



Rating Action: Moody's downgrades Volcan's ratings to B1; negative outlook

10 Mar 2020

New York, March 10, 2020 -- Moody's Investors Service ("Moody's") has today downgraded to B1 from Ba2 the corporate family rating of Volcan Compania Minera S.A.A. y Subsidiarias ("Volcan") and the rating of its senior unsecured notes due in February 2022. The outlook is negative.

Rating Actions:

..Issuer: Volcan Compania Minera S.A.A. y Subsidiarias

Corporate Family Rating, Downgraded to B1 from Ba2

Gtd Senior Unsecured Notes due 2022, Downgraded to B1 from Ba2

Outlook Action:

..Issuer: Volcan Compania Minera S.A.A. y Subsidiarias

Outlook, Changed to Negative from Stable

RATINGS RATIONALE

The downgrade to B1 reflects the weakening of Volcan's liquidity position, combined with the company's weaker profitability and financial profile at a time of heightened pressure on base metals prices. Volcan has a tight liquidity position, with a low cash balance of USD34 million at year-end 2019 and a high amount of debt maturing within the next 12 months (close to USD200 million at year-end 2019), while its free cash flow generation is currently limited. Volcan also has a USD535 million bond maturity in February 2022, which it will need to address in a timely manner. Under its latest macroeconomic outlook, and considering the effects of the coronavirus contagion, Moody's anticipates commodity prices to remain around current lows until the end of Q2 2020, recovering only gradually, which will continue to strain Volcan's earnings.

Moody's expects that Volcan will be addressing its weak liquidity over the coming quarters, through various measures, including potential asset sales and other transactions, and with a view to reduce its reliance on short-term debt. Moody's also expects that the company will address, with anticipation, the necessary liability management on its bond maturing in early 2022. The negative outlook nevertheless considers the continued pressure on Volcan's earnings in the coming quarters and potential for delays in the implementation of its plans which would further strain its liquidity and pressure its ratings.

Volcan's B1 ratings incorporate the company's competitive cost position, operational diversity in terms of metals produced and assets, and position as a leading producer of zinc globally, having some of the largest zinc reserves. Besides, Glencore plc (Glencore, Baa1 Stable) became a controlling shareholder of Volcan in November 2017, with positive implications for Volcan's strategy, operations, corporate governance standards and financial policies. However, Volcan's ratings are constrained by the company's modest scale (revenue of \$744 million in 2019) compared with that of its global peers and its concentration in one country, as well as its high earnings volatility because of its exposure to commodity prices and tight liquidity.

A stabilization of Volcan's outlook would require the company to materially improve its liquidity by reducing its short-term debt levels and addressing its large 2022 bond maturity. Volcan's ratings could be upgraded if it maintains its competitive cost position, and continues to invest for growth, achieving higher scale, while maintaining adequate liquidity. Quantitatively, an upgrade would also require an EBIT margin above 10% and a total adjusted debt/EBITDA below 3.5x on a sustained basis.

Volcan's ratings could be downgraded if it fails to materially improve its liquidity in the coming quarters, namely to reduce its short-term debt and to address its large 2022 bond maturity in a timely manner.

The principal methodology used in these ratings was Mining published in September 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Volcan is a Peruvian mining company which primarily produces zinc and lead concentrate and some copper concentrate, all with high silver content. The company operates through five operating units including seven mines, seven concentrator plants and one leaching plant for silver oxide production. All of Volcan's operations are located in Peru and, in 2019, it reported revenue of USD744 million. Volcan is a holding company listed on the stock exchanges of Lima, Santiago and Madrid (Latibex). Since November 2017, Glencore has a controlling stake of 55% in Volcan's Class A voting shares, which is equivalent to a 23.3% economic interest in Volcan.

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