

CREDIT OPINION

21 September 2017

Update

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RATINGS

Pesquera Exalmar S.A.A.

Domicile	Peru
Long Term Rating	B3
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Pesquera Exalmar S.A.A.

Update Following Outlook Change to Stable from Negative

Summary

Exalmar's B3 ratings incorporate primarily the company's vulnerability to climatic conditions and fishing quotas regulation; a pronounced cash flow seasonality; and its limited operating scale and modest business diversification compared to regional peers as well as other seafood and protein-industry companies. The rating also reflects the exposure to volatile volume and price trends of the commoditized global fishmeal and fish oil market. These credit negatives are to some extent offset by Exalmar's position as the third largest fishmeal producer in Peru, the world's leading fishmeal nation; a successful operating history in its current business configuration; and some revenue diversification from its direct human consumption business.

Credit Strengths

- » Third largest Peruvian producer of fishmeal and fish oil
- » Direct human consumption business provides some diversification

Credit Challenges

- » Small scale relative to peers and limited product and raw material diversification
- » Cash flow sensitive to climatic conditions and biomass location, as well as fishing quota levels that affect fishmeal and fish oil prices

Rating Outlook

The stable ratings outlook reflects our expectation that the company's profitability and credit metrics will continue to improve absent any strong weather event that results in a decline on the fishing quota or cancellation of a fishing season.

Factors that Could Lead to an Upgrade

An upgrade would require an improvement in the company's liquidity cushion to withstand adverse impacts on operations due to adverse weather conditions. An upgrade would also be dependent on the company's ability to generate positive cash flow while maintaining robust credit metrics on a sustainable basis with debt/EBITDA below 4.0 times.

Factors that Could Lead to a Downgrade

A prolonged period of negative free cash flow generation with material additional external funding needs, for example because of the impacts of quotas cancellation, an abrupt deterioration of global fishmeal demand or anchovy supply would cause downward pressure on the ratings. An increase in adj. debt/EBITDA over 7.0 times for a prolonged period of time with no expectation of reduction in the medium term could also lead to a downgrade.

Key Indicators

Exhibit 1

Key Indicators

	6/30/2017(L)	12/31/2016	12/31/2015	12/31/2014	12/31/2013
Total Sales (USD Billion)	\$0.2	\$0.1	\$0.2	\$0.2	\$0.2
CFO / Net Debt	-8.0%	-6.3%	4.3%	31.3%	-13.4%
Debt / EBITDA	5.6x	13.4x	6.6x	4.2x	7.7x
EBITA / Interest Expense	1.5x	0.0x	0.9x	2.2x	0.7x
Debt / Book Capitalization	49.6%	53.8%	48.6%	52.3%	53.9%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Moody's Financial Metrics™

Detailed Credit Considerations

SMALL SCALE AND LIMITED PRODUCT AND RAW MATERIAL DIVERSIFICATION

Exalmar's main focus on fishmeal and fish oil production exposes the company to relatively few end-markets. These primarily relate to the aquaculture (fish farming) and hog and poultry farming industries in Asia (particularly China) and Europe. While the aquaculture industry has exhibited solid growth rates over the past decades and has thus helped grow fishmeal and fish oil demand and increase prices, temporary demand disruptions in key markets, for example because of disease outbreaks or import restrictions, could affect cash flows.

Exalmar's narrow product focus and geographic sourcing concentration is partially offset by its sales diversification, as it exports most of its production. The most important region is Asia, with around 52% of its fishmeal sales volumes exported to China. As the food industry is fairly defensive against the economic cycles we would expect that Exalmar's revenues will not be materially affected by slowing GDP growth in China. Its products are employed as feed for animals that are ultimately used for human consumption, which will still experience growing demand. Moody's forecast of China's real GDP growth is to remain at 6.8% in 2017 and 6.4% in 2018.

