S&P Global Ratings

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Research Update:

First Quantum Minerals 'B' Ratings Affirmed And Off CreditWatch After Refinancing; Outlook Negative

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Rating Action Overview

- The operations of Canada-headquartered copper miner First Quantum Minerals Ltd. (FQM) in Panama are still suspended. We do not expect any change in the situation until after general elections in Panama slated for May this year, followed by potential re-commissioning the operations as early as late 2024.
- As a response to the situation in Panama, FQM has recently completed a financial enhancement package that includes refinancing existing instruments with a new issuance and an equity issue. The successful execution of this would offset lack of contribution from Panama for at least 12-18 months.
- We have affirmed our 'B' issuer credit and issue ratings on FQM. All ratings were removed from CreditWatch negative where we placed them on Dec. 7, 2023.
- The negative outlook reflects that we could lower the ratings if the restart of operations at Cobre Panama mine is unlikely or is delayed beyond early 2025.

Rating Action Rationale

The material uncertainty at Cobre Panama is now the key rating pressure factor. Contributing more than 50% of EBITDA under normal circumstances, FQM's Cobre Panama mine is the group's most important asset. However, the mine was suspended in November 2023 in the wake of disputes over the constitutionality of the concession agreement between FQM and the Panamanian government as well as protests against the country's mining industry. Currently, the mine is not producing and is in a phase of preservation and safe management, with more than 1,000 workers engaged in maintenance on site.

We think the situation might be resolved later in 2024, after the general elections in May and the formation of a new government over the subsequent months. We are unaware of any specific parties that oppose FQM's operations in the country. Indeed, all seem in favor of finding a solution given Cobre Panama's importance to the country's economy, since the mine supports 41,000 jobs and represents about 5% of Panama's GDP.

We assume that FQM will not be able to restart production at Cobre Panama until 2025. This would lead us to forecast EBITDA of $1.2 billion-$1.4 billion in 2024, compared with our estimate of $2.6 billion for 2023. Weighing in FQM's decisions to halt dividends and reduce capital expenditure (capex), among other measures to counter EBITDA loss during the mine's closure, we assume the group's free cash flow in 2024 would reach negative $400 million-$600 million (which includes the S3 expansion capex at Kansanshi). To cover this, FQM has agreed to the $500 million unsecured copper prepayment from Jiangxi Copper and is also working on the realization of the $250 million-worth sale of previously produced copper concentrate at Cobre Panama.

FQM's completed financial enhancement package has resulted in a materially improved liquidity position. The package includes:

- Amending and extending its senior secured term loan and revolving credit facility (RCF), moving the maturity forward to April 2027 from Oct 2025 (with amortization spread over June 2025 to April 2027);
- Equity issue of $1.15 billion; and
- Issuing new second-lien senior secured notes of $1.6 billion with maturity in February 2029.

The completed transaction results in FQM having no maturities in 2024 and $802 million in 2025. The improved maturity profile, together with an estimated cash balance of $2.2 billion after the transaction, should give FQM sufficient liquidity to comfortably mitigate prolonged operating disruptions at Cobre Panama and to cover the anticipated negative free operating cash flow for at least the coming 12-18 months.

Outlook

The negative outlook reflects the uncertainties surrounding Cobre Panama mine which translates into pressured earnings and cash flows while the mine is not operating. We do not expect the Cobre Panama situation to be resolved quickly, thus we think the ratings pressure will likely continue to exist in the coming quarters of 2024. At the same time, we highlight the company's improved liquidity and maturity profiles after the recent completion of the refinancing transaction. This mitigates the short-term downside, making it more dependent on the restart of production at Cobre Panama.

Downside scenario

We may downgrade FQM in the next 12 months if we consider that the restart of production at Cobre Panama is unlikely or is significantly delayed beyond early 2025, leading to longer periods of EBITDA and cash flow pressure, along with increased leverage.

Upside scenario

We might revert the outlook to stable if there is more certainty regarding the Cobre Panama restart in 2024.

Company Description

FQM is a midsize copper miner with production of 707,678 tons in 2023, translating into S&P Global Ratings-adjusted EBITDA of about $2.5 billion.

