FitchRatings

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Fitch Revises Volcan's Outlook to Positive; Affirms IDRs at 'B-'

Fitch Ratings - New York - 08 Sep 2025: Fitch Ratings has affirmed Volcan Compania Minera S.A.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'B-'. Fitch has also affirmed the ratings of Volcan's senior secured notes due 2030 at 'B-' with a Recovery Rating of 'RR4'. Fitch upgraded senior unsecured notes due in 2026 to 'B-'/'RR4' from 'CCC'/'RR6'. Fitch has also revised the Rating Outlook to Positive from Stable.

The Outlook revision reflects Fitch's expected medium-term improvements in Volcan's credit profile. A rebound in operating cash flow, driven by higher volumes and better prices, should support neutral to positive FCF after elevated capex. Successful execution of its financial strategy, including funding and debt refinancing of its Romina mine, would enhance flexibility and support ratings.

The ratings reflect a mid-scale, concentrated operating profile and relatively short mine life, despite solid profitability. Execution risk on the Romina expansion and residual refinancing risk continue to constrain the rating.

Key Rating Drivers

Rising Production, Lowering Costs: Fitch expects Volcan's operational recovery to continue. The company aims for total zinc production of for more than 240,000 MT in 2025 and nearly 340,000 MT in 2027 after past regulatory stoppages, and from new mining zones and continued streamlining. Metals consultancy CRU Group expects Yauli mine's zinc all-in sustaining cost (AISC) of nearly USD1560/MT, improving its third quartile position toward the peer average.

Romina Remains Key: The polymetallic Romina mine is the main near-term growth project of Volcan and is expected to start commercial production in 2H26. It will replace the aging Alpamarca mine and will use its operating plant. Fitch expects Romina to contribute 8% of revenue in 2026 and 13% in 2027. The resulting cost reductions and mine life improvement is key to Volcan's business sustainability and helps to strengthen its credit profile.

Capex to Pressure FCF Generation: Fitch expects EBITDA to reach about USD430 million, driven by recovering operations and supportive prices. Capex is expected to increase to USD260 million in 2025 and fall to USD250 million in 2026 during the final stage of Romina's construction. Despite no expected dividend payments, FCF should turn marginally negative in 2026 after a slight increase in 2025, as zinc prices weaken towards Fitch's mid-cycle view.

Refinancing Still Needed: The expected improvement in operating cash flow generation is expected to help Volcan to execute its refinancing strategy, which also includes USD68 million outstanding of its 2026 bond. Fitch expects Volcan to achieve less-restrictive terms on growth investments and cash management financing from its period of liquidity difficulties in 2023-2024, thereby improving its financial flexibility.

Low Leverage: Fitch expects Volcan to maintain low leverage metrics with an improved maturity profile. EBITDA leverage and net leverage are expected to reach 1.8x and 1.5x in 2025 but decrease towards 1.6x and 1.3x, respectively, by 2026 as higher zinc and silver from Yauli, Chungar, and the early ramp-up of Romina may offset falling prices, according to Fitch's price deck. Total debt is expected to average USD700 million and net debt USD575 million.

Peer Analysis

Volcan's metals diversification exceeds that of Ero Copper Corp (B/Stable) and Aris Mining Corp (B+/Stable), matches that of Compania de Minas Buenaventura S.A.A. (BB/Stable) and Minsur S.A. (BBB-/Stable), but trails that of Industrias Penoles S.A.B. de C.V. (BBB/Stable). It operates in a single country (Peru), like Buenaventura (Peru), Minsur (Peru), Penoles (Mexico), Ero (Brazil) and Aris (Colombia), while Nexa Resources S.A. (BBB-/Stable) is split between Peru and Brazil. Its scale is larger than Ero and Aris, similar to Buenaventura, smaller than Nexa and Minsur, and far below Penoles.

Fitch expects Volcan's capital structure and liquidity to be similar to that of all the named peers, with leverage at the middle of the group, including versus similarly rated Aris and Ero. Volcan AISC cost is in the third quartile on the zinc AISC curve, which is better than Buenaventura and Ero (both fourth in their metals) and similar to Nexa and Aris (third). Consolidated reserves imply about five years of mine life, which is low for underground peers, comparable to Buenaventura excluding Cerro Verde, and below Aris (18 years) and Ero (17 years).

