

Research Update:

Prio Ratings Affirmed On Expected Higher Production From Peregrino Acquisition; Outlook Remains Positive

May 7, 2025

Rating Action Overview

- Prio S.A. announced the acquisition of a 60% stake in Peregrino field from Equinor Brasil Energia Ltda, which we estimate will add about 60 thousand barrels of oil equivalent per day (kboe/d) to production and 202 million barrels of oil to its current reserves.
- With this acquisition and assuming Wahoo's production in 2026, we now expect Prio's daily production will approach 200 kboe in 2026, although the deal depends on regulatory approval and Wahoo on environmental permits, the timing of which are uncertain.
- Upon the conclusion of the above factors, we expect Prio to maintain leverage below 2.0x and sustain comfortable liquidity.
- As a result, we affirmed our 'BB-' and 'brAA+' long-term issuer credit and national scale ratings and our 'brA-1+' short-term national scale rating on the company, our 'BB' issue-level rating on its senior secured notes, and our 'brAA+' issue-level rating on its senior unsecured debentures.
- The outlook remains positive, indicating that we could raise the ratings in the next 12 months once the company increases production and reduces leverage.

Primary contact

Fabiana Gobbi
Sao Paulo
55-11-3039-9733
fabiana.gobbi
@spglobal.com

Secondary contact

Luisa Vilhena
Sao Paulo
55-11-3039-9727
luisa.vilhena
@spglobal.com

Rating Action Rationale

Prio just announced its acquisition of the remaining 60% stake in Peregrino field and the asset's operations from Equinor, which will increase daily production and reserves substantially. We estimate it will add about 60 kboe/day to Prio's production and 202 million barrels of proved reserves (1P) until first-half 2026, when the company estimates the acquisition will be concluded. The deal totals \$3.5 billion, but cash disbursements will be lower, estimated at about \$2.4 billion, considering the field's cash generation since Jan. 1, 2024 (the deal effective date), which will be adjusted at closing.

The deal is divided in two parts: the acquisition of a 40% stake and operation of the field, and the acquisition of a 20% stake. It depends on antitrust and regulatory approvals.

We estimate Prio's daily production will approach 200 kboe by 2026, considering 100% of Peregrino, Wahoo's first oil, and continued solid performance at existing fields. For 2025, we currently project daily production of about 110 kboe, lower than 150 kboe in our previous forecast because of delayed approvals for environmental licenses. We previously expected Wahoo's first oil in midyear 2025, and in our base case now assume first-quarter 2026.

In February 2025, Prio received the approval for Wahoo's drilling campaign, but is still awaiting environmental permits for subsea works and interconnection to the Frade floating, production, storage and offloading (FPSO) vehicle.

We expect Prio to maintain EBITDA margins above the industry average, despite Peregrino's higher lifting costs and higher price discounts to Brent. The company ended 2024 with an average lifting cost of \$9 per barrel (/bbl), which considered only one month of its 40% stake in Peregrino, versus \$7.7/bbl in 2023. Peregrino's lifting cost (estimated at about \$18.5/bbl for 2025) is much higher than Prio's other assets (average \$7.5/bbl). We now forecast consolidated lifting costs at \$12.8/bbl in 2025 and decreasing to \$9.7/bbl in 2026. The reduction considers the conclusion of the works on a gas pipeline at Peregrino by midyear 2026, shifting energy supply to natural gas from diesel, reducing production costs, and the operation at Wahoo with much lower lifting costs.

Moreover, due to the quality of oil and logistics costs, Peregrino's discount to Brent is higher at about \$10.5/bbl, versus \$2.5/bbl-\$5.0/bbl for the Frade, Polvo and Tubarao Martelo, and Albacora Leste fields. Furthermore, Prio's EBITDA margin is affected by its trading operations, which have very low margins due to the nature of the business. Combined, we now forecast EBITDA margins at about 60% in 2025 but approaching 70% in 2026 due to the expected reduction in lifting costs.

We expect Prio to adequately fund the new acquisition, maintaining reasonable leverage and liquidity. The company already paid \$335 million of the acquisition at signing, with its cash position of \$715 million as of March 31, 2025. In first-quarter 2025, it raised about \$200 million (Brazilian real [R\$] 1.2 billion) in debentures and refinanced about \$300 million of bank loans (about R\$1.7 billion) originally due in 2026.

