S&P Global
Ratings

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Tear Sheet:

Celulosa Arauco y Constitución S.A.

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This report does not constitute a rating action.

Celulosa Arauco y Constitución S.A.'s (Arauco) first-quarter results signal a weak start to 2026, prompting a downward revision of our forecasts while continuing to weigh on the rating. EBITDA contraction reflects tough operating conditions, driven by declining pulp prices, softening wood product demand, and rising cash costs that have compressed margins.

S&P Global Ratings anticipates a modest recovery in wood products revenues of about 2%, beginning in the second quarter while demand stabilizes, particularly in the U.S. Although we expect average realized pulp prices to increase by approximately 5% in 2026--supported by improving hardwood prices in China and both softwood and hardwood in Europe--the Middle East war will likely weigh on logistics, chemical, and energy costs.

Consequently, we have lowered our EBITDA forecast to approximately $1.4 billion in 2026 from $1.7 billion earlier. We expect a stronger recovery in 2027, with pulp prices increasing 8%-10% due to limited new capacity ahead of the Sucuriu project's kickoff and higher pulp volumes once the Sucuriu ramp-up starts in the last quarter of the year.

We anticipate that capital expenditure (capex) and leverage will peak in 2026. The Sucuriu project remains ahead of schedule, reaching 62.1% completion as of April 30, due to accelerated construction and mechanical erection. While we think this expansion is central to Arauco's long-term competitiveness and low-cost capacity, the required investment will strain cash flows.

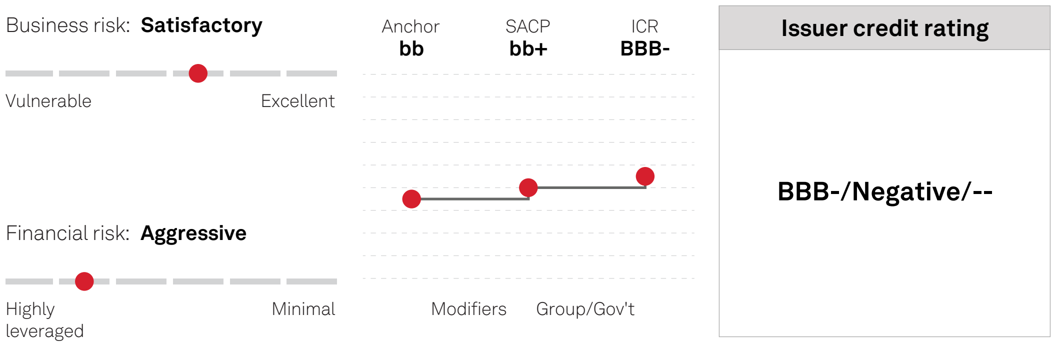
We expect capex to peak at $3.2 billion in 2026, resulting in a substantial free cash flow deficit of nearly $2.4 billion. As a result, we forecast debt to EBITDA to reach 5.8x in 2026, before improving to approximately 4.5x in 2027. To mitigate this, Arauco is exploring asset monetizations, including standing forests, land, and long-term energy contracts.

We have incorporated $300 million in projected asset sales into our forecast, though we expect this to only modestly improve leverage in 2026.

Group support from Empresas Copec is increasingly relevant to support Arauco's credit quality, in our view. Arauco is an indispensable asset, generating roughly half of the group's consolidated EBITDA, which increasingly intertwines the credit profiles of the parent and subsidiary. Empresas Copec has demonstrated a consistent commitment to financial backing, specifically through annual capital injections to support the Sucuriu expansion through 2026.

The decision to advance $200 million of the $450 million expected 2026 capitalization to June is a positive signal of liquidity support. Given Empresas Copec's diversified revenue streams and stable leverage, we think extraordinary support to Arauco is highly likely, justifying a one-notch enhancement of our issuer credit rating on Arauco.

Ratings Score Snapshot



ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Recent Research

- Celulosa Arauco y Constitucion S.A. 'BBB-' Ratings Affirmed Despite Weaker Performance, Outlook Remains Stable, July 12, 2023

Company Description

Chile-based Arauco, a wholly owned subsidiary of Empresas Copec, focuses on forest management. It produces and sells market pulp and wood products. It operates four pulp mills in Chile and one in Argentina; it has a 50% stake in a pulp mill in Uruguay, and it has a new pulp mill under construction in Brazil.

