

CREDIT OPINION

29 September 2020

Update

✓ Rate this Research

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

Summary

[Pesquera Exalmar S.A.A.](#)'s (Exalmar) credit profile primarily incorporates the company's vulnerability to climatic conditions and fishing quota regulations; pronounced cash flow seasonality; and limited operating scale and modest business diversification compared with those of its regional peers, as well as other seafood and protein industry companies. In turn, it also reflects the company's exposure to volatile volume and price trends of the global fishmeal and fish oil markets. These credit negatives are, to some extent, offset by Exalmar's position as the third-largest fishmeal producer in [Peru](#) (A3 stable), the world's leading fishmeal producing nation; its 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
- » Successful operations through fishing cycles

Credit challenges

- » Small scale compared with that of its peers
- » Limited raw material and product diversification
- » Cash flow sensitive to the availability of biomass from weather conditions and quota levels

Rating outlook

The stable rating outlook reflects our expectation for the next 12-18 months 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 cancelation 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 the strain on operations because of adverse weather conditions.
- » the company to be able 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 free cash flow (FCF) with significant additional external funding needs, for example, because of the impact of quota cancelations or an abrupt deterioration in global fishmeal demand or anchovy supply.
- » An increase in adjusted debt/EBITDA over 7.0x for a prolonged period, with no expectation of a reduction in the medium term.

Key indicators

Exhibit 1

Pesquera Exalmar S.A.A.

US Millions	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	LTM (Jun-20)	2020-proj.	2021-proj.
Revenue	156.2	136.1	254.6	240.7	266.1	212.7	258.0	263.0
Debt / EBITDA	6.5x	13.2x	4.3x	3.1x	4.6x	6.5x	4.3x	3.7x
CFO / Debt	4.5%	-6.1%	40.0%	-2.1%	9.5%	5.0%	3.1%	18.2%
Debt / Book Capitalization	48.3%	51.0%	42.8%	46.0%	47.3%	50.4%	51.4%	46.4%
EBITA / Interest Expense	0.9x	0.0x	1.5x	3.3x	1.8x	1.2x	2.2x	2.7x

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.

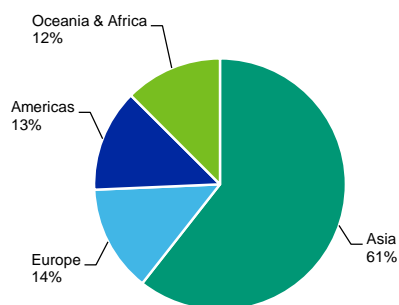
Source: Moody's Financial Metrics™

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. In addition, Exalmar 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 central 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 that ended June 30, 2020, the company reported revenue of \$213 million.

Exhibit 2

Revenue by region

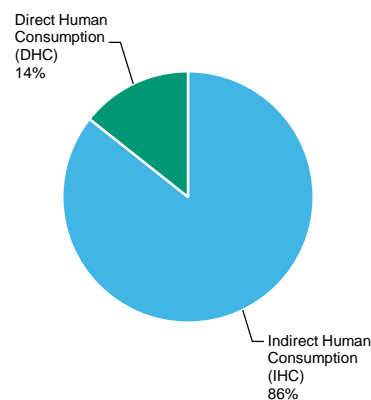


First six months of 2020.

Source: Company's earnings release

Exhibit 3

Revenue by segment



First six months of 2020.

Source: Company's earnings release

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Detailed credit considerations

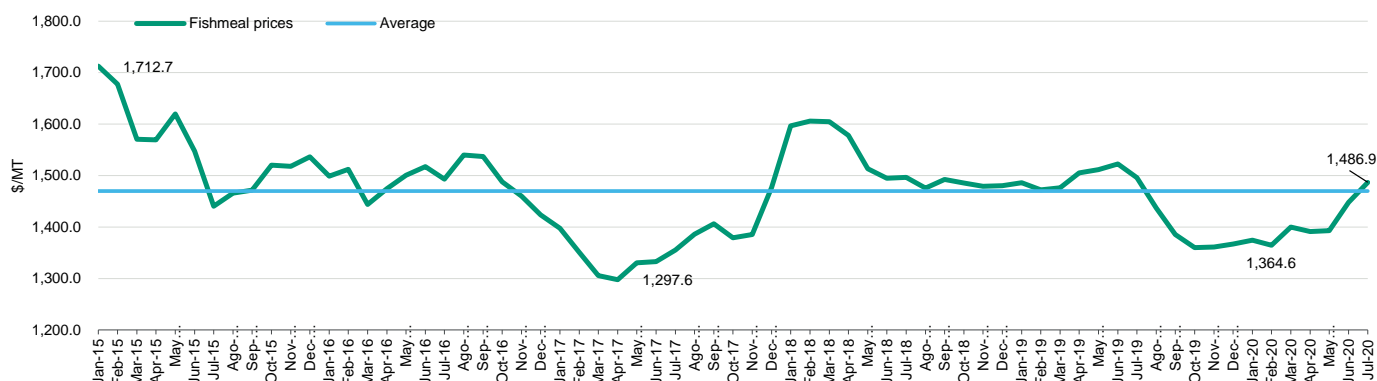
Small scale, and limited product and raw material diversification

