

**Rating Action: Moody's confirms HudBay's rating at B3, outlook negative**

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Global Credit Research - 29 Feb 2016

**Approximately US\$920 million of rated debt affected**

Toronto, February 29, 2016 -- Moody's Investors Service ("Moody's") confirmed HudBay Minerals, Inc.'s (HudBay) Corporate Family (CFR) rating at B3 and Probability of Default Rating at B3-PD. The company's senior unsecured notes were downgraded to Caa1 from B3. HudBay's Speculative Grade Liquidity Rating (SGL) was affirmed at SGL-3. The rating outlook is negative. This concludes the review for possible downgrade initiated on January 21, 2016. The unsecured notes are rated one notch below the B3 CFR because of \$550mm of prior-ranking total availability on secured credit facilities.

"The negative rating outlook on HudBay is driven by continued weakness in commodity prices and the potential that total leverage could move above 4x in 2016 should copper see a further decline", said Jamie Koutsoukis, Moody's Vice President, Senior Analyst.

This rating action reflects Moody's view that there has been a fundamental downward shift in the mining sector with the downturn being deeper and prospects for a recovery extended, resulting in increased credit risk and weaker metrics for Hudbay as well as the global mining sector. Consequently, ratings need to be recalibrated to reflect expected performance over a more protracted challenging operating environment. The slowing economic growth rates in China materially impact the demand for base metals leading to lower prices. While lower oil prices, lower freight costs, and currency depreciation contribute to reduced costs, the drop in prices has and will continue to significantly impact performance. In addition, the strong US dollar is a further factor contributing to weakening demand and driving prices lower since most metals are traded in dollars.

**RATINGS RATIONALE**

HudBay's B3 corporate family rating is driven by its modest scale and the effect weak commodity prices will have on profitability given its leverage to movements in copper and zinc prices. HudBay reached full capacity at its Constancia copper mine in Peru during 2015 and performance at the mine has been encouraging, however given that the one mine is expected to generate over half of the company's revenues in 2016, there is significant concentration risk and HudBay could experience material reductions in cash flows if Constancia had operational issues. Though leverage is expected to improve in 2016 with the increased cash flow contribution from Constancia (we expect adjusted Debt/EBITDA to be 3.5x in 2016), weak commodity prices have limited the improvement and there remains considerable risk to the downside with HudBay's exposure to copper and zinc prices which have seen sharp declines.

The negative rating outlook on HudBay is driven by continued weakness in commodity prices and the potential that leverage could move above 4x in 2016 should copper and zinc see a further decline beyond our Moody's base case expectations.

HudBay's liquidity is adequate (SGL-3). The company's liquidity sources include \$53.9 million of cash at December 31, 2015 and about US\$200 million of availability under its US\$400 revolving credit facility secured by its Manitoba assets and a US\$135 million standby facility secured by the Peru assets. HudBay has received commitments from lenders under its two secured credit facilities to consolidate the lender groups and restructure the two facilities. Once finalized both facilities will be mature in March 2019 and 2016 scheduled principal amortization payments of \$53.4 million will be deferred. We expect HudBay will remain modestly free cash flow positive through 2016 and 2017 and maintain good headroom to bank maintenance covenants. HudBay has minimal current debt maturities. Most of its debt matures in 2019 (\$550 million) and 2020 (\$920 million).

HudBay's CFR could be upgraded if there is a sustained recovery in commodity prices that improve the company's profitability and HudBay is able to maintain total adjusted debt/EBITDA at or below 3.5x.

HudBay's rating could be downgraded if:

- the company experiences operating challenges at Constancia leading to negative cash flow generation.

- the company's liquidity weakens, or;
- we expect the company's total adjusted debt/EBITDA to remain over 5x.

Downgrades:

..Issuer: HudBay Minerals, Inc.

....Senior Unsecured Regular Bond/Debenture, Downgraded to Caa1(LGD5) from B3(LGD4)

Outlook Actions:

..Issuer: HudBay Minerals, Inc.

....Outlook, Changed To Negative From Rating Under Review

Confirmations:

..Issuer: HudBay Minerals, Inc.

.... Probability of Default Rating, Confirmed at B3-PD

.... Corporate Family Rating, Confirmed at B3

Affirmations:

..Issuer: HudBay Minerals, Inc.

.... Speculative Grade Liquidity Rating, Affirmed SGL-3

Headquartered in Toronto, Ontario, Canada, HudBay Minerals is a growth-oriented, integrated mining company mainly focused on copper through its 777, Lalor and Reed (70%-owned) mines in Manitoba, Canada and its Constancia mine in Peru. The company also owns and operates ore concentrators and a zinc production facility in northern Manitoba and Saskatchewan.

The principal methodology used in these ratings was Global Mining Industry published in August 2014. Please see the Ratings Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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