

# MOODY'S

## RATINGS

### Rating Action: Moody's Ratings confirms Volcan's Caa1 ratings; outlook changed to positive

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06 Dec 2024

New York, December 06, 2024 -- Moody's Ratings (Moody's) has confirmed today Volcan Compania Minera S.A.A. y Subsidiarias ("Volcan")'s Caa1 Corporate Family Rating ("CFR") and the Caa1 rating on its senior secured notes due in January 2030. We have also confirmed Volcan's Caa2 rating of its 4.375% Senior Unsecured notes due in February 2026, with a positive outlook. Previously, the ratings were on review for upgrade. This rating action concludes the review for upgrade initiated on 25 July 2024.

The change in outlook to positive reflects the company's improved cost position, the execution of asset sales and working capital facilities which improves the company's liquidity and cash flow generation. While we recognize these improvements in the company's credit profile, Volcan has not fully secured the funding needed to repay its 2026 maturities and to develop its Romina project. The company's cash generation has improved; however, under debt documentation, any excess cash above \$70 million is split between the term loan repayment and the Romina cash reserve accounts, leaving limited liquidity to repay the company's \$68 million in senior unsecured notes maturing in February 2026.

The positive outlook reflects our view that Volcan will be able to sustain or even improve its cash flow generation and that the company will be able to fund the 2026 maturities in advance and will complete the Romina project on time and on budget.

#### RATINGS RATIONALE

Going forward, we expect Volcan to generate negative free cash flow of \$150 million in 2025-2026 period, driven by growth capex related to Romina, which is not expected to contribute cash flows before 2026. Therefore, the company will need to incur additional debt to fund the construction of this project, with Moody's adjusted leverage peaking at 3.5x in 2026. 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 two hydroelectric plants in 2024; using these funds (\$74 million) to reduce debt and boost liquidity. Other sources of liquidity include the company's working capital facilities and commercial prepaids for \$63 million, maturing during the first half of 2025, and out of which \$30 million is available. Additionally, Volcan is looking to sell non-core assets; however, it remains unclear when these potential transactions would be concluded.

Volcan's cash generation improved on lower cost per metric ton (MT) at around \$50, down from the \$54 per MT in 2022, as well as sustained production, and higher zinc and silver prices supporting positive free cash flow (FCF) generation of \$20 million and debt reduction in 2024. We expect Moody's adjusted EBIT margin to be at 15% and leverage at 3x in 2024 from 2.3% and 4.4x, respectively in 2023.

Volcan's Caa1 CFR incorporates a material reduction of Volcan's refinancing risk, although the company still faces the refinancing risk of the \$68 million in senior unsecured notes maturing in February 2026 together with the negative FCF expected in the period. The CFR also incorporates Volcan's high earnings volatility because of its exposure to commodity prices, 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 (Peru).

In May 2024, Transition Metals AG, a subsidiary of the Argentine group Integra Capital, reached an agreement with Glencore plc (A3 stable) 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 rating 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 RATINGS

Positive pressure on Volcan's ratings would be subject to the company's ability to further improve its liquidity profile by sustaining or even improving its cost structure and secure the funding needed to repay its 2026 maturities and develop its Romina project. Quantitatively, we would consider an upgrade if the company maintains EBIT margin above 6%, interest coverage ratio of at least 1.5x and leverage, as adjusted by us, remains below 4.0x at different commodity prices points.

Negative pressure could occur, should the company fails to secure external sources to repay its 2026 senior unsecured notes or fund the negative FCF. Delays in the startup of Romina that lead to additional investments, decline in production, higher

costs or lower than expected cash flow generations could also lead to a downgrade.

The principal methodology used in these ratings 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 \$889 million for the 12 months that ended September 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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