

SQM

Reiterate U/P - reduced regulatory risks, but lithium bear market continues

Reiterate Rating: UNDERPERFORM | PO: 46.00 USD | Price: 45.13 USD

Cutting PO on plunging lithium prices & Codelco deal

We lower our estimates and PO for SQM to US\$46 (from US\$59), reflecting: 1) lower lithium price assumptions (30% cut in 2024/20% in 2025), with prices expected to bottom only in 3Q24; 2) the MOU (Memorandum of Understanding) between the company and Codelco as reported on Dec 29th, and 3) the extension of our DCF model to 2040 (vs. 2030 before). Reiterate our Underperform, as we believe this scenario is not priced in and our 2024E EBITDA is 30% below consensus. We acknowledge reduced regulatory risk post the MOU with Codelco but we see mid-term risks related to SQM's potential future capital allocation, payout, and lithium margins.

MOU agreement with Codelco: reduced ST regulatory risks

The MOU agreement reached between SQM and Codelco in late December eliminates a major overhang on the stock (assuming the deal moves to definitive agreements and is consummated). We believe the greater visibility about the long-term of the business is positive, and we thus reduced our WACC to 11.8% from 12.3%. However, the net impact of the agreement on the DCF equity value is still negative at US\$9.4/ADR, as we were assuming the perpetuity of the business based on the terms of the current concession. This is in addition to a US\$3.3/ADR hit from lower short-term lithium prices.

But LT concerns include capital allocation yield, margins

We have other concerns to the long-term of SQM post the agreement, not embedded in our model. We don't discard the possibility of SQM expanding and diversifying its lithium business in other countries (like the US\$1bn M&A in Australia in 2023). This could have a negative impact on consolidated margins since production in other regions is more costly than in Chile. Also, the stock trades at high single-digit dividend yield, supporting valuation. This might be a risk if payout declines in a scenario of greater investments.

What to monitor? Lithium supply, shareholder's meeting

We believe that any sign of lithium supply adjustment could be a potential upside risk to the shares, mainly considering they are down 52% in one year, trading at a 35% discount to peers in 2024 on EV/EBITDA. We will also monitor the dividend policy to be proposed in the Annual Shareholders' Meeting in the end of April, and demand of electric vehicles.

| Estimates (Dec) (US\$) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------|--------|--------|--------|--------|-------|
| EPS | 2.05 | 13.68 | 7.63 | 3.68 | 5.38 |
| EPS Change (YoY) | 225.4% | 567.3% | -44.2% | -51.8% | 46.2% |
| Consensus EPS (Bloomberg) | | | 7.62 | 5.40 | 6.77 |
| DPS | 2.27 | 7.84 | 4.53 | 2.98 | 2.46 |
| Valuation (Dec) | | | | | |
| P/E | 22.0x | 3.3x | 5.9x | 12.3x | 8.4x |
| Dividend Yield | 5.0% | 17.4% | 10.0% | 6.6% | 5.5% |
| EV / EBITDA* | 11.8x | 2.4x | 4.1x | 7.5x | 5.3x |
| Free Cash Flow Yield* | -0.3% | 13.3% | 4.0% | 6.7% | 7.3% |

* For full definitions of *IQmethod*SM measures, see page 9.

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Refer to important disclosures on page 10 to 12. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.

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Timestamp: 30 January 2024 04:09PM EST

30 January 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|---------------|----------|---------|
| Price Obj. | 59.00 | 46.00 |
| 2023E Rev (m) | 7,678.4 | 7,571.5 |
| 2024E Rev (m) | 6,071.1 | 4,858.4 |
| 2025E Rev (m) | 7,232.4 | 6,059.9 |
| 2023E EPS | 7.95 | 7.63 |
| 2024E EPS | 5.18 | 3.68 |
| 2025E EPS | 6.75 | 5.38 |
| 2023E DPS | 5.02 | 4.53 |

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Stock Data

| | |
|--------------------------------|-----------------------|
| Price | 45.13 USD |
| Price Objective | 46.00 USD |
| Date Established | 30-Jan-2024 |
| Investment Opinion | C-3-8 |
| 52-Week Range | 44.86 USD - 98.66 USD |
| Mkt Val (mn) / Shares Out (mn) | 12,891 USD / 285.6 |
| Free Float | 0% |
| Average Daily Value (mn) | 72.68 USD |
| BofA Ticker / Exchange | SQM / NYS |
| Bloomberg / Reuters | SQM US / SQM.N |
| ROE (2023E) | 42.0% |
| Net Dbt to Eqty (Dec-2022A) | 5.3% |

