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Research Update:

Pesquera Exalmar 'B-' Ratings Placed On CreditWatch Positive On Plans To Refinance Senior Unsecured Notes Due 2020

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Research Update:

Pesquera Exalmar 'B-' Ratings Placed On CreditWatch Positive On Plans To Refinance Senior Unsecured Notes Due 2020

Rating Action Overview

- Peru-based fishing company Exalmar recently announced the plan to refinance its existing senior unsecured notes for \$109 million due 2020.
- The company plans to use a \$110 million five-year syndicated loan to address the near-term debt maturities and improve the capital structure.
- On Jan. 16, 2019, S&P Global Ratings placed its 'B-' long-term issuer credit and issue-level ratings on Exalmar on CreditWatch with positive implications.
- The CreditWatch listing reflects our view that Exalmar's debt refinancing, coupled with a stronger operating performance due to higher-than-expected fishing quotas, would strengthen the company's capital structure and liquidity position.
- We will resolve the CreditWatch listing within the next 90 days, once the refinancing of the senior unsecured notes for an outstanding amount of \$109 million is completed, which would most likely occur during the first quarter of 2019.

Rating Action Rationale

The CreditWatch placement follows Exalmar's announcement that it plans to refinance its senior unsecured notes for around \$109 million due 2020 during the first quarter of this year. The CreditWatch placement also reflects the company's better-than-expected operating and financial performance during the past 12 months due to a significant recovery in the fishing quotas in Peru since 2017. Exalmar plans to use a new \$110 million five-year syndicated loan and cash on hand to refinance the senior unsecured notes due 2020 and repay a \$20 million loan. The proposed dollar-denominated syndicated loan from several Peruvian banks, with an interest rate indexed to Libor, will be subject to a one-year grace period, a 36% balloon at fifth year, and a straight rate amortization during years 2 and 5, which we view as manageable. The loan will help the company reduce its debt at a faster pace than we had previously expected.

We expect the transaction to improve Exalmar's financial risk profile, capital structure, and liquidity position. The debt refinancing will increase Exalmar's financial flexibility through the considerable extension of its debt maturity profile.

Moreover, Exalmar's operating and financial performance has significantly improved during the past 12 months. The company posted EBITDA margins of around 31% and a debt-to-EBITDA ratio of 2.9x as of Sept. 30, 2018. On a pro forma basis for the transaction and a robust EBITDA given higher fishing quota and fishing volumes, we forecast Exalmar to maintain its adjusted debt to EBITDA below 4.0x and to generate discretionary cash flow in the next 12 months. In the past two years, fishing quotas in Peru have recovered markedly to around 4.8 million tons annually, bolstering Exalmar's revenues and operating performance.

Although the \$110 million syndicated loan will be secured with around 50% of Exalmar's fishing quota and two production plants, we believe that the existing senior unsecured notes for \$60.922 million due 2025 are not subordinated to the new debt, given that the other half of Exalmar's fishing quota and five other production plants are still available in case of any event of default, mitigating any potential subordination risk.

Moreover, we previously indicated that a positive rating action is possible if the company successfully addresses the refinancing risk of its 2020 debt maturities, while it maintains debt to EBITDA below 4.0x and generates discretionary cash flow.

CreditWatch

We will resolve the CreditWatch listing within the next 90 days, once the refinancing of the senior unsecured notes due January 2020 is completed, which the company expects to occur during the first quarter of 2019. Under such a scenario, we could raise the rating by one notch because we will also have more information on the 2019 fishing quota that could bolster the company's profitability and cash flows, which in turn could improve the liquidity position and leverage metrics.

Company Description

Exalmar is a Peruvian fishing company engaged in the extraction, processing, and commercialization of hydro-biological resources for direct and indirect human consumption. It produces fishmeal for the growth of bovines, sheep, and pigs, as well as for the development of fish farming and poultry; and fish oil, which is primarily used as fish feed in the aquaculture industry. The company also processes various fish species, such as horse mackerel, mackerel, giant squid, and mahi-mahi. Exalmar operates five plants of fishmeal and fish oil, and two frozen plants for processing hydro-biological products for human consumption.

Ratings Score Snapshot

Corporate Credit Rating: B-/Watch Pos/--

Business risk: Vulnerable

- Country risk: Moderately High
- Industry risk: Intermediate
- 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)
- Liquidity: Weak (no impact)
- Financial policy: Neutral (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, March 28, 2018
- 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
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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

Ratings List

CreditWatch Action	To	From
Pesquera Exalmar S.A.A.		
Issuer Credit Rating	B-/Watch Pos/--	B-/Negative/--
Senior Unsecured	B-/Watch Pos	B-

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