

CREDIT OPINION

20 September 2019

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.

Contacts

Alonso Sanchez +52.55.1253.5706
 VP-Senior Analyst
alonso.sanchezrosario@moodys.com

Marianna Waltz, CFA +55.11.3043.7309
 MD-Corporate Finance
marianna.waltz@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Pesquera Exalmar S.A.A.

Update to credit analysis

Summary

[Pesquera Exalmar S.A.A.](#)'s (Exalmar) B3 ratings primarily incorporate the company's (1) vulnerability to climatic conditions and fishing quota regulations; (2) pronounced cash flow seasonality; and (3) limited operating scale and modest business diversification compared with those of its 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 business.

Credit strengths

- » Third-largest Peruvian producer of fishmeal and fish oil
- » Successful operation through fishing cycles

Credit challenges

- » Small scale relative to 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 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 free cash flow (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 a reduction in the medium term, could also lead to a downgrade.

Key indicators

Exhibit 1

Pesquera Exalmar S.A.A.

US Millions	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	LTM (Jun-19)	2019-proj.	2020-proj.
Revenue	\$221	\$156	\$136	\$255	\$241	\$265	\$270	\$252
Debt / EBITDA	4.3x	6.5x	13.2x	4.3x	3.1x	3.8x	4.6x	4.5x
CFO / Debt	27.8%	4.5%	-6.1%	40.0%	-2.1%	5.5%	22.1%	13.1%
Debt / Book Capitalization	52.3%	48.3%	51.0%	42.8%	46.0%	49.3%	51.1%	48.7%
EBITA / Interest Expense	2.2x	0.9x	0.0x	1.5x	3.3x	2.8x	2.1x	2.4x

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.

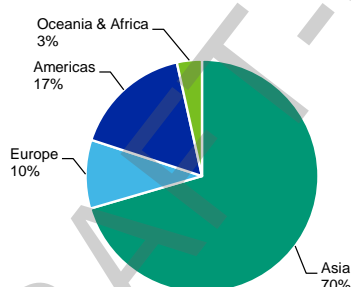
Source: Moody's Financial Metrics™

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 ended June 30, 2019, the company reported revenue of \$265 million.

Exhibit 2

Revenue by region

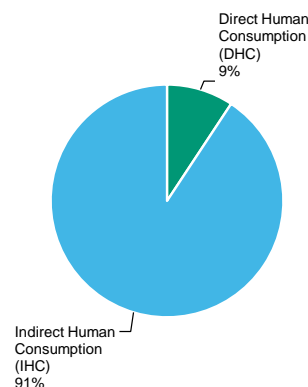


First six months of 2019.

Source: Company's earnings release

Exhibit 3

Revenue by segment



First six months of 2019.

Source: Company's earnings release

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

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.

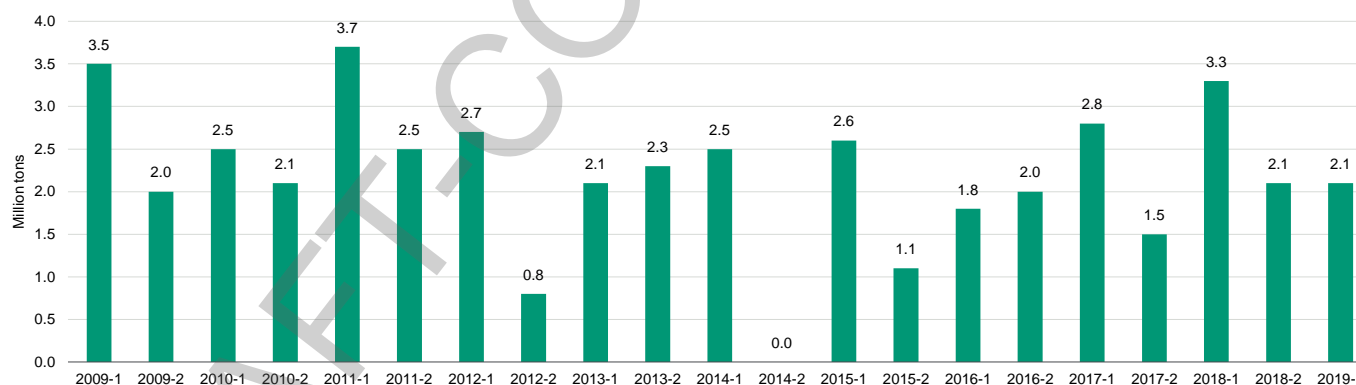
Exalmar's narrow product focus and geographic sourcing concentration are partially offset by its sales diversification, given that it exports most of its production. Most of the revenue comes from Asia (74%), where China is the main market for Exalmar, followed by the Americas (22%), Europe (3%), and 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 the slowing economic growth in China. We forecast China's real GDP to grow 6.2% in 2019 and 5.8% in 2020. Nonetheless, the decline in China's pig population because of the African swine fever has led to a temporary contraction in fishmeal demand hurting fishmeal prices. Fishmeal prices declined to \$1,439 per metric ton (MT) in August 2019, down from \$1,522/MT in June 2019.

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 cancelled entirely. The recovery of biomass and weather pattern stability since mid-2016 resulted in more stable fishing quotas (above two million MT) and fishmeal prices averaging \$1,488/MT over the 12 months ended June 30, 2019. In 2019, the quota of the first fishing season was set at 2.1 million metric tons, in line with that of the last fishing season of 2018.

