FitchRatings

RATING ACTION COMMENTARY

Fitch Places PRIO on Rating Watch Positive

Wed 07 May, 2025 - 13:28 ET

Fitch Ratings - São Paulo - 07 May 2025: Fitch Ratings has placed PRIO S.A.'s (PRIO) 'BB' Long-Term Local and Foreign Currency Issuer Default Ratings (IDRs), and PRIO Luxembourg Holding S.a.r.l.'s (PRIO Lux) 'BB' Foreign Currency IDR and the 'BB' rating of its USD600 million secured notes on Rating Watch Positive (RWP). Fitch also affirmed the 'AAA(bra)' Long-Term National Scale ratings of PRIO, Prio Forte S.A. (Prio Forte) and Prio Forte's third, fourth and fifth debenture issues. The Outlook for the National Scale ratings is Stable.

The Rating Watch follows the announced acquisition of 60% interest of the Peregrino and Pitangola fields (Peregrino asset). The resolution of the Rating Watch is anticipated upon the transaction's closing, which may take more than six months. The transaction will significantly increase PRIO's scale while maintaining its strong financial profile. Fitch believes the company will be able to secure funding at a competitive cost.

KEY RATING DRIVERS

Greater Scale: The Peregrino acquisition increases PRIO's proven reserves (1P) to 872 million boe (+21%) and 1P production to 168 thousand barrels of oil equivalent per day (kboe/d) (+53%), levels commensurate with a 'BB+' IDR. The increased scale from the acquisition mitigates the uncertainties regarding Wahoo's first oil. Production should reach 110 kboe/d in 2025 or 168 kboe/d on a pro forma basis, assuming the closing of the 40% stake in 2025, and 196 kboe/d in 2026, with the other 20%.

Quick Deleveraging: The acquisition temporarily pressures PRIO's credit metrics under Fitch's revised forecasts for Brent at USD65 per barrel (bbl) from 2025 to 2027. Net leverage is expected to increase to 2.9x in 2025 (or 1.9x pro forma) from 1.9x in 2024 and reduce to 1.4x in 2026 and 0.8x in 2027, assuming no dividend distribution in 2025 and 25% dividend payout as of 2026.

High Efficiency: PRIO´s efficiency and resiliency to price volatility could have some negative impact from the acquisition, but the Frade-Wahoo tieback and Albacora Leste's ramp-up should increase the overall efficiency in the coming years. PRIO's robust reserve base and ownership of core equipment add flexibility to adjust capex according to market cycles. The average discount to Brent is expected to increase to around USD6.4/boe, from USD3.0/boe in 2024, reflecting Peregrino's lower quality oil, while the lifting cost should increase to USD13/bbl in 2025 and USD10/bbl in 2026, from USD9/bbl in 2024.

Strong Cash Flows: Fitch forecasts EBITDA of BRL8.5 billion in 2025 (BRL12.1 billion pro forma) and BRL16.6 billion in 2026. For each boe produced, PRIO should generate EBITDA close to USD40 in 2025-2027, on average, from USD55 in 2024. FCF is expected to remain positive at around BRL4.2 billion in 2025-2026, after investments averaging BRL3.8 billion per year in the same period. Peregrino is well developed and should add marginal incremental capex, although it offers lower growth potential compared to previous acquisitions.

Solid Growth: The Wahoo startup expected in 2026, along with strong growth from Albacora Leste, should more than offset Frade's depletion. Projections consider all four wells of Wahoo becoming operational by March 2026, adding around 35 kboe/d over a full year. Production from Wahoo depends on the approval of the license to install the pipelines connecting its production to Frade's FPSO. PRIO's track record mitigates the increasing execution risks as the company advances on ultradeep waters in Albacora Leste, whose contribution will decline to 15% of the output estimated through 2027 after the Peregrino acquisition, from 30% in 2024.

Equalized Ratings: Fitch equalizes the ratings of Prio Forte and PRIO Lux's with that of PRIO, given the guarantees provided by the parent company to all or most of the debts issued by these subsidiaries, according to Fitch's "Parent and Subsidiary Linkage Rating Criteria." Prio Forte is also the main subsidiary, accounting for most of the production estimated through 2029. It concentrates the working interests in Albacora Leste, Frade and Wahoo.

PEER ANALYSIS

PRIO's high profitability is a key differentiation factor relative to its Brazilian peer Brava Energia S.A. (Brava, IDR BB-/Outlook Stable) and to North American oil-weighted producers in the onshore Permian basin (Texas/New Mexico), such as Matador Resources Company (Matador; IDR, BB-/ Positive), SM Energy Company, L.P. (SM; IDR BB/Stable) and Vermilion Energy Inc. (Vermillion; IDR, BB-/Negative).

