

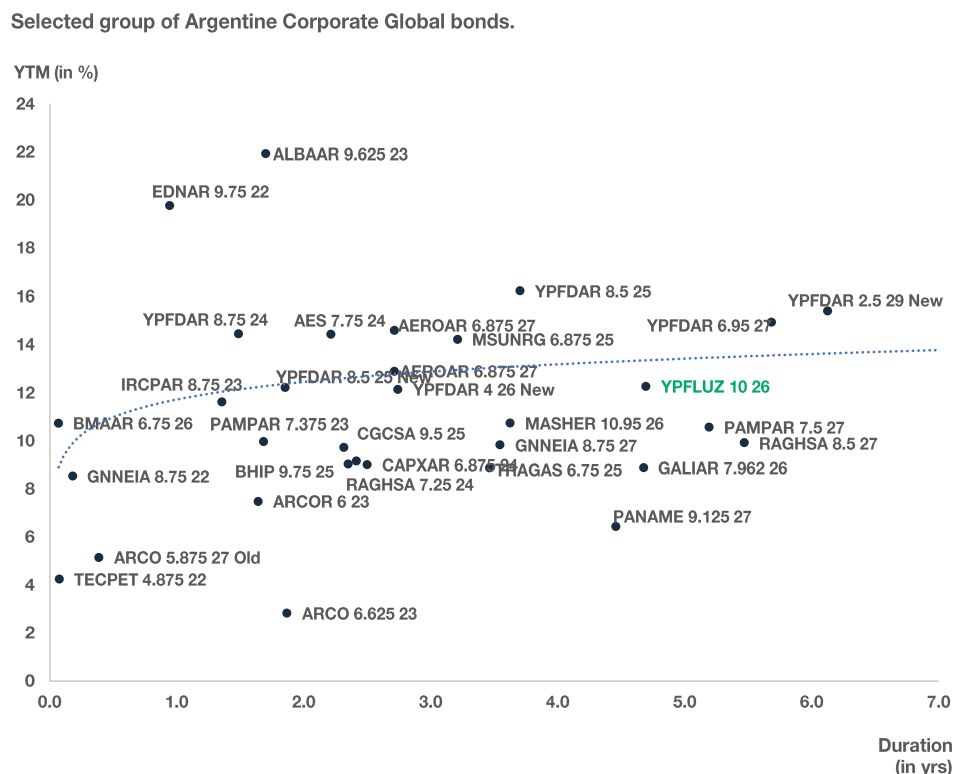
YPFLUZ 10 26s: smooth sailing ahead

We move YPFLUZ 10 26s to **Overweight** from Marketweight, as we see them at an attractive level at a price of USD92.50 and a yield of 12.1%. In our view, the bonds yield should tighten by 160bps to 10.5%, implying a total return outright of +6%. YPF Luz offers the highest coupon among the bonds in the utilities sector. In addition, the company's fundamentals have strengthened sustainedly, thanks to increasing the share of renewables in its portfolio and closing the cycle of its thermal plants. As a result, YPF Luz is the 2nd largest renewable generator in Argentina. This is a key point, although the bonds are not green, as ESG has become increasingly important when it comes to asset picking.

In 3Q21, the company reported strong results with Adj. EBITDA increasing by +72% yoy, positive FCF and net leverage coming down to 2.5x. By the end of this month, the company will have completed Cañadon Leon wind farm project, the last one in its pipeline, which will imply higher revenues from PPAs. Management expects to announce new renewable projects by year-end. In our view, they are going to be of a small/medium scale. Thus, we do not see the company increasing Capex substantially again.

What we also like about YPF Luz is that the company has an extended maturity schedule of its PPAs with Cammesa. None of them expires before the global bonds.

Figure 1: YPF Luz offers the highest coupon within peers and bonds with similar duration.



