulp price environment. Quantitatively, an upgrade of the company's ratings would depend on:

- » the ability to sustain adjusted total debt/EBITDA below 2.5x
- » generation of positive free cash flow on a consistent basis

Factors that could lead to a downgrade

The ratings could be downgraded if CMPC's operating environment significantly deteriorates, leading to weaker credit metrics, or if the company embarks in expansions that hurt its leverage metrics. Quantitatively, the ratings could be downgraded if:

- » total debt/EBITDA exceeds 3.0x on a consistent basis
- » free cash flow is persistently negative, leading to a weaker liquidity profile

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Empresas CMPC S.A.

\$ Millions	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	LTM (Mar-19)	Forward View
							Next 12-18 Months
Revenue	4,837	4,841	4,866	5,143	6,274	6,229	\$6,000 - \$7,000
EBITDA Margin %	21%	23%	21%	22%	30%	29%	25 - 30%
RCF / Debt	10%	9%	15%	20%	28%	24%	20 - 25%
(RCF - CAPEX) / Debt	-24%	-10%	2%	8%	18%	15%	5 - 10%
Debt / EBITDA	4.7x	3.9x	4.3x	3.8x	2.2x	2.3x	2x - 3x
EBITDA / Interest Expense	5.2x	5.3x	4.7x	5.0x	8.3x	8.0x	8x - 9x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are Financial year-end unless indicated. LTM = Last 12 months.

Source: Moody's Financial Metrics™

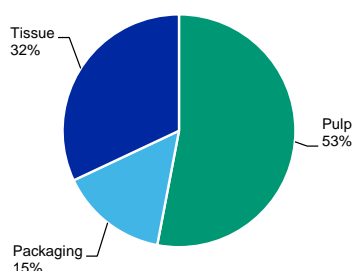
Profile

Headquartered in Santiago, Chile, Empresas CMPC S.A. is a large producer of pulp, tissue 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 bleached softwood and hardwood pulp, packaging paper, boxboard, consumer tissue products, corrugated boxes and multi-wall bags. As of March, 2019, the company had around 638,000 hectares of planted forestry area in Chile, Argentina and Brazil.

CMPC owns three sawmills in Chile, with a capacity of around 740 thousand cubic meters per year. In addition, it has two remanufacturing mills and a plywood mill. The pulp division produces about 4.1 million tons at its Laja, Pacifico, Santa Fe and Guaíba mill. Other production levels on a per-year basis include tissue products of 747,000 tons, sanitary products of 5,356 million units, folding boxboard of around 530,000 tons, 732 million units of paper bags, corrugated paper of 260,000 tons and corrugated boxes of about 211,000 tons. For the 12 months ended March 2019, CMPC generated total revenue of \$6.3 billion.

Exhibit 3

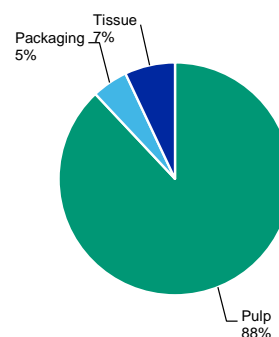
Revenue by segment Last 12 months Q1 2019



Source: Empresas CMPC S.A.

Exhibit 4

EBITDA by segment Last 12 months Q1 2019



Source: Empresas CMPC S.A.

Detailed credit considerations

Large scale, relevant market presence and diversification lead to stable profitability

Despite the wide variety of its product offerings, CMPC has three main operating segments: pulp-forestry, tissue and packaging paper. Such diversification helps mitigate the more volatile nature of the pulp industry and other commodity-like products sold by CMPC. The tissue business benefits from more stable demand dynamics than other products in the forest products industry and uses pulp

as one of its main inputs, providing a natural hedge for CMPC's pulp business in times of pricing volatility. Accordingly, the impact of lower pulp prices is offset by higher margins on tissue and folding boxboard, while the impact of higher pulp prices on the tissue and paper segments' profitability is mitigated by the increased use of recycled paper. As a result of its highly integrated business model, the company's EBITDA margin has been stable in the 20%-25% range (on an adjusted basis) since 2014 and peaked at 30% in 2018 because of higher pulp volume after the normalization of Guaíba II line and higher pulp prices. Pulp demand in China has slowed down since late 2018 and year-to-date prices decreased by 13% compared with 2018 average price, and we expect average adjusted EBITDA margins to trend toward historical levels should prices continue to deteriorate.

