

Research Update:

# Petroperu S.A. 'B' Ratings Affirmed And Removed From CreditWatch Negative On New Support Package; Outlook Stable

September 20, 2024

## Rating Action Overview

- On Sept. 13, 2024, the Peruvian government published Decree 013-2024, which involves a new package of support measures to Petroperu. This decree includes--among other measures--capitalizing already existing support instruments, the government taking over Petroperu's financial obligations during the second half of 2024 related to its international bonds and loan with the Spanish Export Credit Agency (Cesce) and implementing a new \$1 billion guarantee in support of a new short-term loan from Banco de la Nacion.
- In addition, the company has addressed the events that led us to place the ratings on CreditWatch with negative implications in May 2024, including the presentation of its 2023 audited financial statements.
- On Sept. 20, 2024, S&P Global Ratings removed its 'B' ratings on Petroleos del Peru Petroperu S.A. from CreditWatch negative and affirmed the ratings.
- We assigned a stable outlook, which mainly captures the favorable impacts of the new decree. The outlook also incorporates the resumption of operations at the Talara refinery's flexi-coking unit.

### PRIMARY CREDIT ANALYST

**Gaston Falcone**  
Buenos Aires  
+ 54-11-4891-2147  
gaston.falcone  
@spglobal.com

### SECONDARY CONTACT

**Candela Macchi**  
Buenos Aires  
+ 54 11 4891 2110  
candela.macchi  
@spglobal.com

## Rating Action Rationale

**Despite delays and a volatile political situation, the Peruvian government's recently published decree provides a new financial aid package to Petroperu involving about \$3.5 billion, including extension of maturities into 2025, as well as a new short term loan and capitalizations.** The decree is more comprehensive than we initially expected because it capitalizes two facilities from the government (\$1.5 billion instead of the \$750 million originally anticipated, plus interest), it sets up a new \$1 billion short-term loan from Banco de la Nacion (secured by a guarantee from the government) to provide liquidity for the rest of 2024, and it extends maturities of other existing facilities (\$1.1 billion) into 2025. The government will also assume the interest payments related to

the international bonds and the amortization of the Cesce loan for the rest of 2024 (about \$168 million). Although Petroperu will have to reimburse the government for the interest payments in 2025, we think this package improves the company's liquidity in the very short term and pushes back a potential default due to a liquidity crunch in the next six to 12 months, leading us to assign the stable outlook.

**However, we don't think the decree measures are enough to consider an upgrade at this point.**

This is because the decree includes both capitalization and new debt, so it doesn't materially reduce Petroperu's total debt burden. Also, in our view, there are still several events that need to materialize for a more meaningful and sustainable improvement of liquidity and to restore the company's reputation and standing in the market.

These events include, for example, the approval of the Budget Law (instrumental to extend government-related support of debt maturities further into 2028 from 2025), the hiring of a specialized third party to restructure the company as mandated by the decree, the materialization of steady and profitable production from Talara in 2025, the appointment of board members, and the stabilization of the company's management and governance bodies that have proven volatile in recent years. We will reassess our base case when we have a clearer view on these events.

**Petroperu has addressed the two events that led us to place the ratings on CreditWatch**

**negative.** Petroperu presented unqualified audited statements for 2023 on June 28, 2024 (within the cure period). In addition, the company managed to negotiate an amendment from lenders, including a redefinition of financial covenants with Cesce. These include net debt to equity below 4x (versus 3.75x), while the debt service coverage ratio was simply waived for 2025 and required to be above 0x in 2026 and 2027 and above 1.25x from 2028 onward, pushing this requirement back by two years. This waiver avoided a potential mandatory prepayment scenario.

In addition, after the operational setbacks announced at the Talara refinery in February 2024, and the shutdown of the flexi-coking (a refining process) unit until July 2024, operations at the refinery have resumed. The company confirmed that the gradual ramp-up in volumes processed is on track, and it expects normalized volumes of about 86,000 barrels of oil equivalent per day by year-end 2024 and in 2025. This should allow the company to start generating EBITDA again next year.

**We continue to view the likelihood of extraordinary government support as high.** We consider that the recent decree has had a positive impact on Petroperu's very short-term liquidity, helping to bridge its needs for 2024. However, this support is already embedded in our assessment of extraordinary support, and in line with our expectation that the government will step in to avoid business disruption and a payment default.