Source: TPCG Research based on Bloomberg

Revenues were up by +66% yoy driven by growth projects reaching COD

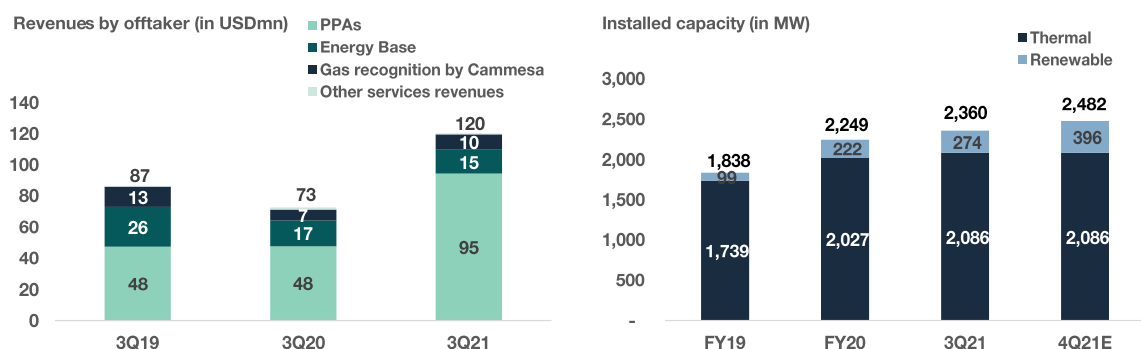
In 3Q21, YPF Luz revenues were up by +66% yoy/+7% qoq to USD120mn, as total energy sales increased by +61% yoy/ +11% qoq to 2,617GWh. This was mainly due to the fact that El Bracho, Manantiales Behr, La Plata Cogeneracion II and Los Teros II projects reached COD. In this way, total installed capacity increased by +399MW yoy to 2,360MW, been added +347MW thermal energy capacity and +52MW in renewables. The company has only pending to complete Cañadon Leon wind farm, which is at 97% of progress.

As a result, sales from PPA increased by +98% yoy to USD95mn, accounting for 79% of total revenues vs. 66% in 3Q20. The ones with Cammesa picked up by +103% yoy to USD55mn, extending the PPAs average life to 10 years from 6 years in 3Q20. The first to come due is Loma Campana II PPA in Nov-27 and the last one is El Bracho Closing Cycle PPA in Oct-35. Sales from PPAs with privates more than doubled to USD11mn from USD3mn in 3Q20 thanks to Los Teros wind farm’s start of operation. Still, their share in total sales remains low at 9%. It also had a positive impact, as well as La Plata Cogeneracion, on sales from PPAs with YPF, which were up by +65% yoy to USD29mn.

In contrast, the share of sales from Energy Base came down to 13% from 23% in 3Q20. Considering that sales under this scheme only improved by +6% qoq, although the tariff adjustment was 29% in May, we expect the positive effect to fade away in 4Q21. With that in mind, the current revenue breakdown should change with PPAs sales increasing their weight.

Adj. EBITDA was up +72% yoy/+14% qoq to USD88mn, and the margin improved by +9pp yoy to 73%. This was partly thanks to the decrease in selling expenses by -9% yoy / -28% qoq. We expect the company’s EBITDA to further improve in the upcoming quarters, driven by Cañadon Leon PPA coming into effect and Loma Campana I thermal plant getting back to normal. In 3Q21, the later faced failures in its super core which decreased its commercial availability factor to 14.9% from 66.5% Loma Campana II also went through a 4-day outage.

Figure 2: Renewable installed capacity will have increased +300% by 4Q21 since 2019, while thermal energy by +20%, doubling revenues under PPAs.



Source: TPCG Research based on the company’s reports

Positive FCF on the rise, manageable ST maturities

YPF Luz’ FCF reached a record high at USD64mn in 3Q21, up from USD24mn in 3Q20. It is worth highlighting that the company’s FCF has been positive since 2Q20, while peers with a higher exposure to Energy Base, such as AES Argentina Generacion, Generacion Mediterranea, and Capex SA, showed negative FCF in 2Q21.

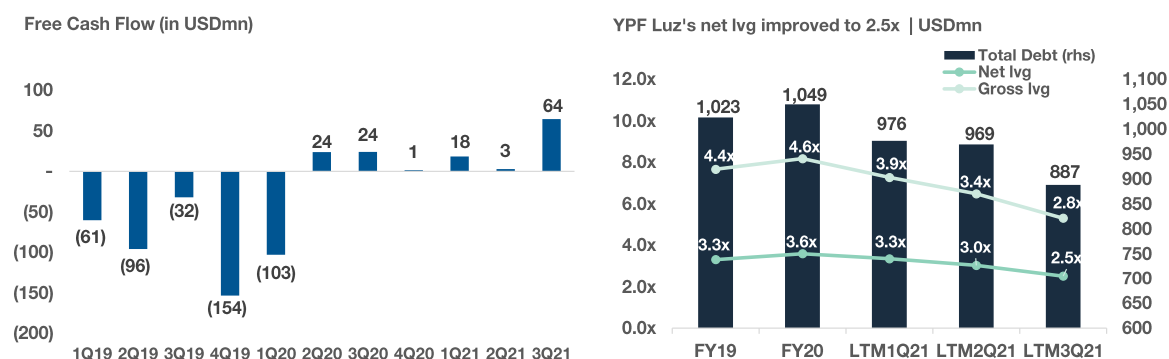
This increase in the FCF was mainly due to the fact that change in working capital turned positive to USD36mn from -USD6mn, explained by trade receivables and payables cash inflows of USD21mn and USD15mn, respectively. The first one was due to the improvement in Cammesa payment days, as it paid the July bill in 66 days compared to 89 days for March’s bill. With the completion of Cañadon Leon wind farm, we expect YPF Luz average collection days, which was 62 days on average in 3Q21, to widen vs Cammesa payment days. This is because renewable contract payments under the Renovar program are of 42 days. Then, trade payables cash inflows resulted from the completion of the projects.

