

Rating Action: Moody's upgrades PLNG's ratings to B2; stable outlook

22 Jul 2022

New York, July 22, 2022 -- Moody's Investors Service ("Moody's") upgraded PERU LNG S.R.L.'s (PLNG) corporate family rating and senior unsecured rating on the company's existing notes to B2 from B3. The rating action was based on the company's improved operating results, which have strengthened its liquidity position. The rating outlook is now stable.

Upgrades:

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

.... Corporate Family Rating, Upgraded to B2 from B3

....Senior Unsecured Regular Bond/Debenture, Upgraded to B2 from B3

Outlook Actions:

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

....Outlook, Changed To Stable From Negative

RATINGS RATIONALE

The action on PLNG's ratings was based on its improved liquidity position, which resulted from its ability to operate at full capacity since mid-September 2021, when its plant went back on after over 70 days of stoppages in the year. Moody's estimates that, in the last three quarters through June 2022, solid commodities prices and volumes have helped boost the PLNG's cash generation, which should continue elevated as compared to 2019-21 if prices and volumes remain relatively stable. Moody's believes that there is a low probability that PLNG's sole plant goes through further major unexpected mechanical problems, as occurred in 2021, considering that relevant parts were replaced last year and the company is about to complete a programed major maintenance with no surprises so far. It is also positive that PLNG's shore-tension vertical units project, aimed at improving the ability to deliver cargoes during adverse weather conditions, was successfully completed last May. Moody's believes that, from now on, PLNG will be able to balance its production more equitably across the year.

For 2022 PLNG's management expects production to reach over 215 trillion British thermal units (TBtus), about 60% higher than the 133 TBtus produced in 2021. Therefore, Moody's expects PLNG's EBITDA to reach over \$300 million in 2022, as compared to \$145 million in 2021, if Henry Hub averages \$5.0 per million BTU in the year, as per the rating agency's estimates. Annual interest payments amount to \$51 million and capital spending in 2022 will hover around \$30 million, including about \$8 million for the programed major maintenance and \$10 million for the completion of the shore-tension project.

PLNG's B2 ratings are based on its exposure to natural gas marker prices volatility; high operating risk; fluctuating leverage given volatile cash flow; small, single operational asset base; and limited access to external funding. In 2019-21 high operating risk was evidenced by recurring plant stoppages either due to external events or unplanned shutdowns. These risks are somewhat counterbalanced by PLNG's low supply risk, high capacity utilization rates, limited competition risk, minimum foreign-exchange risk, implicit shareholders 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 \$405 million in March 2022 and Moody's expects it to generate more than enough operating cash flow through December 2023 to cover expenses and capital spending. The company's \$40 million committed revolving credit facility, currently fully available, matures in March 2023 but Moody's expects PLNG to renew it for another three years upon maturity. Most of PLNG's accounts payable refer to the \$110 million credit received from the off-taker SITME. PLNG's debt maturity is still comfortable because the amortization of the existing notes begins in September 2024 (about \$78 million in amortization payments, twice a year). Management expects to receive certain reimbursement from property damage insurance, in connection with the unplanned plant shutdowns in 2021,

but the amount and timing are still unclear. PLNG's shareholders, mostly financially strong and capable of providing support, helped the company with liquidity support in 2021. Moody's expects PLNG to pay dividends in 2022. Although the company must keep a minimum of \$50 million in cash at all times, Moody's notes that PLNG has usually maintained cash amounts at around \$100 million, which, together with its available revolver, helps protect the company against volatility in prices or volumes.

The stable rating outlook reflects Moody's view that PLNG's credit profile will remain relatively unchanged in the next 12-18 months as higher operating cash is directed to fund basic obligations, such as interest payment, capital spending, and debt amortization, as well as cash distributions to shareholders.

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

PLNG's B2 ratings could be upgraded if it manages to balance its high operating risk and vulnerability to volatile commodities prices with lower leverage, as per EBITDA to gross debt below 3 times and if maintains interest coverage above 4.5 times, as per EBITDA to interest expense, on a sustainable basis. In addition, in case of dividend payment, funds from operations minus maintenance capex)/dividends should be above 3 times, also on a sustainable basis. For an upgrade to occur, the company would have to demonstrate ability to maintain operating activity stable, with minimum unexpected plant stoppages.

In turn, PLNG's B2 ratings could be downgraded if plant stoppages are significant to the point of hurting its liquidity position, if interest coverage falls to below 2.5 times, or if leverage is above 5 times with limited prospects of a quick turnaround.

The principal methodology used in these ratings was Midstream Energy published in February 2022 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1285021. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

PLNG, based in Lima, Peru, has a 4.45 million tons per annum (mmtpa) natural gas capacity 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 225 TBtus of LNG per year to a subsidiary of Shell (SITME), which in turn has committed to take-or-pay this annual volume (over 95% of PLNG's total capacity) until 2028. In the last twelve months ended in March 2022 PLNG posted revenues of \$2.5 billion and EBITDA of \$320 million.

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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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