See:

[Global Metals Weekly: Geopolitics blows up lithium 30 January 2024](#)

[SQM: SQM signs MOU on lithium with Codelco; reiterate Underperform 28 December 2023](#)

[Automotive Industry: Back to the future 4Q:23 – So long 2023, hello 2024 outlooks 22 January 2024](#)

iQprofileSM SQM

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 13.1% | 55.9% | 24.1% | 10.9% | 14.6% |
| Return on Equity | 22.1% | 96.7% | 42.0% | 18.4% | 24.4% |
| Operating Margin | 33.9% | 52.2% | 40.8% | 32.1% | 38.0% |
| Free Cash Flow | (41) | 1,711 | 518 | 864 | 937 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--------------------------|-------|-------|-------|-------|-------|
| Cash Realization Ratio | 0.7x | 0.8x | 0.7x | 1.4x | 1.0x |
| Asset Replacement Ratio | 2.2x | 6.3x | 3.6x | 2.0x | 1.8x |
| Tax Rate | 29.6% | 28.7% | 28.3% | 28.0% | 28.0% |
| Net Debt-to-Equity Ratio | 34.9% | 5.3% | 24.3% | 17.1% | 14.6% |
| Interest Cover | 11.5x | NM | 24.5x | 8.4x | 12.5x |

Income Statement Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|------------------------------|---------------|---------------|---------------|---------------|--------------|
| Sales | 2,862 | 10,711 | 7,572 | 4,858 | 6,060 |
| % Change | 57.5% | 274.2% | -29.3% | -35.8% | 24.7% |
| Gross Profit | 1,090 | 5,737 | 3,244 | 1,649 | 2,412 |
| % Change | 125.7% | 426.3% | -43.4% | -49.2% | 46.3% |
| EBITDA | 1,186 | 5,838 | 3,366 | 1,871 | 2,635 |
| % Change | 104.9% | 392.5% | -42.3% | -44.4% | 40.8% |
| Net Interest & Other Income | (130) | (108) | (39) | (101) | (167) |
| Net Income (Adjusted) | 586 | 3,908 | 2,179 | 1,051 | 1,537 |
| % Change | 253.1% | 567.3% | -44.2% | -51.8% | 46.2% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|------------|--------------|---------------|--------------|-------------|
| Net Income from Cont Operations (GAAP) | 592 | 3,914 | 2,185 | 1,051 | 1,538 |
| Depreciation & Amortization | 214 | 244 | 280 | 310 | 331 |
| Change in Working Capital | (327) | (934) | 1,119 | 134 | (327) |
| Deferred Taxation Charge | (256) | (1,579) | (868) | (409) | (598) |
| Other Adjustments, Net | 200 | 1,596 | (1,184) | 409 | 598 |
| Capital Expenditure | (465) | (1,530) | (1,013) | (632) | (606) |
| Free Cash Flow | -41 | 1,711 | 518 | 864 | 937 |
| % Change | NM | NM | -69.7% | 66.7% | 8.4% |
| Share / Issue Repurchase | NA | NA | NA | NA | NA |
| Cost of Dividends Paid | (649) | (2,238) | (1,295) | (852) | (704) |
| Change in Debt | 671 | 294 | 1,704 | 0 | 0 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2021A | 2022A | 2023E | 2024E | 2025E |
|---------------------------------------|--------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents | 1,515 | 2,655 | 3,282 | 3,594 | 3,645 |
| Trade Receivables | 740 | 1,169 | 708 | 610 | 806 |
| Other Current Assets | 2,331 | 3,167 | 3,130 | 3,080 | 3,260 |
| Property, Plant & Equipment | 2,022 | 2,759 | 3,486 | 3,808 | 4,082 |
| Other Non-Current Assets | 437 | 1,069 | 1,336 | 1,336 | 1,336 |
| Total Assets | 7,044 | 10,819 | 11,942 | 12,428 | 13,129 |
| Short-Term Debt | 51 | 523 | 1,145 | 1,145 | 1,145 |
| Other Current Liabilities | 940 | 2,529 | 1,328 | 1,315 | 1,364 |
| Long-Term Debt | 2,588 | 2,394 | 3,476 | 3,476 | 3,476 |
| Other Non-Current Liabilities | 249 | 441 | 482 | 482 | 482 |
| Total Liabilities | 3,828 | 5,887 | 6,431 | 6,417 | 6,466 |
| Total Equity | 3,216 | 4,932 | 5,511 | 6,011 | 6,663 |
| Total Equity & Liabilities | 7,044 | 10,819 | 11,942 | 12,428 | 13,129 |

