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Research Update:

Pesquera Exalmar S.A.A. 'B-' Ratings Affirmed Following Debt Exchange Offer; Outlook Remains Negative

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Overview

- Peru-based fishing company Exalmar has announced an exchange offer of its outstanding 7.375% senior notes due 2020 for its new 7.625% senior notes due 2025.
- In our view, the proposed transaction would not constitute a distressed exchange because the company is announcing the offer well in advance of the existing 2020 maturities, and the offer considers a par-value exchange with a higher interest rate.
- We're affirming our 'B-' ratings on Exalmar.
- The negative outlook continues to reflect Exalmar's liquidity constraints, within the context of a short time-horizon to address its senior unsecured notes' debt maturity in January 2020.

Rating Action

On Dec. 29, 2017, S&P Global Ratings affirmed its 'B-' corporate credit and issue-level ratings on Pesquera Exalmar S.A.A. (Exalmar). The outlook on the corporate credit rating remains negative.

Rationale

On Dec. 22, 2017, Peru-based fishing company Pesquera Exalmar S.A.A. (Exalmar) turned to the holders of its outstanding 7.375% senior notes due 2020 to offer an exchange of those notes for its new 7.625% senior notes due 2025.

The affirmation of our 'B-' corporate credit and issue-level ratings on Exalmar reflects our view that the exchange is neither opportunistic and nor distressed. First, we believe that the issuer would not have faced insolvency or bankruptcy in 2018 or 2019 if the offer were not accepted. In particular, we consider that Exalmar's short-term credit risk is largely contained by the company's EBITDA-interest coverage ratio of 3.0x as of Sept. 30, 2017, as well as by its \$8.5 million cash balance and a \$15 million available committed credit facility that jointly exceed the company's \$8.0 million in short-term debt. In addition, we believe that the company's sound relationship with banks would provide access to alternative funding sources to address its 2020 debt maturities. Secondly, the transaction would be carried out two years prior to the final maturity, and existing investors are not forced to accept the offer.

Finally, in our view, the offer does not represent a loss of value for current debt holders as long as the exchange is closed at par-value, and because it would have a higher interest rate and compensation in the form of a cash payment.

The offer has an early expiration date on Jan. 8, 2018, and a final expiration date on Jan. 23, 2018. Bondholder consents that are received prior to the early expiration date would receive par value, and compensation in the form of a cash payment equivalent to 1% of principal outstanding. Consents between Jan. 8, 2018 and the final expiration date would receive 97% of par value under the exchange. Any transaction that closes at a discount below par-value would lead us to reassess whether the exchange is distressed or opportunistic, considering that investors could end-up receiving less value than the promise of the original securities.

The consummation of the exchange offer depends upon bondholder consent of no less than a majority of the aggregate principal amount of the outstanding 2020 notes.

In our opinion, the proposed exchange would improve Exalmar's financial flexibility as the company would extend its debt maturity profile. We believe that this financial flexibility could be a positive credit factor because of volatility of the fishing industry that, in recent years, has affected fishmeal production volumes, resulting in weaker-than-expected cash flow generation, limited liquidity, and higher leverage.

Outlook

The negative outlook continues to reflect Exalmar's liquidity constraints, within the context of a short time horizon to address its senior unsecured notes' January 2020 debt maturity.

Failure to execute a liability management plan within six months would result in a higher refinancing risk, and therefore trigger a downgrade.

Upside scenario

We could revise the outlook to stable if the company successfully addresses the refinancing risk of its 2020 debt maturities, which could happen if bondholders consent to the company's recently announced exchange offer. An outlook revision to stable would also have to be accompanied by global fishing quotas above 4 million tons per year and effective catch rates exceeding 90%, which would drive the company's debt to EBITDA to below 4.0x and generate positive discretionary cash flow.

Ratings Score Snapshot

Corporate credit rating: B-/Negative/--

Business risk: Vulnerable

Country risk: Moderately high risk

Industry risk: Intermediate risk

Competitive position: Vulnerable

Financial risk: Highly Leveraged

Cash flow/Leverage: Highly Leveraged

Anchor: b-

Modifiers

Diversification/Portfolio effect: Neutral (no impact)

Capital structure: Neutral (no impact)

Financial policy: Neutral (no impact)

Liquidity: Weak (no impact)

Management and governance: Fair (no impact)

Comparable rating analysis: Neutral (no impact)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - Industrials: Key Credit Factors For The Agribusiness And Commodity Foods Industry, Jan. 29, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009

Ratings List

Ratings Affirmed

Pesquera Exalmar S.A.A.

Corporate Credit Rating

B-/Negative/--

Senior Unsecured

B-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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