Brava and Vermillion have similar production scales, with 1P production averaging close to 95 kboe/d and 85 kboe/d, respectively, over 2024-2026. Brava has a broader asset base, operating several assets across six different basins onshore and offshore, but its lower profitability makes it less resilient than PRIO to market downturns. Fitch projects PRIO's half-cycle costs around USD16/boe over 2025-2027, below the estimates for Brava (USD28/boe) and Vermillion (USD23/boe) over the same period.

The acquisition places PRIO in the 'bbb' range of production (175 kboe/d to 700 kboe/d) on a sustained basis, although 1P reserves are still in the 'bb' category. Matador and SM Energy operate onshore fields within that range, from 170 kboe/d to 190 kboe/d and their cost structure is slightly lower than PRIO's, with average half-cycle costs around USD14/boe.

Considering royalties, cash tax, debt interest and other costs, PRIO should generate operating cash flow of around USD28/boe produced, as measured by funds from operations (FFO), which is close to the estimate for SM Energy (USD26/boe) and lower than Matador's (USD34/boe). The estimates for PRIO incorporate a negative impact from the Peregrino acquisition.

PRIO compares favorably with its American peers in terms of 1P reserve life. Fitch estimates a seven- to nine-year range through 2026, on average, for Matador, SM Energy and Vermillion, and 13 years for PRIO.

In terms of its financial profile, PRIO is similar to Brava and compares unfavorably with Matador and SM Energy. Fitch projects EBITDA net leverage ratios around 2.3x for Brava over 2025-2026 and close to 1.5x for Matador and SM Energy, below the 2.1x ratio estimated for PRIO.

KEY ASSUMPTIONS

--Average Brent prices of USD65/bbl from 2025 to 2027;

--Wahoo first oil in 1Q26;

--Average daily production from 2025 to 2028: 110 kboe/d (168 kboe/d pro forma); 196 kboe/d; 215 kboe/d; and 214 kboe/d, respectively;

--Oil sales consider discount to Brent around USD6.4/bbl;

--Lifting cost from 2025 to 2027: USD13.0/boe; USD9.8/boe; and USD7.0/boe, respectively;

--Annual capex around BRL3.1 billion over 2025-2027;

--Dividend payout ratio of 25% of net income as of 2026.

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- The Watch Positive will be removed if the acquisition is not successfully completed.

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- The IDRs will be upgraded upon the closing of the acquisition.

LIQUIDITY AND DEBT STRUCTURE

Fitch believes PRIO will be able to secure funding for the acquisition and roll over short-term maturities at competitive cost. The agency estimates that the company needs to raise at least BRL12,6 billion in 2025-2026 to maintain sound liquidity. PRIO's comfortable reserve life and high operating efficiency should continue to support its strong access to domestic and international funding to roll over its debt, despite the recent drop in oil prices.

In December 2024, PRIO's debt totaled BRL21.0 billion (or BRL19.5 billion excluding the fair value adjustment of currency swaps). It was mainly composed of bank loans (39%), debentures (38%), secured notes (18%) and M&A payables (5%). Although the cash balance of BRL4.0 billion covered 3.0x the short-term debt, the company needs to manage BRL8.1 billion of debt coming due in 2026, including the USD600 million rated notes.

ISSUER PROFILE

PRIO is a Brazilian oil and gas company, focused on operating and developing offshore mature fields. PRIO Forte is PRIO's most relevant subsidiary and Petrorio Lux is a funding vehicle that incorporates the trading activity. PRIO has no controlling shareholder.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

PRIO Luxembourg Holding S.A.R.L has an ESG Relevance Score of '4' for Group Structure due to {DESCRIPTION OF ISSUE/RATIONALE}, which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

PRIO Luxembourg Holding S.A.R.L has an ESG Relevance Score of '4' for Governance Structure due to {DESCRIPTION OF ISSUE/RATIONALE}, which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Prio Forte S.A.	Natl LT	AAA(bra)	Affirmed	AAA(bra)
senior unsecured	Natl LT	AAA(bra)	Affirmed	AAA(bra)
senior unsecured	Natl LT	AAA(bra)	Affirmed	AAA(bra)
PRIO Luxembourg Holding S.A.R.L	LT IDR	BB	Rating Watch On	BB

senior secured	LT	BB	Rating Watch On	BB
PRIO S.A.	LT IDR	BB	Rating Watch On	BB
	LC LT IDR	BB	Rating Watch On	BB
	Natl LT	AAA(bra)	Affirmed	AAA(bra)

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Corporate Rating Criteria (pub. 06 Dec 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 06 Dec 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

PRIO Luxembourg Holding S.A.R.L	EU Endorsed, UK Endorsed
PRIO S.A.	EU Endorsed, UK Endorsed

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