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Fertilizers

Company Description

SQM is a nitrate-based specialty chemicals producer, being the largest supplier of iodine, lithium and specialty plant nutrients, with market shares of 33%, 30% and 49%, respectively, and total capacity of 1.7mn tons. These products derive from two minerals: caliche ore and salar brine, of which the company has long life reserves, full integrated logistics and low average costs.

Investment Rationale

Lithium prices remain in a downcycle given excess supply coming to the market. In addition, the scenario for potash and potassium nitrate is challenging. Finally, the agreement with Codelco announced in Dec/23 was worse than expected. It eliminated a major regulatory overhang, but brings other long-term risks, including capital allocation.

Stock Data

Average Daily Volume 1,610,383

Quarterly Earnings Estimates

| | 2022 | 2023 |
|----|-------|-------|
| Q1 | 2.79A | 2.63A |
| Q2 | 3.01A | 2.03A |
| Q3 | 3.85A | 1.68A |
| Q4 | 4.03A | 1.30E |

Reiterate Underperform – US\$46 PO

Challenging momentum despite reduced regulatory risk

We lower our estimates and PO for SQM to US\$46 from US\$59 to reflect lower lithium prices in the short-term and the terms of the MOU reached between Codelco and SQM in Dec/23 regarding the concession in the Salar de Atacama.

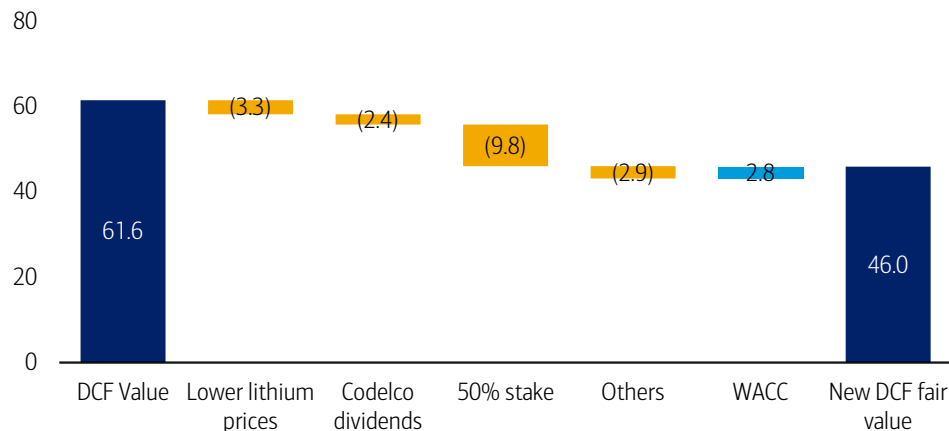
We also change our valuation methodology from 50% target EV/EBITDA/50% DCF (R\$61.6/US\$56 per ADR) to 100% DCF as the deal with Codelco (assuming the deal moves to definitive agreements and is consummated) brings visibility about the long-term of SQM's lithium business, while it eliminates a regulatory overhang that we understand was weighting on the share performance in the recent past.

We reiterate our Underperform rating on SQM as we see downside risk to consensus estimates in 2024 given much weaker than expected lithium prices in the short-term. Our 2024-25 EBITDA estimates are 31% and 13% below Visible Alpha consensus. Our 30%-20% cut in lithium price assumptions in 2024-25 drove a US\$1.0/ADR in our PO.

The agreement with Codelco eliminates a regulatory overhang on the shares (assuming the deal moves to definitive agreements and is consummated). However, agreement brings long-term concerns including capital allocation, lithium margins and dividend payout. We now include the terms of the agreement in our model, which triggered a US\$13.3/ADR cut in our PO. This was partially offset by a reduction in our WACC assumption to 11.8% from 12.3%, given lower risk-free rate and Beta.

