

Rating Action: Moody's downgrades PLNG's ratings to B3; negative outlook

11 Aug 2021

New York, August 11, 2021 -- 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 B3 from B1. The rating action was based on the company's weak liquidity position, consequence of unexpected extended plant stoppages that affect cash flow generation. The rating outlook remains negative.

Downgrades:

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

.... Corporate Family Rating, Downgraded to B3 from B1

....Senior Unsecured Regular Bond/Debenture, Downgraded to B3 from B1

RATINGS RATIONALE

Despite solid commodities prices, PLNG's cash generation will be weak in 2021 due to low production volumes, caused by over 80 days of plant stoppages in the first three quarters of the year, triggered mostly by unexpected mechanical problems in the company's sole plant. In the last three years, PLNG has experienced recurring plant stoppages either due to external events or unplanned shutdowns, which evidence continued high operating risk.

For 2021, PLNG's management expects production to reach 156 trillion British thermal units (Tbtus), close to 30% below the 217 Tbtus originally expected for the year. Therefore, Moody's expects PLNG's EBITDA to reach about \$30 million, if Henry Hub averages \$3 per million BTU in the year, as per the rating agency's estimates. Annual interest payments amount to \$51 million and capital spending in 2021 will hover around \$46 million (up from about \$12 million in major maintenance years, such as 2022, and a normalized level of \$5 million in years without major scheduled maintenance works), which increases liquidity risk. While PLNG's shareholders are mostly financially strong and can provide support, it remains to be seen how they could help the company's liquidity situation. However, Moody's understands that PLNG's management is working with shareholders to develop a plan to support the company.

PLNG's B3 ratings are based on its exposure to natural gas and Liquefied Natural Gas (LNG) prices volatility; high operating risk; elevated leverage; small, single operational asset base; and limited access to external funding. These factors 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. It is also positive that PLNG's shore tension vertical units project, aimed at improving the ability to deliver cargoes during adverse weather conditions, should be completed in the first quarter of 2022, as per management, and therefore support cash generation.

PLNG has high liquidity risk. The company's cash on hand amounted to \$100 million in July 2021 and Moody's expects its operating cash to be negative \$31 million in 2021 given low sales volumes. The company currently has \$20 million availability under its \$40 million committed revolving credit facility, which matures in March 2023. Most of PLNG's accounts payable refer to the \$110 million credit received from the off-taker SITME, a subsidiary of Shell, a shareholder. PLNG's debt maturity is still comfortable because 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, but amount and timing is still unclear.

The negative rating outlook reflects the risk that PLNG's credit profile continues to deteriorate if the operating risk remains high as the start of the amortization of the existing notes approaches.

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

PLNG's B3 ratings could be downgraded if its cash flow generation does not improve in 2022 and its liquidity position and interest coverage ratio remain weak.

A stabilization of PLNG's rating outlook or a rating upgrade could occur if the company's liquidity position becomes at least adequate when comparing to its capital investment and debt payment obligations.

The principal methodology used in these ratings was Midstream Energy published in December 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147839. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

PLNG, based in Lima, Peru, 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 in turn has committed to take-or-pay this annual volume (95% of PLNG's total capacity) until 2028. In the last twelve months ended in March 2021 PLNG posted revenues of \$644 million and EBITDA of \$52 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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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