We believe Prio has access to the domestic credit market and good relationships with banks, proven by debt refinancing and the funding for previous mergers and acquisitions (M&A). We also believe it could tap the international bond market, like in the past, at reasonable costs. However, current global uncertainties could pose risks to the timing and cost of funding.

In our view, Prio has proven its ability to deleverage quickly after large M&A, with a focus on operational efficiencies. Prio's fields are all in the Campos Basin, which increases efficiencies between fields and enables better terms with suppliers. We believe that higher EBITDA generation after consolidation of the acquired stake and Wahoo's production will result in leverage reduction to 1.5x-2.0x in 2026 from about 3.5x-4.0x by year-end 2025. This metric for 2025 considers the amount to be paid for the acquisition but no cash generation from the 60% stake in Peregrino. If we exclude the acquisition amount, debt to EBITDA would be about 2.0x.

Outlook

The positive outlook indicates that we could raise our ratings on Prio in the next 12 months once it increases daily production to comfortably above 150 kboe with controlled leverage.

Downside scenario

We would revise the outlook back to stable in the next 12-18 months if the company's production and sales are significantly lower than our expectations because of delays in the approval of the Peregrino acquisition and/or Wahoo's development, or if oil prices are well below our current price deck assumptions for a sustained period, resulting in lower EBITDA that weakens credit metrics.

We could also revise the outlook to stable if Prio's growth strategy becomes more aggressive, increasing leverage significantly and reducing free operating cash flow (FOCF). These scenarios would lead to debt to EBITDA trending to 3.0x and negative FOCF on a sustained basis.

Upside scenario

We could raise the ratings in the next 12 months once we see the company comfortably delivering production at about or above 150 kboe/d in 2026, with debt to EBITDA at about 2.0x, and measures to address acquisition funding and next debt maturities to support a comfortable liquidity position.

These factors would result from the approval and successful integration of the additional 60% stake in Peregrino and/or Wahoo's proved production at our forecast levels after first oil.

Company Description

Prio is a Brazilian oil and gas producer with five fields in the Campos Basin. The company has been listed on Brazil's stock exchange since 2010.

As of Dec. 31, 2024, Prio had 1P reserves of 725 million barrels of oil. Prio's main fields are:

- The Polvo and Tubarao Martelo cluster, with 10,847 barrels per day of production in first-quarter 2025 and 100% working interest;
- Frade, with 38,274 barrels per day of production and 100% working interest;
- Albacora Leste, with 21,926 barrels per day of production and 90% working interest;
- Peregrino with 38,246 barrels per day of production and 40% working interest; and
- Wahoo, which we estimate will have an initial average of 28,500 barrels per day of production by first-quarter 2026 and 100% working interest.

Our Base-Case Scenario

Assumptions

- Brent oil price of \$65/bbl for the rest of 2025 and \$70/bbl for 2026.
- Average inflation in Brazil of about 5.2% in 2025 and 4.7% in 2026.
- Average foreign exchange rates of R\$5.87 per \$1 in 2025, and R\$5.85 per \$1 in 2026

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- End-of-period exchange rates of R\$5.90 per \$1 in 2025 and R\$5.85 per \$1 in 2026.
- Oil offtake of about 40 million barrels in 2025, and close to 72 million barrels in 2026. The increases are mainly due to the consolidation of the Peregrino field and our assumption of Wahoo's first oil production by first-quarter 2026, as well as sustained solid production at other existing fields.
- Price discounts over Brent prices of \$2.5/bbl-\$5.0/bbl for Frade, Polvo and Tubarao Martelo cluster, and Albacora Leste, based on each field's oil and commercial characteristics. For Wahoo, we assume a discount of \$2/bbl, which is lower than the average considering the superior quality of the oil. For Peregrino, we assume a discount of \$10.5/bbl given the worse quality oil.
- Strong revenue growth in 2026 versus 2025 due to the full incorporation of Peregrino and Wahoo's production.
- Average lifting costs of \$12.8/bbl in 2025, and about \$9.7/bbl in 2026.
- Capital expenditure (capex) in 2025 and 2026 mainly directed to Wahoo drilling and installation campaign and Peregrino's gas pipeline works.
- Cash outflows of about \$2.4 billion in 2025-2026 for Peregrino's acquisition, depending on adjustments at closing amid Brent prices at the time.
- Debt issuance of approximately \$2.4 billion in 2025 to both fund the acquisition and refinancing. For 2026 we assume debt reduction.
- No additional M&A. While some deals could occur given Prio's track record, this is difficult to forecast due to the uncertain timing and size.