Exhibit 1: SQM DCF value per share change (US\$/ADR)

The agreement with Codelco has a negative impact of US\$9.4/ADR, including reduced cost of capital



Source: BofA Global Research estimates

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Exhibit 2: BofA estimates versus Visible Alpha

We are 31% below consensus (EBITDA 2024) on lower lithium prices

| | BofAe | | | | Visible Alpha | | | | BofA vs. Consensus | | | |
|---------------------------|----------|----------|----------|----------|---------------|----------|----------|----------|--------------------|-------|-------|-------|
| | 2023E | 2024E | 2025E | 2026E | 2023E | 2024E | 2025E | 2026E | 2023E | 2024E | 2025E | 2026E |
| Lithium vols. (k tons) | 156.7 | 208.0 | 224.0 | 238.6 | 164.5 | 211.1 | 233.6 | 257.2 | -5% | -1% | -4% | -7% |
| Lithium price (US\$/ton) | 33,584.6 | 13,000.0 | 17,500.0 | 21,660.6 | 32,700.9 | 18,896.7 | 19,203.8 | 20,491.4 | 3% | -31% | -9% | 6% |
| Lithium revenues (US\$mn) | 5,262.7 | 2,704.0 | 3,920.0 | 5,168.2 | 5,379.3 | 3,989.1 | 4,486.0 | 5,270.4 | -2% | -32% | -13% | -2% |
| Net Revenues (US\$mn) | 7,572 | 4,858 | 6,060 | 7,104 | 7,663 | 6,172 | 6,866 | 7,623 | -1% | -21% | -12% | -7% |
| EBITDA (US\$mn) | 3,366 | 1,871 | 2,635 | 3,139 | 3,381 | 2,726 | 3,115 | 3,515 | 0% | -31% | -15% | -11% |
| EBITDA margin | 44.5% | 38.5% | 43.5% | 44.2% | 44.1% | 44.2% | 45.4% | 46.1% | 0.3% | -5.7% | -1.9% | -1.9% |
| Net Income (US\$mn) | 2,180 | 1,051 | 1,538 | 1,887 | 2,190 | 1,624 | 1,880 | 2,135 | 0% | -35% | -18% | -12% |

Source: BofA Global Research estimates, Visible Alpha

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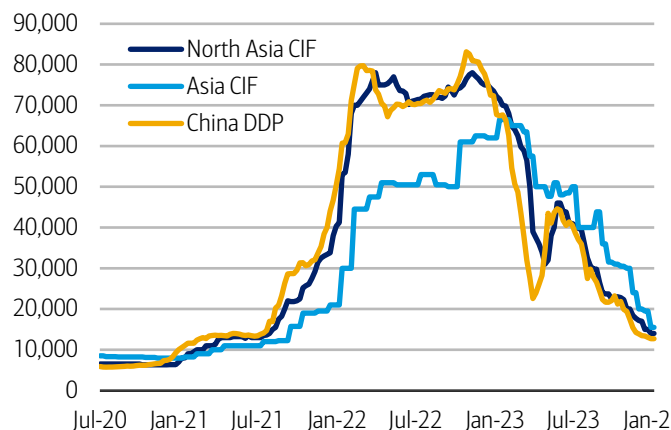
Cutting lithium prices; lack of short-term support

Lithium carbonate prices to bottom in 3Q23 at US\$8.25k/ton

Lithium prices in China dropped more than 80% in one year to US\$13k/ton. Although some argue we are close to the bottom, BofA Global Commodities team expects the bottom for lithium carbonate to be at US\$8.25k/ton in the 3Q23. This is expected because of an oversupplied market, as operators remain reluctant to curtail production, while demand has also been decelerating as several governments have revisited the financial support they are giving to the industry.

Exhibit 3: Lithium carbonate prices

Chemicals prices have given back almost all of the gains

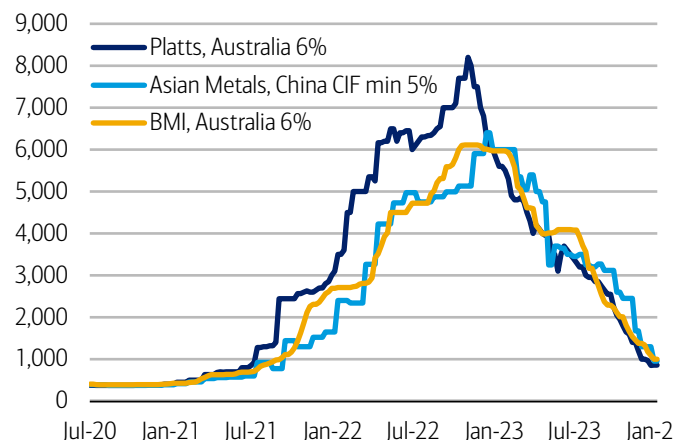


Source: Bloomberg, BofA Global Research

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Exhibit 4: Lithium spodumene prices

