

Research Update:

# Mexican Mining Group Industrias Peñoles Outlook Revised To Stable From Negative On Improved Profitability; 'BBB' Ratings Affirmed

May 21, 2025

## Rating Action Overview

- Mexican mining group Industrias Peñoles S.A.B. de C.V. (Peñoles) has strengthened its EBITDA generation and improved its adjusted debt to EBITDA to below 1.0x over the past year.
- We expect Peñoles to maintain stronger metrics supported by a more flexible cost structure, higher market prices, and stable foreign exchange rates. This will allow it to increase operating cash generation to meet investments to replace depleted mines.
- On May 21, 2025, S&P Global Ratings revised its outlook on Peñoles to stable from negative and affirmed its 'BBB' global scale issuer credit and issue-level ratings on the company. We also affirmed the 'mxAAA' national scale issuer credit rating.
- The stable outlook reflects our assumption that the company's leverage will remain below 1.5x in the next 12 to 24 months, while stronger prices and consistent production continue to support EBITDA.

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## Rating Action Rationale

**We expect Peñoles to keep adjusted debt to EBITDA below 1.5x over the next two years.** We base our outlook revision on the company's improved leverage prospects. Peñoles' EBITDA generation has strengthened through cost efficiencies and because of current higher prices on precious metals. During 2024, Peñoles executed multiple plans to ensure a better cost structure to navigate volatile conditions, including optimizing outsourced services, reducing energy costs through the wholesale market, and lowering maintenance costs due to constant investments for operating improvement.

Adjusted debt to EBITDA reached 0.4x for the first quarter of 2025 (annualized basis) and 0.7x as of year-end 2024 (versus 2.3x and 2.3x, respectively, the prior year). This improvement stemmed from the recovery in EBITDA generation while the company kept debt near \$3.0 billion. In the next two years, we do not expect additional debt because our projected cash

generation for the company would manage upcoming expansion plans and the maintenance of current assets. We forecast adjusted net debt to EBITDA to remain below 1.5x in 2025 and 2026.

**Strong prices for precious metals drive topline growth.** On a consolidated basis, we think a mix of production and price trends have driven this growth. Prices have boosted revenues more because of the company's exposure to silver and gold (precious metals), which makes up 63% of total exposure. Revenue grew 12.2% to \$6.7 billion in 2024 (from \$6.0 billion in 2023). Precious metals continued to gain value throughout 2024 and the first quarter of 2025 because of current uncertainty about economic and growth conditions, especially because of changes in trade policies from the U.S. In our opinion, large economies are increasing demand for precious metals (like gold and silver) related to perceived security status in the face of increased uncertainty, which is pushing up prices. Peñoles reported the following:

- Gold reached about \$2,300 per ounce (oz) in 2024 (\$1,927 per oz in 2023) and \$2,860 per oz in the first quarter of 2025.
- Silver reached about \$28 per oz in 2024 (\$23 per oz in 2023) and \$32.30 per oz in the first quarter of 2025.

Unlike precious metals, commodity mineral (zinc, lead, and copper) prices dropped an average of 5%-10% during the same period. Current economic uncertainty and volatility have paused high-investment projects across major industries (construction, infrastructure, real estate, and auto, among others), which are the main consumers of commodity minerals. This has translated into higher inventories while mining companies reduce production and normalize the international markets. Therefore, we expect to see further depreciation of prices through 2027.

**Peñoles maintains a comfortable position against commercial dynamics between Mexico and the U.S.** The company's total exports to the U.S. account for 35%-40% of total revenues. We consider silver and gold to be naturally hedged against potential tariffs on Mexican exports to the U.S. because these are considered economic assets and can be sold in international markets.

On the other hand, the U.S. has a deficit in industrial-use minerals like zinc and lead (among others). We believe these are also protected from potential tariffs as the U.S. has stipulated that minerals it has a deficit in will be out of scope. As a result, we do not expect disruptions in the company's revenue in the next 12 months, until we have more clarity about U.S. and Mexico trade policy.

## Outlook

Our stable outlook on Peñoles reflects our view that current stronger prices, consistent production, and optimized cost structure will keep leverage below 1.5x for the next 12 to 24 months. We also expect Peñoles to fund growth investments with operating cash generation and not incur additional debt. EBITDA margins will remain close to 30%.

### Downside scenario

We could lower the ratings in the next 12 months if Peñoles' leverage consistently weakens, resulting in debt to EBITDA above 1.5x and free operating cash flow (FOCF) to debt below 15%. This could happen if:

- The company is unable to navigate low price cycles and production does not compensate for revenues.

- We conclude that the company's cost structure is not supportive and EBITDA declines beyond our expectations, amid normalized price cycles.
- Capital expenditures (capex) are higher than we expect, given substantial exploration or expansion projects.

### Upside scenario

An upgrade in the next 12-24 months could occur if the company's FOCF to debt is consistently above 40% while its debt to EBITDA remains below 1.5x, even during normalized price cycles. This could happen if:

- New projects produce higher-than-expected volumes during the ramp-up and/or we perceive higher prices will prevail longer than expected.
- We assume the company's liquidity can withstand worsened economic and industry conditions, allowing us to rate it above the sovereign.

