

Global Credit Research - 30 Jan 2015

Peru

### Ratings

Category	Moody's Rating
Outlook	Stable
Corporate Family Rating	B2
Senior Unsecured	B2

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### Key Indicators

[1][2]Pesquera Exalmar S.A.A.	9/30/2014(L)	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Total Sales (USD Billion)	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2
CFO / Net Debt	6.6%	-12.8%	21.1%	15.4%	134.1%
Debt / EBITDA	4.4x	6.8x	3.6x	2.2x	1.3x
EBITA / Interest Expense	1.9x	1.0x	4.4x	8.6x	4.1x
Debt / Book Capitalization	53.4%	55.4%	43.6%	35.6%	19.5%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics [2] As of 9/30/2014(L); Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

### Opinion

#### Rating Drivers

- One of the largest Peruvian producers of fishmeal and fish oil
- Small scale relative to regional peers and limited product and raw material diversification
- Cash flow sensitive to regulation, climatic conditions and biomass location, as well as fishing quota levels that affect fishmeal and fish oil prices
- Potential to diversify its revenue stream by growing its direct human consumption business

#### Corporate Profile

Founded in 1992, Pesquera Exalmar, S.A.A. (Exalmar) is a Peruvian fishing company which produces fishmeal

and fish oil used for indirect human consumption. In addition, Exalmar also sells fresh and frozen fish (mackerel, horse mackerel, giant squid, and mahi-mahi) for direct human consumption. Exalmar's sales of fresh and frozen fish for direct human consumption represented around 15% of total revenues in 2014. According to the company, the plan is to have the segment representing close to 25% of total revenues by 2017.

Exalmar has a 6.45% assigned quota in the north-center of Peru and the ability to process third-party catch, which increases its overall participation in the market. This positions the company as the 4th largest fishing player in Peru in terms of processed anchovy. Exalmar is vertically integrated and currently operates 22 vessels and six processing plants along the Peruvian coast.

Exalmar is majority owned (70.7%) and controlled by its founder, Victor Matta Curotto, and the 24.2% balance is publicly traded in the Lima stock exchange. For the twelve months ended September 30, 2014, the company reported revenues of USD216 million.

## **SUMMARY RATING RATIONALE**

Exalmar's B2 rating reflects the company's limited operating scale and modest business diversification compared to regional peers as well as other seafood and protein-industry companies; its exposure to volatile volume and price trends of the commoditized global fishmeal and fish oil market; the sensitivity of cash flows to climatic conditions and regulation; and a pronounced cash flow seasonality.

These credit negatives are to some extent offset by Exalmar's position as the fourth largest fishmeal producer in Peru, the world's leading fishmeal nation; a successful operating history in its current business configuration; the favorable earnings prospects resulting from improved efficiency under Peru's ITQ system; and the potential for revenue diversification that could come from its growing direct human consumption business.

## **DETAILED RATING 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 the aquaculture (fish farming) and hog and poultry farming industries in Asia (particularly China) 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 flows.

Exalmar's narrow product focus and geographic sourcing concentration is partially offset by its sales diversification, as it exports most of its production. The most important region is Asia with around 52% of its fishmeal sales volumes exported to China. As the food industry is fairly defensive against the economic cycles we would expect that Exalmar's revenues will not be materially affected by slowing GDP growth in China as its products are employed as feed for animals that are ultimately used for human consumption, which will still experience growing demand. Moody's Macroeconomic Board forecast of China's real GDP growth is to remain at 6.5%-7.5% in 2015 and 6.0%-7.0% in 2016.

### **VOLUMES AND CASH FLOW SENSITIVE TO REGULATION, CLIMATIC CONDITIONS AND BIOMASS MIGRATION**

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 (MoP). Anchovy catch levels vary because of changing climatic conditions, in particular the El Niño effect, and unfavorable biomass migrations to locations outside the reach of processing facilities.

In 2014 a modest El Niño affected the Peruvian waters diminishing anchovy availability. As a result, the MoP canceled the 2nd fishing season of 2014 due to the high presence of juveniles in the anchovy biomass in the center-north fishing regions of Peru. While this strategy should be successful to preserve biomass, it will have a negative impact on the financial results of the companies in the sector; in particular during the first quarter of 2015. Since November 2014 a gradual normalization of sea temperature (decline in temperature from mild warm to neutral) has taken place, which favors the recovery of anchovy biomass.

As Peru is the largest exporter of fishmeal, producing about 30% of worldwide supply, the suspension of the last fishing season led to a rise in fishmeal prices to record levels close to USD2,400/ton. This sharp increase in prices will partly offset the decline in sales volumes; but the net effect will still be negative for the companies in the

sector.