Lithium spodumene is back below \$1,000/t



Source: Bloomberg, BofA Global Research

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Exhibit 5: Lithium supply and demand balance

Surpluses are unreasonably high in 2023+

| tonnes | 2022 | 2023 | 2024E | 2025E | 2026E |
|--------------------|----------------|----------------|---------------|----------------|----------------|
| Global production | 669,470 | 910,102 | 1,239,024 | 1,688,160 | 2,027,990 |
| YoY change | 1.7% | 35.9% | 36.1% | 36.2% | 20.1% |
| Global consumption | 704,218 | 923,882 | 1,214,630 | 1,534,918 | 1,890,413 |
| YoY change | 51.6% | 31.2% | 31.5% | 26.4% | 23.2% |
| Balance | -34,748 | -13,780 | 24,394 | 153,242 | 137,578 |
| Spot (\$/t) | 71,531 | 45,980 | 16,500 | 21,875 | 21,250 |

Source: Company reports, Woodmac, Bloomberg, BofA Global Research estimates

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On the supply side, producers have reduced output at the margins, but any measures taken so far have been focused on preserving margins through cost management. Actually, prices have already cut deep into the cost curve, and most projects in the pipeline are not profitable at current quotations.

Spodumene remains the supply driver. Of course, many of these supply increases are coming through in Australia, where operators are increasing supply significantly. As such, the duty to cut supply is firmly on upstream producers. Indeed, processors, dominated by China, just work on a margin. As long as those margins are positive, they keep operating. This is picked up by Exhibit 6, which shows the flowsheet for a processor, buying spodumene at a price of \$500/t. under different cost assumptions, there is no need to reduce output as long as chemicals prices trade above \$8000/t.

Exhibit 6: Processor flowsheet

The most expensive producers should turn a profit if lithium carbonate trades above \$8,000/t and spodumene is quoted at \$500/t

| Spodumene Concentrate Price (\$/mt) | 500 | 500 | 500 |
|---|--------------|--------------|--------------|
| 6% Spodumene to Lithium Oxide | 6.0% | 6.0% | 6.0% |
| Lithium Oxide to Pure Lithium | 46.5% | 46.5% | 46.5% |
| Lithium Carbonate | 18.8% | 18.8% | 18.8% |
| Conversion Recovery | 85% | 85% | 85% |
| Tonnes of 6% LiO2 Concentrate at 85% Recovery | 7.93 | 7.93 | 7.93 |
| Input Cost of Concentrate | 3,964 | 3,964 | 3,964 |
| Freight/Insurance | 250 | 250 | 250 |
| Conversion Cost | 2,500 | 3,000 | 4,000 |
| Cost per tonne of LiCO3 Equivalent at plant gate China | 6,714 | 7,214 | 8,214 |

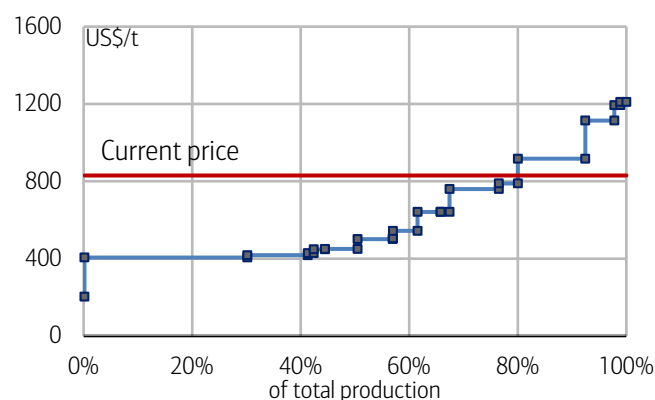
Source: Bloomberg, BofA Global Research

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A big question is why suppliers have not cut production? We believe there is a geopolitical component to this, with Western producers looking to take advantage of rising lithium demand as the US and Europe are looking to catch up with China's battery and EV industry; meanwhile, China has gone to great length building out its EV supply chain and seems reluctant as well to give up on recent gains. Beyond rising geopolitics competition, which hasn't been an issue a few years back, junior and mid-sized miners pushing into lithium is a recurring issue after every rally.