## Company Description

Peñoles, founded in 1887, is a mining group with integrated operations for the smelting and refining of non-ferrous metals and the manufacture of chemical products. Peñoles is the world's leading producer of refined silver, the Latin American leader in producing refined gold and lead, and among the world's leading producers of refined zinc and sodium sulfate. Peñoles' shares have been listed on the Mexican Stock Exchange since 1968 under PE&OLES. Peñoles is also part of Grupo BAL, with the Baillères Family acting as the main shareholders of the company.

## Our Base-Case Scenario

### Assumptions

Our economic assumptions include:

- Mexico's GDP contracting 0.2% in 2025 and growing 1.5% in 2026, and Consumer Price Index (CPI) of 3.7% and 3.3%, respectively.
- U.S. GDP growth of 1.5% in 2025 and 1.7% in 2026, and CPI of 3.0% and 3.6%, respectively.
- Eurozone's GDP growth of 0.8% in 2025 and 1.2% in 2026, and CPI of 2.0% and 1.9%, respectively.
- China's GDP growth of 3.5% in 2025 and 3.0% in 2026, and CPI contraction of (0.3%) and (0.2%), respectively.
- Silver prices of about \$33 per oz during 2025 and \$34 per oz in 2026.
- Average gold prices of \$2,975 per oz in 2025 and \$2,500 per oz in 2026.
- Average zinc prices of \$2,700 per ton in 2025 and 2026.
- Average lead prices of \$2,060 per ton in 2025 and \$2,100 per ton in 2026.
- Stable foreign exchange rates of MXN20.2 per \$1 in 2025 and MXN20.3 per \$1 in 2026. Even though the reporting and operating currency of Industrias Peñoles and Fresnillo is the U.S.

dollar, we think this continuity of rates will allow for stable operating costs on its Mexican peso-denominated portion of costs (50%).

Our group-specific assumptions include:

- Silver production of about 72.1 million oz in 2025 and 72.8 million oz in 2026.
- Gold production to reach 674,600 oz in 2025 and 660,400 oz in 2026.
- Zinc production to reach 270,000 tons in 2025 and 310,000 tons in 2026.
- Lead production of 84,700 tons in 2025 and 92,000 tons in 2026.
- Total revenue of about \$7.5 billion for 2025 and \$7.4 billion in 2026.
- Silver to represent about 36% of total revenues, gold about 32%, zinc about 11%, lead about 3%, and other about 18% (chemicals and minerals).
- Consolidated production cost of about 49% of total revenues on average for the next two years, leading to adjusted EBITDA of \$2.6 billion in 2025 and \$2.2 billion in 2026.
- Total capex to average 8.8% of total revenues, at \$660 million in 2025 and \$650 million in 2026, distributed between maintenance, exploration in greenfield/brownfield projects, and expansion capex. We expect the company to complete greenfield projects and start production between 2028 and 2030.
- Dividends to controlling and noncontrolling interest will be at about 50% of net income, at \$435 million in 2025 and \$360 in 2026.
- Gross debt of about \$2.5 billion in 2025 and in 2026, because main amortizations don't come due until 2029 onward. We expect some refinancing activities for short-term maturities, but enough cash to meet debt repayment if needed. With the expected cash generation, we expect net debt to be zero by 2026. The group's subsidiary Fresnillo only holds a 4.250% bond due 2050 of \$500 million, representing 25% of the group's expected gross debt in 2025 and 2026.

## Key metrics

### Industrias Penoles, S. A. B. de C. V.--Forecast summary

Period ending	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. MXN)	2023a	2024a	2025e	2026f	2027f
Revenue	5,929	6,650	7,538	7,372	7,106
EBITDA (reported)	786	1,879	2,570	2,237	1,878
EBITDA	825	1,861	2,570	2,237	1,878
Funds from operations (FFO)	223	1,501	1,985	1,754	1,491
EBIT	206	1,131	1,683	1,376	1,055
Interest expense	190	167	141	128	128
Cash flow from operations (CFO)	361	1,222	1,889	1,696	1,476
Capital expenditure (capex)	592	446	663	648	561
Free operating cash flow (FOCF)	(230)	777	1,226	1,048	915
Dividends	56	74	436	360	243
Share repurchases (reported)	--	--	--	--	--