## **Outlook**

The stable outlook on the company mainly captures the impact of the new decree, which removes and extends short-term maturities related to government support, provides new working capital financing, and involves the government taking over the December 2024 Cesce loan amortization and interest payments on the international bonds for the rest of 2024.

The outlook also reflects that the company presented its audited statements, avoiding a potential event of default. It also considers that after the setbacks at Talara during the first half of 2024, the refinery has resumed operating and Petroperu has confirmed that operations should normalize in the fourth quarter and stabilize in 2025.

Finally, the outlook also reflects our view that Petroperu will continue playing an important role in Peru's energy and infrastructure policy while its link to the government remains strong. The outlook captures our expectation of a high likelihood of extraordinary government support, which we expect will remain instrumental for bridging Petroperu's liquidity needs.

### **Downside scenario**

We could lower the ratings if we were to revise downward our assessment of the likelihood of government support again, if we perceive uncertainties about the government's ability to implement sustainable corrective measures amid persistent vulnerabilities, or if our uncertainty about Petroperu's effective governance increases, particularly if there are new setbacks with Talara or new delays in the timely presentation of audited 2024 accounts.

We could also downgrade Petroperu if the company were to face an imminent default in payments, absent any indication of ongoing or extraordinary support from the government. We currently view this risk as less immediate based on the support received from the government decree.

### **Upside scenario**

At the current rating level, an upgrade of the sovereign would not result in a similar action on Petroperu, although an upgrade of Peru is unlikely given the stable outlook.

However, we could upgrade Petroperu if our view of the likelihood of extraordinary support increases, for example, if the company's role to the government--or link to it--strengthens, which we don't envision in the next 12 months.

Finally, we could revise the stand-alone credit profile (SACP) upward, and consequently raise the ratings (all else being equal), if we revise our view of the company's unsustainable capital structure. This could occur once Talara is fully operational and the company is able to generate consistent EBITDA, restoring its normal access to credit and liquidity. Petroperu would also need to implement a more meaningful and comprehensive solution to its total debt burden (including government-related debt), resulting in more manageable debt to EBITDA of 5x-7x, consistently. We think an upward revision of the SACP in the next 12 months is unlikely.

### **Company Description**

Peru (local currency: BBB/Stable/A-2; foreign currency: BBB-/Stable/A-3) owns 100% of Petroperu, of which 40% is represented by the Ministry of Energy and Mines (MINEM) and 60% by the Ministry of Finance (MEF).

The company transports, refines, distributes, and markets fuels and other petroleum-derived products in Peru. It owns and operates three refineries (Talara, Conchan, and Iquitos) with a total refining capacity of 92,500 barrels per day (bpd). The company also owns and operates the Nor Peruano oil pipeline (approximately 1,100 kilometers in length), which is Peru's main transportation pipeline that connects all of the country's major oil blocks to the country's largest refinery and port. Petroperu distributes fuel through ships, trucks, and rail cars, and sells it mainly through affiliated retail stations.

Most of the company's revenue and EBITDA come from the refining, marketing, and distribution business. Petroperu has invested heavily in the upgrade of Talara, which has increased its refining capacity to 95,000 bpd from 65,000 bpd, and to a total of 122,500 bpd for all three operating refineries. This venture explains the vast majority of Petroperu's total outstanding debt as of June

30, 2024; including several facilities from the government to support the company following the start of its liquidity and governance crisis in 2022.

Petroperu formally inaugurated the Talara plant in April 2022, starting its ramp-up period. After several delays and unforeseen setbacks, the company now expects the ramp-up to be completed in the fourth quarter of 2024.

## Ratings Score Snapshot

Issuer Credit Rating	B/Stable/--
Business risk:	Fair
Country risk	Moderately high
Industry risk	Moderately high
Competitive position	Fair
Financial risk:	Highly leveraged
Cash flow/leverage	Highly leveraged
Anchor	B
Modifiers:	
Diversification/Portfolio effect	Neutral
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Weak
Management and governance	Negative (-1 notch)
Comparable rating analysis	Neutral
Stand-alone credit profile:	ccc
Related government rating	Long-term foreign currency: BBB-; long-term local currency: BBB
Likelihood of government support	High

## Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Ratings Affirmed; CreditWatch/Outlook Action

	To	From
<b>Petroleos del Peru Petroperu S.A.</b>		
Issuer Credit Rating	B/Stable/--	B/Watch Neg/--
<b>Petroleos del Peru Petroperu S.A.</b>		
Senior Unsecured	B	B/Watch Neg

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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