Exhibit 7: Spodumene cost curve

High cost spodumene producers are under pressure

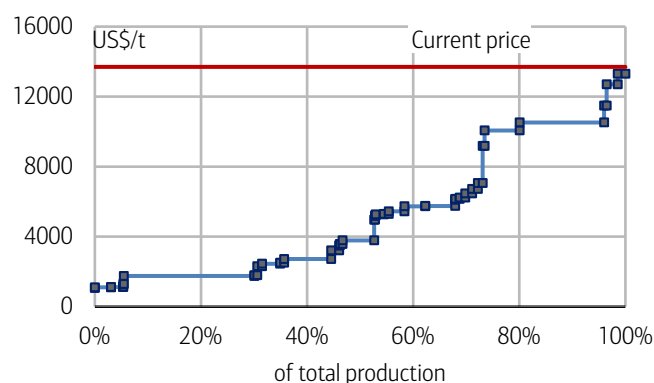


Source: company reports, BofA Global Research

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Exhibit 8: Cash operating costs of integrated producers

Many producers have become more marginal



Source: company reports, BofA Global Research

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On the demand side, there has been a slowdown in electrification, as governments are revisiting the support they are giving to EV sales. Linked to that, our US auto team also notes that sentiment on EVs soured in late 2023. Commentary from dealers and OEMs coincided with stalling velocity of EV sales.

Reducing SQM ests. on lithium and Codelco agreement

We are lowering our estimates for SQM to reflect the MOU agreement with Codelco and lower lithium prices. We are cutting the average lithium prices in 2024-25 by 30%-20% to US\$13k/ton and US\$17.5k/ton, based on our global forecasts. We are including the dividends to be paid to Codelco between 2025 and 2030, as per the definitive agreements expected to be signed in the end of March, which should amount to US\$230mn/year.

We also assume that starting in 2031, Codelco will be entitled to 50.1% of the lithium profits and the lithium company will invest US\$2bn (SQM' 50% equals US\$1bn) in Salar Futuro project (estimates based on news articles) in order to increase lithium production in the long run by 70k tons to 280k tons.

We reduce our 2024-25 EBITDA by 25% and 18%, respectively, and EPS by 29% and 20% to US\$3.68 and US\$5.38.

Exhibit 9: SQM Old vs. New estimates

We lower estimates on reduced lithium price assumption

| | | 2023E | 2024E | 2025E |
|-----------------------|---------------|---------|---------|---------|
| Net Revenues (US\$mn) | New Estimates | 7,572 | 4,858 | 6,060 |
| | Old Estimates | 7,678 | 6,071 | 7,232 |
| | Change | -1.4% | -20.0% | -16.2% |
| EBITDA (US\$mn) | New Estimates | 3,366 | 1,871 | 2,635 |
| | Old Estimates | 3,444 | 2,479 | 3,197 |
| | Change | -2.2% | -24.5% | -17.6% |
| EBITDA Margin | New Estimates | 44.5% | 38.5% | 43.5% |
| | Old Estimates | 44.9% | 40.8% | 44.2% |
| | Change | -0.3 pp | -2.3 pp | -0.7 pp |
| Net Income (US\$mn) | New Estimates | 2,180 | 1,051 | 1,538 |
| | Old Estimates | 2,271 | 1,479 | 1,928 |
| | Change | -4.0% | -28.9% | -20.3% |
| EPS (US\$/ADR) | New Estimates | 7.63 | 3.68 | 5.38 |
| | Old Estimates | 7.95 | 5.18 | 6.75 |
| | Change | -4.0% | -28.9% | -20.3% |

