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Corporates – Argentina September 6, 2022

The gust of wind hasn't reached YPFLUZ 26s yet

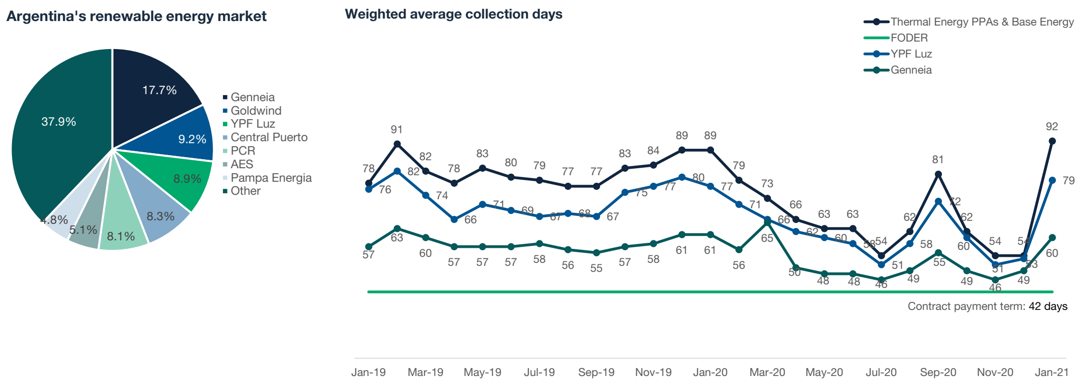
Renewable energy is setting the pace of power generation growth. Genneia is the largest renewable energy generator with a market share of 17.7%, followed by Goldwind (9.2%), YPF Luz (8.9%), Central Puerto (8.3%), PCR (8.1%), AES Argentina Generación (5.1%) and Pampa Energia (4.8%) as of 2Q22.

The Renewable Energy Program set the goal that renewables had to reach 20% of the energy supply in Argentina by 2025. In 2Q22, it accounted for 13% of total energy generation, up from 5% in 2Q19. Although Argentina is still far from the target, in the past year, the only projects launched on power generation were for the Argentine Renewable Energy Term Market (MATER). Among the companies with global bonds, Genneia is working on building two solar parks (140MW) and a wind farm (103.5MW), YPF Luz on a solar park (100MW), and Pampa Energia on the expansion of one of its wind farms (81MW). Central Puerto, which only accounts for local bonds and it is on the NYSE as CEPU, is building a 10MW solar park in San Carlos, Salta.

Private off-taker demand is driven by the lower costs compared to Cammesa. ESG is also an important factor. Multinational companies are the main drivers as they require their subsidiaries to align with their policies. For instance, YPF Luz added to its client base Total Energies, Claro and Toyota Boshoku, among others, while Genneia entered into PPAs with Saint-Gobain and Cargill in 2Q22. We believe that if the projects in the metals & mining and oil & gas sectors advance, it will give rise to new projects on renewables. In our view, the first to take advantage of this will be the companies with global bonds, as they have more access to financing. For instance, Genneia was involved in project finance with multilateral and ECA agencies: KFW Bankengruppe, CAF, FMO and EKF.

Companies with a higher share of revenues from private off-takers show stronger cash flow generation, as Cammesa payment delays tend to increase during the winter season. Cammesa does not pay thermal energy bills according to the contractual term in 42 days since 2018. Recently, the closest was March's bill at 54 days. However, with the surge in LNG prices, the government transfers to IEASA skyrocketed to USD803mn (+544% m/m / +101% y/y) in June and got delayed with the transfers to Cammesa. For this reason, Cammesa paid April's thermal energy bill in 92 days. However, the delay was similar to last year, which was 89 days. YPF Luz's weighted average collection days were 79, explained by owning the largest market share in MATER, 38%. Genneia's weighted average collection day was even lower at 60, thanks to owning 56% of their net sales guaranteed by FODER (*Renewable Energy Promotion Fund*), which covers any delay from CAMMESA through a 12-months forward revenue reserve account.

Figure 1: We expect Genneia & YPF Luz to increase their market share



Source: TPCG based on companies' reports.

In 2Q22, Genneia and YPF Luz were the only companies to show EBITDA growth, increasing +3% y/y and +8% y/y, respectively. Pampa Energia's EBITDA improvement of +6% y/y was driven by the E&P segment (+39% y/y), as the power generation segment EBITDA was down by -18% y/y. The reason behind this was the expiration of the Loma De la Lata thermal power plant' steam turbine 180MW PPA and the Piquirenda Thermal Power Plant 30MW PPAs. Pampa Energia was not the only company whose EBITDA was negatively affected by the expiration of a PPA; Generacion Mediterranea had Central Termica Roca 117MW PPA due in June 2022.

