

TGS 1Q22 strong, 2Q holding ground

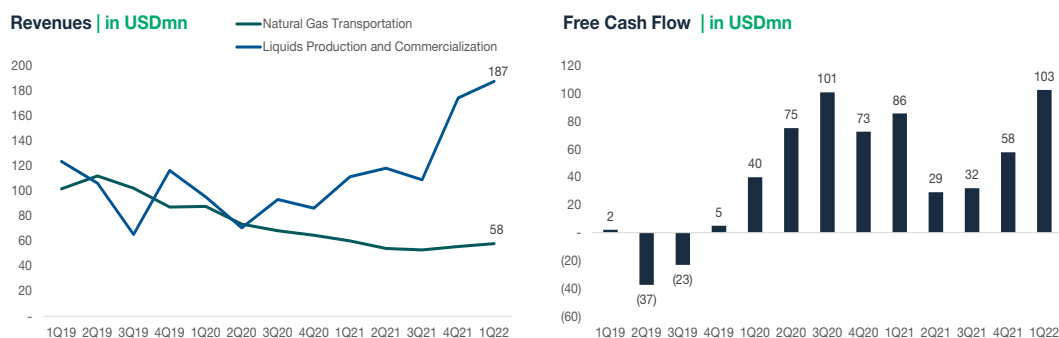
We continue recommending TRAGAS 6.75 2025s, given that TGS shows one of the best metrics in terms of liquidity and debt levels among Argentine companies with global bonds. The bonds are at a current ask price of USD94.75 and a YTM of 8.8%. What is key is that among Argentine corporate bonds maturing in 2025, TRAGAS 2025s ranks second in terms of the amount outstanding (USD500mn), after MSU Energy 2025s (USD600mn). On the fundamental side, we expect the company's performance in 2022 to be mixed, with 1Q22 and 4Q22 being the strongest quarters, driven by the high international price environment. The increase in natural gas transportation tariffs will help change the downward trend of this segment's margins, at least in 2Q-3Q22. Then, cost-push factors will play their part until the government announces a new tariff adjustment. What also reinforces our view is that we believe the management has been conservative with Capex, which explains why despite the tariff freeze for 2 years, the company was able to increase its cash position.

TGS's most profitable segment has been in decline since 2H19

In 1Q22, TGS revenues were up by +11% yoy to ARS28,596mn (USD268mn). The Liquid business remains the strongest segment, with revenues increasing by +31% yoy to ARS19,974mn (USD187mn). International reference prices were 40-60% higher than last year, and exports rose by +22% yoy to 157,419 short tones. Propane volumes sold showed the highest increase at +49% yoy to 83,345 short tones while natural gasoline increased by +7% yoy to 39,999 short tones. However, in terms of EBITDA, the Liquid business show the highest impact from cost pressures, with the EBITDA margin decreasing by 10pp yoy to 49%, explained by higher natural gas processing costs.

The Natural gas transportation business remained weak, with revenues decreasing -25% yoy to ARS6,173mn (USD58mn). Revenues from this segment has been on decline since 3Q19. In fact, in 1Q22, they were 75% below 1Q19. The positive effect of the 60% tariff increase will be perceived in the next quarter, as it became effective as of March. In 1Q22, the EBITDA margin came down to 61% from 66% in 1Q21. Consequently, Natural gas transportation loose participation in the EBITDA at the expense of the Liquid business, as it accounted for 25% of total EBITDA, down from 34% in 1Q21. In contrast, the Liquid business represented 65% of the total, up from 56% in 1Q21. Although the Midstream business performance was solid, with revenues increasing by +7% yoy to ARS2,324mn (USD22mn), it continued to account for 10% of total EBITDA.

Figure 1: Despite the decline in natural gas transportation revenues in USD terms, the company has been able to increase its liquidity level.



Source: TPCG Research estimates based on TGS financial statements

1Q22 FCF reached a record high; however, we expect it to decline in the upcoming quarters due to increasing Capex for the pipeline extension

TGS's free cash flow was strong at ARS10,936mn (USD103mn), standing at its highest in the past four years. First, it is mainly due to TGS paying its global bond coupons in May and November. Therefore, it did not report cash outflows from interest expenses. Secondly, cash outflows from working capital requirements were lower due to seasonality in the liquid business. When the company has to direct its liquids products to the local market during the winter season, collections of subsidies tend to deteriorate. The government sets not only the price of butane but also subsidies 20% of it. According to the management, the government owes the company ARS500mn (USD5mn) in subsidies, and payment delays stand at 6 months for propane and 3 months for butane. Capex increased by +57% yoy to ARS3,463mn (USD32mn), accounting for 20% of the expected 2022 Capex, which will be mainly allocated to the Vaca Muerta Norte natural gas pipeline extension. The works were prepaid by Chevron, which contracted a transportation capacity of 7MM m3/d.

TGS net leverage was 0.7x while most Argy corps are above 2.0x

TGS shows one of the most solid liquidity levels among Argentine companies, with cash + ST investment covering short term debt by 13.5x. The company has no debt amortizations until the expiration of the global bond in 2025. Therefore, the liquidity is mainly used to finance the new projects, pay the global bond coupons and repurchase part of them. In 1Q22, TGS bought 7.3mn of its bonds. The net leverage remains low at 0.7x in USD terms, one of the Argentine companies with the lowest ratio.

Figure 2: TGS 1Q22 summary financials in ARSmn

Summary financials (in ARSmn)	1Q21	1Q22	Chg yoy	4Q21	1Q22	Chg qoq
Income Statement Items						
Revenues	25,857	28,596	10.6%	25,358	28,596	12.8%
Opex	(12,817)	(16,400)	28.0%	(19,520)	(16,400)	-16.0%
EBITDA	16,062	15,230	-5.2%	11,914	15,230	27.8%
Net Income	6,064	8,199	35.2%	10,060	8,199	-18.5%
Gross Margin	68%	61%		33%	61%	
EBITDA Margin	62%	53%		47%	53%	
Balance Sheet Items						
Short Term Debt	1,782	2,233	25.3%	1,181	2,233	89.1%
Long Term Debt	46,831	57,260	22.3%	51,399	57,260	11.4%
Total Debt	48,613	59,493	22.4%	52,579	59,493	13.1%
Cash & Cash Eq. + ST Investments	27,289	30,237	10.8%	17,699	30,237	70.8%
Gross Leverage (LTM)	1.3x	1.5x		1.1x	1.5x	
Net Leverage (LTM)	0.8x	0.7x		0.5x	0.7x	
Cash / ST Debt	1531%	1354%		1499%	1354%	
ST Debt / Total Debt	4%	4%		2%	4%	
Debt / Capital	38%	29%		30%	29%	
Liquidity ratio	299%	203%		175%	203%	
Cash Flow Items						
Funds From Operations	15,483	14,911	-3.7%	14,259	14,911	4.6%
Change in Working Capital	(1,518)	(512)	-66.3%	(1,171)	(512)	-56.3%
CFO after cash interest & taxes	13,965	14,399	3.1%	11,143	14,399	29.2%
Capex	(2,200)	(3,463)	57.4%	(3,924)	(3,463)	-11.7%
Disposals	-	-	n.m.	-	-	n.m.
Free Operating Cash Flow	11,765	10,936	-7.0%	7,219	10,936	51.5%
Acquisition (Disposals)	-	-	n.m.	-	-	n.m.
Free Cash Flow	11,765	10,936	-7.0%	7,219	10,936	51.5%

Source: TPCG Research estimates based on TGS financial statements

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