Source: BofA Global Research estimates

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Lithium Valuation Comps

Exhibit 10: Lithium Valuation Comps

SQM trades at a discount to peers

| | BofA Ticker | Last Price | Market Cap US\$bn | QrQ | Rating | EV/EBITDA | | P/E | | P/CF | | P/B |
|--------------------|-------------|------------|-------------------|-------|--------------|-------------|------------|-------------|-------------|------------|-------------|------------|
| | | | | | | 2024E | 2025E | 2024E | 2025E | 2024E | 2025E | 2024E |
| Fertilizers | | | | | | | | | | | | |
| Nutrien | NTR | 51.2 | 25.3 | B-1-7 | BUY | 6.6 | 6.5 | 11.4 | 10.9 | 4.8 | 4.9 | 1.0 |
| CF Industries | CF | 77.5 | 14.7 | B-1-7 | BUY | 7.7 | 8.2 | 11.5 | 11.6 | 5.8 | 5.2 | 2.5 |
| The Mosaic Company | MOS | 32.1 | 10.4 | C-1-7 | BUY | 6.7 | 7.3 | 10.3 | 11.8 | 4.9 | 5.5 | 0.9 |
| K+S | KPLUF | 13.5 | 2.6 | B-1-8 | BUY | 4.9 | 5.3 | 11.8 | 15.0 | 3.4 | 3.8 | 0.4 |
| FMC | FMC | 57.8 | 7.1 | B-3-7 | UNDERPERFORM | 11.4 | 10.2 | 13.6 | 11.1 | 8.3 | 7.9 | 2.1 |
| ICL | ICL | 4.7 | 5.9 | B-2-8 | NEUTRAL | 5.1 | 5.0 | 8.5 | 8.6 | 4.5 | 4.5 | 1.1 |
| Average | | | 66.0 | | | 7.2 | 7.2 | 11.2 | 11.2 | 5.3 | 5.3 | 1.4 |
| Lithium | | | | | | | | | | | | |
| Albemarle | ALB | 123.2 | 14.3 | C-2-7 | NEUTRAL | 15.4 | 6.1 | 30.9 | 8.7 | 8.5 | 8.5 | 1.4 |
| Pilbara Minerals | PILBF | 3.6 | 7.0 | C-2-7 | NEUTRAL | 10.2 | 9.4 | 18.4 | 17.6 | NM | 13.6 | 3.1 |
| Mineral Resources | MALRF | 60.8 | 7.7 | B-1-8 | BUY | 9.9 | 6.5 | 20.0 | 13.1 | 14.9 | 7.5 | 3.3 |
| Ganfeng Lithium | GNENF | 22.0 | 10.4 | C-2-8 | NEUTRAL | 15.3 | 6.5 | 29.3 | 9.9 | 10.3 | 12.9 | 1.7 |
| Tianqi Lithium | TQLCF | 50.4 | 12.4 | C-2-7 | NEUTRAL | 6.5 | 4.6 | 29.8 | 14.9 | 6.3 | 8.4 | 1.7 |
| Core Lithium | CXOXF | 0.2 | 0.3 | C-3-9 | UNDERPERFORM | 1.5 | 3.6 | 3.1 | 6.8 | NM | 3.8 | 1.1 |
| Chengxin Lithium | XCNGF | 22.1 | 3.1 | C-3-8 | UNDERPERFORM | 14.3 | 9.6 | 42.9 | 24.2 | 7.3 | 23.6 | 1.7 |
| Yahua Group | XVHEF | 10.8 | 1.9 | B-3-8 | UNDERPERFORM | 10.2 | 3.9 | 13.9 | 5.1 | 7.4 | 11.6 | 1.2 |
| Average | | | 57.0 | | | 11.8 | 6.4 | 27.3 | 12.7 | 8.0 | 10.7 | 2.0 |
| Sociedad Quimica | SQM | 46.0 | 13.9 | C-3-8 | UNDERPERFORM | 7.6 | 5.4 | 12.7 | 8.7 | 7.6 | 7.0 | 2.3 |

Source: Bloomberg, BofA Global Research estimates

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Price objective basis & risk

SQM (SQM)

Our PO of US\$46/ADR derives from 100% DCF, with a WACC of 11.8%, which is based on a country risk of 300bps, Beta of 1.45, cost of debt of 8.5% in USD and equity/debt structure of 65%/35%.

Upside risks to our price objective are: 1) higher lithium prices, 2) higher iodine prices, 3) higher potassium nitrate premium to potassium chloride, 4) higher lithium volumes, 5) re-rating of multiples as the agreement with Codelco is reached and a major regulatory overhang is eliminated.

Downside risks to our price objective are: 1) lower potash and iodine prices, 2) lower lithium volumes and prices given global surplus, 3) corporate governance, 4) risks associated to the execution of the lithium expansion plan, 5) capital allocation, if SQM accelerates lithium expansion outside Chile.