Although the company's production is based in Latin America, which poses some geographic concentration risk for the credit, production facilities are spread across different countries and regions, and sales are well diversified geographically, with around 52% of CMPC's sales deriving from exports to Europe, Asia, Latin America, the US and others, and the remaining revenue derived from customers throughout Latin America (20% in Chile) in Q1 2019.

The pulp-forestry business, which accounted for around 53% of sales and 89% of total EBITDA in the last 12 months ended Q1 2019, relies predominantly on exports to Asia and Europe. Currently, around 80% of CMPC's pulp production capacity is hardwood (eucalyptus) pulp, with around 2.9 million tons sold to third parties in the 12 months ended March 2019 — CMPC also sold 638,000 tons of softwood to third parties in the same period. Although we do not expect any expansion in pulp in the medium term, CMPC's strategy of acquiring forests in Brazil creates the conditions for future growth in this segment.

CMPC is the second-largest producer of mass consumption tissue products in Latin America, with industrial operations in Chile, Argentina, Uruguay, Peru, Brazil, Colombia, Ecuador and Mexico. CMPC's tissue business was responsible for 32% of revenue and around 8% of EBITDA in the last 12 months ended Q1 2019. Tissue products are generally sold domestically and present defensive characteristics, with low demand elasticity. CMPC's expansion strategy relies on increasing its tissue production in large markets where the company has small market share, such as Brazil and Mexico, and also in smaller countries with growth prospects — the main growth drivers are population increase, urbanization trends and changes in the standard of living. Accordingly, CMPC is investing \$130 million in a new line in the Zarate mill, which, when completed in late 2019, will increase the company's total tissue production capacity by 60,000 tons (8% of current tissue production capacity).

The packaging businesses generated about 15% of total revenue and 5% of total EBITDA in the last 12 months ended Q1 2019, with a total installed capacity of 1.2 million tons/year to produce boxboard, paper bags, corrugated paper and boxes, among others. According to CMPC, the global packaging market is expected to grow 3% per year over the 2019-22 period, driven by changing trends, such as reduction in plastic use and growing e-commerce.

Low-cost producer, but high exposure to pulp increases performance volatility

CMPC is a low-cost producer of both softwood (Radiata) and hardwood (Eucalyptus) pulp because of its competitive geographic advantage regarding forestry yields, the short tree-harvesting cycles and also because of the proximity of its forest base to mills and ports. The Guaíba mill expansion strengthened CMPC's existing cost structure because the Brazilian forestry assets have one of the lowest costs in the global market pulp industry. Currently, CMPC's total production cash cost for hardwood pulp is \$209/ton and \$338/ton for softwood, which compares favorably with other pulp producers in Europe, North America and China.

Radiata pine grows at the fastest rates within some geographic locations. In Chile, the average growth rate for Radiata pine is 20 m³sub/ha/year (cubic meter inside bark diameter per hectare per year), while in the Northern Hemisphere, it ranges between 2 m³sub/ha/year and 11 m³sub/ha/year. Consequently, the Chilean forestry industry is a low-cost producer of softwood pulp. Eucalyptus trees, which are used in the production of hardwood pulp, also grow quickly in Chile and Brazil, at an average growth rate of 43 m³sub/ha/year.

CMPC benefits from its vertical integration and is also a low-cost producer of tissue and packaging products. The company's pulp mills are mostly supplied by its own forestry assets. Over the past few years, the company has invested in building biofuel-based electricity cogeneration plants, including new biomass boilers at the Santa Fe and Laja pulp mills. CMPC has also completed investments in cogeneration in the Talagante and Altamira tissue mills in Chile and Mexico, respectively, as well as in the Puente Alto paper mill in Chile, thereby becoming substantially self-reliant for its energy needs. Still, CMPC profitability remains largely dependent on pulp

prices. We have seen pulp price corrections since late 2018, given weakening demand in China and Europe. However, given the lack of material additional supply coming to the market until early 2021, we see limited downside risk for pulp prices.

