

Encouraging outlook given by current mining pipeline

Investment Thesis

We are upgrading our recommendation from Hold to Buy, and introducing our 2018 TP of CLP 1,300, which implies a total return of 20.5% including dividends.

The company is exposed to the mining sector (75% of its operation), especially in Chile, where the market expects a recovery in the coming years, driven by higher copper, iron ore and cement prices. We believe that the latter is not entirely priced in, as SK's earnings momentum in 2017 will remain pressured.

Current copper price (~USD 3/lb), boosted the mining sector's project pipeline in Chile, reaching USD 64,845mn over the 2017-2026 period(+32% y/y) with 37 old projects and 10 new initiatives, which should increase the demand of mining-related services due to higher mining output. Chile's average cash cost of ~USD 1.46/lb increases the feasibility of these projects given prevailing price conditions.

We highlight four operational initiatives. The strong capex plan at Puerto Ventanas; the operational transformation of SKK that aimed to reduce fixed costs and control losses; the migration of Magotteaux's production facility to Thailand; and its corporate restructuring, which implied lower COGS. These projects should allow the company to be prepared for the aforementioned recovery in the mining sector.

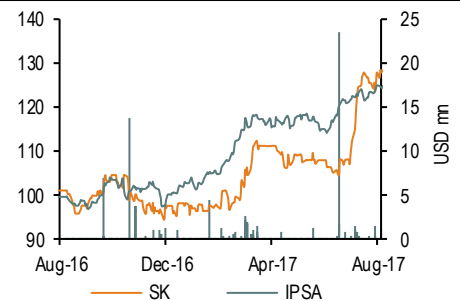
Valuation

Shares are trading at a 5% premium over peers on 2018 P/E. As for EV/EBITDA, shares are trading at a 5% discount against peers. Compared to their 3-year average, the shares are trading at a premium of 34% and 14% in terms of P/E and EV/EBITDA, respectively. Therefore, we believe that this premium is explained by an encouraging outlook in this sector and the privileged location when compared to its peers.

Stock Data

Ticker	sk ci
Price (CLP)	1,104
Target (CLP)	1,300
Total Return	20.5%
LTM Range	813 - 1,105
Market Cap (USD mn)	1,895
Shares Outstanding (mn)	1,075
Free Float	40%
ADTV (USD mn)	0.4

Price Chart (CLP) and Volumes (USD mn)

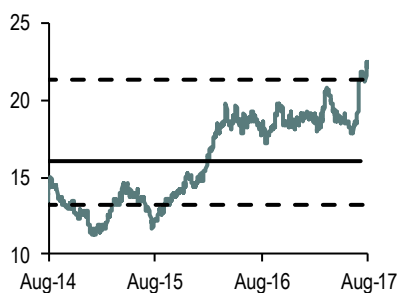


Valuation Summary

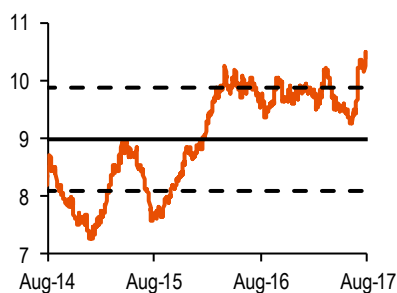
	2016	2017E	2018E	2019E
FV/EBITDA	9.0	13.4	10.5	8.5
P/E	15.8	25.4	20.3	14.7
P/CF	8.3	44.3	17.9	11.7
P/BV	1.1	1.5	1.4	1.4
Div. Yield	6.2%	3.2%	2.8%	3.5%