In addition, Capex decreased by -26% yoy to USD20mn as there is only one project pending to reach COD. However, the company is already analyzing new projects on renewable energy. Management is expecting approval from the board for the Sonda solar park project in San Juan. If so, the Capex budget would be USD150mn for 2022, -34% lower than in FY20. Otherwise, 2022 estimated Capex will be USD50mn, as it will be of maintenance.

As of September 31st, 2021, YPF Luz' short-term debt decreased by -33% qoq to USD186mn mainly due to the payment of loans. This was reflected in the drop in reported cash & cash equivalents by -24% qoq to US\$90MM. Consequently, short-term debt accounted for 21% of total debt, down from 29% in 2Q21. For 4Q21 and 2022, debt for USD237mn matures, of which 54% or USD127mn are local bonds and 37% or USD87mn are bank loans. In our view, the company will propose an exchange offer for some of its local bonds, as most Argentine companies have been doing to take advantage of excess liquidity in the local market due to high inflation. While the company plans to cancel the loan with the Citi bank, which amount outstanding is USD18mn and is in hard currency.

In view of this, YPF Luz's gross leverage should stand at 2.2x in FY22E, down from 2.5x in FY21E and 2.8x in LTM3Q21.

Figure 3: FCF reached an all-time high at USD64mn with Cammesa payment days improving and the lower Capex needs



Source: TPCG Research based on the company's reports

Figure 4: YPF Luz's 3Q21 summary financials in USDmn.

Summary financials (in USDmn)	3Q20	3Q21	Chg y/y	2Q21	3Q21	Chg q/q
Income Statement Items						
Revenues	72.7	120.4	65.5%	112.2	120.4	7.4%
Opex	(41.1)	(61.6)	49.9%	(58.0)	(61.6)	6.1%
Adj. EBITDA	51.2	88.1	72.2%	77.6	88.1	13.6%
Net Income	21.9	(6.3)	n.m.	1.5	(6.3)	n.m.
Gross Margin	52%	54%		55%	54%	
Adj. EBITDA Margin	70%	73%		69%	73%	
Balance Sheet Items						
Short Term Debt	282.9	185.9	-34.3%	277.4	185.9	-33.0%
Long Term Debt	738.6	701.5	-5.0%	691.5	701.5	1.4%
Total Debt	1,021.5	887.4	-13.1%	968.9	887.4	-8.4%
Cash & Cash Equivalents	208.5	90.4	-56.6%	118.9	90.4	-23.9%
Gross Leverage (LTM)	4.7x	2.8x		3.4x	2.8x	
Net Leverage (LTM)	3.7x	2.5x		3.0x	2.5x	
Cash / ST Debt	74%	49%		43%	49%	
ST Debt / Total Debt	28%	21%		29%	21%	
Debt / Capital	49%	43%		46%	43%	
Liquidity ratio	88%	87%		79%	87%	
Cash Flow Items						
Funds From Operations	87.9	79.6	-9.4%	107.1	79.6	-25.7%
Change in Working Capital	(6.0)	36.0	n.m.	(65.8)	36.0	n.m.
CFO after cash interest & taxes	51.8	84.8	63.8%	33.3	84.8	154.5%
Capex	(27.8)	(20.5)	-26.4%	(30.6)	(20.5)	-33.1%
Disposals	-	-	n.m.	-	-	n.m.
Free Operating Cash Flow	24.0	64.4	168.7%	2.7	64.4	n.m.
Acquisition (Disposals)	-	-	n.m.	-	-	n.m.
Free Cash Flow	24.0	64.4	168.7%	2.7	64.4	n.m.
OCF/Total Debt	20%	38%		14%	38%	
FOCF/Total Debt	9%	29%		1%	29%	
FCF/Total Debt	9%	29%		1%	29%	
Capex/Sales	38%	17%		27%	17%	

Source: TPCG Research based on the company's reports

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