



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

24 Mar 2020

New York, March 24, 2020 -- Moody's Investors Service (Moody's) downgraded PERU LNG S.R.L.'s (PLNG) corporate family rating and senior unsecured rating on the company's existing notes to B1 from Ba3. The rating action was driven by Moody's expectation that PLNG will continue to post weak cash flows and that its credit metrics will remain weak in the foreseeable future given low liquefied natural gas prices. The rating outlook has been revised to negative from from stable.

Downgrades:

..Issuer: PERU LNG S.R.L.

.... Corporate Family Rating, Downgraded to B1 from Ba3

....Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba3

Outlook Actions:

..Issuer: PERU LNG S.R.L.

....Outlook, Changed To Negative From Stable

RATINGS RATIONALE

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The oil and gas sector has been one of the sectors most significantly affected by the shock given its sensitivity to consumer demand and sentiment. More specifically, the weaknesses in PLNG's credit profile, including its exposure to the demand liquefied natural gas (LNG), have left it vulnerable to shifts in market sentiment in these unprecedented operating conditions and PLNG remains vulnerable to the outbreak continuing to spread. Moody's regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Today's action reflects the impact on PLNG of the breadth and severity of the shock, and the broad deterioration in credit quality it has triggered. PLNG is also exposed to production disruptions caused by adverse weather conditions or unplanned plant maintenance, among others.

PLNG's cash generation in 2019 was weak mainly due to LNG prices than Moody's had expected for the year but also due to lower production. In 2019, although the company had sold 100% of its cargos to non-Henry Hub markets, which have recently had better commercial conditions vis-a-vis other markers, its average LNG price fell to \$4.97 per million British thermal units (MMBtu) from \$8.9/MMBtu in 2018. In addition, volumes were affected by an unplanned plant shutdown of 16 days, related to works in the Main Cryogenic Heat Exchanger and Dry Gas Flare, as well as adverse weather conditions that caused a total of 30 days of closure of the port where Peru LNG delivers LNG cargoes; as a result, the company's plant was closed for 46 days in the second quarter 2019.

For 2020, Moody's expects PLNG's production in line with that of 2019, in the range of 210-215 trillion British thermal units (Tbtus), and EBITDA to reach only \$20 million, assuming that Henry Hub averages \$2/MMBTU in the year. Moody's expects that PLNG's reported debt/EBITDA will start to decline in late 2020/early 2021 as the global economy recuperates from the negative effects of the coronavirus. However, credit metrics will remain weak in the foreseeable future.

PLNG's B1 ratings are based on its exposure to natural gas and LNG prices volatility, which brings in operating risk, in addition to its high leverage and small and single operational asset base. These factors are somewhat counterbalanced by PLNG's low supply risk, high capacity utilization, limited competition risk, minimum foreign-exchange risk, adequate financial policies, strong shareholder support and its high relevance to Peru's trade balance and energy industry.

PLNG has adequate liquidity. The company's cash on hand amounted to \$140 million in December 2019 and it has a \$75 million committed revolving credit facility that matures in 2021. However Moody's estimates that it will generate negative free cash flow through December 2020. Interest expenses amount to \$51 million per year and Moody's expects capital spending of \$18 million and \$35 million for 2020 and 2021, respectively. Moody's understands that the company will not pay dividends related to 2019. Most of PLNG's accounts payable are related to the \$110 million in credit received from off-taker SITME, which has no specific maturity date. In addition, PLNG's debt maturity profile is comfortable because the amortization of the existing notes begins in September 2024.

The negative rating outlook reflects Moody's expectation that PLNG's credit profile could continue to deteriorate during 2020 given low natural gas prices.

PLNG's B1 ratings could be downgraded if its cash flow generation does not start to improve later in 2020 and its interest coverage ratio remains weak. In addition, a deterioration of the company's liquidity profile could lead to a rating downgrade.

An upgrade is unlikely in the next 12 months given PLNG's negative outlook and Moody's expectations of negative free cash flow in 2020-21.

The principal methodology used in these ratings was Midstream Energy published in December 2018. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

PLNG, based in Lima, has a 4.45 million tons per annum (mmtpa) natural gas liquefaction plant located in Pampa Melchorita (Cañete), a marine terminal, and a 408-kilometer pipeline that transports natural gas from the Camisea fields (Cusco, Peru). The company is committed to selling 218 TBtus of LNG per year to a subsidiary of Shell (SITME), which has committed to take-or-pay this annual volume (95% of PLNG's total capacity) until 2028. In 2019 it posted revenues of \$674 million and EBITDA of \$88 million.

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