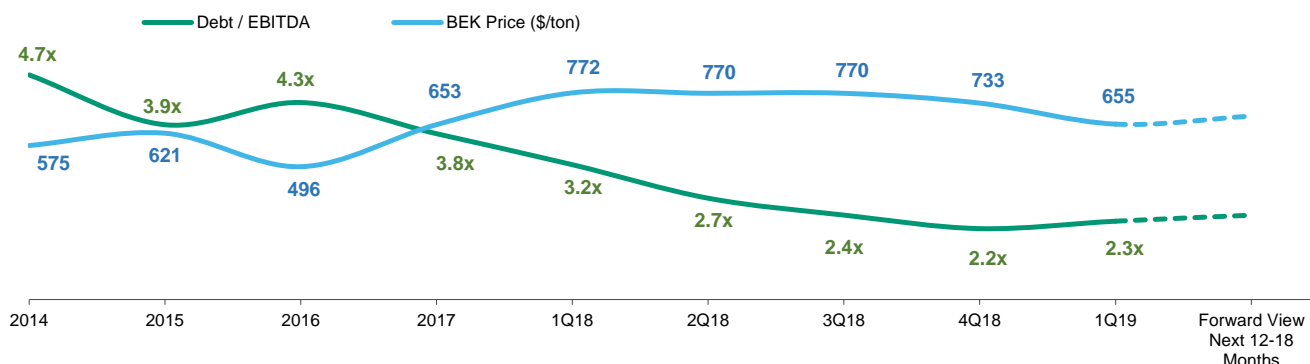
Improved operating performance and accelerated deleveraging because of normalization of production volume at Guaíba II

CMPC's BEK pulp production was fully re-established in 2018, after the extended downtime at the Guaíba II plant, bringing back 550 thousand tons of pulp production capacity at a time of stronger pulp prices. As a result, CMPC generated much higher EBITDA (\$1.8 billion, which compares to roughly \$1 billion over 2014-17 period) and posted above-average profitability in the 12 months ended March 2019 (EBITDA margin of 29%).

CMPC has maintained its debt levels stable at around \$4 billion over the past years, but deleveraging was delayed because of various factors affecting the company's profitability, namely the lower pulp price environment in 2016 and the extended downtime at Guaíba II line in 2017. Since CMPC's operating activities are closely tied to pulp market performance and average prices were sustained at highest levels in 2017 and 2018 (+55% price increase considering average price in 2018 compared with average price in 2016), the company was able to reduce leverage in a very fast manner. Still, in 2018, the leverage measured by total debt/EBITDA ended at 2.3x (including Moody's standards adjustments), and we expect leverage to remain below 3x in 2019, despite the decline in pulp prices observed since late 2018.

Exhibit 5

Moody's-adjusted leverage and pulp price



Source: Moody's Financial Metrics™, RISI

Liquidity analysis

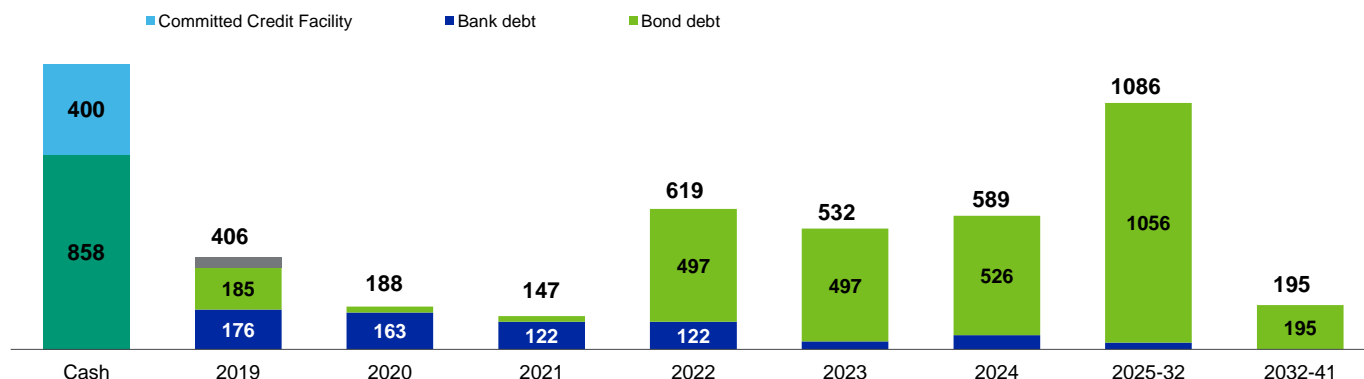
CMPC has a good liquidity profile. As of the end of March 2019, CMPC had cash balance of \$858 million, sufficient to cover its short-term debt by 1.9x and to pay all of its debt maturities through 2021. Liquidity is enhanced by the \$400 million committed credit facility due in 2020 (\$200 million) and 2022 (\$200 million), which remains fully undrawn.

