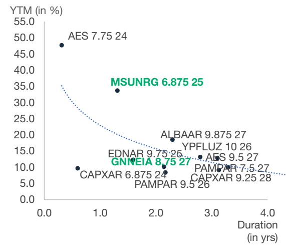
Paula A. La Greca
Corporate Research Analyst
+54 11 4898 6638
plagreca@tpcgco.com



Source: TPCG Research based on Bloomberg

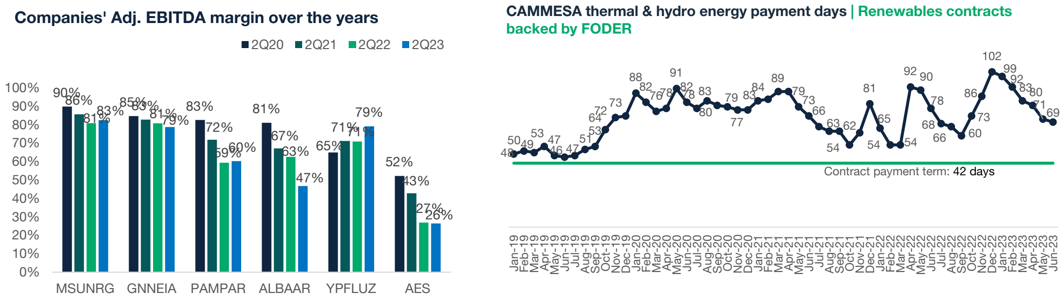
Corporates Argentina – Fixed Income October 5, 2023

New power generation projects on sight

In our view, power generation companies with PPAs will be the most robust companies if Argentina's economy comes to a head. During the pandemic, it was the most resilient sector. Since 2021, with the acceleration of inflation, companies with higher exposure to spot energy (or legacy energy) showed lower profitability levels than the ones with more PPAs. Among Argentine companies with global bonds, we only find attractive MSUNRG 6.875 2025, which is currently at an ask price of USD73.50 (ytm:33.2%). Genneia is another company that showed a strong performance over the past years, with 96% of its revenues USD-linked. We expect Genneia to be the outperformer of the sector in terms of profitability and cash generation in 2H23. For this reason, we believe GNNEIA 8.75 2027 secured is fair priced, at an ask price of USD96 (ytw: 10.9%).

In the past months, Cammesa payment days improved significantly. June's bill was paid in 68 days down from 71 May's bill. We noticed the same trend observed in 2021 and 2022 payment days. The reason behind this was that Cammesa spent less on liquid fuels compared to 2022, because it bought fewer volumes, and also prices dropped considerably. Last year, the Russia-Ukraine war pushed the government to increase liquid fuels imports over LNG due to the rise in prices. This year, it was not necessary to import that much of fuels because of the mild weather. Consequently, thermal plants mostly used natural gas to generate power. For instance, natural gas accounted for 93% of power plant's fuel consumption in August 2023 vs. 74% in 2022 and 89% in 2021. In the case of August, the increase is also explained by the increase in natural gas deliveries thanks to the completion of the Nestor Kirchner natural gas pipeline.

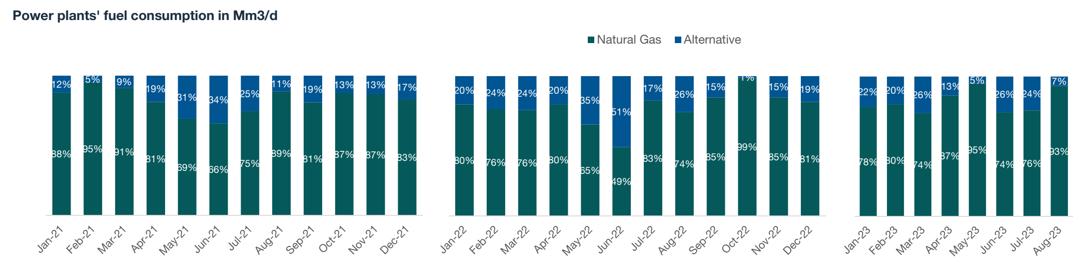
Figure 1: Companies with PPAs have shown more resilient margins



Source: TPCG Research based on companies' reports.

With the improvement of Cammesa payment days, the sector will show stronger cash flow generation. However, the effect will be lower for those more involved in the spot market, given that the devaluation and the acceleration of inflation will dilute sales in real terms. The last increase of spot energy tariffs was 28% as of August bill, the last month of the winter peak season. It is important to remember that winter peak season tariffs are higher than non-peak season ones. Thus, October's bill will be lower than August's. The peak season goes from December to February (summer) and from June to August (winter).