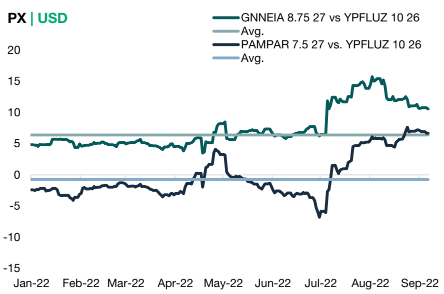
Since 2021, the 10-years PPAs from Resolution 220/2007, which are dollar-linked, started to come due. Cammesa has not renewed/extend them due to the electricity sold under those contracts shifting to be remunerated under Energia Base, which price is in ARS and has been adjusted below inflation. From Resolution 287/2017 few projects are pending, and their COD are dispersed in the next 2 years. Ensenada Barragan's PPA of 280MW capacity from Pampa Energia and YPF joint venture is the first on the list. The project would be completed by 4Q22. Next in line is Generacion Mediterranea's 150MW Ezeiza project, which is expected to reach COD in 4Q23, and Maranzana 287MW project, ending in 2Q24. In the meantime, Cammesa's accounts have been de-dollarizing, with the increase of the share of Energia Base payments over PPAs. From the government perspective, this is key since a sharp FX devaluation would increase energy subsidies to Cammesa. In this way, by promoting new generation projects for MATER, the government increases the share of renewables to improve its ranking at a global level while keeping Cammesa's dollar-linked cash outflows under control.

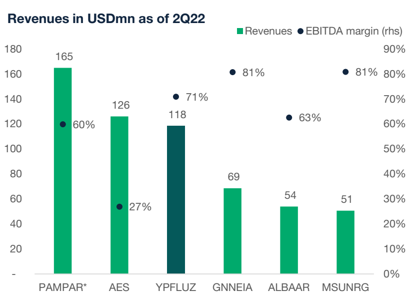
Said this, we are **Overweight** in GNNEIA 8.75 2027s and YPFLUZ 10 2026s not only because the companies outperformed their peers in terms of profitability but also showed better growth perspectives that will help them improve their margins. However, we currently see an opportunity in YPFLUZ 10 2026s which are currently at an ask price of USD84.50 (yield: 15.4%), lagging GENNEIA 27s and PAMPAR 27s. The ASK price differential in the first case is USD10.25, while the historical average is USD6. In the second case, the price difference stands at USD7, while YPFLUZ has traded inside PAMPAR 27s. In our view, YPF Luz price should correct to 1H22 levels which ranged from USD89-92.50, which would imply a spread compression of 200-280bps.

Although, YPF Luz compared weaker in terms of cash flow generation and liquidity than Pampa Energia and Genneia, the company showed an improvement in their results yoy. In 2Q22, YPF Luz revenues and Adj. EBITDA increased by +6% and +8% yoy to USD118mn and USD84mn, respectively, on the back of a higher thermal energy availability factor at 87% vs. 77% in 2Q21 and renewable energy sales (+51% yoy). The weaker segments were sales under Energia Base and Gas recognition by Cammesa, which were down by 12% and 65% yoy, respectively. We expect revenues from Energia Base to improve in 3Q22 thanks to the increase in Energia Base price as of June 2022. In 2Q22, the Adj. EBITDA margin improved by 1.8pp yoy to 71%. YPF Luz compares favorably in terms of profitability vs. Pampa Energia, whose EBITDA margin was 55% (or 60% if we consider the power generation segment), while it is below the one of Genneia at 81%.

The 3 companies analyzed showed an increase in Capex, which is related to the projects mentioned in the first page. Genneia Capex was up by +317% yoy to USD17mn, YPF Luz +50% to USD46mn and Pampa Energia +156% yoy to USD128mn. In the last case, it was also due to the ramping-up in gas production to comply with the PlanGas Ar' winter season levels. The increase in Capex partly explained why YPF Luz and Pampa Energia FCF turned negative after 8 consecutive quarters to -USD9.9mn and -USD36mn, respectively, in 2Q22. YPF Luz cash flow generation was also negatively impacted by the company starting to pay the income tax (-USD47mn), while for Pampa Energia by the increase in trade receivable cash outflows (-USD143mn vs. USD74mn in 2Q21). In contrast, Genneia FCF remained positive at USD13mn, although it was down -55% yoy, on account payables cash outflows (-USD5mn vs. +USD4.7mn in 2Q21).

Figure 2: We believe YPFLUZ 26s have lagged GNNEIA 27s and PAMPAR 27s





Source: TPCG based on Bloomberg. * Pampa Energia's power generation segment results.