Arauco is among the world's largest pulp producers, with a capacity of 5 million tons of bleached and unbleached Kraft pulp, and it plans to have a capacity of 8.5 million tons once Sucuriu ramps up. Arauco also has 26 panel mills around the world (given its 50% stake in Sonae Arauco), with 8.6 million cubic meters in production capacity.

Outlook

The negative rating outlook on Arauco indicates a 1-in-3 chance of a downgrade in the next two years and mirrors our rating outlook on its parent, Empresas Copec.

The negative rating outlook on Empresas Copec reflects our expectation of higher leverage in the next two to three years, given the company's large investment plans, reducing its credit metrics' cushion in case of deviations from the base case.

Downside scenario

We could lower the rating on Arauco within the next two years if we downgrade Empresas Copec and if our assessment of group support remains unchanged.

We could lower the ratings on Empresas Copec in the next 12-24 months if we expected debt to EBITDA to remain persistently above 3x--for example, because of deviations in investment plans, lower dividends from affiliates, or weaker performance at subsidiaries. We could also lower the ratings if the group's cash-sources-to-cash-uses ratio fell below 1.2x in the next 12 months.

Upside scenario

We could revise our rating outlook on Arauco to stable if we revise our rating outlook on Empresas Copec to stable.

We could revise our rating outlook on Empresas Copec to stable if the company's subsidiaries' operating and financial performance improves or if pulp prices exceed expectations, reducing leverage and increasing room for Empresas Copec's credit metrics.

A positive rating action on Arauco could also come from a revision in our assessment of Arauco's group status to core. A record of timely financial and operational support during the investment cycle from Empresas Copec to Arauco could lead to such a revision in our assessment of Arauco's group status--which, in turn, would lead us to equalize the ratings.

Key Metrics

Celulosa Arauco y Constitucion, S.A. (ARAUCO)--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028	Dec-31-2029
(Mil. $)	2022a	2023a	2024a	2025a	2026e	2027f	2028f	2029f
Revenue	7,102	6,012	6,546	6,084	6,381	7,274	8,472	8,763
Gross profit	3,713	2,365	2,987	2,503	2,585	3,350	4,077	4,306
EBITDA (reported)	1,680	815	1,765	1,195	1,162	1,802	2,165	2,321
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	445	238	(26)	114	260	252	293	299
EBITDA	2,125	1,053	1,739	1,310	1,422	2,054	2,458	2,620
Less: Cash interest paid	(363)	(329)	(364)	(425)	(500)	(528)	(518)	(505)
Less: Cash taxes paid	(205)	(28)	(70)	(77)	(45)	(121)	(183)	(201)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	1,558	695	1,304	808	877	1,404	1,756	1,914
EBIT	1,535	416	1,014	654	766	1,331	1,652	1,728
Interest expense	270	345	368	416	502	533	522	509
Cash flow from operations (CFO)	1,554	598	1,172	992	819	1,241	1,468	1,874
Capital expenditure (capex)	1,468	1,256	1,221	2,392	3,194	1,921	1,042	1,189
Free operating cash flow (FOCF)	86	(658)	(48)	(1,400)	(2,375)	(680)	427	685
Dividends	381	283	95	115	23	51	174	259
Share repurchases (reported)	--	--	--	--	--	--	--	--
Discretionary cash flow (DCF)	(295)	(940)	(143)	(1,514)	(2,398)	(731)	253	427
Debt (reported)	5,531	6,604	6,071	7,648	8,764	8,804	8,598	8,219
Plus: Lease liabilities debt	264	559	728	1,015	1,117	1,143	1,170	1,194
Plus: Pension and other postretirement debt	67	66	59	66	66	66	66	66
Less: Accessible cash and liquid Investments	(667)	(570)	(1,098)	(1,284)	(1,237)	(500)	(500)	(500)
Plus/(less): Other	--	--	--	(569)	(438)	(438)	(438)	(438)