Analyst Certification

I, Isabella Simonato, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Latin America - Agribusiness, Food & Beverage Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|----------------------|-------------|------------------|-------------------|
| BUY | | | | |
| | 3tentos | XTTUF | TTEN3 BZ | Isabella Simonato |
| | Adecoagro | AGRO | AGRO US | Isabella Simonato |
| | AmBev | ABEV | ABEV US | Isabella Simonato |
| | AmBev | AVBPF | ABEV3 BZ | Isabella Simonato |
| | Arca Continental | EMBVF | AC* MM | Fernando Olvera |
| | Bimbo | GRBMF | BIMBOA MM | Fernando Olvera |
| | Coca-Cola Femsa | KOF | KOF US | Fernando Olvera |
| | Coca-Cola Femsa | COCSF | KOFUBL MM | Fernando Olvera |
| | Cosan | CSAIF | CSAN3 BZ | Isabella Simonato |
| | Cosan | CSAN | CSAN US | Isabella Simonato |
| | Gruma | GPAGF | GRUMAB MM | Fernando Olvera |
| | Marfrig | MRRTF | MRFG3 BZ | Isabella Simonato |
| | Raizen | XUXIF | RAIZ4 BZ | Isabella Simonato |
| NEUTRAL | | | | |
| | CCU | XLUDF | CCU CI | Fernando Olvera |
| | CCU - ADR | CCU | CCU US | Fernando Olvera |
| | JBS | JBSAF | JBSS3 BZ | Isabella Simonato |
| | M. Dias Branco | XDMIF | MDIA3 BZ | Isabella Simonato |
| | Minerva | MRVSF | BEEF3 BZ | Isabella Simonato |
| | Sao Martinho | SRTOF | SMT03 BZ | Isabella Simonato |
| | SLC Agricola | SLCJF | SLCE3 BZ | Isabella Simonato |
| UNDERPERFORM | | | | |
| | BRF | BRFS | BRFS US | Isabella Simonato |
| | BRF | BRFFF | BRFS3 BZ | Isabella Simonato |
| | Camil Alimentos | XSREF | CAML3 BZ | Isabella Simonato |
| | Coca-Cola Andina | AKOBF | ANDINAB CI | Fernando Olvera |
| | Coca-Cola Andina-ADR | AKOB | AKO/B US | Fernando Olvera |
| | Cuervo | BCCLF | CUERVO* MM | Fernando Olvera |
| | SQM | SQM | SQM US | Isabella Simonato |

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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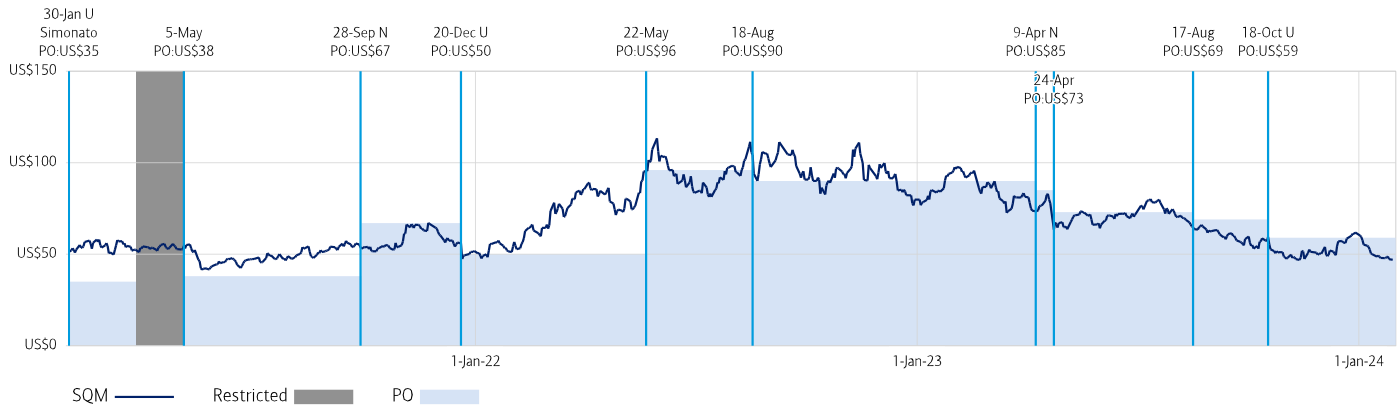
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Sociedad Quimica (SQM) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Chemicals Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 66 | 47.83% | Buy | 33 | 50.00% |
| Hold | 33 | 23.91% | Hold | 16 | 48.48% |
| Sell | 39 | 28.26% | Sell | 20 | 51.28% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

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