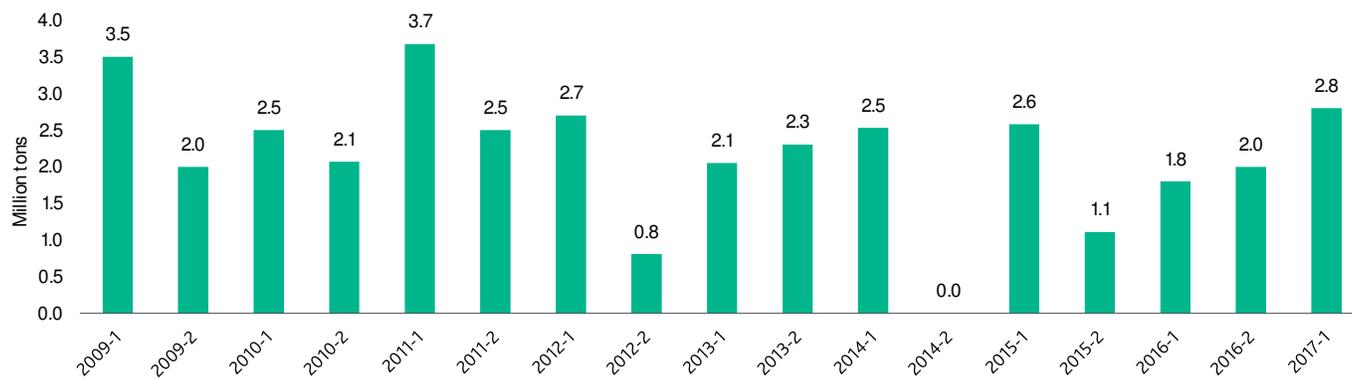
VOLUMES AND CASH FLOW SENSITIVE TO REGULATION AND CLIMATIC CONDITIONS

Exalmar's volumes and thus its cash flow critically depend on the level of the catch of anchovies, the company's main raw material, which varies with the total allowable catch set prior to each fishing season by PRODUCE, the Peruvian Ministry of Production. Anchovy catch levels vary because of changing climatic conditions, in particular by the El Niño or La Niña effects. The most severe in 2014 when the second fishing season was cancelled entirely. This had a negative effect on Exalmar's credit profile with a drop in sales and a reduction in its EBITDA that led adj. debt/EBITDA to increase to 7x by the end of the 1Q15; up from 4.3x as of December 2014.

Since then, the fishing quota has been gradually recovering. The first fishing season of 2017 was set at 2.8 million metric tons; a 40% increase when compared to the last fishing season of 2016. This is the fourth consecutive increase in quotas set by PRODUCE.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Exhibit 2

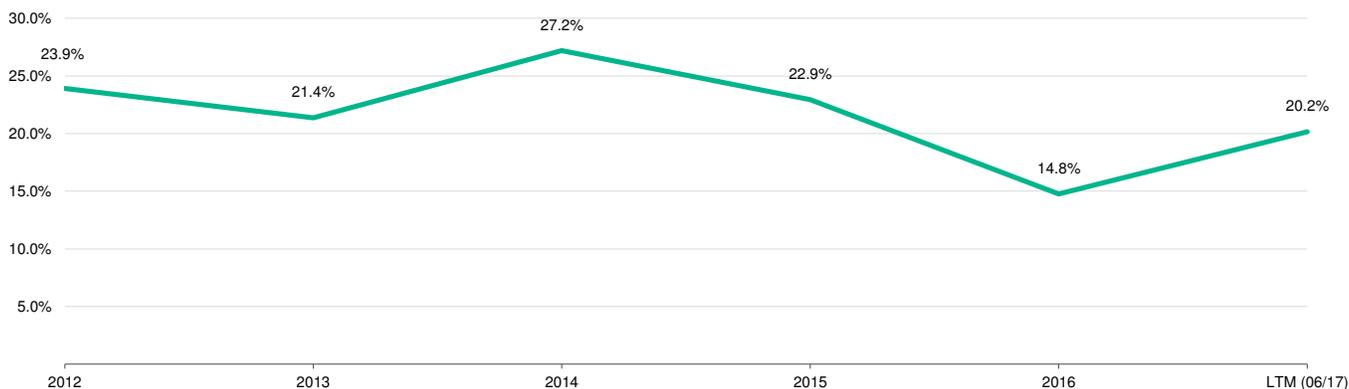
Total quota per fishing season

Source: PRODUCE

According to the most recent report from Peru's federal climate agency ENFEN, it estimates a 58% likelihood of seawater conditions and temperatures remaining "neutral" in Peru's 2017-18 summer season (December to March), and a 6% probability of a moderate-strong El Niño and a 3% probability of moderate-strong La Niña, implying a more stable operating environment for Exalmar and other Peruvian fishing companies. We believe that the next couple of fishing seasons will allow fishing companies in Peru to catch at least 2 million metric tons per season given this more stable environment.

