Research Update:

Exalmar Outlook Revised To Stable From Negative On Strong Results, 'CCC+' Ratings Affirmed On Still Tight Liquidity

August 5, 2021

Rating Action Overview

- Peru-based fishing company Pesquera Exalmar S.A.A. (Exalmar) posted stronger operating and financial results during the last 12 months, including sales and EBITDA of $415 million and $119 million, respectively. Therefore, we revised our 2021 revenue and EBITDA expectations upwards because of higher effective catch and demand for fishing products in 2021.
- Even though Exalmar recently refinanced its 2019 syndicated loan and repaid 97% of its outstanding 2025 senior unsecured notes through a new $148 million syndicated loan, the company still has tight liquidity given its sizeable short-term debt maturities relative to its cash sources for the next 12 months.
- On Aug. 5, 2021, S&P Global Ratings revised its outlook on Exalmar to stable from negative. We also affirmed our 'CCC+' issuer credit and issue-level ratings on the company.
- The stable outlook on Exalmar reflects our view that it will deliver solid operating and financial performance and cash flows in the next 12 months thanks to favorable fishing and pricing conditions. This should allow the company to continue to roll over its sizeable short-term debt maturities.

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Rating Action Rationale

We expect Exalmar to deliver strong results in 2021 amid favorable fishing conditions. During the last 12 months ended June 2021, Exalmar reported record-high sales and EBITDA of $415 million and $119 million, respectively. This was mostly due to higher fishing quotas and effective catch during the second fishing season of 2020 (a 89.5% catch of the approved quota) and the first season of 2021 (about 98.1%), which allowed for higher processing volumes. The company also benefits from a stable market demand, allowing to maintain stable fishmeal and fish oil prices, despite the high quotas. We have revised our 2021 forecast upward, reflecting healthy fishing conditions, solid demand for fishing products, and favorable prices conditions. Therefore, we expect Exalmar's revenue and EBITDA to be slightly above $400 million and $100 million, respectively, sharply up from 2020 levels of $272 million and $67.5 million, respectively. This will allow the company to deleverage rapidly with gross debt to EBITDA dropping to slightly below 3.0x by the end of 2021 from 4.1x in 2020.

Exalmar rolled over its short-term debt and refinanced its long-term debt evidenced its access to banks. In the past 12 months, Exalmar rolled over and increased its short-term credit facilities for working capital purposes, pointing to ongoing support from banks. In addition, the company recently signed a new syndicated loan for $148 million, proceeds of which Exalmar used to refinance its outstanding 2019 syndicated loan ($86 million) and to repay 97% of its outstanding 2025 senior unsecured notes ($60.2 million). As a result, the company has improved its debt maturity profile, and reduced its syndicated loan amortizations for the next few years and financing costs.

However, Exalmar's liquidity will remain tight in the next 12 months due to sizeable short-term debt maturities. Although Exalmar has a long track record of sound relationships with local banks and healthy access to working capital funding, our liquidity assessment of the company's cash sources doesn't incorporate refinancing assumptions, per our criteria. Instead, we only consider monetary flows that provide a liquidity cushion with a high degree of certainty, including existing cash reserves and cash flow streams in our base-case scenario.

In our view, Exalmar still faces an important liquidity shortfall relative to its short-term needs, which include sizeable debt maturities, working capital requirements and capital expenditure. As of June 30, 2021, Exalmar posted about $147.3 million in short-term debt, which includes bank debt secured by fishmeal inventory (72%), unsecured bank loans, and about $15 million of amortization related to its new syndicated loan. This figure is significantly larger than the company's cash balance of $20.7 million at the end of June, and our expected funds from operations (FFO) of about $85 million in the next 12 months. Moreover, Exalmar doesn't have any committed revolving credit facility available (as it used to have in recent years) to provide a liquidity cushion. As a result, this significant amount of short-term debt continues to constrain the company's ratings and expose Exalmar to constant refinancing risks.

Exalmar's cash flows remain exposed to risks stemming from the inherent cyclicality of Peru's fishing industry. As seen in recent years, the company's results remain vulnerable to the inherent cyclicality of the Peruvian fishing industry, given volatile fishing quotas and catches. Therefore, Exalmar has become increasingly dependent on external funding to refinance its short-term debt maturities. As a result, we believe Exalmar depends on favorable business and financial conditions, as well as on debt refinancing to meet its financial obligations.

Outlook

The stable outlook on Exalmar reflects our view that it will deliver solid operating and financial performance and cash flows in the next 12 months thanks to favorable fishing and pricing conditions. This should allow the company to continue to roll over its sizeable short-term debt maturities.

