

CREDIT OPINION

27 September 2018

Update



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.

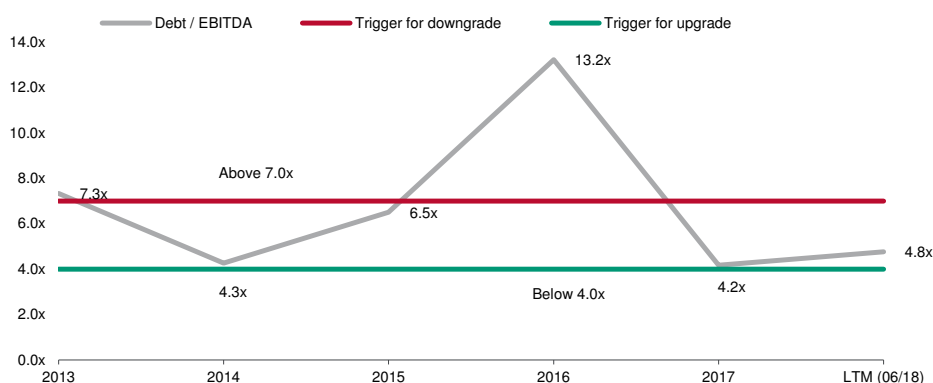
Update to credit analysis - Annual update

Summary

[Pesquera Exalmar S.A.A.](#)'s (Exalmar) B3 ratings primarily incorporate the company's (1) vulnerability to climatic conditions and fishing quota regulation; (2) pronounced cash flow seasonality; and (3) limited operating scale and modest business diversification compared with regional peers, as well as other seafood and protein industry companies. The ratings also reflect the company's exposure to volatile volume and price trends of the commoditized global fishmeal and fish oil markets. These credit negatives are, to some extent, offset by (1) Exalmar's position as the third-largest fishmeal producer in [Peru \(A3, stable\)](#), the world's leading fishmeal producing nation; (2) its successful operating history in its current business configuration; and (3) some revenue diversification from its direct human consumption (DHC) business.

Exhibit 1

Exalmar has improved its leverage since 2016 Moody's-adjusted ratios



Source: Moody's Financial Metrics™

Credit strengths

- » Third-largest Peruvian producer of fishmeal and fish oil
- » DHC 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 rating outlook reflects our expectation that Exalmar's profitability and credit metrics will continue to improve in the absence of any strong weather event that results in a decline in 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 buffer to withstand adverse impacts on operations because of 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 sustained basis, with adjusted debt/EBITDA below 4.0x.

Factors that could lead to a downgrade

A prolonged period of negative FCF generation with material additional external funding needs, for example because of the impact of quota cancellations or an abrupt deterioration in global fishmeal demand or anchovy supply, would result in a downgrade. An increase in adjusted debt/EBITDA over 7.0x for a prolonged period of time, with no expectation of reduction in the medium term, could also lead to a downgrade.

Key indicators

Exhibit 2

Pesquera Exalmar S.A.A.

US Millions	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	LTM (Jun-18)	Dec-18 (f)	Dec-19 (f)
Revenue	168.9	220.9	156.2	136.1	254.6	216.8	238.9	268.7
CFO / Net Debt	-13.4%	31.3%	4.5%	-6.3%	40.8%	4.2%	-9.5%	13.9%
Debt / EBITDA	7.3x	4.3x	6.5x	13.2x	4.2x	4.8x	3.9x	3.3x
EBITA / Interest Expense	0.8x	2.2x	0.9x	0.0x	1.8x	1.7x	2.2x	2.7x
Debt / Book Capitalization	53.9%	52.3%	48.3%	51.0%	42.8%	46.0%	47.1%	43.4%

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated. LTM = Last 12 months.

