



Rating Action: Moody's downgrades Peru LNG's notes to Ba3; outlook stable

06 Dec 2019

New York, December 06, 2019 -- Moody's Investors Service (Moody's) downgraded PERU LNG S.R.L.'s (PLNG) senior unsecured ratings on the company's existing notes to Ba3 from Baa3. Simultaneously, Moody's withdrew PLNG's Baa3 issuer rating and assigned a Ba3 corporate family rating to the company. The rating actions were driven by weak cash flows and Moody's expectation that PLNG's credit metrics will remain weak in the foreseeable future. The rating outlook is stable. This concludes the rating review for downgrade initiated on 3 September 2019.

Downgrades:

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

....Senior Unsecured Regular Bond/Debenture, Downgraded to Ba3 from Baa3

Withdrawals:

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

.... Issuer Rating, Withdrawn , previously rated Baa3

Assignments:

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

.... Corporate Family Rating, Assigned Ba3

Outlook Actions:

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

....Outlook, Changed To Stable From Rating Under Review

RATINGS RATIONALE

PLNG's cash flow is vulnerable to volatile natural gas prices and to production disruptions caused by adverse weather conditions or unplanned plant maintenance, among others. The company will take measures to reduce its exposure to i) adverse weather conditions that affect loading vessels mainly in winter months (May through July) and ii) price volatility. However, Moody's expects that major improvements in cash flow are unlikely in 2020-21 given the rating agency's negative view on natural gas prices and the company's plans to invest in 2020-21 higher amounts of capital than originally anticipated.

PLNG's cash generation so far in 2019 has been weak mainly due to lower liquefied natural gas (LNG) prices than Moody's had expected for the year but also due to lower production. In the first nine months of 2019, although the company had sold close to 100% of its cargos to non-Henry Hub markets, which have recently had better commercial conditions, its average LNG price fell to \$4.21 per million British thermal units (MMBtu) from \$6.83/MMBtu in the same period 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 30-day 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 the full-year 2019, Moody's expects PLNG's production in the range of 208-212 trillion British thermal units (TBtus) and EBITDA to reach \$100 million, which is well below management's original expectations for the year, of about \$200 million. As a consequence, Moody's estimated that PLNG's reported debt/EBITDA will be over 9 times in 2019, with a low likelihood of a sharp decline in 2020 due to weak LNG prices given limited prospects for robust global economic growth.

PLNG's Ba3 ratings are based on its high leverage, small and single operational asset base, as well as its exposure to natural gas and LNG prices and adverse weather conditions, which brings in operating and financial risk. These factors are counterbalanced by PLNG's low supply risk, high capacity utilization rate, limited competition risk, minimum foreign-exchange risk, adequate financial policies, strong shareholder support and the high relevance of the company to Peru's trade balance and energy industry.

PLNG has adequate liquidity. The company's cash on hand amounted to \$70 million in September 2019 and we estimate that it will generate about \$75 million in cash from operations from October 2019 through December 2020. Interest expenses and capital spending in the period will be about \$51 million and \$21 million, respectively, and

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. PLNG's debt maturity is comfortable because the amortization of the existing notes begins in September 2024. The company has a \$75 million committed revolving credit facility that matures in 2021.

The stable rating outlook reflects Moody's expectation that PLNG's credit profile will remain for the most part unchanged in 2020 but will start an improving trend in late 2021.

PLNG's Ba3 ratings could be upgraded if it manages to decrease leverage efficiently, as per EBITDA to gross debt below 6 times on a sustainable basis, as well as if maintains an interest coverage above 3.5 times, as per EBITDA to interest expense.

In turn, PLNG's Ba3 ratings could be downgraded if its interest coverage falls to below 2 times with limited prospects of a quick turnaround. In addition, a deterioration of the company's liquidity profile and an increase in leverage above to 10 times could lead to a rating downgrade.

The principal methodology used in these ratings was Midstream Energy published in December 2018. Please see the Rating Methodologies page on www.moody.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 the last twelve months ended in September 2019 it posted revenues of \$674 million and EBITDA of \$140 million.

REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moody.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody.com for additional regulatory disclosures for each credit rating.

Nymia C. Almeida
Senior Vice President
Corporate Finance Group
Moody's de Mexico S.A. de C.V.
Ave. Paseo de las Palmas
No. 405 - 502
Col. Lomas de Chapultepec
Mexico, DF 11000
Mexico
JOURNALISTS: 1 888 779 5833
Client Service: 1 212 553 1653

Marianna Waltz, CFA
MD - Corporate Finance
Corporate Finance Group

JOURNALISTS: 0 800 891 2518
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.

JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653



© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in

preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-

NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.