

Company (Ticker) (S&P / Moody's / Fitch)	Major Issues / Risks	Major Developments	Credit Outlook																								
<p>Volcan Compañía Minera (VOLCAN) (--/B1/BB-)</p> <p>Volcan Compañía Minera S.A.A. y Subsidiarias (Volcan) is a Peruvian company involved in the extraction, concentration, treatment and commercialization of zinc, lead and silver. In addition to its core mining activities, Volcan is also involved in energy and port & logistics operations which supports its core activities. Volcan operates and maintains several hydroelectricity plants that provide energy to the mining operations located in close proximity. The port and logistics operations facilitate the handling of raw materials and finished product.</p> <p>The company's mining operations are located in the Sierra Central of Peru. As at December 2019, Volcan's mineral resources (measured, indicated and inferred) totalled 531.1 million metric tons (MT).</p>	<p>Strengths/ Opportunities</p> <ul style="list-style-type: none"> Large asset base, including valuable core and non-core assets. Fairly diversified production of base and precious metals Flexible operational cost structure. Able to reduce exploration and development costs in periods of low commodity prices. Strong market position - Volcan is a leading producer of zinc, lead and silver in Peru. Ranks among the top 10 mining companies in Peru. <p>Weaknesses /Threats</p> <ul style="list-style-type: none"> Low geographic diversification. All operating assets are located in Peru. Exposure to commodity price fluctuation Relatively lower mine life compared to Peruvian and global mining peers. Modest revenue size and low margins compared to global peers. Weak liquidity Deteriorating cash flows due to decline in base metal prices. Heavy reliance on short term debt with heightened refinancing risks. Weak business environment constrains execution of strategy to sell non-core assets and execute capital structure changes. 	<p>Sustained decline in revenues – revenues were 36% lower than 2013 levels, largely due to a sustained decline in the production of zinc, lead and silver.</p> <p>Declining operating expenses reflecting the impact of initiatives such as optimization of mining methods, efficiency in the use of energy and materials and the restructuring of contractor management. As a result, Volcan's unit cost of production declined by 33% in since 2013.</p> <p>Weak Cash flows and liquidity – over the 2013-2019 period Volcan's Free Cash Flow averaged US\$113million p.a., compared to annual average debt service obligations of over US\$200million. The cash balance as at the end of 2019 was US\$34million.</p> <p>Short term debt has remained high due to the reliance on a revolving short term line of credit to finance short term maturities and other obligations. As at December 2019 short term debt was USD\$194 million. Volcan's also holds US\$535 million in bonds due 2022.</p> <p>Asset sale to optimize liquidity. In line with its strategy to reduce net debt through the sale of non-core assets, Volcan, in Q1 2020 sold three subsidiaries for US\$30 million, concession royalties and variable consideration that is ultimately driven by base metal prices. The buyer assumed ownership and operation of all Volcan's mining and processing assets in Cerro de Pasco, Central Peru.</p> <p>Ratings downgrade – Volcan's credit ratings were reduced by Moody's (B1 from Ba1) on March 10, 2020, and Fitch (BB from BBB-) on April 8, 2020. This occurred against the background of a sharp decline in base metal prices, particularly zinc, due to reduced industrial demand arising from measures to stem the spread of the COVID-19 virus. These developments placed additional pressure on Volcan's already weak cash flow and liquidity situation.</p>	<p>Negative</p> <p>Both Moody's and Fitch have a negative outlook on the credit. Volcan could face further downgrades if it fails to improve liquidity in the coming quarters and reduce its dependence on short term debt or if there are prolonged demand pressures due to delays in controlling the spread of the COVID-19 virus. Other credit negative factors include lower mine life at Volcan's main facilities due to an inability to replenish reserves and resources, as well as adverse changes in the local regulatory environment.</p> <p>Outlook</p> <p>The recent sale of assets have released some liquidity that would enable Volcan to meet immediate needs and reduce its reliance on short term debt. However, given that the consideration structure relies to some degree on the base metal prices, Volcan will not be able to reap the full benefits in the current economic scenario. While it expected that base mineral prices will start to recover at the end of the second quarter of 2020, the levels will be determined by the pace and strength of the global economic recovery.</p> <p>The current business environment will constrain investment in the exploration and development of deposits to increase the productivity of its mines, boost revenues and support a sustained improvement in margins and cash flow. In the absence of steady progress towards addressing its liquidity and liability management challenges, Volcan will be unable to refinance the 2022 bonds on favorable terms and execute broader changes to its capital structure that are critical to its long term viability.</p> <p>Recommendation – clients should review their holdings of Volcan bonds with a view to reducing their exposure.</p>																								
<p>Sales by Business Line – 2019</p> <table border="1"> <thead> <tr> <th></th> <th>US\$MN</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Zinc</td> <td>420</td> <td>57%</td> </tr> <tr> <td>Lead</td> <td>165</td> <td>22%</td> </tr> <tr> <td>Silver Bars</td> <td>75</td> <td>10%</td> </tr> <tr> <td>Silver</td> <td>39</td> <td>5%</td> </tr> <tr> <td>Copper</td> <td>37</td> <td>5%</td> </tr> <tr> <td>(Loss) Gain on Execution of Financial Instruments</td> <td>7</td> <td>1%</td> </tr> <tr> <td>Total</td> <td>744</td> <td></td> </tr> </tbody> </table> <p>Sources: Volcan Compañía Minera, Market Screener</p>		US\$MN	%	Zinc	420	57%	Lead	165	22%	Silver Bars	75	10%	Silver	39	5%	Copper	37	5%	(Loss) Gain on Execution of Financial Instruments	7	1%	Total	744				
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Volcan Compañía Minera S.A.A. y Subsidiarias: Key Operational Data								
	2013	2014	2015	2016	2017	2018	2019	% Change 2019 vs 2013
Sales after Adjustment	1162.8	1042.4	794.5	821.5	856.7	775.1	743.6	-36%
Sales Prices								
Zinc (USD/MT)	1,914	2,143	1,917	2,077	2,836	2,917	2,539	33%
Lead (USD/MT)	2,172	2,103	1,782	1,858	2,311	2,245	1,978	-9%
Copper (USD/MT)	7,295	6,837	5,426	4,901	6,148	6,464	6,022	-17%
Silver (USD/Oz)	24.4	19.1	15.6	17.0	17.1	15.7	16.1	-34%
Gold (USD/Oz)	-	-	1,154	1,234	1,262	1,265	1,387	20%
Production								
Mineral Treatment (000MT)	6410	7395	7910	7716	8312	8077	8809	37%
Zinc Production (000FMT)	279.6	280.7	284.9	273.4	255.1	241.1	239	-15%
Lead Production (000FMT)	67.4	57	59.6	52.2	51.3	47.2	49.4	-27%
Copper Production (000FMT)	3.2	3.4	4.3	5.2	5.4	4.6	4.5	41%
Silver Production (Millions Oz)	20.7	22.5	24.8	22	17.3	17	15.6	-25%
Gold Production (Thousands Oz)	-	-	5.3	5.8	8.1	11.6	21.6	
Unit Cost (USD/MT)	67.6	63.9	53.7	49.5	47.9	46.6	45.2	-33%

