

AES 7.75 2024s Exchange Offer

On July 13th, AES Argentina Generación S.A. announced the Exchange Offer (“EO”) of the AES 7.75 2024s, maturing February 2nd, 2024, for the new AES 9.5 2027s. The new bond will amortize in four equal annual installments as of February 16th, 2026, and matures on August 16th, 2027. The early participation date will expire on **July 26th, 2023**, while the exchange offer on August 10th, 2023.

The bondholders of USD1,000 of the AES 7.75 2024s can choose to change their bonds for:

Option A:

- **A Pro-Rata Cash Consideration** that will be equivalent to the pro rata share of the lesser of (i) USD30.5mn, (ii) 20% of the aggregate principal amount of Old Notes validly tendered and accepted for exchange in the EO and (iii) the aggregate principal amount of Old Notes validly tendered and accepted for exchange under Option A at or prior to the Early Participation date. **New bonds.** The amount is calculated as the difference between USD1,000 and the Pro-Rata Cash consideration, multiplied by 1.02.

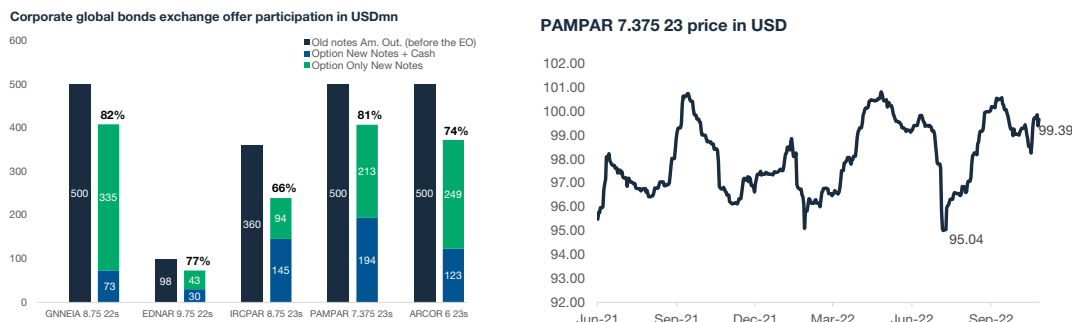
Option B: USD1,050 of the new bonds

In our view, the exchange offer participation rate will stand around 80%, considering past exchange offers and the attractive bond structure that will make the bond stand out within Argentina and EM corporate bonds universe.

Our analysis of the past EOs show that investors preferred the option that only gave new bonds in return. The exception was IRCPAR 8.75 2023 EO for IRSAAR 8.75 2028, in which 61% of the bondholders preferred the Option that offered New Notes + Cash. We believe it was because there were more bonds in the hands of the retail segment. In the case of AES 2024s bond, we expect the participation rate in Option B to be in the range of 70% - 80%, considering the attractive structure of bond and its high coupon. Among the EM corporate space, there are not many short-dated bonds that offer coupons above 8%. In fact, we believe this is the reason why the Option that only gives new notes is the most chosen.

The bonds that resulted from EOs end up turning illiquid, in part due to the shrink of the amount outstanding. As they are more difficult to source, the bonds tended to be more resilient to sell-offs. For example, the PAMPAR 7.375 2023 price went from USD99.41 the day after the announcement of the EO on June 16th, 2022, to reaching a low of USD95.01 the day of the announcement of the early participation results on July 7th, 2022. Since then, the price recovered and hovered around USD100 until the maturity of the bond. Bondholders that entered into the EO marked a gain with the PAMPAR 9.5 2026s, which ASK price is currently at USD103.5 (YTW: 7.8%).

Figure 1: Argy corporates EO have a high participation rate



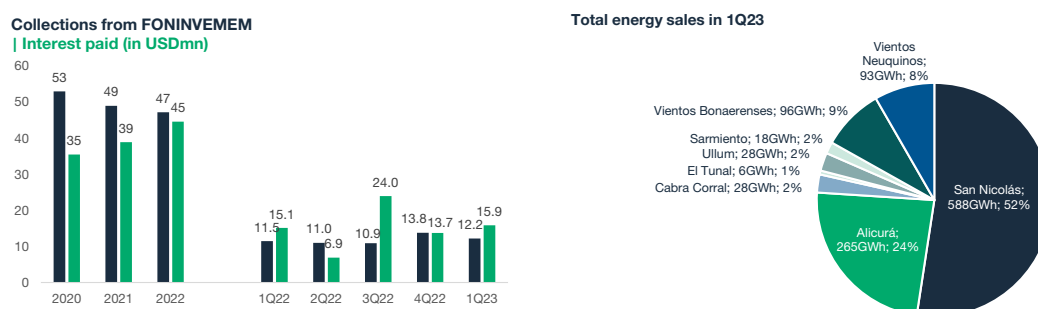
Source: TPCG Research based on Bloomberg