Its portfolio has high asset concentration in two mines in Zambia (Kansanshi and Sentinel), and one in Panama (Cobre Panama). In 2023, Zambia contributed about US$1.3 billion to the group's EBITDA, US$1.7 billion was generated by Cobre Panama, with the rest negative contribution coming from other assets. The negative EBITDA was split between smaller mining operations: Las Cruces in Spain, Guelb Moghrein in Mauritania, Cayeli in Turkey, Pyhasalmi in Finland, the Ravensthorpe nickel mine in Australia, and the Enterprise nickel project in Zambia.

FQM's group copper C1 cash cost of $1.82/lb in 2023 places it in the third quartile of the global unit cash-cost curve, despite differences between its mines.

Liquidity

We assess FQM's liquidity as adequate and expect liquidity sources will cover uses by above 2.0x over the 12 months starting March 5, 2024. Our assessment is supported by our expectation of FQM's sizable cash balances and manageable maturities post the refinancing transaction.

We estimate FQM's main liquidity sources over the 12 months from March 5, 2024, include:

- Cash and cash equivalents of about $2.2 billion. A significant portion of cash is held outside Zambia with international banks or in money market funds;
- $250 million undrawn of the $1.3 billion RCF, which matures in April 2027; and
- About $600 million-$800 million of FFO, reflecting no production at Cobre Panama in 2024.

We estimate FQM's main liquidity uses over the same period include:

- No short-term debt maturities;
- Maintenance and expansion capex of about $1.4 billion-$1.5 billion; and
- No dividends.

Covenants

The company's bank facility contains a covenant of net debt-to-EBITDA below 5.75x active until second-quarter 2025. This is further reduced to 5.0x for the rest of 2025 and 4.25x from 2026. We think FQM will be compliant with the covenants.

Issue Ratings - Subordination Risk Analysis

Capital structure

FQM's post-transaction capital structure comprises:

- Two senior unsecured bonds, totaling $2.8 billion, with maturities between 2027 and 2031. All bonds are issued by the holding company, First Quantum Minerals Ltd., and guaranteed jointly and severally by subsidiaries, except Kansanshi, Ravensthorpe, and Cobre Panama.

- A senior secured bank facility ($2.0 billion drawn), consisting of a term loan and RCF, is issued by the same holding company and matures in April 2027.
- $1.6 billion of the new second-lien proposed secured notes maturing in 2029.
- $425 million outstanding under the senior unsecured facility at the Sentinel (Kalumbila) level, maturing December 2025.
- $144 million trading facilities.
- A $1.4 billion precious metal stream agreement with Franco-Nevada, for Cobre Panama capex. We consider this instrument to have priority in Cobre Panama's cash flows, without recourse to the rest of the group's operations.
- The new $500 million unsecured copper prepayment from Jiangxi Copper.

Analytical conclusions

The recently issued senior secured notes and the outstanding senior unsecured bonds are rated in line with the 'B' rating on FQM. The ratio of priority liabilities (senior secured bank facilities, streaming agreement, trading facilities, and the Trident term loan) is somewhat above 50%. We believe this is mitigated by $1.4 billion metal streaming facility which we include into the priority liabilities, though in fact this is secured by future cash flows from Cobre Panama without recourse to the rest of the FQM group. In addition, we note that only a small portion of FQM's priority liabilities is at the subsidiary, Minera Panamá. We also understand Minera Panamá's capital structure will continue to rely on unsecured debt placed at FQM, so we see the current assessment as temporary, and expect the share of priority liabilities to decline below 50%, specifically when the secured first-lien RCF drawdown gradually decreases.

We understand the bonds and the bank debt share a similar security package, including upstream guarantees from some of FQM's operating and financial companies. That said, the bank debt has additional security in the form of an assignment of intercompany loans and share pledges. As a result, we see the unsecured bonds and the bank debt as ranking at the same seniority (pari passu) although under certain default scenarios this could bring more value to the banks. The new second-lien secured notes share the same security package as the bank debt.

Ratings Score Snapshot

Related Criteria

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, 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: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- First Quantum Minerals New Debt Rated 'B', Put On CreditWatch Negative; All Other Ratings Remain On CreditWatch Negative, Feb. 22, 2024
- First Quantum Minerals Downgraded To 'B' On Disruptions At Panama Mine; Ratings Then Put On CreditWatch Negative, Dec. 7, 2023

Ratings List

Outlook Action; Ratings Affirmed

	To	From
First Quantum Minerals Ltd.		
Issuer Credit Rating	B/Negative/--	B/Watch Neg/--
Senior Secured	B	B/Watch Neg
Senior Unsecured	B	B/Watch Neg