Downside scenario

We could revise our outlook to negative or lower our ratings on Exalmar if its revenue, EBITDA, and cash flows are likely to be weaker than our base-case assumptions, increasing refinancing risk, or if a default or debt restructuring could become likely in the next 12 months.

Upside scenario

We could revise our outlook to positive or raise our ratings on Exalmar if it significantly improves its liquidity in the next 12 months. This could occur if Exalmar's liquidity sources over uses are consistently above or about 1.0x in a 12-month period, either due to higher cash reserves and FFO or lower short-term debt.

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 of processing hydro-biological products for human consumption.

Our Base-Case Scenario

Assumptions

- China's GDP growth of 8.3% in 2021 and 5.1% in 2022.
- Peru's GDP to grow 11% in 2021 and 3.5% in 2022.
- Exalmar's exports to China to continue representing more than 60% of total revenue.
- Current biomass reports suggest upcoming global fishing quotas of about 4.5 million - 5.0 million tons per year (the north-center quota related to the first fishing season of 2021 was 2.5 million tons).
- About 99% of fishing catch for the 2021 and 2022 seasons.
- Exalmar's market share of Peru's total quota, through its own quota and third-party purchases, of about 17%-18% in 2021 and 2022.
- Fishmeal volume sales of about 200,000 metric tons (MT) in 2021 and about 217,000 MT in 2022. Fish oil volumes of about 34,000 MT in 2021 and 35,000 MT in 2022.
- Average fishmeal price of about $1,500 per ton in 2021 and 2022. Average fish oil price about $2,000 per ton in 2021 and 2022.
- Revenues of slightly above $400 million in 2021 and 2022;
- Capital expenditures (capex) of about $18 million in 2021 and 2022.
- Dividend payments in 2021 of about $15 million, although the company has the flexibility to cut them if necessary. And no dividend payments for 2022.

Key metrics

Based on these assumptions, we arrive at the following credit metrics for 2021 and 2022:

- EBITDA margins of about 25%;
- Gross debt to EBITDA of slightly below 3.0x; and
- EBITDA interest coverage close to 7.0x in 2021 and 8.5x in 2022.

Liquidity

We continue to assess Exalmar's liquidity as weak, because we expect a substantial cash sources deficit to cover liquidity uses for the next 12 months. Our liquidity analysis also includes qualitative factors such as our view that unforeseen volatile market conditions could crimp the company's access to capital or limit its ability to refinance short-term debt.

Principal Liquidity Sources:

- Cash and cash equivalents of $20.7 million as of June 2021; and
- Expected FFO of about $85 million for the next 12 months.

Principal Liquidity Uses:

- Short-term debt maturities of $147.3 million as of June 2021;
- Working capital outflows of about $28 million for the next 12 months;
- Capex of about $18 million for the next 12 months; and
- A dividend payment of about $7.5 million for the next 12 months.

Covenants

Under its new $148 million syndicated loan agreement due 2026, Exalmar is subject to several financial maintenance covenants, including:

- Maximum leverage ratio (total liabilities to net worth) of 1.5x;
- Minimum total debt service (EBITDA to total debt service) of 1.2x; and
- Maximum debt to EBITDA ratio of 3.5x (under this calculation, Exalmar excludes short-term debt warranted with inventories of up to a maximum amount of $90 million).

As of June 30, 2021, Exalmar was in compliance with its financial covenants, and we expect it to do so with sufficient headroom. Moreover, under its $1.8 million outstanding senior unsecured notes due 2025, Exalmar is subject to a maximum debt to EBITDA of 3.5x financial incurrence covenant if it were to seek to incur additional debt. Our base-case scenario assumes that the company will continue complying with this covenant.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of June 30, 2021, Exalmar's capital structure mainly consisted of the recently signed $148 million syndicated loan, about $1.8 million in outstanding senior unsecured notes due 2025, and about $132 million of short-term bank loans related to working capital financings.

Analytical conclusions

Although the $148 million syndicated loan is secured with two production plants and vessels, we believe that the existing $1.8 million outstanding senior unsecured notes due 2025 are not materially subordinated to the syndicated loan and other banking lines warranted with inventories. This is because the company has other production plants that are still available in case of any event of default to cover the outstanding amount on the notes, mitigating, in our view, any potential subordination risk. Therefore, we rate Exalmar's senior unsecured notes due 2025 at 'CCC+', the same level as the issuer credit rating.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Pesquera Exalmar’s Planned Cash Tender Offer Will Support Proactive Liability Management And Reduce Funding Costs , May 24, 2021

Ratings List

Ratings Affirmed		
Pesquera Exalmar S.A.A.		
Senior Unsecured	CCC+	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Pesquera Exalmar S.A.A.		
Issuer Credit Rating	CCC+/Stable/--	CCC+/Negative/--