Source: Volcan Compañía Minera S.A.A. y Subsidiarias

Volcan Compañía Minera S.A.A. y Subsidiarias - Financial Highlights									
In Millions of USD 12 Months Ending	FY 2013 12/31/2013	FY 2014 12/31/2014	FY 2015 12/31/2015	FY 2016 12/31/2016	FY 2017 12/31/2017	FY 2018 12/31/2018	FY 2019 12/31/2019	FY 2020 Est 12/31/2020	FY 2021 Est 12/31/2021
Revenue, Adj	1,162.8	1,042.4	794.5	821.5	856.7	775.1	743.6	776.0	760.0
<i>Growth %, YoY</i>	-1.3	-10.4	-23.8	3.4	4.3	-9.5	-4.1	4.4	-2.1
Gross Profit, Adj	371.4	176.6	131.3	240.3	290.6	228.7	147.2		
<i>Margin %</i>	31.9	16.9	16.5	29.3	33.9	29.5	19.8		
EBITDA, Adj	387.3	250.3	-434.7	238.8	-32.0	317.5	202.2	291.0	276.0
<i>Margin %</i>	33.3	24.0	-54.7	29.1	-3.7	41.0	27.2	37.5	36.3
Net Income, Adj	174.5	52.2	-456.1	38.3	-475.2	27.9	-70.3	60.0	55.0
<i>Margin %</i>	15.0	5.0	-57.4	4.7	-55.5	3.6	-9.5	7.7	7.2
EPS, Adj	0.05	0.01	-0.12	0.01	-0.12	0.01	-0.02	0.01	0.01
<i>Growth %, YoY</i>	-2.6	-75.4	—	—	—	—	—	—	0.0
Cash from Operations	240.8	197.8	172.0	213.0	266.3	224.0	173.3		
Capital Expenditures	-434.4	-307.8	-117.3	-43.7	-126.5	-104.6	-89.6		
Free Cash Flow	-193.6	-110.0	54.7	169.3	139.8	119.5	83.8		

Source: Bloomberg

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