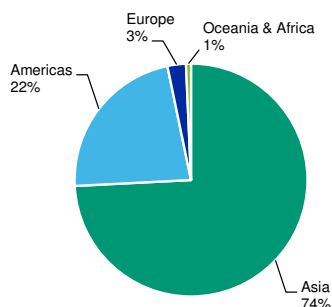
Source: Moody's Financial Metrics™

Profile

Founded in 1992, Pesquera Exalmar, S.A.A. (Exalmar) is a Peruvian fishing company that produces fishmeal and fish oil used for indirect human consumption (IHC). In addition, Exalmar also sells fresh and frozen fish (mackerel, horse mackerel, giant squid and mahi-mahi) for DHC. Exalmar has a 6.7% assigned quota in the north-center region of Peru and the ability to process third-party catch, which increases its overall participation in the market. This positions the company as the third-largest fishing company in Peru in terms of processed anchovy. Exalmar is majority owned (71%) and controlled by its founder, Victor Matta Curotto, and the balance (29%) is publicly traded on the Lima Stock Exchange. For the 12 months ended June 30, 2018, the company reported revenue of \$217 million.

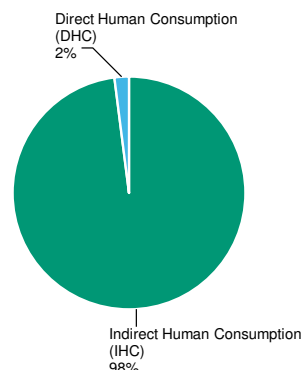
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Exhibit 3

Revenue by region
 First six months of 2018


Source: Company's financials

Exhibit 4

Revenue by segment
 First six months of 2018


Source: Company's financials

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 aquaculture (fish farming), and hog and poultry farming industries in Asia - particularly [China](#) (A1 stable) 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 flow.

Exalmar's narrow product focus and geographic sourcing concentration are partially offset by its sales diversification, given that it exports most of its production. Most of the revenue comes from Asia (74%), where China is the main market for Exalmar, followed by Americas (22%), Europe (3%), and Oceania and Africa (1%).

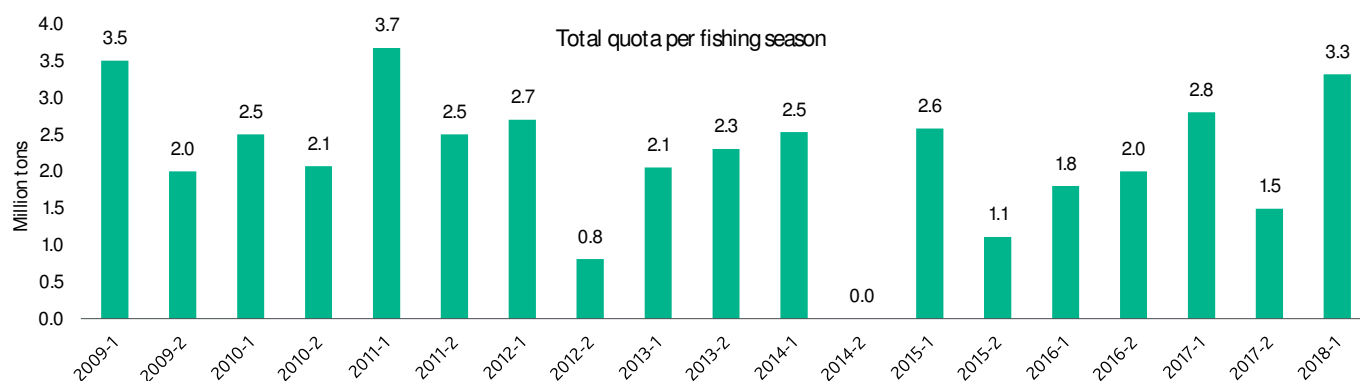
As the food industry is fairly defensive against economic cycles, we expect Exalmar's revenue to not be significantly affected by slowing GDP growth in China. Its products are used as feed for animals that are ultimately used for human consumption, which will still experience growing demand. Our forecast of China's real GDP growth remains at 6.6% for 2018 and 6.4% in 2019 despite the ongoing trade dispute between China and the [US](#) (Aaa stable).