Exalmar's 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 had 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 (61%), where China is the main market for Exalmar, followed by the Americas (13%), Europe (14%), and Oceania and Africa (12%). As the food industry is fairly defensive against economic cycles, we expect Exalmar's revenue to not be significantly affected by the slowing economic growth because of the coronavirus pandemic. With the exception of China, economic activity in every G-20 economy will likely fall this year, according to our estimates. We forecast China's real GDP to grow 1.9% in 2020 and 7% in 2021. Fishmeal prices declined to \$1,364 per metric ton (MT) in February 2020 from an average of \$1,439/MT; however, prices have been growing since then, reaching \$1,486/MT by July 2020.

Exhibit 4

Fishmeal prices



Source: Worldbank

Volume and cash flow sensitive to regulations 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 the effects of El Niño or La Niña. The most severe effect was seen in 2014, when the second fishing season was canceled entirely. The recovery of biomass and weather pattern stability since mid-2016 have resulted in more stable fishing quotas (above 2 million MT) and fishmeal prices averaging \$1,397/MT over the 12 months that ended June 30, 2020. In 2020, the quota of the first fishing season was set at 2.41 million MT.

Exhibit 5

Historical quota per fishing season



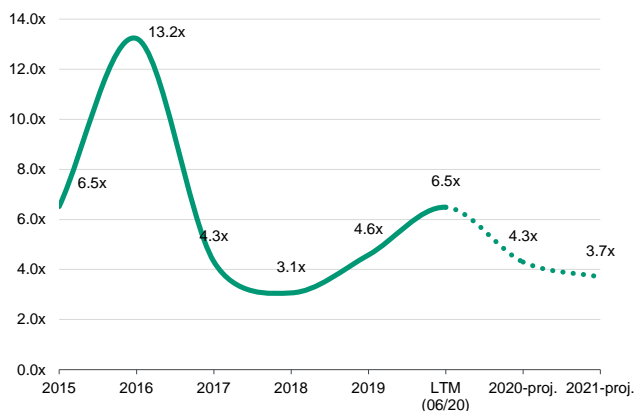
Source: PRODUCE

Fishing quotas are likely to remain stable as Peru's Comisión del Estudio del Fenómeno del Niño (ENFEN) assigns a 64% likelihood of having stable seawater temperature conditions in the next fishing season occurring during the Peruvian summer (December 2020 to March 2021), a 0% probability of a moderate-to-extraordinary El Niño and a 1% probability of a moderate-to-strong La Niña, implying a more stable operating environment for Exalmar and other Peruvian fishing companies. The next couple of fishing seasons will allow fishing companies in Peru to catch around 2.0 million-2.5 million MT per season, given the more stable environment.

In early August, Exalmar announced that it reached 100% catch of its own quota in the first season of 2020 with the highest processing participation in the industry in the company's history of 18%, which compares with the 14.9% obtained in the first season of the previous year. Exalmar produced 102,000 MT, which represents a 47% increase compared with the second quarter of 2019. As of June 30, 2020, revenue declined by 37% as a result of lower processing volumes in the second fishing season of 2019 because of its early cancelation, as well as a late start to the first fishing season of 2020. However, processed volumes were 5% higher than those in Q2 2019. We expect Exalmar's adjusted debt/EBITDA will decrease to around 4.3x by year-end 2020 from 6.5x as of June 30, 2020.

Exhibit 6

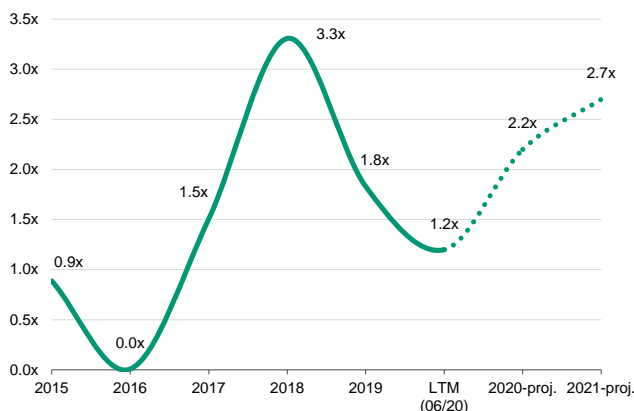
Leverage will remain at around 4.0x in 2020-21
Debt/EBITDA



