

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns Caa1 to Volcan's proposed exchange notes; ratings under review for upgrade

05 Aug 2024

New York, August 05, 2024 -- Moody's Ratings (Moody's) assigned a Caa1 rating to Volcan Compania Minera S.A.A. y Subsidiarias ("Volcan")'s proposed new senior secured exchange notes for up to \$365 million. The rating of the proposed notes is also placed on review for upgrade. Volcan's other ratings, including its Caa1 Corporate Family Rating (CFR), and the existing Caa2 rating of its Senior Unsecured Global Notes remain unchanged.

The proposed notes are offered in exchange of existing Volcan's 4.375% \$365 million Senior Unsecured notes due in February 2026. The proposed secured notes will have a higher coupon at 8.75% and amortize in 2030. The new notes will rank pari passu with all other secured debt of Volcan and will share the same collateral package of the company's new term loan (unrated), including a trust over receivables, shares of subsidiaries and mortgages over most of the company's assets. The proposed exchange also includes a consent solicitation to amend the 2026 senior unsecured notes indenture to remove substantially all restrictive covenants.

The rating of the notes assumes that the final transaction documents will not be materially different from draft legal documentation reviewed by us to date and that these agreements are legally valid, binding and enforceable.

RATINGS RATIONALE

Volcan's ratings remain under review for upgrade. The review is focused on 1) Volcan's ability to refinance the senior unsecured notes due in February 2026, and 2) secure additional sources to fund the expansion of Romina.

Pro forma for the proposed transaction and subject to the acceptance of the exchange, Volcan's near-term liquidity would improve, reducing its refinancing risk, with only \$10 million in debt maturing in 2025, and \$20 million in 2026 related to the term loan; in addition to any remaining senior unsecured notes, following the

exchange.

We expect Volcan to generate negative free cash flow of \$21 million in 2024, \$100 million in 2025 and \$45 million in 2026, driven by increased interest payments and growth capex related to Romina, which is not expected to contribute cash flows before 2026. Therefore, we believe that the company will need to incur additional debt to fund the construction of this project with reported leverage peaking at 3.5x in 2025. Under the company's term loan agreement, Volcan is allowed to increase debt for \$125 million to fund Romina and \$70 million for working capital purposes.

Volcan managed to sell one hydroelectric plant and it already signed a definitive agreement to sell another plant; the company will use these proceeds to reduce debt and boost liquidity. Other sources of liquidity are currently limited to potential sale of non-core assets; however, it remains unclear when these potential transactions would be concluded.

Volcan's Caa1 CFR incorporates a material reduction of Volcan's refinancing risk, although liquidity remains weak, given the maturity of \$365 million in senior unsecured notes in February 2026. The CFR also incorporates Volcan's high earnings volatility because of its exposure to commodity prices coupled with high cost structure, historically tight liquidity and aggressive financial policies, as well as its modest scale compared with that of its global peers.

At the same time, Volcan's Caa1 CFR reflects the company's limited operational diversification in terms of metals produced and assets, with seven mines located in one country.

In May 2024, Transition Metals AG, a subsidiary of the Argentine group Integra Capital, reached an agreement with Glencore plc (Baa1 positive) to acquire its controlling stake in Volcan. Transition Metals AG has been supportive of the liability management process and current management team, which we expect to remain in place.

The Caa2 ratings on the senior unsecured notes, one notch below CFR, reflects its senior unsecured nature and subordination in the payment waterfall.

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

Positive pressure on Volcan's ratings would be subject to the company's ability to improve its liquidity profile through the refinancing of its \$365 million in senior unsecured notes due in February 2026, in addition to secure the funds to develop its Romina project.

Given the review for upgrade, a downgrade of Volcan's ratings is unlikely. However, negative pressure could occur, should the company fail to refinance its senior unsecured notes due 2026 at least twelve months ahead of the maturity.

The principal methodology used in this rating was Mining published in October 2021 and available at <https://ratings.moodys.com/rmc-documents/76085>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Volcan Compania Minera S.A.A. y Subsidiarias (Volcan) is a Peruvian mining company that primarily produces zinc and lead concentrate and some copper concentrate, all with high silver content. The company operates through five operating units including seven operating mines, five concentrator plants and one leaching plant for silver oxide production. All of Volcan's operations are located in Peru, and it reported revenue of \$844 million for the 12 months that ended June 2024. Volcan is a holding company listed on the stock exchanges of Lima, Santiago and Madrid (Latibex). Since May 2024 Transition Metals AG, subsidiary of Integra Capital, holds a controlling stake of 55.028% in Volcan's Class A voting shares, which is equivalent to a 23.3% economic interest in Volcan.

Integra Capital is a diversified firm with investments in education, energy, media and telecom, mining, technology, wine, food and drinks. Its mining business includes lithium exploration activities in Argentina and investments in uranium and copper.

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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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