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 before each fishing season by PRODUCE, the Peruvian Ministry of Production. Anchovy catch levels vary because of changing climatic conditions, in particular because of El Niño or La Niña effects. The most severe effect was seen in 2014, when the second fishing season was canceled entirely. This had a negative effect on Exalmar's credit profile, with a drop in sales and a reduction in its EBITDA that led adjusted debt/EBITDA to increase to 7x as of the end of the first quarter of 2015, up from 4.3x as of December 2014.

Since then, the fishing quota has been recovering gradually. For the first fishing season of 2018, the quota was set at 3.3 million metric tons, the highest amount since the second quota in 2011, a 120% increase compared with the last fishing season of 2017. This is the fourth consecutive increase in quotas set by PRODUCE.

Exhibit 5

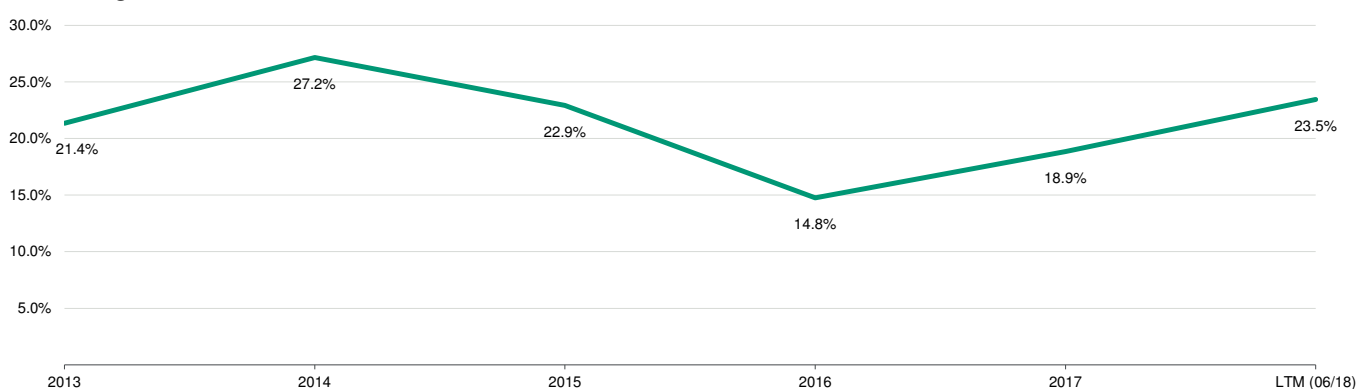
Total quota per fishing season

Source: PRODUCE

According to its most recent report, Peru's federal climate agency ENFEN estimates a 50% likelihood of seawater conditions and temperatures remaining neutral in Peru's 2018-19 summer season (December to March), a 3% probability of a moderate-strong El Niño and 0% probability of a 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 around 2 to 2.5 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 revenue and profitability. Exalmar's adjusted debt/EBITDA was 4.8x as of June 2018, with an adjusted EBITDA margin of 23.5% for the 12 months ended June 2018. In the absence of severe weather conditions, we estimate adjusted debt/EBITDA to decline to around 3.9x by year-end 2018 and remain at that level in 2019. Similarly, profitability will improve further, with the EBITDA margin recovering to around 25% in 2018-19.

Exhibit 6

EBITDA margin

Figures as adjusted by Moody's.

Source: Moody's Financial Metrics™

Liquidity analysis

Exalmar's liquidity is weakened by cash flow seasonality, caused by the working capital buildup 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. 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 alternative source of liquidity.

Exalmar reported cash on hand of \$3 million as of 30 June 2018, which can cover only 5% of its short-term debt. Exalmar's short-term debt is related to working capital financing and is secured by inventories and receivables. Consequently, if we consider cash on hand, inventory and receivables they cover 1.8x its short-term debt as of June 2018. The company has a conservative debt maturity profile, with no major debt amortizations until 2020 (\$109.1 million) and in 2025 (\$59.9 million) corresponding to their global notes.

