

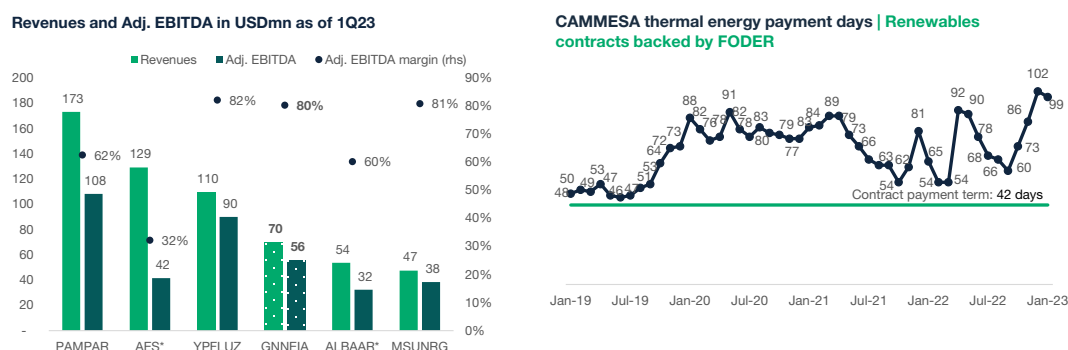
## Genneia outperforms in the power generation sector

We noticed heterogeneity in the performance of power generation companies' 1Q23 results. Genneia results stand out from peers with revenues increasing by +2.4% yoy and the Adj. EBITDA margin at 80%. The reason is that renewables have dispatch priority over thermal and the contracts are USD-linked. In 1Q23, 87% of Genneia's energy sold was renewables, of which 77% was wind and 10% solar.

Pampa Energia reported revenues from the power generation segment growing by +4% yoy and AES Argentina revenues increasing by +31% yoy. However, the companies' EBITDA margins were below Genneia's at 62% and 32%, respectively. Revenue growth was partly due to both companies deciding to participate in the new USD-linked PPAs that launched Cammesa for combined cycle plants under Resolution 59/23. The change in revenues was important because the energy generated by those units was under the Energia Base tariff scheme. In the past three years, Energia Base tariff increases were given as of February bills, thus, the positive effect on revenues was reflected in 2Q. However, the improvement in margins was temporary as inflation diluted the increase. In 2022, the total increase given was 53%, 25% as of February bills and 28% as of August bills, while the annual inflation was 94.8%.

Then, within the companies with a higher percentage of thermal plants in its portfolio, those with PPAs from 2017-2018 dispatched less than in 2022. What laid behind this was that there was a higher supply of hydro energy thanks to the improvement of Parana's River flow. Consequently, Cammesa did not need to buy as much thermal energy as last year. It was reflected in YPF Luz's sales performance, with thermal energy sold decreasing by 6.1% yoy and renewable energy sold increasing by +16.7% yoy. MSU Energy sales were also weak, down -6.5% yoy. Although MSU Energy's EBITDA margin was higher than Genneia's, standing at 81%, it deteriorated from 85% in 1Q21, while Genneia's was flat yoy.

**Figure 1: Genneia is one of the most profitable power generation companies**



Source: TPCG Research based on the companies' reports, \* Expressed in U.S. dollars converted using ARS192.34/USD

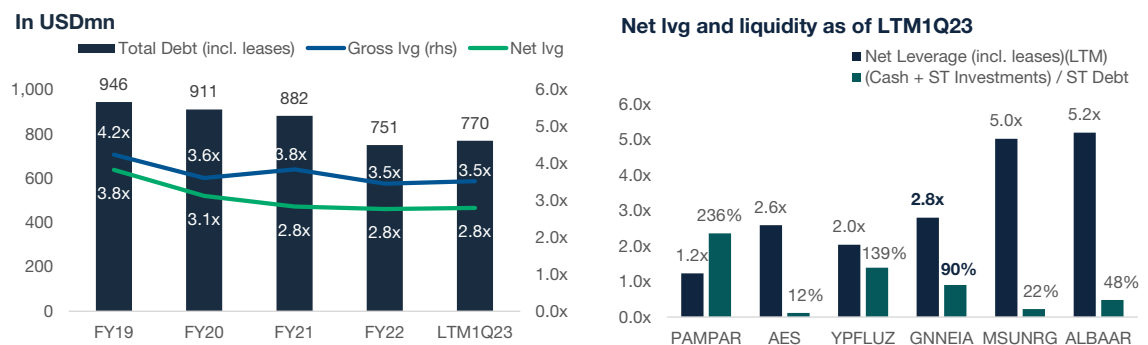
In 1Q23, Genneia sold 926GWh, -4.5% yoy, explained by the decrease in wind speed in the Patagonia region. The weighted average load factor stood at 44.2% vs. 47.9% in 1Q22. For instance, Pomona I, one of Genneia’s largest wind parks, electricity generation shrank by 15% yoy to 90GWh. What helped to partly offset wind farms’ lower electricity generation was the completion of Sierras de Ullum in March, a 78MW solar park. It generated 29.5GWh. Consequently, installed capacity increased by +6.3% yoy to 1,308MW. With the completion of La Elbita wind farm (162MW) and Tocota III solar park (60MW), it will increase to 1,530MW. In this way, Genneia will continue diversifying its portfolio, decreasing its exposure to Cammesa, while increasing the one of private-off takers. This is key because, except for FODER contracts, Cammesa payment days deteriorated materially. It paid January’s old PPAs and Energia Base bills within 99 days vs. 65 days in January 2021.