Key metrics

PRIO S.A.--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. BRL)	2021a	2022a	2023a	2024a	2025e	2026f	2027f	2028f
Revenue	4,396	6,363	11,905	14,361	16,848	28,995	31,288	31,502
Gross profit	3,273	4,999	9,576	9,663	10,703	20,785	23,257	23,531
EBITDA (reported)	2,993	4,770	9,210	9,440	10,158	20,256	22,685	22,955
Plus/(less): Other	(159)	(255)	38	94	240	531	1,055	1,069
EBITDA	2,833	4,515	9,249	9,533	10,399	20,786	23,740	24,024
Less: Cash interest paid	(313)	(287)	(676)	(916)	(1,857)	(2,123)	(1,881)	(1,545)
Less: Cash taxes paid	(40)	(535)	(562)	(784)	(1,271)	(3,096)	(4,051)	(4,556)
Plus/(less): Other	--	(15)	(24)	(47)	(240)	(531)	(1,055)	(1,069)
Funds from operations (FFO)	2,480	3,678	7,987	7,787	7,030	15,037	16,753	16,855
Interest expense	264	398	671	1,074	1,830	2,109	1,875	1,539
Cash flow from operations (CFO)	1,871	4,640	7,065	8,753	7,621	13,727	16,825	17,501
Capital expenditure (capex)	1,001	1,901	4,248	3,616	4,140	4,026	2,148	2,276
Free operating cash flow (FOCF)	870	2,739	2,817	5,137	3,482	9,701	14,677	15,225
Dividends	--	--	61	--	--	--	6,298	7,271
Share repurchases (reported)	--	19	531	945	315	--	--	--

Prio S.A.--Forecast summary

Discretionary cash flow (DCF)	870	2,720	2,226	4,192	3,167	9,701	8,380	7,953
Debt (reported)	3,308	7,632	7,393	18,402	28,575	24,838	21,105	14,070
Plus: Lease liabilities debt	593	1,501	2,161	2,548	3,148	3,447	3,578	3,697
Plus/(less): Other	834	8,469	744	3,164	7,353	4,852	4,852	4,852
Debt	4,735	17,603	10,299	24,114	39,076	33,137	29,536	22,619
Cash and short-term investments (reported)	4,651	9,613	2,335	3,993	6,457	8,849	13,522	14,476

Adjusted ratios

Debt/EBITDA (x)	1.7	3.9	1.1	2.5	3.8	1.6	1.2	0.9
FFO/debt (%)	52.4	20.9	77.6	32.3	18.0	45.4	56.7	74.5
EBITDA interest coverage (x)	10.7	11.3	13.8	8.9	5.7	9.9	12.7	15.6
CFO/debt (%)	39.5	26.4	68.6	36.3	19.5	41.4	57.0	77.4
FOCF/debt (%)	18.4	15.6	27.4	21.3	8.9	29.3	49.7	67.3
DCF/debt (%)	18.4	15.5	21.6	17.4	8.1	29.3	28.4	35.2
Annual revenue growth (%)	130.9	44.8	87.1	20.6	17.3	72.1	7.9	0.7
EBITDA margin (%)	64.4	71.0	77.7	66.4	61.7	71.7	75.9	76.3
Debt/debt and equity (%)	41.7	64.0	42.6	48.2	56.7	43.9	36.8	28.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R\$--Brazilian real.

Liquidity

Prio's solid cash generation and adequate access to capital and credit markets support its adequate liquidity. We expect the company to continue generating solid cash flow, enabling sources of liquidity to exceed uses by about 2.0x in the next 12 months.

We also expect Prio to maintain a smooth debt maturity profile amid debt refinancings. Furthermore, we believe the company will adequately fund the acquisition of Peregrino.