Sources: Company Reports, and Credicorp Capital

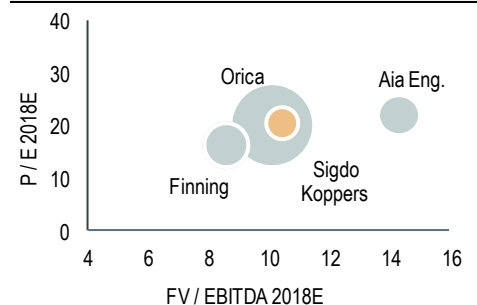
P/E 12M Forward



FV/EBITDA 12M Forward



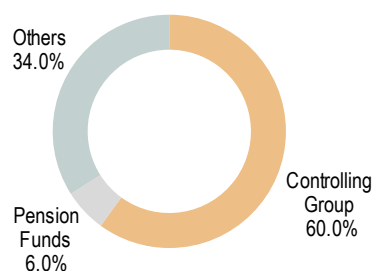
Relative Valuation



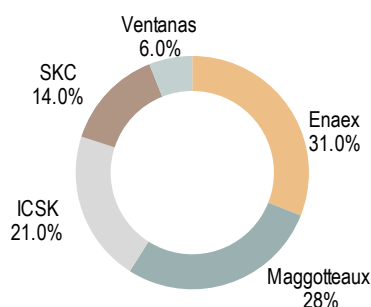
Company Description

SK is an engineering and industrial holding which provides services all along the mining value chain. Its main subsidiaries are: Enaex (explosives), SK Comercial (machinery), Magotteaux (grinding media), SK Engineering and Construction, Puerto Ventanas & Fepasa (transport & logistic) and SKBerge (car dealership).

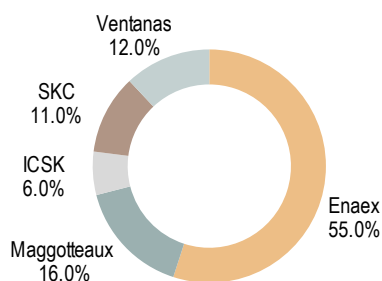
Ownership Structure



Revenue breakdown by business (LTM)



EBITDA breakdown by business 2017



Management

CEO: Juan Pablo Aboitiz

CFO: Gonzalo Cavada

IR: Andrés Barriga & Andrés Cristi

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Income Statement

USD mn	2015	2016	2017E	2018E	2019E
Revenues	2,415	2,191	2,211	2,328	2,496
Gross Profit	562	484	460	509	565
EBITDA	374	291	242	309	380
Net Income	135	85	75	93	129
EPS (CLP)	89	53	43	54	75
Gross Margin	23.3%	22.1%	20.8%	21.9%	22.6%
EBITDA Margin	15.5%	13.3%	11.0%	13.3%	15.2%
Net Margin	5.6%	3.9%	3.4%	4.0%	5.2%

Balance Sheet

USD mn	2015	2016	2017E	2018E	2019E
Cash & Equivalents	240	281	296	308	349
Total Current Assets	1,132	1,166	1,200	1,253	1,333
Total Assets	3,475	3,549	3,624	3,684	3,775
Current Liabilities	702	732	748	760	778
Financial Debt	1,121	1,110	1,158	1,154	1,145
Total Liabilities	1,901	1,869	1,931	1,938	1,947
Minority Interest	385	411	416	429	448
Shareholders Equity	1,189	1,269	1,277	1,317	1,380
Total Liabilities + Equity	3,475	3,549	3,624	3,684	3,775
Net Debt /EBITDA	2.4	2.8	3.6	2.7	2.1
Financial Debt /EBITDA	3.0	3.8	4.8	3.7	3.0
Financial Debt /Equity	0.9	0.9	0.9	0.9	0.8
ROAE	11.3%	6.9%	5.9%	7.2%	9.6%
ROAA	3.9%	2.4%	2.1%	2.6%	3.5%
ROIC	8.5%	5.3%	4.6%	5.5%	7.4%

Cash Flow Statement

USD mn	2015	2016	2017E	2018E	2019E
Initial Cash	235	240	281	296	308
Cash Flow From Operations	203	159	158	186	236
CAPEX	-130	-128	-130	-130	-138
Changes in Financial Debt	96	-10	48	-4	-9
Dividends (Paid) Received	-108	-84	-61	-53	-66
Other CFI & CFF Items	-55	105	-1	13	19
Changes in Equity	0	0	0	0	0
Final Cash	240	281	296	308	349
Change in Cash Position	4	42	15	12	41

Sources: Company Reports and Credicorp Capital; E Credicorp Capital Estimates