Debt maturities in 2019 is mostly represented by the \$185 million notes outstanding due in November (in August 2018 CMPC purchased \$315 million out of the \$500 million face amount), BNDES and ECAs debt. The November 2019 bond will be paid with proceeds from a local market bond issued in Chile and Peru in H2 2018 for a total amount of \$330 million and \$30 million, respectively.

Exhibit 6

Debt amortization schedule, as of March 2019

\$ millions



Source: Empresas CMPC S.A.

We expect free cash flow to decline in the coming years, as a result of lower pulp prices and larger capital spending in 2020-22 compared with recent years as well as higher dividend distribution since dividend policy established in March 2018 changed payout to 40% of distributable net income (previously was 30%), but to remain positive should hardwood pulp prices remain above \$700/ton.

Key environmental, social and governance matters

CMPC is a publicly traded corporation controlled by the Matte Group, which has a 56% share, followed by Chilean pension funds (about 10%), and the remaining is held by local and international investors. The controlling family does not hold any managerial position within the company. CMPC is headed by a board of directors consisting of nine members (two independent) elected at the annual shareholders meeting for a three-year term. All members of senior management are appointed by the board. In addition, the company has a Directors Committee, composed of three directors of CMPC (two are independent), which supports the interests of minority shareholders. There has been material improvement in corporate governance since 2016, as practices are clearly linked to the company's strategy and policies linked to executives' performance and compensation.

CMPC is committed to integrate sustainability into the business strategy and corporate governance and has created a Corporate Affairs Committee to oversee the implementation of sustainability initiatives across the company. Since 2012, CMPC's plantations in Chile and Brazil have maintained a certification granted by the Forest Stewardship Council (FSC). In addition, CMPC also has a PEFC forestry management and ISO 14,001 certifications. CMPC is included in the Dow Jones Sustainability Index and reports on the Carbon Disclosure Project (CDP), which is a global disclosure system on environmental impacts coming from climate change, water, forests and supply chain. CMPC was the first Chilean company to issue a green bond and also has numerous programs and initiatives to foster community development.

Rating methodology and scorecard factors

CMPC's grid-indicated rating under our Paper and Forest Products Industry rating methodology maps to a Baa3, in line with the assigned rating. The grid-indicated rating benefits from CMPC's scale, structural cost advantages and highly integrated business model. Prospectively, we expect CMPC's grid-indicated rating to continue to map to Baa3 supported by earnings stability and its diversified operating profile.

Exhibit 7

Rating factors

Empresas CMPC S.A.