Key Assumptions

--Average zinc price of USD2,700/tonne in 2025, USD2,650/tonne in 2026, and USD2,550/tonne in 2027;

--Average silver price of USD35/oz in 2025, USD30/oz in 2026, and USD25/oz in 2027;

--Zinc output of 240,000 MT, 295,000 MT, and 340,000 MT in 2025, 2026, and 2027;

--Silver output of 13.3 million oz, 15.0 million oz, and 15.5 million oz in 2025, 2026, and 2027;

--Yauli's zinc and silver production grows 2% and falls 10%, respectively, in 2025, grows 15% and 20% in 2026, and rises 11% and 0% in 2027. Fitch expects Yauli to contribute 60% of revenues in 2025;

--Romina is expected to start operations in mid-2026 and achieve full production in 2027. Fitch expects Romina expansion, to contribute 8% of revenues in 2026 and 12% in 2027;

--Capex of USD260 million, USD250 million, and USD240 million in 2025, 2026, and 2027;

-- Refinancing of the outstanding 2026 bonds;

--No dividends;

--No additional asset sales.

Recovery Analysis

Going-Concern Approach

The recovery analysis assumes that Volcan would be considered a going concern in an event of bankruptcy and that the company would be reorganized rather than liquidated. Fitch has assumed a 10% administrative claim. The going concern EBITDA estimate reflects Fitch's view of a sustainable, post-reorganization EBITDA level upon which it bases the enterprise valuation in a low zinc price environment.

An enterprise valuation multiple of 4.5x EBITDA is applied to the going concern EBITDA to calculate a post-reorganization enterprise value. The choice of this multiple considered the following factors: the historical bankruptcy case study exit multiples for peer companies were 4.0x-6.0x, improving financial subfactors, mid quality assets, and high-quality counterparties despite challenging dynamics in a volatile and commoditized industry.

Fitch applies a waterfall analysis to the post-default enterprise valuation based on the relative claims of debt in the capital structure. The debt waterfall assumptions consider the company's pro forma debt following refinancing and debt exchange as well as the debt-funded capex for Romina.

The allocation of value in the liability waterfall results in recovery corresponding to 'RR1' for the secured bonds and syndicated facility debt and to 'RR2' to the senior unsecured notes. However, per Fitch's "Country-Specific Treatment of Recovery Ratings Criteria," Peru, where EBITDA is generated, is considered Group D. Therefore, Fitch caps the instruments' Recovery Ratings at 'RR4', resulting in no rating uplift from the IDR 'B-' for both first-lien bonds and syndicated facility, and for the unsecured ratings.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Inability to obtain financing within the next three quarters;

--Further delays in the construction and ramp-up of Romina;

--Negative FCF over the rating horizon impacting liquidity;

--EBITDA to interest expense coverage ratio consistently below 2.5x;

--A sustained EBITDA leverage ratio of more than 4.5x with an unwillingness or inability to deleverage;

--A sustained EBITDA net leverage ratio of more than 4.0x with an unwillingness or inability to deleverage.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- Successful refinancing of its short-term debt and syndicated loan, with improvements in financial flexibility as a result of less-restrictive financial covenants;

--Completion of Romina in a timely manner, resulting in an improvement in the cost profile, production and reserve life;

--Positive to neutral FCF over the rating horizon;

--EBITDA to interest expense coverage ratio consistently above 5.0x;

--A sustained EBITDA leverage ratio of less than 3.5x in a sustained basis;

--A sustained EBITDA net leverage ratio of less than 3.0x in a sustained basis.

Liquidity and Debt Structure

As of June 2025, the company held USD97 million in cash and equivalents (excluding restricted cash) and had short-term debt of USD96 million, including USD68 million of the 2026 notes USD4.2 million of commercial prepayments and a USD15 million syndicated loan instalment.

Debt is comprised of USD330 million of a 2029 maturing secured syndicate loan, USD300 million of 2030 secured bonds, USD68 million of 2026 unsecured bonds, and commercial prepayments of concentrates of USD25 million. The collateral package for the loan and the bond ranks both pari passu with the same claims over trusts over receivables, over shares of subsidiaries and mortgages over material assets.

Issuer Profile

Volcan is a polymetallic mining company with a third quartile cost position on the global zinc cost curve per CRU. It has operated in Peru for over 75 years. Volcan is diversified into the base metals zinc and lead, and 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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG Considerations

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, which 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.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Volcan Compania Minera S.A.A.	LT IDR	B-	Affirmed		B-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	LC LT IDR	B- ⊕	Affirmed		B- ⊙
• senior unsecured	LT	B-	Upgrade	RR4	CCC
• senior secured	LT	B-	Affirmed	RR4	B-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◎	◆
STABLE	⊙	

Applicable Criteria

Corporate Rating Criteria (pub.27 Jun 2025) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub.02 Aug 2024) (including rating assumption sensitivity)

Country-Specific Treatment of Recovery Ratings Criteria (pub.03 Mar 2023)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.27 Jun 2025)

Applicable Models

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

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

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