Figure 2: 2023 winter liquids consumption was the lowest in the past years



Source: TPCG Research based on Cammesa. Alternative fuels include Diesel oil, gas oil and carbon

Considering that Cammesa expenditures will lower thanks to the increase of natural gas purchases over alternative fuels and the cheapening of spot energy base in real terms, we expect payments to continue improving. Companies with USD-linked PPAs, like MSU Energy, will be the most benefitted, and to a lesser extent Genneia with Bragados' PPAs. As a result, Genneia will further improve collection days, which are already the lowest of the sector thanks to 55% of their PPAs being guaranteed by FODER. They should also show stronger margins if there is an FX devaluation since around 40% of COGS are in ARS.

On September 26, 2023, the government launched the TerCONF tender (Res. SE 621/23) to increase thermal energy capacity by 3GW at the Argentine Interconnection System (SADI) and by 70MW at the Tierra del Fuego system. In the first case was 2.3x oversubscribed, and in the second case was 2.2x. 20 companies participated in the tender offer. 66 projects were presented for a total of 7,112MW. The new PPAs will have a tenor of 15 years. On October 24th, the government will let know companies the results of the tender, the price that Cammesa will pay for the energy. On October 31st, it will be the assignment of the PPAs. Among the companies with global bonds were MSU Energy, SCCP Power Argentina, Pampa Energia, Genneia, YPF Luz and Generacion Mediterranea.

MSU was the highest bidder, with MSU Energy tendering 5 projects for a total of 1,139MW and SCCP Power Argentina's 2 projects for a total of 484MW. It is worth mentioning that SCCP Power Argentina projects are mutually exclusive with some of the ones presented by MSU Energy. In our view, MSU Energy's 208MW project and SCCP Power 242MW project that were tendered in the 1.0 tranche, which is to address critical nodes, are more likely to win because of the lower competition. In this tranche, companies tendered 10 projects totaling 1,046MW, while the government was looking to award between 900 and 1600MW. In contrast, in the 1.2 tranche, 36 projects totaling 4,164MW were tendered, while the government will only award between 700 and 1,600MW. This led us to think that there is a high chance that the government will award SCCP Power the 242MW project. And thus, SCCP Power will relocate the Matheu thermal plant.

Pampa Energia tendered a 300MW project at Genelba power plant, while its affiliate Central Termica Barragan tendered a project of 11MW. Genneia tendered 232MW to close the cycle of Cruz Alta power plant. We believe that if Genneia is successful, it will be credit-positive, as all its revenues will be USD-linked. Genneia's Cruz Alta's thermal energy generation is sold in the spot market while Bragado's thermal energy generated is under PPAs. Also, if the company eventually decides to divest its thermal assets to become a 100% renewable company, it would sell them at a higher price, as all would have USD-linked PPAs. Then, YPF Luz participated in the tender with Central Dock Sud for a project of 65MW. Generacion Mediterranea tendered 17MW for a cogeneration project between Modesto Maranzana and a bioethanol company.

On the renewable side, on September 29th, MATER announced that 60 projects were tendered for a total of 5,315MW. Genneia tendered 9 projects: 4 solar projects totaling 455MW and 5 wind projects totaling 573MW. Genneia is one of the highest bidders in the Center-Cuyo region, in which the government plans to add 400MW capacity considering a 92% priority dispatch and 130MW for a 100% priority dispatch. In this region, the 21 projects competing, which totaled 1,393MW, are solar ones. Competition is tougher on the wind energy side. While the government aims to award 700MW with a 92% priority dispatch in the Comahue, Patagonia, and Buenos Aires region, 32 projects were tendered, totaling 3,712MW. In this segment, 3 of 5 the wind projects tender by Genneia are to expand the capacity of La Elbita wind park by 22.5MW, Pomona by 105MW and Villalonga by 36MW. YPF Luz tendered 3 wind projects, one of 31.5MW named Casa and two mutually exclusive projects named Los Aromos, one of 133MW and the other of 168MW. Pampa Energia a 139.5MW wind project. On October 31st, Cammesa will announce the results of the MATER tender, which expects to award around 1,750MW.

Figure 3: New thermal and renewable projects in 2024

TerConf tender (Res. SE 621/23)

Tranche	MW to Award	Objective	MW Tendered	# Projects
1	150-300	Increase Combined Cycle Capacity	104	3
1.1	900-1,600	Critical nodes	1,046	10
1.2	700-1,600	Efficiency and Reliability	4,164	36
1.3	0-1,000	Reliability	1,645	13
Total R1	3,000		6,959	62
2.1	15-40	Ushuaia	115	3
2.2	15-30	Río Grande	39	1
Total R2	70		153	4
Total	3,070		7,112	66