Exhibit 4

Historical quota per fishing season



Source: PRODUCE

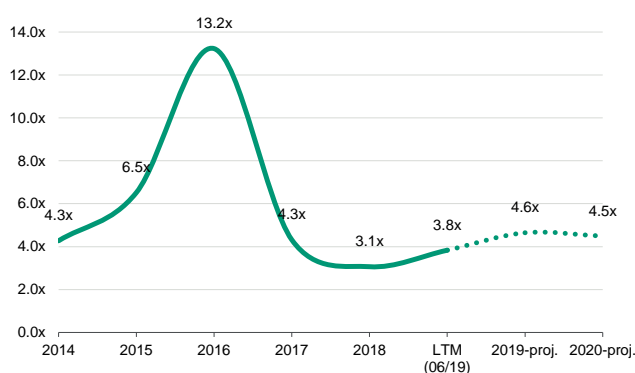
Fishing quotas should remain stable as Peru's Comisión del Estudio del Fenómeno del Niño (ENFEN) assigns a 64% likelihood of having stable seawater temperature conditions in the next fishing season occurring during the Peruvian summer (December 2019 to March 2020), a 1% probability of a moderate-to-extraordinary El Niño and a 1% 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 2.0–2.5 million metric tons per season, given the more stable environment.

Lower fishmeal prices will hurt Exalmar's profitability in 2019. We estimate that Exalmar's EBITDA margin will be around 22%–25% in 2019–20 compared with 35% in 2018. As a result, Exalmar's adjusted debt/EBITDA will increase to around 4.5x by year-end 2019, up from 3.1x as of December 31, 2018.

Exhibit 5

Leverage will remain at around 4.5x in 2019-20

Debt/EBITDA



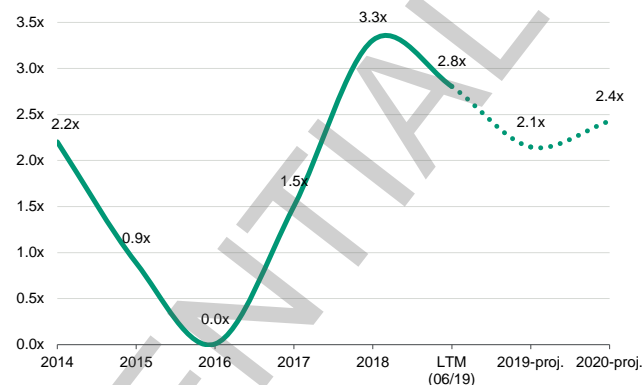
Figures as adjusted by Moody's.

Sources: Moody's Financial Metrics™, Moody's Investors Services estimates

Exhibit 6

Interest coverage to rebound close to 2.5x in 2020

EBITDA/interest expense



Figures as adjusted by Moody's.

Sources: Moody's Financial Metrics™, Moody's Investors Services estimates

Environmental, social and governance considerations

Environmental

We consider environmental risks to be material 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 impacts of pollution, water shortage, climate change and natural or human-caused 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/land-use restrictions. Water availability/stewardship/sustainability is 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/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. Exalmar uses eco-friendly technologies and maintains a constant search for opportunities to reduce environmental impacts. In addition, Exalmar has responsible processes' certifications and ISO 14001: 2004 for 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 may also consider 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 may also consider 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 only a particular area. Exalmar promotes an authentic social transformation, boosting the growth of shipowners and artisan fishermen while generating trust and development relationships in the areas where it operates.

Governance

Exalmar is committed to the adoption of practices of corporate governance, protecting the rights of investors and other stakeholders. The company has a board of directors comprising seven members with ample knowledge and experience in the industry. In addition, it has seven board committees to assess corporate governance, audit, designation and 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 \$4.5 million as of 30 June 2019, which can cover only 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 1.3x its short-term debt as of June 2019. Without any major weather event that could affect cash generation, we estimate that Exalmar will post on average free cash flow (FCF) - defined as cash from operations minus dividends minus capital spending - of \$10 million-\$12 million per year in 2019-21. FCF will benefit in 2020 and beyond from lower capital spending as the company completes some improvements to its plants in 2019.

Rating methodology and scorecard factors

Exhibit 7

Rating factors

Pesquera Exalmar S.A.A.

Methodology: Protein and Agriculture published on 30 Jun 2019

Current LTM (Jun-19)

	Measure	Score
Factor 1: SCALE (10%)		
a) Total Sales (USD Billion)	\$0	Caa
Factor 2: BUSINESS PROFILE (35%)		
a) Geographic Diversification	B	B
b) Segment Diversification	Caa	Caa
c) Market Share	B	B
d) Product Portfolio Profile	B	B
e) Earnings Stability	Ba	Ba
Factor 3: LEVERAGE & COVERAGE (40%)		
a) Debt / EBITDA	3.83x	Ba
b) CFO / Debt	5.5%	Caa
c) Debt / Book Capitalization	49.3%	Ba
d) EBITA / Interest Expense	2.80x	B
Factor 4: FINANCIAL POLICY (15%)		
a) Financial Policy	B	B
Rating Outcome:		
a) Scorecard-Indicated Outcome	B2	
b) Actual Rating Assigned		

Moody's Forward View Next 12-18 months (as of Sep-19)

	Measure	Score
	\$0	Caa
	B	B
	Caa	Caa
	B	B
	B	B
	Ba	Ba
	4.49x	B
	13.1%	B
	48.7%	Ba
	2.43x	B
	B	B
	B2	
	B3	

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™

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

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1194250

Contacts

Dora Serrano +52.55.1555.5314
Associate Analyst
dora.serrano@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454