Pampa Energia showed the highest liquidity level with cash + short term investments, covering short-term debt by 810%. What differentiates Pampa Energia from other companies is that it holds 82% of its liquidity in financial assets denominated in USD, while this percentage is 25% for YPF Luz, 11% for AES Argentina, and null for the rest. Pampa Energia's cash & cash equivalents was USD105mn, of which USD98mn are in USD mostly held in investment funds. Short term investments were USD461mn, of which USD367mn are in USD mostly in government securities and shares. Generacion Mediterranea and Genneia ranked second and third in terms of liquidity with a ratio of 124% and 105%, respectively, although it is all denominated in Argentine Pesos. The rest of the companies' cash + short term investments were not enough to cover short term maturities.

In terms of stock of debt and indebtedness levels, Pampa Energia remains to show the lowest net leverage at 1.0x in LTM2Q22, despite being the company with the highest stock of debt in the sector of USD1.5bn (incl. leases). It is followed by YPF Luz, Genneia, MSU Energy with a total debt of USD870-880mn. However, among these companies, YPF Luz shows the lowest net leverage at 2.1x while Genneia is 2.7x and MSU Energy is 4.8x.

Figure 3: Summary financials as of 2Q22

As of 2Q22	Pampa Energia PAMPAR	AES Arg AES	YPF Luz YPFLUZ	GEMSA ALBAAR	Genneia GNNEIA	MSU Energy MSUNRG
Installed Capacity	**4,970MW**	**2,985MW**	**2,483MW**	**1,520MW**	**1,279MW**	**750MW**
Under construction	+361MW	-	+100MW	+283MW	+243.5MW	-
Summary financials (in USD MM)						
Income Statement						
Revenues	**462.0**	**126.0**	**118.4**	**54.0**	**68.6**	**50.6**
Chg y/y	*34%*	*55%*	*6%*	*5%*	*6%*	*-2%*
EBITDA	**253.0**	**33.9**	**84.0**	**33.8**	**55.4**	**40.9**
Chg y/y	*6%*	*-2%*	*8%*	*-2%*	*3%*	*-7%*
Net Income	**67.0**	**(1.0)**	**43.5**	**(9.5)**	**40.3**	**11.0**
Chg y/y	*116%*	*n.m.*	*n.m.*	*-77%*	*n.m.*	*28%*
Gross Margin	36%	19%	54%	55%	65%	73%
EBITDA Margin	55%	27%	71%	63%	81%	81%
Cash Flow						
Funds from Operations	**218.5**	**(12.5)**	**73.2**	**31.2**	**50.0**	**46.5**
Change in working capital	*(112.1)*	*(39.6)*	*(26.5)*	*(7.6)*	*(14.3)*	*(13.6)*
Interest paid	*(51.5)*	*(6.9)*	*(10.7)*	*(15.8)*	*(5.7)*	*(12.9)*
CF from Operations	**54.8**	**(59.0)**	**35.9**	**7.8**	**30.0**	**22.4**
Capex	*(128.2)*	*(4.0)*	*(45.8)*	*(2.9)*	*(17.3)*	*0.3*
Disposals	*17.6*	-	-	-	-	-
Free Operating Cash Flow	**(55.7)**	**(63.0)**	**(9.9)**	**4.9**	**12.7**	**22.7**
Acquisition (Disposals)	*20.1*	-	-	*(0.3)*	-	-
Free Cash Flow	**(35.6)**	**(63.0)**	**(9.9)**	**4.7**	**12.7**	**22.7**
Chg y/y	*n.m.*	*335%*	*n.m.*	*n.m.*	*-55%*	*67%*
Balance Sheet						
ST Debt (incl. leases)	**69.8**	**83.5**	**228.5**	**133.2**	**119.8**	**128.1**
Total Debt (incl. leases)	**1,476.9**	**356.8**	**870.9**	**869.3**	**741.3**	**880.2**
Cash & Cash Eq.	**105.2**	**27.0**	**132.9**	**13.0**	**52.9**	**48.7**
Cash & Cash Eq. + ST Investments	**566.0**	**27.0**	**179.0**	**164.6**	**125.7**	**48.7**
Cash / ST Debt	151%	32%	58%	10%	44%	38%
(Cash + ST Investments) / ST Debt	810%	32%	78%	124%	105%	38%
Gross Leverage (incl. leases)(LTM)	1.6x	2.5x	2.5x	6.2x	3.2x	5.1x
Net Leverage (incl. leases)(LTM)	1.0x	2.3x	2.1x	5.0x	2.7x	4.8x

Source: TPCG Research based on companies´ reports

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