Paper and Forest Products Industry Grid [1][2]	Current LTM 3/31/2019		Moody's 12-18 Month Forward View As of 5/24/2019 [3]	
	Measure	Score	Measure	Score
Factor 1 : Scale (10%)				
a) Revenue (USD Billion)	\$6.2	Baa	\$6 - \$7	Baa
Factor 2 : Business Profile (30%)				
a) Product Line Diversification	Baa	Baa	Baa	Baa
b) Geographic and Operational Diversification	Ba	Ba	Ba	Ba
c) Market Position, Cyclical and Growth Potential	Baa	Baa	Baa	Baa
Factor 3 : Profitability and Efficiency (15%)				
a) EBITDA Margin	28.9%	A	25% - 30%	A
b) Fiber and Energy Flexibility and Cost	A	A	A	A
Factor 4 : Leverage and Coverage (30%)				
a) RCF / Debt	23.9%	Baa	20% - 25%	Baa
b) (RCF - CAPEX) / Debt	14.5%	Baa	5% - 10%	Ba
c) Debt / EBITDA	2.3x	Baa	2x - 3x	Baa
d) EBITDA / Interest	8.0x	Baa	8x - 9x	Baa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
Indicated Outcome before Notching Adjustments		Baa3		Baa3
Notching Adjustments		0	0	0
a) Indicated Outcome from Scorecard		Baa3		Baa3
b) Actual Rating Assigned		Baa3		Baa3

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures. As of 3/31/2019(L).

Source: Moody's Financial Metrics™

Appendix

Exhibit 8

Peer comparison

(in \$ millions)	Empresas CMPC S.A. Baa3 Positive			Celulosa Arauco y Constituci Baa3 Stable			Suzano S.A. Ba1 Stable			Eldorado Brasil Celulose S.A Ba3 Stable		
	FYE Dec-17	FYE Dec-18	LTM Mar-19	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-17	FYE Dec-18	LTM Mar-19	FYE Dec-16	FYE Dec-17	FYE Dec-18
	Revenue	\$5,143	\$6,274	\$6,229	\$4,761	\$5,238	\$5,955	\$3,295	\$3,701	\$4,276	\$854	\$1,048
Operating Profit	\$635	\$1,367	\$1,290	\$584	\$858	\$1,351	\$971	\$1,434	\$1,488	\$366	\$460	\$685
EBITDA	\$1,136	\$1,871	\$1,800	\$1,077	\$1,336	\$1,830	\$1,532	\$2,007	\$2,202	\$507	\$628	\$813
Total Debt	\$4,263	\$4,074	\$4,127	\$4,521	\$4,316	\$4,553	\$3,926	\$10,061	\$17,300	\$3,072	\$2,752	\$2,164
Cash & Cash Equiv.	\$833	\$968	\$858	\$592	\$590	\$1,076	\$816	\$6,576	\$1,743	\$321	\$114	\$158
EBIT / Int. Exp.	2.9x	6.1x	5.8x	2.7x	3.3x	6.6x	2.8x	3.6x	2.7x	1.4x	1.7x	2.9x
Debt / EBITDA	3.8x	2.2x	2.3x	4.2x	3.2x	2.5x	2.7x	5.4x	8.1x	5.7x	4.6x	2.8x
RCF / Net Debt	25.0%	36.4%	30.1%	15.7%	20.9%	31.3%	26.9%	36.5%	8.7%	-11.3%	9.6%	22.3%
FCF / Debt	11.4%	8.9%	5.9%	3.2%	10.6%	3.0%	5.5%	6.5%	1.6%	-12.7%	3.9%	13.6%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Financial Metrics™

Exhibit 9

Moody's-adjusted debt breakdown

(in \$ Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	LTM Ending Mar-19
As Reported Debt	4,639.2	4,194.1	4,272.0	4,116.2	3,875.2	4,126.6
Operating Leases	138.7	141.9	153.5	146.5	198.5	0.0
Moody's-Adjusted Debt	4,778.0	4,336.0	4,425.5	4,262.7	4,073.7	4,126.6

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted EBITDA breakdown

(in \$ Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	LTM Ending Mar-19
As Reported EBITDA	912.6	974.6	615.2	815.2	1,575.6	1,508.2
Operating Leases	31.8	32.8	34.9	37.9	38.9	29.2
Unusual	66.3	104.2	386.5	283.0	256.7	262.6
Moody's-Adjusted EBITDA	1,010.7	1,111.6	1,036.6	1,136.2	1,871.3	1,800.0

Source: Moody's Financial Metrics™

Ratings

Exhibit 11

Category	Moody's Rating
INVERSIONES CMPC S.A.	
Outlook	Positive
Bkd Senior Unsecured	Baa3

Source: Moody's Investors Service

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