**Industrias Penoles, S. A. B. de C. V.--Forecast summary**

Discretionary cash flow (DCF)	(287)	702	790	687	672
Debt (reported)	59	3,005	2,516	2,506	2,506
Adjusted Debt	1,864	1,275	500	--	--
Equity	5,506	5,632	6,242	6,722	7,095
Cash and short-term investments (reported)	1,040	1,867	2,152	2,815	3,473
<b>Adjusted ratios</b>					
Debt/EBITDA (x)	2.3	0.7	0.2	--	--
FFO/debt (%)	12.0	117.7	397.1	NM	NM
FFO cash interest coverage (x)	2.2	10.6	15.6	15.2	13.1
EBITDA interest coverage (x)	4.3	11.2	18.3	17.5	14.7
CFO/debt (%)	19.4	95.8	377.9	NM	NM
FOCF/debt (%)	(12.4)	60.9	245.3	NM	NM
DCF/debt (%)	(15.4)	55.1	158.1	NM	NM
Annual revenue growth (%)	7.3	12.2	13.3	(2.2)	(3.6)
EBITDA margin (%)	13.9	28.0	34.1	30.3	26.4
Return on capital (%)	2.9	15.8	24.7	20.4	15.3
Return on total assets (%)	2.1	11.2	16.3	12.9	9.5
EBITDA/cash interest (x)	4.3	12.0	18.9	18.2	15.3

## Liquidity

We continue to view Peñoles' liquidity as strong. Our assessment encompasses a lean and comfortable debt maturity schedule because all its outstanding bonds mature beyond 2029 (2050 for Fresnillo). The group focuses on maintaining a flexible financial policy to reduce liquidity risk, including cautious investments under volatile markets, as well as optimized management of seasonal working capital requirements. In our view, this will continue to enable the company to address low-probability events, with liquidity sources exceeding liquidity uses by at least 1.5x for the next 12 months and by 1.0x for the following 12 months even if EBITDA were to fall 30% short of our expectations.

In addition, we perceive ample access to financial markets mainly because of its investment-grade rating and a continuous track-record of successful bond issuance, also through Fresnillo. Bonds close to maturity are trading close to par (about \$96 as of May 15, 2025), which suggest the market's confidence for the group's recovery of EBITDA margins, execution of growth prospects, and the mining industry, at least for the next few years. Longer maturity bonds' interest rates do not compare to actual rates in the market, thereby trading below par.

### Principal liquidity sources

- Available cash of \$2.1 billion as of March 31, 2025.
- Expected funds from operations (FFO) cash generation of \$1.9 billion for the next 12 months.

### Principal liquidity uses

- \$470 million in short-term debt maturities as of March 31, 2025.
- Working capital requirements of \$55 million for the next 12 months.

- Seasonal working capital requirements of \$500 million for the next 12 months.
- Expected capex of \$660 million for the next 12 months.
- Dividends of \$420 million for the next 12 months.

## Covenants

Peñoles does not hold any financial restrictions on its debt as of March 31, 2025.

## Environmental, Social, And Governance

Environmental and social factors are negative considerations in our credit rating analysis of Peñoles, stemming from its mining exposure. The mining industry faces inherent risks such as spills of hazardous materials. However, Peñoles hasn't had major environmental incidents. Moreover, the company is participating in sustainability-related projects. In addition, more than 70% of the water used in its operations comes from treated and recirculated wastewater. The company is also exposed to safety-related incidents, generally consistent with those for the broader mining industry.

## Issue Ratings--Subordination Risk Analysis

### Capital structure

As of March 31, 2025, Peñoles had a capital structure with outstanding balances of:

- 4.15% senior notes due 2029 of \$650 million.
- 5.65% senior notes due 2049 of \$550 million.
- 4.75% senior notes due 2050 of \$500 million.
- Fresnillo's 4.25% senior notes due 2050 of \$850 million.
- About \$500 million in short-term bank loans.

### Analytical conclusions

We rate Peñoles' senior notes 'BBB', the same level as the global scale issuer credit rating. The priority debt ratio is 27.6% in our base-case scenario, below the 50% threshold for us to consider debt subject to structural subordination, per our criteria.

## Rating Component Scores

#### Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB/STABLE/--
Local currency issuer credit rating	BBB/STABLE/--
Business risk	3 - Satisfactory
Country risk	4 - Moderately High Risk
Industry risk	4 - Moderately High Risk
Competitive position	3 - Satisfactory
Financial risk	3 - Intermediate
Cash flow/leverage	3 - Intermediate
Anchor	bbb
Diversification/portfolio effect	3 - Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Positive
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb

## Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, 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: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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

## Related Research

- S&P Global Ratings' Metal Price Assumptions: Coal Down, Gold Up, May 16, 2025
- Rated Mexican Corporates Can Manage Economic Uncertainty And Industry Volatility, May 15, 2025
- Global Macro Update: Seismic Shift In U.S. Trade Policy Will Slow World Growth, May 1, 2025
- S&P Global Ratings Metal Price Assumptions: Holding Firm Through First Waves Of Tariffs, March 5, 2025

## Ratings List

Ratings list

Ratings Affirmed; Outlook Action		
	To	From
Industrias Penoles S.A.B. de C.V.		
Issuer Credit Rating	BBB/Stable/--	BBB/Negative/--
CaVal (Mexico) National Scale	mxAAA/Stable/--	mxAAA/Negative/--
Ratings Affirmed		
Industrias Penoles S.A.B. de C.V.		
Senior Unsecured	BBB	

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