



Rating Action: Moody's downgrades Volcan's ratings to Caa3; outlook remains negative

26 Jan 2024

New York, January 26, 2024 – Moody's Investors Service (Moody's) has downgraded today Volcan Compania Minera S.A.A. y Subsidiarias ("Volcan")'s Corporate Family Rating ("CFR") and Senior Unsecured ratings to Caa3 from Caa1. The outlook remains negative.

RATINGS RATIONALE

The downgrade of Volcan's ratings reflects the increasing refinancing risk and risk of debt restructuring over the next few months given the lack of meaningful progress improving liquidity to refinance its upcoming debt maturities. The rating action also reflects limited financial flexibility over the next few quarters.

The negative outlook reflects uncertainty around the Volcan's ability to address its near-term debt maturities given its limited financial flexibility, which increases the risk of a restructuring or distressed exchange.

Moody's estimates that the company will generate around \$150 million in negative free cash flow (FCF) in 2024 amid \$105 million in debt maturities (three quarterly amortizations of \$35 million each starting in 2Q23). This liquidity shortfall negatively compares to the company's \$55 million in cash as of end of September 2023 and the recently approved \$25 million in advance payments of future production, with Glencore plc ("Glencore", Baa1 positive) as the counterparty.

Other sources of liquidity remain limited, since the company was not able to renew its \$50 million in a committed revolving credit facility (RCF), expired in November 2023. Other sources of liquidity include potential assets sales; however, it remains unclear when these potential transactions would be concluded and which amount the company could obtain out of these alternative funding sources.

While the company stated that it engaged with market participants for asset sales and refinancing alternatives since early 2023, Moody's believes that the announcement of Glencore, its controlling shareholder, that it commenced in February 2023 a process exploring the possible disposal of its 55% controlling stake in Volcan, adds uncertainty to the already challenging operating and financial market environment.

The downgrade also reflects governance considerations as key drivers of the rating action including the lack of visibility over a comprehensive plan to refinance upcoming maturities and aggressive approach towards liquidity management, which are now reflected in the company's Management Credibility and Track Record assessment that was changed to 5 from 4. The overall exposure to governance risks (Issuer Profile Score or "IPS") remains G-5 and Volcan's Credit Impact Score (CIS-5) remains unchanged, since ESG considerations are a major constraint for the

rating.

Volcan's G-5 IPS also reflects the announcement that Glencore commenced a process exploring the possible disposal of its economic interest in Volcan, which together with recent shareholders disagreements, create additional uncertainty around Volcan's financial strategy and ability to improve its liquidity profile.

Volcan's Caa3 ratings incorporate the company's refinancing risk and high earnings volatility because of its exposure to commodity prices coupled with high cost structure, historically tight liquidity and aggressive financial policies, as well as its modest scale compared with that of its global peers and its concentration of operations in one country. At the same time, Volcan's Caa3 reflects the company's limited operational diversification in terms of metals produced and assets, with seven mines; and status as a leading producer of zinc and silver globally, with some of the largest zinc reserves.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade is unlikely at this point given the negative outlook. However, Moody's could stabilize the outlook if there is evidence of liquidity improvements and the company manages to secure alternative liquidity sources to address its negative FCF gap and near-term debt maturities.

Volcan's ratings could be downgraded if the company's liquidity worsens further or the company is unable to refinance the debt maturing in 2024 and 2025, increasing the risk of a distressed exchange or debt restructuring and leading to higher-than-expected losses for creditors.

The principal methodology used in these ratings was Mining published in October 2021 and available at <https://ratings.moodys.com/rmc-documents/76085>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Volcan Compania Minera S.A.A. y Subsidiarias (Volcan) is a Peruvian mining company that primarily produces zinc and lead concentrate and some copper concentrate, all with high silver content. The company operates through five operating units including seven operating mines, five concentrator plants and one leaching plant for silver oxide production. All of Volcan's operations are located in Peru, and it reported revenue of USD900 million for the 12 months that ended September 2023. Volcan is a holding company listed on the stock exchanges of Lima, Santiago and Madrid (Latibex). Since November 2017, Glencore has held a controlling stake of 55% in Volcan's Class A voting shares, which is equivalent to a 23.3% economic interest in Volcan.

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 on <https://ratings.moodys.com/rating-definitions>.

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