

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns first-time B3 ratings to Petroperú; stable outlook

13 Mar 2025

New York, March 13, 2025 -- Moody's Ratings (Moody's) has assigned a ca Baseline Credit Assessment (BCA) and a B3 Corporate Family Rating (CFR) to Petroleos del Peru - Petroperu S.A. (Petroperú). We have also assigned B3 senior unsecured ratings to Petroperú's outstanding global notes of \$1 billion due in 2032 and \$2 billion due in 2047. The outlook is stable.

RATINGS RATIONALE

Petroperú's ca Baseline Credit Assessment (BCA) and B3 ratings reflects the company's weak liquidity position, small asset base, high financial leverage, and low interest coverage. The concentration of production of refined products in the Talara refinery, which accounts for approximately 82% of the company's total input, further exacerbates these challenges. However, Petroperú's fuel products market share of 25% as of December 2024 tends to support lower margin volatility. Additionally, the favorable product slate expected once Talara fully operates is anticipated to translate into positive EBIT/throughput metrics by 2027.

Petroperú, the largest state-owned company in Peru, faces significant challenges due to its small refining capacity compared to global peers and a high concentration of input in its Talara refinery, which accounts for approximately 82% of its total input. The company's credit metrics remain weak, including a negative interest coverage (-1.8x for 2024) and high financial leverage (debt to EBITDA represented -17.1x in 2024), making it vulnerable to volatile crude and fuel prices. Despite these challenges, Petroperú holds a relevant position in the domestic liquid fuel market, with an installed refining capacity equivalent to 55% of Peru's total.

The New Talara Refinery (NTR) has shown significant progress, achieving 100% completion as of December 2024. However, the refinery has faced operational challenges, including an unscheduled shutdown of the Flexicoking Unit from March to June 2024. Despite these setbacks, the NTR is expected to enhance Petroperu's operational efficiency and financial performance. We expect EBITDA to register an improvement in 2025, but that it will be positive until 2027. The company's product

slate is favorable, with high-margin products such as gasoline and diesel comprising 78% of its output.

The assigned ratings also take into account that after losing market share as a result of the delays of the NTR's completion (market share of 25% in refined petroleum products as of December 2024 compared to the 31% seen in 2022), the company has been implementing strategic actions to increase its market share, including optimizing NTR operations, enhancing commercial competitiveness, and improving its commercial brand value. Petroperu's extensive network of approximately 700 affiliated service stations across Peru further solidifies its market presence.

The B3 ratings take into account our Joint Default Analysis which includes our assumptions of a high level of default correlation between the Government of Peru (Baa1 stable) and that of Petroperú and a high support assumption by the sovereign to the company in case of need, resulting in four notches of uplift from the company's ca BCA.

The Government of Peru has supported Petroperú through capital injections; has granted guarantees for oil imports and for a loan for the NTR project in the amount of about \$1 billion; and has transferred pension obligations to a government-related body, among other types of support. The government has also excused Petroperú from paying dividends in the last several years, which going forward will help support liquidity and capital reinvestment. Given the strong linkages with the government, governance risk is a consideration in the rating action.

Petroperú's liquidity is weak. As of December 31, 2024, the company had \$130.86 million in cash. We don't expect the company to generate enough cash from operations through the end of 2025 to cover interest expenses of about \$304 million annually and we expect the company to continue rolling over short term debt. Total capital spending will be around \$300-400 million annually in 2025-2026. The company counts with a revolving credit facility granted by the government for \$1 billion (only \$100 million available), which matures in December 2028.

The stable outlook on the rating is based on our expectation that Petroperú's credit profile will reflect the gradual reincorporation of Talara's refining capacity starting in late 2025, with metrics expected to improve until 2027.

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

An upgrade of Petroperú's ratings could occur if the company establishes a more sustainable capital structure, demonstrating a recovery in operating performance and cash flow generation. Specifically, an improvement in Petroperú's liquidity position and the generation of free cash flow for debt reduction and registering positive EBITDA would be factors for an upgrade on the BCA and potentially the ratings.

Because Petroperú's ratings are highly dependent on support from the Government of Peru, a change in our assumptions about government support and its timeliness could lead to a downgrade of the ratings. A downgrade of Peru's Baa1 rating would likely result in a downgrade of Petroperú's ratings.

PETROPERÚ is a 100% Peruvian government-owned company founded in 1969, focused primarily on the refining of oil and sale of oil products in Peru. Currently, the Ministry of Energy and Mines (MINEM) owns 40% of the company and the Ministry of Economy and Finance (MEF) the remaining 60%, maintaining a strong oversight. PETROPERÚ's current total throughput capacity is of 122.5 thousand barrels per day (kbpd).

The methodologies used in these ratings were Refining and Marketing published in August 2021 and available at <https://ratings.moodys.com/rmc-documents/74331>, and Government-Related Issuers methodology published in January 2024 and available at <https://ratings.moodys.com/rmc-documents/406502>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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