Principal liquidity sources

- Cash and cash equivalents of R\$4.2 billion as of March 31, 2025.
- Cash funds from operations of about R\$9.3 billion in the next 12 months from March 31, 2025.

Principal liquidity uses

- Short-term debt of R\$399.4 million as of March 31, 2025.
- Capex of about R\$4 billion in the next 12 months.
- Seasonal working capital needs of approximately R\$500 million in the next 12 months.
- The payment of \$335 million at signing for the acquisition of the 60% Peregrino stake.

Covenants

The company's senior notes and debentures have restrictive incurrence financial covenants that require Prio to maintain net debt to EBITDA (excluding leases and asset retirement obligations) below 2.5x. This is pro forma considering 12 months of EBITDA generation from the acquired assets.

We expect the company to comfortably comply with these financial covenants in the next two years, with a cushion of over 40%.

Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of Prio because of the downside risks to profitability and product demand amid the transition to renewable energy sources. Still, the company's focus on mature oil fields with low lifting costs makes it more resilient than high-cost players.

The full incorporation of Peregrino will increase the company's carbon emissions since it currently runs on diesel instead of gas, but we expect a decline when it reinstates the use of gas--likely next year. Prio will also benefit from the expected lower carbon emissions from the Wahoo field.

Moreover, the company maintains high standards of training to avoid incidents on its oil rigs.

Issue Ratings--Recovery Analysis

Key analytical factors

- Our issue-level ratings are unchanged at 'BB' on Prio's 2026 senior secured notes, issued by Prio Luxembourg Holding S.a.r.l., and 'brAA+' on the company's senior unsecured debentures, issued by PRIO Forte S.A. Both issuances are unconditionally and irrevocably guaranteed by Prio and most of its operating subsidiaries.
- We maintain the '2' (85%) recovery rating on the company's senior secured notes and the '3' (65%) rating on the senior unsecured debentures.
- The issue-level rating on the senior secured notes is one notch above the issuer credit rating on the company. This is given the notes' collateral package and our expectation of substantial recovery (rounded to 85%), under our cap when assigning recovery ratings to debt issued by entities under Brazilian jurisdiction.
- The collateral package currently includes equity interest on most of the group's operating subsidiaries and the two FPSO vehicles (FPSO Bravo and FPSO Valente).
- In our simulated default scenario for Prio, we assume a sustained period of low commodity prices and high capex to support its growth strategy, consistent with the conditions of previous defaults in the sector, that would create incentives for a debt restructuring.
- We based our valuation of Prio's reserves on a company-provided proved reserves report as of March 2025, assuming about \$50/bbl for crude oil and a discount rate of 15% to the reserves. In our view, Brazil is a less creditor-friendly jurisdiction than other countries such as the U.S., where we use a 10% discount rate.

- In our analysis, we assume the company's capital structure consists of its current senior secured bond, senior unsecured debentures, and bank loans.

Simulated default assumptions

- Simulated year of default: 2029
- Jurisdiction: Brazil

Simplified waterfall

- Net enterprise value (after 5% administrative adjustment): \$6.4 billion
- Secured debt: \$620 million (bond issuance)
- Recovery rating for senior secured notes: '2' (rounded estimate: 85%)
- Senior unsecured debt: \$2.5 billion (bank loans and debentures)
- Recovery rating for senior unsecured debentures: '3' (rounded estimate: 65%)

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB-/POSITIVE/--
Local currency issuer credit rating	BB-/POSITIVE/--
Business risk	5 - Weak
Country risk	4 - Moderately High Risk
Industry risk	4 - Moderately High Risk
Competitive position	5 - Weak
Financial risk	3 - Intermediate
Cash flow/leverage	3 - Intermediate
Anchor	bb
Diversification/portfolio effect	3 - Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Negative
Stand-alone credit profile	bb-

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: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings list

Ratings Affirmed	
Prio S.A.	
Issuer Credit Rating	BB-/Positive/--
Brazil National Scale	brAA+/Positive/brA-1+
Ratings Affirmed; Recovery Ratings Unchanged	
PRIO Forte S.A.	
Senior Unsecured	brAA+
Recovery Rating	3(65%)
PRIO Luxembourg Holding S.a.r.l.	
Senior Secured	BB
Recovery Rating	2(85%)

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