The company's credit metrics have improved recently driven by higher fishing quotas which resulted in increased revenues and profitability. Exalmar's adj. debt/EBITDA was 5.6x as of June 2017 with EBITDA margin of 20% over the twelve months ended June 2017. Absent severe weather conditions, we estimate adj. debt/EBITDA to decline to around 3.5x by year-end 2017 and remain in that level in 2018-2019. Similarly, profitability will further improve with EBITDA margin recovering to 24% in 2017-2018.

Exhibit 3

EBITDA Margin

Figures as adjusted by Moody's
Source: Moody's Financial Metrics.

Liquidity Analysis

Exalmar's liquidity is negatively affected by cash flow seasonality caused by the working capital build-up that tends to occur during Peru's two anchovy fishing seasons in the second and fourth calendar quarters and the subsequent cash inflow when inventories are shipped in the first and third quarters. Exalmar typically funds these working capital needs with uncommitted credit facilities with local and international banks. In addition, the company has a \$20 million committed credit facility that is fully available. We note that the use of committed credit facilities is not a common practice in Latin America so we positively view Exalmar's actions to ensure a strong alternate source of liquidity.

Exalmar reported cash on hand of \$3 million as of June 30, 2017 that can cover only 13% short-term debt. Short-term debt is comprised by working capital related debt that is secured by inventory and receivables. As a result, the company's cash on hand, inventory and receivables provide a 2x coverage of its short-term debt as of June 30, 2017. The company has a conservative debt maturity profile with no major debt amortizations until 2020 when its \$200 million global notes are due.

Corporate Profile

Founded in 1992, Pesquera Exalmar, S.A.A. is a Peruvian fishing company which produces fishmeal and fish oil used for indirect human consumption. In addition, Exalmar also sells fresh and frozen fish (mackerel, horse mackerel, giant squid, and mahi-mahi) for direct human consumption. Exalmar has a 6.7% assigned quota in the north-center of Peru and the ability to process third-party catch, which increases its overall participation in the market. This positions the company as the 3rd. largest fishing player in Peru in terms of processed anchovy. Exalmar is majority owned (71%) and controlled by its founder, Victor Matta Curotto, and the 29% balance is publicly traded in the Lima stock exchange. For the twelve months ended June 30, 2017, the company reported revenues of \$215 million.

Rating Methodology and Scorecard Factors

Exhibit 4

Rating Factors

Protein and Agriculture Industry Grid [1][2]			Current LTM 6/30/2017		Moody's 12-18 Month Forward View As of 9/20/2017 [3]	
Factor	Measure	Score	Measure	Score	Measure	Score
Factor 1 : SCALE & DIVERSIFICATION (20%)						
a) Total Sales (USD Billion)	\$0.2	Ca	\$0.3	Ca		
b) Geographic Diversification	B	B	B	B		
c) Segment Diversification	Caa	Caa	Caa	Caa		
Factor 2 : BUSINESS POSITION (25%)						
a) Market Share	B	B	B	B		
b) Product Portfolio Profile	B	B	B	B		
c) Earnings Stability	Ba	Ba	Ba	Ba		
Factor 3 : FINANCIAL POLICY (15%)						
a) Financial Policy	B	B	B	B		
Factor 4 : LEVERAGE & COVERAGE (40%)						
a) CFO / Net Debt	-8.0%	Ca	12.6%	B		
b) Debt / EBITDA	5.6x	B	3.5x	Ba		
c) EBITA / Interest Expense	1.5x	B	2.8x	B		
d) Debt / Book Capitalization	49.6%	Ba	46.2%	Ba		
Rating:						
a) Indicated Rating from Grid		B3		B2		
b) Actual Rating Assigned				B3		

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 6/30/2017(L)

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

Ratings

Exhibit 5

Category	Moody's Rating
PESQUERA EXALMAR S.A.A.	
Outlook	Stable
Corporate Family Rating	B3
Senior Unsecured	B3

Source: Moody's Investors Service

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