MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms PRIO's Ba3 rating; maintains positive outlook

12 May 2025

New York, May 12, 2025 -- Moody's Ratings (Moody's) has today affirmed PRIO S.A.'s ("PRIO") Ba3 corporate family rating and the Ba3 rating on PRIO Luxembourg Holding S.a.r.l. ("PetroLux") $600 million backed senior secured notes due 2026. Simultaneously, we maintained the positive outlook on the ratings, following the announcement of the acquisition of the remaining 60% stake in Peregrino, an oil and gas producing field in Brazil that will materially increase PRIO's production and reserves size, upon closing of the transaction.

RATINGS RATIONALE

The affirmation of PRIO's Ba3 rating and positive outlook follows the announcement of the signing of an agreement to acquire the remaining 60% of Peregrino, an oil and gas producing field from Equinor for approximately $3.5 billion subject to usual price adjustments, including the retrospective cash generation of the asset since January 2024. In December 2024, PRIO acquired 40% of the asset for $1.9 billion. The field produces around 88kboed of oil and is located near PRIO's Polvo and Tubarão Martelo cluster. Upon closing, Peregrino's will be fully owned and operated by PRIO. With this acquisition, PRIO will add over 57kboed of oil production and around 150Mbbl in 1P reserves, an increase of about 45% and 24%, from May 2025 levels, respectively. The deal is subject to precedent conditions, such as the approval by the Brazilian oil and gas regulator and the antitrust body.

The acquisition value will be of around $3.5 billion and PRIO will likely pay 40% until the end of 2025 and the remaining 20% until mid-2026 with the usual price adjustments. We expect PRIO to raise around $2 billion in new debt to fund the acquisition. Pro forma to the new debt and acquisition payment, PRIO's Moody's-adjusted leverage will peak at around 3.5x, up from 2.2x in the twelve months ended March 2025, but we estimate leverage will decline to about 1.5x through 2026 when the company benefits from the additional EBITDA of Peregrino. Net leverage ratios will remain more comfortable at the peak of 2.3x upon the closing of the acquisition, gradually declining to 0.8x in 2026. PRIO expects to extract synergies from the fields, namely reduced costs based on operational and logistics synergies between Peregrino and PRIO's current fields.

PRIO's Ba3 ratings reflect the company's high operating efficiency and cash generation, which supports low debt leverage and good interest coverage ratios. The rating is also supported by PRIO's high capital spending flexibility, favorable regulatory environment, and the fact that the company's capital is listed on the Brazilian stock exchange, which strengthens its corporate governance. The Ba3 rating also reflects the increase in the company's production and proved developed reserve size after the acquisition of the Albacora Leste and Peregrino fields.

The ratings are primarily constrained by PRIO's still-small asset base and size of crude oil production compared with those of peers, its high operating risk because of geographic concentration and the mature nature of its oil and gas assets, and the company's dependence on acquisitions of oil and gas assets to increase production levels sustainably and maintain the reserve level.

The company's current lifting costs of $12.8/bbl, full cycle costs of $25-30/bbl and breakeven costs of $20-25/bbl already compares favorably with offshore and onshore producers, and we expect additional cost reduction as the company starts operations in Wahoo in 2026, assuming no delays on the licensing process. Wahoo will have very low lifting costs because it will be operated by the same facilities such as FPSOs used for Frade. The low cost structure provides PRIO with flexibility to withstand commodity price volatility and continue generating positive free cash flow to meet debt maturities even under adverse scenarios.

PRIO has extremely low leverage ratios, with total adjusted debt/EBITDA of 2.2x in the twelve months ended March 2025, RCF/debt of 35.2% and interest coverage (EBITDA/interest) of 6.8x in the same period. We expect PRIO's metrics to return to pre-acquisition levels through 2026, assuming our price estimate of $55-75/bbl for Brent. All of PRIO's producing fields are mature and have high annual production decline rates of close to 10%.

LIQUIDITY

PRIO has good liquidity, with a cash position of $725 million at the end of March 2025 and $1125 million in debt coming due through the end of 2026. With the Peregrino acquisition we expect the company to generate free cash flow cash of around $1.8 billion through commodity cycles, more than enough to cover capital spending of around $600 million per year, and the company to maintain its conservative approach toward future M&A and dividend distribution to preserve its liquidity. PRIO's next major refinancing need are the secured notes due 2026, and the company has a number of funding alternatives, such as access to capital markets, bilateral loans and bank funding from the pre-sale of crude and factoring of receivables. PRIO has also stated that intends to refinance the bilateral loans it raised to fund the acquisition. However, PRIO does not have committed credit facilities and the company's alternate liquidity is limited because its asset base is small and is largely encumbered.

RATING OUTLOOK

The positive outlook on PRIO's Ba3 rating reflects our expectation that the company's production will increase to above 150,000 boe/d after the acquisition of Peregrino and increase in production in other fields, namely Wahoo in 2026. The outlook also incorporates our expectations that PRIO's credit metrics and liquidity will return to pre-acquisition levels in the next 12-18 months and that the company will maintain adequate liquidity even with potential volatility in oil prices.

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

PRIO's Ba3 ratings could be upgraded if the company (1) increases production to levels approaching 150,000 boe/d; (2) increases its production diversification; (3) sustains leveraged full-cycle ratio, which measures an oil company's ability to generate cash after operating, financial and reserve replacement costs, consistently above 2.5x; (4) maintains E&P debt/proved developed reserves below $7.0, and (5) maintains retained cash flow (cash from operations before working capital requirements less dividends) to total debt above 30%, all of which while maintaining an adequate liquidity.

PRIO's Ba3 ratings could be downgraded if (1) retained cash flow to total debt declines below 25%, with limited prospects of a quick turnaround; (2) if E&P debt/proved developed reserves remains above $10.0, with limited prospects of a quick turnaround and (3) if there is a deterioration of the company's liquidity profile.

COMPANY PROFILE

Founded in 2015 and headquartered in Rio de Janeiro, Brazil, PRIO is an independent oil and gas production company focused on assets located in the Campos basin. The company has operations in 5 offshore fields, and upon the closing of the Peregrino field acquisition, will own 6 fields. In the twelve months ended March 2025, the company generated $2.8 billion in revenue with total assets of $9.6 billion.

The principal methodology used in these ratings was Independent Exploration and Production published in December 2022 and available at https://ratings.moodys.com/rmcdocuments/396736. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

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