02 FEB 2024

Fitch Downgrades Volcan to 'CCC-'

Fitch Ratings - New York - 02 Feb 2024: Fitch Ratings has downgraded Volcan Compania Minera S.A.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'CCC-' from 'B-', as well as its senior unsecured notes due in 2026 to 'CCC-'/'RR4' from 'B-'/'RR4' and removed them from Rating Watch Negative (RWN).

The multiple notch downgrade to 'CCC-' reflects Fitch assessment that a default like process is likely, because Volcan has failed to reasonably address its refinancing needs and liquidity issues since being placed on Rating Watch Negative (Oct. 4, 2023), ahead of its first installment in late April 2024, despite having conducted a number of processes. Asset sales or prepayments previously considered did not come to fruition or did not scale according to previous Fitch expectations. FCF generation is strained by low zinc prices, amid efforts to tackle high costs and rationalize capex.

Key Rating Drivers

Looming Liquidity Crisis: Volcan faces upcoming debt maturities in 2024, 2025 and 2026 with a weak cash position, pressured FCF generation and dwindling financing or refinancing options. Maturities start in 2Q24 with quarterly amortizations which total USD105 million in 2024, increase to USD135 million in 2025 and USD160 million in 2026 when the USD400 million bank syndicate loan matures. The USD365 million of bonds mature in 2026. As of Sept. 30, 2023, Volcan had USD55 million of cash. The revolving credit facility of USD50 million was not renewed.

Few Refinancing Options: Fitch believes Volcan has limited refinancing options after it has failed to execute on its asset sales plans within the expected timeframe. Fitch is not assuming asset sales in its rating case, but Volcan continues to consider divestitures from non-core assets and other sources of cash to avoid having to restructure its debt or launch a distressed debt exchange (DDE), under Fitch criteria. Assets considered to be sold include its hydro power plants and its stake in a Chilean cement producer. Volcan signed concentrates sale prepayment agreements for up to USD25 million. Additional offtake agreements could be negotiated. Yet, this process has failed to meet previous amounts and timeframe expectations.

Governance Concerns: Fitch believes the shareholder dispute has expedited its current situation and has resulted in its inability to address its refinancing needs. It appears at the moment, disputes amongst shareholders have subsided, but it can further complicate and limit the company's options and decisions going forward.

Volcan's majority shareholder, Glencore, controls 55% of voting shares (22% economic stake) and its minorities are Peruvian Pension Funds (51% of economic stake), and the De Romana and Letts families (20% of voting shares).

Negative FCF: Fitch forecasts Volcan's EBITDA at USD260 million in 2024. Capex are expected to be USD215 million in 2024 below previous expectations of USD250 million as investments in the Romina expansion in Alpamarca are postponed into 2025. Volcan's FCF after capex and no dividends is expected to remain negative by USD25 million in 2024 and by USD200 million in 2025 as a result of larger capex disbursements and continued zinc price weakness.

Operating Difficulties: Zinc prices remain depressed at about USD2,500/MT due to expected market surpluses despite global mine cutbacks. Volcan streamlines operations and postpones an expansion project one year to tackle short mine lives of about five years. Cost containment strategies are slowly delivering. Volcan's weighted average all-in sustaining zinc cost of USD1,938/MT Zinc improved to third quartile according to metals consultancy CRU. The unit cost in 2023 is expected to be 12% higher than in 2019.

ESG - Governance Structure: Volcan Compania Minera S.A.A.'s dynamics between its shareholders, Glencore and minority shareholders, such as Picasso and Letts family, that impact their ability to address the company's capitalization needs.

Derivation Summary

Volcan's production of base and precious metals diversification is higher than that of peers Ero Copper Corp. (B/Stable), Aris Mining Corp. (B+/Stable), Nexa Resources S.A. (BBB-/Stable), and Minsur S.A. (BBB-/Stable), similar to that of Compania de Minas Buenaventura SAA (BB-/Stable), but lower than that of Industrias Penoles SAB de CV (BBB/Stable). Volcan operates in one country (Peru), like Buenaventura, or Penoles (Mexico), Ero (Brazil) and Aris (Colombia) whereas Nexa and Minsur have diversified into Peru and Brazil.

Volcan's scale of operations is higher than that of Ero and Aris, similar to that of Buenaventura, but lower than that of Nexa Resources and Minsur, and considerably smaller than that of higher-rated miner Penoles.

Fitch projects that Volcan will have a weaker capital structure and liquidity than these peers. Liquidity needs are much more pressing than those of Buenaventura, Aris or Ero.

Volcan's cost position in the third quartile of the zinc all-in sustaining costs is better than that of Buenaventura's fourth quartile in the gold curve, similar to that of Aris Mining's third in gold and worse than Ero Copper's second in copper.

Volcan's consolidated life of mine of five years of reserves is also on the lower end, and is comparable with that of Buenaventura (without Cerro Verde) or Aris Mining's seven or more years but lower than Ero's 17 years.