Figures as adjusted by Moody's.
Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Exhibit 7

Interest coverage to rebound in the next 12-18 months
EBITDA/interest expense



Figures as adjusted by Moody's.
Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Environmental, social and governance considerations

Environmental

We consider environmental risks to be significant to the overall credit profile of companies within the protein and agriculture sector. The overall exposure is moderate. We incorporate risks of direct environmental hazards — the impact of pollution, water shortage, climate change and natural or man-made disasters — and we may consider such aspects as liabilities, cleanup costs, capital costs and carbon regulations to prevent or remediate these risks. Companies in the sector are often a direct source of air pollution or carbon emissions and are subject to soil, water and land-use restrictions. Water availability, stewardship and sustainability are a key focus area of these companies. In addition, the sector is highly exposed to physical risks from natural and man-made hazards, which could lead to crop or raw material destruction that could disrupt production or cause temporary transportation and delivery issues.

Exalmar is committed to environmental conservation and protection, as well as the preservation of marine resources for the benefit of the communities where it is developing its operations. Exalmar uses eco-friendly technologies and is constantly searching for opportunities to reduce environmental impacts. In addition, Exalmar has responsible processes' certifications and ISO 14001:2004 for its indirect human consumption plants, among other good practices.

Social

The protein and agriculture sector is moderately exposed to social risks. Rising consumer concerns about health and wellness, animal welfare, sustainable farming practices and labor conditions can cause demand shifts for broad food categories. These demand shifts can sometimes be dramatic in the case of animal protein products, which are prone to episodes of contamination and disease. Social awareness/consumer trends are driving sector changes more than regulations, which is seen as lagging consumer activism. Companies that are able to adapt through improving products and practices can often create opportunities for differentiation, premiumization and market share gains. Social risks such as poor worker conditions can lead to higher costs because of employee turnover, work stoppages or labor shortages. We also take into consideration the potential for costly settlements, fines and higher insurance premiums resulting from substandard worker health and safety practices or products and services perceived to create harm. We also take into consideration how social risks could damage a company's reputation, which can lead to shifts in consumer preferences or boycotts.

For Exalmar, social responsibility is a fundamental issue involving the whole company and not just a single area. Exalmar promotes a social transformation, boosting the growth of shipowners and artisan fishermen while generating trust and developing relationships in the areas where it operates.

Governance

Exalmar is committed to the adoption of corporate governance practices, protecting the rights of investors and other stakeholders. The company has a board of directors comprised of seven members with ample knowledge and experience in the industry. In addition, it has six board committees to assess corporate governance, audit, designations, remunerations, risks and finance. Exalmar has to comply with local (Superintendencia de Valores del Peru) regulations in terms of compliance and reporting.

Liquidity analysis

Exalmar's liquidity is affected 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.

Exalmar reported cash on hand of \$9 million as of June 30, 2020, which can cover only 6.4% 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 take into account cash on hand, inventory and receivables, they cover 1.4x its short-term debt as of June 2020.

Methodology and scorecard

Exhibit 8

Rating factors

Pesquera Exalmar S.A.A.

Protein and Agriculture Industry Scorecard			Current LTM 6/30/2020		Moody's 12-18 Month Forward View As of Sep-2020	
Factor 1 : Scale (10%)	Measure	Score	Measure	Score	Measure	Score
a) Total Sales (USD Billion)	\$0.3	Ca	\$0.3	Caa	\$0.3	Caa
Factor 2 : Business Profile (35%)						
a) Geographic Diversification	B	B	B	B	B	B
b) Segment Diversification	Caa	Caa	Caa	Caa	Caa	Caa
c) Market Share	B	B	B	B	B	B
d) Product Portfolio Profile	B	B	B	B	B	B
e) Earnings Stability	Ba	Ba	Ba	Ba	Ba	Ba
Factor 3 : Leverage & Coverage (40%)						
a) Debt / EBITDA	6.5x	Caa	3.7x	B	3.7x	B
b) CFO / Debt	5.0%	Caa	18.2%	Caa	18.2%	Caa
c) Debt / Book Capitalization	50.4%	Ba	46.4%	Ba	46.4%	Ba
d) EBITA / Interest Expense	1.2x	B	2.7x	B	2.7x	B
Factor 4 : Financial Policy (15%)						
a) Financial Policy	B	B	B	B	B	B
Rating:						
a) Scorecard-Indicated Outcome		B3				B2
b) Actual Rating Assigned						B3

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Source: Moody's Financial Metrics™

Ratings

Exhibit 9

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

Source: Moody's Investors Service

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