Celulosa Arauco y Constitucion, S.A. (ARAUCO)--Forecast summary

Debt	5,195	6,659	5,760	6,876	8,272	9,076	8,896	8,541
Equity	8,260	8,009	8,724	10,121	10,970	11,327	11,773	12,195
FOCF (adjusted for lease capex)	(117)	(1,034)	(410)	(1,740)	(2,523)	(752)	354	613
Interest expense (reported)	163	340	361	365	498	528	518	505
Capex (reported)	1,572	1,256	1,223	2,437	3,194	1,921	1,042	1,189
Cash and short-term investments (reported)	667	570	1,098	1,515	1,237	500	500	500
Adjusted ratios								
Debt/EBITDA (x)	2.4	6.3	3.3	5.2	5.8	4.4	3.6	3.3
FFO/debt (%)	30.0	10.4	22.6	11.8	10.6	15.5	19.7	22.4
FFO cash interest coverage (x)	5.3	3.1	4.6	2.9	2.8	3.7	4.4	4.8
EBITDA interest coverage (x)	7.9	3.1	4.7	3.2	2.8	3.9	4.7	5.1
CFO/debt (%)	29.9	9.0	20.4	14.4	9.9	13.7	16.5	21.9
FOCF/debt (%)	1.7	(9.9)	(0.8)	(20.4)	(28.7)	(7.5)	4.8	8.0
DCF/debt (%)	(5.7)	(14.1)	(2.5)	(22.0)	(29.0)	(8.1)	2.8	5.0
Lease capex-adjusted FOCF/debt (%)	(2.3)	(15.5)	(7.1)	(25.3)	(30.5)	(8.3)	4.0	7.2
Annual revenue growth (%)	11.8	(15.4)	8.9	(7.1)	4.9	14.0	16.5	3.4
Gross margin (%)	52.3	39.3	45.6	41.1	40.5	46.1	48.1	49.1
EBITDA margin (%)	29.9	17.5	26.6	21.5	22.3	28.2	29.0	29.9
Return on capital (%)	11.7	3.0	7.0	4.2	4.2	6.7	8.0	8.3
Return on total assets (%)	9.1	2.4	5.6	3.3	3.4	5.6	6.8	7.1
EBITDA/cash interest (x)	5.9	3.2	4.8	3.1	2.8	3.9	4.7	5.2
EBIT interest coverage (x)	5.7	1.2	2.8	1.6	1.5	2.5	3.2	3.4
Debt/debt and equity (%)	38.6	45.4	39.8	40.5	43.0	44.5	43.0	41.2
Debt fixed-charge coverage (x)	7.9	3.1	4.7	3.2	1.2	1.4	2.9	2.0
Debt/debt and undepreciated equity (%)	38.6	45.4	39.8	40.5	43.0	44.5	43.0	41.2

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

Financial Summary

Celulosa Arauco y Constitucion, S.A. (ARAUCO)--Financial Summary

Period ending	**Dec-31-2020**	**Dec-31-2021**	**Dec-31-2022**	**Dec-31-2023**	**Dec-31-2024**	**Dec-31-2025**
Reporting period	2020a	2021a	2022a	2023a	2024a	2025a
Display currency (mil.)	$	$	$	$	$	$
Revenues	4,733	6,350	7,102	6,012	6,546	6,084
EBITDA	1,028	2,211	2,125	1,053	1,739	1,310
Funds from operations (FFO)	741	1,986	1,558	695	1,304	808
Interest expense	285	269	270	345	368	416
Cash interest paid	306	341	363	329	364	425
Operating cash flow (OCF)	1,106	1,830	1,554	598	1,172	992
Capital expenditure	1,668	1,455	1,468	1,256	1,221	2,392
Free operating cash flow (FOCF)	(562)	375	86	(658)	(48)	(1,400)
Discretionary cash flow (DCF)	(563)	(96)	(295)	(940)	(143)	(1,514)

