

CREDIT OPINION

18 November 2016

Update

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RATINGS

Pesquera Exalmar S.A.A.

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

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.

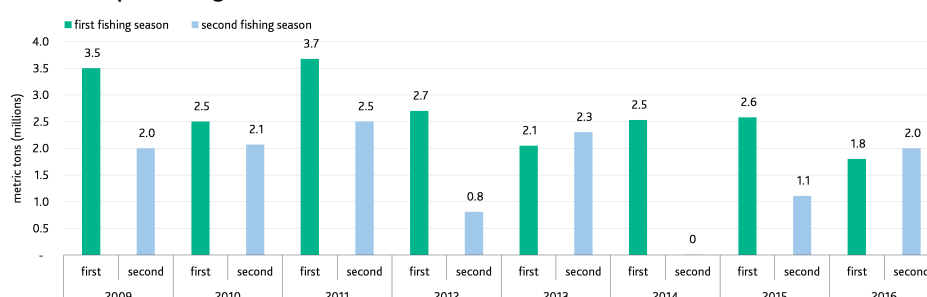
Credit Opinion Update

Summary Rating Rationale

Exalmar's ratings incorporate the company's limited operating scale and modest business diversification compared to regional peers as well as other seafood and protein-industry companies; its exposure to volatile volume and price trends of the commoditized global fishmeal and fish oil market; the sensitivity of cash flows to climatic conditions and regulation; and a pronounced cash flow seasonality. 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 revenue diversification from its direct human consumption business.

Exhibit 1

Total Quota per Fishing Season



Source: PRODUCE

Credit Strengths

- » One of the largest Peruvian producers of fishmeal and fish oil
- » Potential to diversify its revenue stream by growing its direct human consumption business

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 negative ratings outlook reflects the potential impact on Exalmar's credit metrics and liquidity from weather events that could affect fishing quotas in Peru.

Factors that Could Lead to an Upgrade

In the long term, upward ratings pressure could emerge if the company is able to maintain positive cash flow generation while maintaining robust credit metrics and strong liquidity 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 or because a debt financed quota acquisition could cause downward pressure on the ratings. An increase in adj. debt/EBITDA over 7.0 times for a prolonged period of time could also lead to a downgrade.

Key Indicators

Exhibit 2

Key Indicators

Pesquera Exalmar, S.A.A.

	9/30/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Total Sales (USD Billion)	\$0.1	\$0.2	\$0.2	\$0.2	\$0.2
CFO / Net Debt	14.7%	5.1%	31.3%	-13.4%	21.2%
Debt / EBITDA	6.1x	6.5x	4.2x	7.7x	3.6x
EBITA / Interest Expense	0.8x	0.8x	2.2x	0.7x	4.4x
Debt / Book	49.7%	49.0%	52.3%	53.9%	43.5%

[1] 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 Rating 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 as 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 6.7% in 2016, 6.3% in 2017, and 6% 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 (MoP). Anchovy catch levels vary because of changing climatic conditions, in particular the El Niño effect.

Peruvian fishing companies suffered weaker revenues during the first quarter of 2016 after an El Niño event in 2015 reduced anchovy populations in Peru, prompting PRODUCE to limit Peru's second fishing season anchovy catch to just 1.1 million metric tons.

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PRODUCE has since concluded that the 2015-16 El Niño event harmed the anchovy population less than a much stronger El Niño did in 1997-98. As a result, PRODUCE raised the fishing quota in 2016 to 1.8 million metric tons in the first fishing season and to 2 million metric tons in the second fishing season.

According to the most recent report from Peru's federal climate agency ENFEN, it estimates a 74% likelihood of seawater conditions and temperatures remaining "neutral" in Peru's 2016-17 summer season, followed by a 28% probability of a weak La Niña, implying a more stable operating environment for Exalmar and other Peruvian fishing companies

Since the second fishing season of 2015, Exalmar's credit metrics have recovered a bit, with operating margin improving to 11.7% in the 12 months through September 2016, up from 9.2% in 2015, along with lower adj. debt/EBITDA of 6.1 times as of September 2016 (down from 6.5 times as of December 2015). We estimate Exalmar's leverage to remain below 6 times by year end 2016 and 2017.

POTENTIAL TO GROW IN THE DIRECT HUMAN CONSUMPTION BUSINESS

Exalmar plans to benefit from the increasing importance of fish for direct human consumption industry, as according to the Food and Agriculture Organization over 75% of the global fish production is used for DHC. We note that, despite the growth potential of the human consumption fishing industry in Peru, the process of assigning quotas and monitoring biomass in this market is not as sophisticated as that used in the Peruvian anchovy fishing industry, or in many other fisheries around the world, which creates potential for uncertainty about fishing rights and biomass health going forward, possibly leading to revenue volatility.

Exalmar's DHC business could provide it with some revenue diversification as it could represent up to 25% of total revenues by 2017, according to the company. In addition it will allow the company to strengthen its competitive position against other larger Peruvian fishing companies which also have DHC businesses.

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 USD20 million 2-year committed credit facility (75% 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 USD7.0 million as of September 30, 2016 which covers 1.4 times its short term debt. Short-term debt is mostly comprised by working capital related debt that is secured by inventory and receivables. The company has a conservative debt maturity profile with no major debt amortizations until 2020 when the rated global notes are due.

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's sales of fresh and frozen fish for direct human consumption represented around 9.6% of total revenues in the twelve months ended September 30, 2016.

Exalmar has a 6.67% assigned quota in the north-center and 4.46% in the south 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 vertically integrated and currently operates 22 vessels and six processing plants along the Peruvian coast.

Exalmar is majority owned (71.1%) and controlled by its founder, Victor Matta Curotto, and the 28.9% balance is publicly traded in the Lima stock exchange. For the twelve months ended September 30, 2016, the company reported revenues of USD146 million.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors

Pesquera Exalmar, S.A.A.

Protein and Agriculture Industry Grid [1][2]			Current LTM 9/30/2016		Moody's 12-18 Month Forward View As of 11/15/2016 [3]	
Factor 1 : SCALE & DIVERSIFICATION (20%)	Measure	Score			Measure	Score
a) Total Sales (USD Billion)	\$0.1	Ca			\$0.2	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	14.7%	B			5.8%	Caa
b) Debt / EBITDA	6.1x	Caa			5.7x	B
c) EBITA / Interest Expense	0.8x	Caa			1.5x	B
d) Debt / Book Capitalization	49.7%	Ba			47.4%	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 9/30/2016(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 4

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

Source: Moody's Investors Service

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