Exalmar's credit metrics improved over the twelve months ended in September 2014. Exalmar's debt/EBITDA, as adjusted by Moody's, declined to 4.4 times as of September 30, 2014 (down from 7.1 times as of September 2013). Similarly, adj. EBITA/Interest expense increased to 1.9 times over the twelve months ended September 30, 2014 from 1.0 time during 2013.

We expect Exalmar's EBITDA to be affected negatively in the 1Q15 due to the cancelation of 2014's second fishing season which catch would have been sold in the first quarter of this year. To counterbalance this effect, the company has cut down its capex to USD15 million for this year (down from USD25 million in 2014), has implemented cost and expenses reduction programs, and covered its fixed costs until April 2015 with cash and available credit facilities.

#### POTENTIAL TO GROW IN THE DIRECT HUMAN CONSUMPTION BUSINESS

In 2010 the company began developing its direct human consumption business and invested USD40 million to build two new plants (Tambo de Mora and Paita) for frozen fish processing and to provide six of its vessels with refrigeration systems (RSW). As of today, the company finished this investment program and currently has an installed capacity of 683 MT/day in its DHC business.

Exalmar plans to benefit from the increasing importance of fish for direct human consumption industry, as according to the Food and Agriculture Organization over 75% of the global fish production is used for DHC. We note that, despite the growth potential of the human consumption fishing industry in Peru, the process of assigning quotas and monitoring biomass in this market is not as sophisticated as that used in the Peruvian anchovy fishing industry, or in many other fisheries around the world, which creates potential for uncertainty about fishing rights and biomass health going forward, possibly leading to revenue volatility.

Exalmar's DHC business could provide it with some revenue diversification as it could represent up to 25% of total revenues by 2017, according to the company. In addition it will allow the company to strengthen its competitive position against other larger Peruvian fishing companies which also have DHC businesses.

#### Liquidity

Exalmar's liquidity is 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 totaling USD190 million (82% unused). In addition, the company is currently negotiating a USD20 million 2-year committed credit facility that, if signed, will strengthen its liquidity profile. We note that 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 alternate source of liquidity.

Exalmar reported cash on hand of USD7.1 million as of September 30, 2014 that can cover 12% short-term debt totaling USD59 million. Short-term debt is mostly comprised by working capital related debt of USD50 million that is secured by inventory and receivables. The company has a conservative debt maturity profile with no major debt amortizations until 2020 when the USD200 million global notes are due.

#### Rating Outlook

The stable ratings outlook reflects Moody's expectation that Exalmar's operations will recover in 2015 after the cancelation of the 2nd fishing season in 2014 will impact its 1Q15 results.

#### What Could Change the Rating - Up

In the longer term, upward ratings pressure could emerge if the company is able to maintain positive cash flow generation while maintaining robust credit metrics and strong liquidity on a sustainable basis with debt/EBITDA below 2.5 times.

#### What Could Change the Rating - Down

A prolonged period of negative free cash flow generation with material additional external funding needs, for example because of an abrupt deterioration of global fishmeal demand or anchovy supply or because a debt financed quota acquisition could cause downward pressure on the ratings. An increase in adj. debt/EBITDA over 6 times for a prolonged period of time could also lead to a downgrade.

## Rating Factors

### Pesquera Exalmar S.A.A.

Protein and Agriculture Industry Grid [1][2]	Current LTM 9/30/2014	
<b>Factor 1 : SCALE &amp; DIVERSIFICATION (20%)</b>	<b>Measure</b>	<b>Score</b>
a) Total Sales (USD Billion)	\$0.2	Ca
b) Geographic Diversification	B	B
c) Segment Diversification	Caa	Caa
<b>Factor 2 : BUSINESS POSITION (25%)</b>		
a) Market Share	B	B
b) Product Portfolio Profile	B	B
c) Earnings Stability	Ba	Ba
<b>Factor 3 : FINANCIAL POLICY (15%)</b>		
a) Financial Policy	B	B
<b>Factor 4 : LEVERAGE &amp; COVERAGE (40%)</b>		
a) CFO / Net Debt	6.6%	Caa
b) Debt / EBITDA	4.4x	B
c) EBITA / Interest Expense	1.9x	B
d) Debt / Book Capitalization	53.4%	Ba
<b>Rating:</b>		
a) Indicated Rating from Grid		B2
b) Actual Rating Assigned		

[3]Moody's 12-18 Month Forward ViewAs of 1/28/2015	
<b>Measure</b>	<b>Score</b>
\$0.2	Ca
B	B
Caa	Caa
B	B
B	B
Ba	Ba
B	B
2%	Ca
5.5x	B
1.4x	B
59%	Ba
	B3
	B2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2014(L); Source: Moody's Financial Metrics [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.

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