Key Assumptions

--Average zinc price of USD2,500/tonne in 2024, USD2,300/tonne in 2025 and USD2,200/tonne in 2026;

--Average silver price of USD22.50/oz in 2024, USD20/oz in 2025, and USD18.75/oz in 2026;

--Capex of USD215 million, USD290 million and USD190 million in 2024, 2025, and 2026;

--Zinc output of 260,000 MT, 244,000 MT and 232,000 MT in 2024, 2025 and 2026;

--Silver output of 12.0 million oz, 11.6 million oz, and 11.5 million oz in 2024, 2025, and 2026;

--Yauli's zinc and silver production rise 8% and 6%, respectively, in 2024. Fitch expects Yauli to contribute 64% of revenues in 2024;

--Romina is expected to achieve full production in late 2026. Fitch expects the resulting Alpamarca, with the Romina expansion, to contribute 10% of revenues in 2027.

Recovery Analysis

The recovery analysis assumes Volcan would be reorganized as a going-concern in bankruptcy rather than liquidated. We assumed a 10% administrative claim. Volcan's going-concern EBITDA assumption is based on zinc at USD2,500/ton and USD2,300/ton in 2024 and 2025, respectively. The going-concern EBITDA estimate reflects Fitch's view of a sustainable, post-reorganization EBITDA level upon which we base the enterprise valuation in a low zinc price environment.

An enterprise valuation multiple of 5x EBITDA is applied to the going-concern EBITDA to calculate a post-reorganization enterprise value (EV). The choice of this multiple considered the following factors: the historical bankruptcy case study exit multiples for peer companies were 4.0x-6.0x.

Fitch applies a waterfall analysis to the post-default EV based on the relative claims of the debt in the capital structure. The debt waterfall assumptions consider the company's total debt. These assumptions result in a recovery rate for the unsecured debt within the 'RR1' range, but due to the soft cap of Brazil at 'RR4', Volcan's senior unsecured is rated at 'CCC-'/'RR4'.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--An upgrade is unlikely until the company addresses the refinancing of its credit syndicate and 2026 bond.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Failure to address its refinancing needs and/or launching of a coercive debt exchange or announcing a debt restructuring;

--Negative FCF over the rating horizon.

Liquidity and Debt Structure

Pressured Liquidity: Volcan had USD55 million of readily available cash and equivalents on Sept. 30, 2023 and about USD785 million in total debt. Volcan's outstanding USD365 million of bonds mature in

2026. Its USD400 million syndicate loan matures in 2026 with payments starting in 2024. Maturities consist of three USD35 million quarterly amortizations starting in 2Q24 totaling USD105 million of a bank syndicate.

Volcan's liquidity position is pressed to finance capex for Romina and to refinance the approximately USD105 million and USD137 million 2024 and 2025 installments of its syndicate loan. Fitch does not expect that the USD50 million RCF lost in November 2023 would be replaced in the near term.

Issuer Profile

Volcan is a polymetallic mining company with a third quartile cost position on the global zinc cost curve per CRU. It has a track record over 75 years of operating in Peru. Volcan is diversified into the base metals zinc and lead and the precious metal silver.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Volcan Compania Minera S.A.A. has an ESG Relevance Score of '5' for Governance Structure due to the dynamics between its shareholders, Glencore and minority shareholders, such as Picasso and Letts family, that impact their ability to address the company's capitalization needs.

Volcan Compania Minera S.A.A. has an ESG Relevance Score of '4' for Management Strategy due to ongoing governance concerns, which have impaired management's ability to execute on its strategy, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Volcan Compania Minera S.A.A. has an ESG Relevance Score of '4' for Waste & Hazardous Materials Management; Ecological Impacts due to its zinc concentrate leak. In June 2022, a truck careened off the road spilling 30 tonnes of zinc concentrates in the Chillon river. This has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Fitch Ratings Analysts

Hector Collantes
Director
Primary Rating Analyst

+1 212 908 0369
Fitch Ratings, Inc. Hearst Tower 300 W. 57th Street New York, NY 10019

Alejandra Fernandez
Director
Secondary Rating Analyst
+56 2 3321 2903

Martha Rocha
Managing Director
Committee Chairperson
+1 212 908 0591

Media Contacts

Jaqueline Carvalho
Rio de Janeiro
+55 21 4503 2623
jaqueline.carvalho@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Volcan Compania Minera S.A.A.	LT IDR	CCC-	Downgrade		B-
	LC LT IDR	CCC-	Downgrade		B-
• senior unsecured	LT	CCC-	Downgrade	RR4	B-

RATINGS KEY **OUTLOOK** **WATCH**

POSITIVE

NEGATIVE

EVOLVING

STABLE

Applicable Criteria

Corporate Rating Criteria (pub.03 Nov 2023) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Volcan Compania Minera S.A.A.	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.