Rating methodology and scorecard factors

Exhibit 7

Rating factors

Pesquera Exalmar S.A.A.

Protein and Agriculture Industry Grid [1][2]			Current LTM 6/30/2018		Moody's 12-18 Month Forward View As of 9/21/2018 [3]	
Factor 1: SCALE & DIVERSIFICATION (20%)	Measure	Score			Measure	Score
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	4.2%	Ca			13.9%	B
b) Debt / EBITDA	4.8x	B			3.3x	Ba
c) EBITA / Interest Expense	1.7x	B			2.7x	B
d) Debt / Book Capitalization	46.0%	Ba			43.4%	Baa
Rating:						
a) Indicated Rating from Grid		B3				B1
b) Actual Rating Assigned		B3				B3

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

[2] As of 6/30/2018(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 8

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

Source: Moody's Investors Service

Appendix

Exhibit 9

Peer comparison table

Pesquera Exalmar S.A.A.

(in US millions)	Pesquera Exalmar S.A.A. B3 Stable			Clearwater Seafoods Incorpor B2 Stable			High Liner Foods Incorporate B1 Stable			B&G Foods, Inc. B1 Stable		
	FYE Dec-16	FYE Dec-17	LTM Jun-18	FYE Dec-16	FYE Dec-17	LTM Jun-18	FYE Dec-16	FYE Dec-17	LTM Jun-18	FYE Dec-16	FYE Dec-17	LTM Jun-18
Revenue	\$136	\$255	\$217	\$462	\$479	\$478	\$955	\$1,054	\$1,110	\$1,391	\$1,668	\$1,714
EBITDA	\$20	\$48	\$51	\$86	\$74	\$68	\$83	\$71	\$72	\$331	\$345	\$338
Total Debt	\$266	\$200	\$242	\$343	\$396	\$394	\$303	\$426	\$407	\$1,792	\$2,323	\$2,173
Cash & Cash Equiv.	\$7	\$3	\$3	\$29	\$28	\$21	\$18	\$5	\$4	\$29	\$207	\$63
EBITDA Margin	14.8%	18.9%	23.5%	18.7%	15.5%	14.2%	8.7%	6.7%	6.5%	23.8%	20.7%	19.7%
EBITA / Int. Exp.	0.0x	1.8x	1.7x	2.6x	1.6x	1.3x	4.3x	3.1x	2.6x	3.9x	3.2x	2.7x
CFO / Net Debt	-6.3%	40.8%	4.2%	16.5%	14.0%	22.1%	29.6%	-4.1%	4.2%	16.9%	2.4%	6.4%
Debt / EBITDA	13.2x	4.2x	4.8x	4.0x	5.2x	6.0x	3.6x	6.0x	5.7x	5.4x	6.7x	6.4x
Total Debt/Capital	51.0%	42.8%	46.0%	69.0%	71.2%	73.6%	53.5%	59.5%	57.9%	62.6%	68.4%	67.7%

All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.

Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted debt breakdown

Pesquera Exalmar S.A.A.

(in US Millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	LTM Ending Jun-18
As Reported Debt	255.7	246.3	231.0	263.9	198.4	240.1
Operating Leases	8.8	10.0	2.4	1.9	1.9	1.9
Moody's-Adjusted Debt	264.4	256.3	233.4	265.8	200.4	242.0

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted EBITDA breakdown

Pesquera Exalmar S.A.A.

(in US Millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	LTM Ending Jun-18
As Reported EBITDA	30.2	54.3	30.5	19.4	40.2	42.8
Operating Leases	2.9	3.3	0.8	0.6	0.6	0.6
Unusual	3.0	2.4	4.5	0.1	7.2	7.4
Moody's-Adjusted EBITDA	36.1	60.0	35.8	20.1	48.0	50.8

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

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