

Rating Action: Moody's affirms Exalmar B3 ratings. The outlook is stable

31 Aug 2021

New York, August 31, 2021 -- Moody's Investors Service ("Moody's") affirmed today Pesquera Exalmar S.A.A.'s ("Exalmar") B3 senior unsecured and corporate family ratings. The outlook is stable.

Affirmations:

..Issuer: Pesquera Exalmar S.A.A.

... Corporate Family Rating, Affirmed B3

...Senior Unsecured Regular Bond/Debenture, Affirmed B3

Outlook Actions:

..Issuer: Pesquera Exalmar S.A.A.

...Outlook, Remains Stable

RATINGS RATIONALE

Exalmar's B3 ratings 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 negative), 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.

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 prior to each fishing season by PRODUCE, the Peruvian Ministry of Production. Anchovy catch levels vary because of changing climatic conditions, in particular by the El Niño or La Niña effects. The first fishing season of 2021 was set at 2.5 million metric tons; in line with the fishing quota average of the previous four fishing seasons.

According to the most recent report from Peru's federal climate agency ENFEN, it estimates a 67% likelihood of seawater conditions and temperatures remaining "neutral" in Peru until March 2022, a 15% probability of a weak-moderate El Niño, and an 18% probability of a weak La Niña, implying a 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 at least 2 million metric tons per season given this stable environment.

In 2021, the company's credit metrics have improved driven by higher volumes processed in the last two fishing seasons combined with relatively high fishmeal prices resulting in increased EBITDA. Exalmar's adj. debt/EBITDA was 2.6x as of June 2021 with a Moody's adjusted EBITDA margin of 27% over the twelve months ended June 2021. Absent severe weather conditions, we estimate adj. debt/EBITDA to remain below 2.0x by year-end 2023.

Exalmar's liquidity is negatively affected by cash flow seasonality caused by the working capital build-up 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 \$21 million as of June 30, 2021 that can cover only 14% short-term debt. However, short-term debt is comprised by working capital related debt that is secured by inventory and receivables. As a result, the company's cash on hand, inventory and receivables provide a 1.4x coverage of its short-term debt as of June 30, 2021.

The stable rating outlook reflects our expectation for the next 12-18 months that Exalmar's profitability and credit metrics will remain adequate 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 OR DOWNGRADE OF THE RATINGS

An upgrade will require an improvement in the company's size and liquidity buffer to withstand the strain on operations because of adverse weather conditions. To be considered for an upgrade, the company needs to be able to generate positive cash flow while maintaining robust credit metrics on a sustained basis, with adjusted debt/EBITDA below 4.0x.

A downgrade could be triggered by a prolonged period of negative free cash flow 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 could also lead to a downgrade.

The principal methodology used in these ratings was Protein and Agriculture published in May 2019 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1113389. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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 twelve months ended June 30, 2021, the company reported revenues of \$415 million.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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