MATER 360 tender

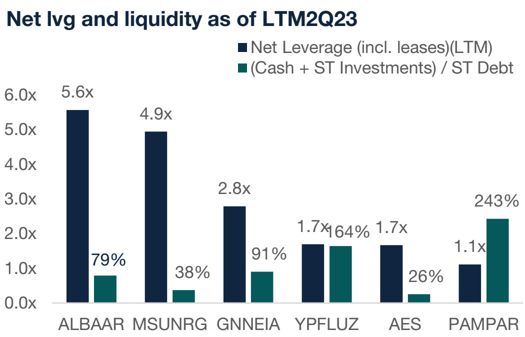
Region	MW to Award	Renewable Source	MW Tendered	# Projects
Comahue-Patagonia-PBA	700-933	Wind	3,712	34
Center-Cuyo	130-400	Solar	1,393	21
Litoral-NEA	400	Solar	210	5
Total			5,315	60

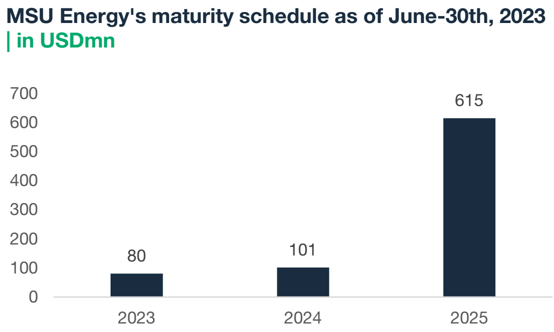
Source: TPCG Research based on CAMMESA

In sum, the companies with a higher share of PPAs were the ones to bid the largest amount of projects to increase power generation capacity. There are several reasons behind this. MSU Energy, Genneia and YPF Luz show a stronger cash generation. Then, Pampa Energia is now more focus in its E&P business growth. While Generacion Mediterranea is working on the completion of the Ezeiza and Modesto Maranzana expansionary projects of 154MW and 121MW capacity, respectively, with no room to add another major project. AES Argentina Generacion is in the await of a resolution of the extension of its hydro concessions.

We expect companies to finance the projects with new local bond issuances. MSU Energy is still showing the highest net leverage at 4.9x in LTM2Q23 vs. YPF Luz at 1.7x and Genneia at 2.8x. However, the company's net leverage should drop by 2Q24, as the company will cancel the 2024 global bond on February 28th, 2024. Considering that the company's liquidity position is tight, with cash + ST investments of USD49mn, we expect the company to eventually announce an exchange offer of the 2025 global bonds. We believe that at the current ask price of USD73.50 (ytm: 33%) is an attractive entry point considering that in the past exchange offers companies had to increase coupons by at least 2pp. In this case, we believe the new bond could offer a coupon of 9.25-9.5%, in line with the recently issued CAPXAR 9.25 2028, AES 9.5 2027 and PAMPAR 9.5 2026. In addition, MSUNRG 2025 is one of the few bonds with an amount outstanding >USD500mn in the Argentine corporate space. The bond amount outstanding is USD600mn. There are only 4 corporate bonds with a higher amount outstanding PAMPAR 7.5 2027 (USD636mn), YPFDAR 9 2029 (USD748mn), YPFDAR 6.95 2027 (USD809mn) and YPFDAR 8.5 2025 (USD1,132mn).

Figure 4: We expect MSU Energy undertake liability management next year to address its global bond maturing on February 1st, 2025.





Source: TPCG Research based on companies reports' FFSS

TPCG Analysts & Staff

Research			
Juan Manuel Pazos	**Chief Economist**	**jmpazos@tpcgco.com**	**+54 11 4898-6606**
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Federico Martin	Strategist	famartin@tpcgco.com	+54 11 4898-6633
Santiago Resico	Strategist	sresico@tpcgco.com	+54 11 4898-6615
Sales & Trading			
Juan Manuel Truppia	**Head of Sales & Trading**	**jmtruppia@tpcgco.com**	**+54 11 4898-6659**
Institutional Sales			
Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruizdecastroviejo@tpcgco.com	+54 11 4898-6643
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635
Trading			
Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693
Corporate Finance			
José Ramos	**Head of Corporate Finance**	**jramos@tpcgco.com**	**+54 11 4898-6645**
Corporate Sales			
Camila Martinez	Corporate Sales Director	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com	+54 11 4898-6612
Capital markets			
Nicolás Alperín	DCM	nalperin@tpcgco.com	+54 11 4898-6604
Wealth Management			
Josefina Guerrero	Private Wealth Management Specialist	jguerrero@tpcgco.com	+54 9 11 6556 2401
Asset Management			
Ileana Aiello	**Portfolio Manager**	**iaiello@tpcgco.com**	**+54 11 4898-6611**
Claudio Achaerandio	**Portfolio Manager**	**cachaerandio@tpcgco.com**	**+54 11 4898-6618**

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