Celulosa Arauco y Constitucion, S.A. (ARAUCO)--Financial Summary

Cash and short-term investments	1,065	1,011	667	570	1,098	1,515
Gross available cash	1,065	1,011	667	570	1,098	1,284
Debt	5,226	4,917	5,195	6,659	5,760	6,876
Common equity	7,416	7,819	8,260	8,009	8,724	10,121
Adjusted ratios						
EBITDA margin (%)	21.7	34.8	29.9	17.5	26.6	21.5
Return on capital (%)	3.8	13.4	11.7	3.0	7.0	4.2
EBITDA interest coverage (x)	3.6	8.2	7.9	3.1	4.7	3.2
FFO cash interest coverage (x)	3.4	6.8	5.3	3.1	4.6	2.9
Debt/EBITDA (x)	5.1	2.2	2.4	6.3	3.3	5.2
FFO/debt (%)	14.2	40.4	30.0	10.4	22.6	11.8
OCF/debt (%)	21.2	37.2	29.9	9.0	20.4	14.4
FOCF/debt (%)	(10.8)	7.6	1.7	(9.9)	(0.8)	(20.4)
DCF/debt (%)	(10.8)	(2.0)	(5.7)	(14.1)	(2.5)	(22.0)

Peer Comparison

Celulosa Arauco y Constitucion, S.A. (ARAUCO)--Peer Comparisons

	Celulosa Arauco y Constitucion S.A.	Suzano S.A.	Klabin S.A.	Empresas CMPC S.A.
Foreign currency issuer credit rating	BBB-/Negative/--	BBB-/Positive/--	BB+/Stable/--	BBB-/Stable/--
Local currency issuer credit rating	BBB-/Negative/--	BBB-/Positive/--	BB+/Stable/--	BBB-/Stable/--
Period	Annual	Annual	Annual	Annual
Period ending	2025-12-31	2025-12-31	2025-12-31	2025-12-31
Mil.	$	$	$	$
Revenue	6,084	9,099	3,758	7,475
EBITDA	1,310	3,884	1,378	1,077
Funds from operations (FFO)	808	2,726	1,123	685
Interest	416	1,180	498	342
Cash interest paid	425	1,106	395	302
Operating cash flow (OCF)	992	3,281	781	795
Capital expenditure	2,392	2,233	504	693
Free operating cash flow (FOCF)	(1,400)	1,048	277	102
Discretionary cash flow (DCF)	(1,514)	612	74	59
Cash and short-term investments	1,515	4,559	1,977	904
Gross available cash	1,284	4,559	1,977	904
Debt	6,876	15,201	5,749	4,885
Equity	10,121	7,980	2,615	10,618
EBITDA margin (%)	21.5	42.7	36.7	14.4
Return on capital (%)	4.2	9.0	10.8	3.3
EBITDA interest coverage (x)	3.2	3.3	2.8	3.1
FFO cash interest coverage (x)	2.9	3.5	3.8	3.3
Debt/EBITDA (x)	5.2	3.9	4.2	4.5

Celulosa Arauco y Constitucion, S.A. (ARAUCO)--Peer Comparisons

FFO/debt (%)	11.8	17.9	19.5	14.0
OCF/debt (%)	14.4	21.6	13.6	16.3
FOCF/debt (%)	(20.4)	6.9	4.8	2.1
DCF/debt (%)	(22.0)	4.0	1.3	1.2

Principal liquidity sources	Principal liquidity uses
• Cash and cash equivalents of $1.3 billion as of June 2025 • Undrawn revolving facilities of $450 million • Cash funds from operations of about $1 billion in the next 12 months • New funding sources contracted after June for $3 billion (ECA, the A/B loan, and the hybrid bond) • Capital increase of $450 million in the next 12 months	• Short-term debt maturities of $460 million as of June 2025 • Working capital outflows of $12 million in the next 12 months • Capex of about $2.6 billion in the next 12 months • Dividend payments of $120 million in the next 12 months

Rating Component Scores

Foreign currency issuer credit rating	**BBB-/Negative/--**
Local currency issuer credit rating	**BBB-/Negative/--**
Business risk	**Satisfactory**
Country risk	Intermediate
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk	**Aggressive**
Cash flow/leverage	Aggressive
Anchor	**bb**
Modifiers	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	**bb+**