Because of Cammesa’s payment delays, all companies showed working capital cash outflows. In fact, Pampa Energia’s management said that Cammesa’s accumulated debt with the company was ARS40,000mn (c. ~USD173mn). However, it is important to highlight that the debt accruals interest based on Banco Nacion active interest rate, which is ~112%. In view of this, the company tapped the local market taking advantage of its high liquidity and low coupon rates. We believe that Genneia and YPF Luz domestic bond issuances in 1Q23 also followed the same criteria. It is also worth mentioning that, on a comparative basis, the 1Q22 was an extraordinary quarter as Cammesa paid November 2021 bills in 54 days. In addition, there was a transitional pricing adjustment for Energia Base to guarantee Cammesa’s electricity exports. As a result, most companies reported a positive change in working capital thanks to trade receivable cash inflows in 1Q22.

Although Genneia’s interest expenses were down by 36% yoy to USD17mn, the decrease was not enough to offset the negative change in working capital, explained by collection days deterioration, and the increase in Capex by +125% yoy to USD41mn due to the expansion projects. We believe Genneia’s negative FCF of -USD11mn will be transitory. First, Genneia interest expense will decrease materially in 2Q23, as the GNNEIA 8.75 27s pay interest in March and September. Then, Cammesa should improve payment days as cash inflows from the residential segment should improve with the stepped tariff increases, of which high-income households will pay the full tariff. Also, Cammesa should pay less for fuel.

Even so, Genneia’s liquidity levels are adequate, with cash + ST investments of USD158mn (+5.9% qoq) covering ST debt by 90%, standing at one of the highest levels in the company history. From 3Q19 to 3Q20, it ranged from 48-68%. In 1Q21 and 2Q21, it reached a record low of 21-22%. This leads us to think that the company is in good shape to navigate a tougher macroeconomic scenario. It is reinforced by the fact that the company was more leveraged. As of March 31<sup>st</sup>, 2023, Genneia’s total debt was USD770mn vs. USD889mn on March 31<sup>st</sup>, 2021. The company’s net leverage decreased to 2.8x in LTM1Q23 from 3.3x in LTM1Q21. From a sector perspective, Genneia’s net leverage is in the mid bracket, standing above Pampa Energia, AES Argentina, and YPF Luz but below MSU Energy and Generacion Mediterranea.

**Figure 2: Genneia’s total debt (incl. leases) was up by +2.7% qoq, explained by the issuance of 10-year USD73mn USD-linked green bond with a 4.5% coupon.**

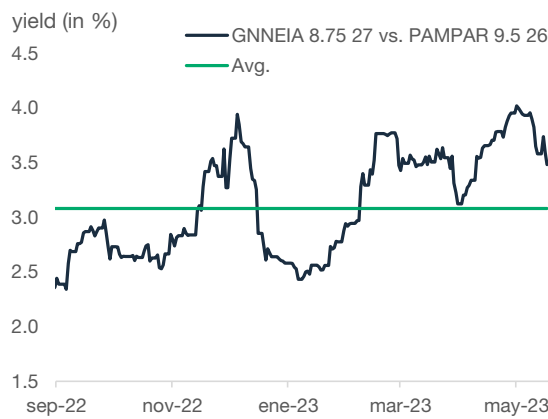


Source: TPCG Research based on the companies' reports

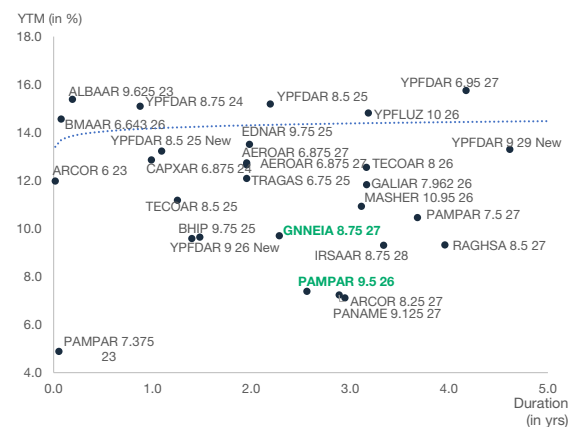
Although GNNEIA 8.75 27s has historically been one the most expensive Argentine corporate bonds, it has been one of the most resilient. We believe it is because of its attractive structure. With the increasing importance of ESG, Genneia’s bond stands out for being the only green bond among corporate Argentine names. Genneia has successfully established as the leading renewable energy company in Argentina, with 72% of the total installed capacity being renewables. YPF Luz, which is the second largest renewable energy company in Argentina, only has 16% of its installed capacity in renewables. In our view, this count in asset picking.

Analyzing the Argentine corporate space, we found that PAMPAR 9.5 26s are rich. We believe it is a good opportunity to swap them for GNNEIA 8.75 27s, given that the price differential stands at USD9 and the spread differential is 350bps. By swapping Pampa Energia's bond for Genneia's there would be a decrease in duration of 0.3 years. GNNEIA 8.75 27s amount outstanding is higher than PAMPAR 9.5 26s, USD329mn vs. USD293mn, respectively. We believe Pampa Energia faces a similar risk as Genneia. Pampa Energia has high exposure to Cammesa not only from its power generation business but also from its E&P business, as it is mainly focused on natural gas production that is under the Plan Gas contracts. One of the main differences is that Genneia's revenues come entirely from the local market while Pampa Energia exports natural gas to Chile. In 1Q23, exports revenues were USD86mn, accounting for 20% of the total. However, Pampa Energia's bond is not secured by exports as YPF DAR 9 26s. Genneia's bond is secured by Madryn I and II wind farms USD-linked PPAs.

**Figure 3: Swap PAMPAR 9.5 26s for GNNEIA 8.75 27s**



**Selected group of Argentine Corporate Global bonds.**



Source: TPCG Research based on Bloomberg

Figure 3: Genneia's 1Q23 summary financials.

Summary financials (in USDmn)	1Q22	1Q23	Chg yoy	4Q22	1Q23	Chg qoq
<b>Income Statement Items</b>						
Revenues	68.0	69.6	2.4%	71.8	69.6	-3.1%
Opex	(29.6)	(28.3)	-4.2%	(33.9)	(28.3)	-16.4%
EBITDA	52.7	55.4	5.1%	51.6	55.4	7.4%
Adj. EBITDA (reported)	54.2	55.8	3.0%	53.5	55.8	4.5%
Net Income	9.8	21.2	116.4%	14.4	21.2	47.3%
Gross Margin	64%	66%		60%	66%	
Adj. EBITDA Margin	80%	80%		74%	80%	
<b>Balance Sheet Items</b>						
Short Term Debt	118.5	174.5	47.3%	187.6	174.5	-7.0%
Long Term Debt	626.0	595.9	-4.8%	562.9	595.9	5.9%
Total Debt	744.4	770.4	3.5%	750.5	770.4	2.7%
Cash & Cash Eq. + ST Investments	128.1	157.8	23.2%	149.1	157.8	5.9%
Gross Leverage (LTM)	3.5x	3.5x		3.8x	3.5x	
Net Leverage (LTM)	2.8x	2.8x		2.8x	2.8x	
Cash / ST Debt	108%	90%		79%	90%	
ST Debt / Total Debt	16%	23%		25%	23%	
Debt / Capital	56%	53%		53%	53%	
Liquidity ratio	87%	84%		75%	84%	
<b>Cash Flow Items</b>						
FFO after cash interest & taxes	27.6	42.8	55.1%	55.5	42.8	-23.0%
Change in Working Capital	6.1	(12.5)	n.m.	8.5	(12.5)	n.m.
CFO	33.7	30.2	-10.3%	64.0	30.2	-52.8%
Capex	(18.4)	(41.5)	125.1%	(47.4)	(41.5)	-12.5%
Disposals	14.0	-	-100.0%	-	-	n.m.
Free Operating Cash Flow	29.3	(11.2)	n.m.	16.6	(11.2)	n.m.
Acquisition (Disposals)	-	-	n.m.	-	-	n.m.
Free Cash Flow	29.3	(11.2)	n.m.	16.6	(11.2)	n.m.
OCF/Total Debt	18%	16%		34%	16%	
FOCF/Total Debt	16%	-6%		9%	-6%	
FCF/Total Debt	16%	-6%		9%	-6%	
Capex/Sales	27%	60%		66%	60%	

Source: TPCG Research based on the company's reports

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