The new bonds account with a debt incurrence covenant:

- Net Debt / EBITDA: <3.5x – as of LTM1Q23: 2.0x
- Interest coverage ratio: >2.5x – as of LTM1Q23: 2.9x

The Adjusted EBITDA also includes the company’s collection of FONINVEMEM receivables. AES Argentina participated in the FONINVEMEM program launched in 2004 that aimed to increase the electricity supply in the wholesale market. Under this program, AES Argentina built 3 thermal plants: Manuel Belgrano, San Martín and Guillermo Brown. Cammesa cancelled its debt with the company for the first two plants while it continues doing the monthly USD-linked payments plus an interest rate of LIBOR+5% for the third one. However, it is important to consider that FONINVEMEM's last payment is in April 2026. The company will start paying the amortizations of the bond in February 2026. Therefore, the company will not have the FONINVEMEM receivables for the payment of August 2026’ amortization onwards. However, since then, the company will hold up to 30% of the equity interest in plant. We believe the cash inflows for the stake in the plant will be lower than the FONINVEMEM receivables because the plant power sales will depend on the Energia Base tariff increases. As of 1Q23, the remaining amount outstanding was USD130mn. In 1Q23, the company FONINVEMEM collections were USD12.2mn (including interest, net of VAT).

Figure 2: The increase in renewable energy capacity will be key to offset declining USD-linked income



Source: TPCG Research based on FFSS

Other key point is that AES Argentina operates the only privately-owned coal-fired power plant in Argentina, Central Termica San Nicolas (CTSN), which is the plant that the AES Corporation acquired in 1993, starting its operation in the country. Nowadays, owning a plant of this characteristic is a drawback with the increasing importance of ESG. The AES Group target is to reduce energy generation from coal to 0% in 2027 from 22% in 2022 while increasing renewable installed capacity from 46% to 79% in 2027. With this in mind, we believe the company will have to replace the use of coal with natural gas or diesel in the 3 units of CTSN. If the company decides to put out of operation the turbines that use coal, the most obvious option would be to increase renewable energy capacity to offset the decrease in power generation.

However, currently, Argentina faces a bottleneck in electricity transmission which limits the launch of new renewable projects. Once this is overcome, we believe AES Argentina will not have to increase renewable energy capacity by the same amount of the turbines disconnected. The turbines that use coal are two of 75MW installed capacity each and one of 350MW, totaling 500MW. AES Argentina owns 2 wind parks with a total installed capacity of 200MW. To put this in perspective, San Nicolas sold 588Gwh, while the 2 wind parks combined 189GWh in 1Q23. The company will not have to almost triple renewable energy capacity because renewable energy is more profitable with USD-linked contracts, while CTSN turbines are under the Energia Base scheme.

Figure 3: The extension of the Alicura plant concession after October is uncertain

Hydros	Capacity	Enegy sold in 1Q23	Concession granted	Concession expires
Alicura	1050MW	265GWh	1993	August 2023
Cabra Corral	102MW	28GWh	1995	November 2025
El Tunal	10MW	6GWh	1995	November 2025
Ullum	45MW	28GWh	1996	February 2026

Source: TPCG Research based on the Exchange Offer Memorandum, FFSS

Another reason that would lead the company to increase renewable energy is if the government does not renew the hydro plant concessions. The Alicura hydro plant concession, which generated 24% of 1Q23 energy sold, expires this August. On June 5th, the Argentine government instructed ENARSA to take control

of the hydro plant. However, the government of Rio Negro and Neuquen requested its revocation. A month later, on July 10th, the Secretariat of Energy determined that AES continue operating the plant for 60 additional calendar days. Basically, the government only secured AES for the operation of the plant until the presidential elections. This leads us to think that depending on the results of the elections, it is uncertain that the current Secretary of Energy, Flavia Royon, will continue in its position. If there is no other new resolution, AES will lose its most important hydro concession.

With this in mind and the elections ahead, we see positive the steps taken by the company in terms of liability management. First, the management decided to buy back the company's AES 7.75 2024, reducing the amount outstanding from USD300mn to USD274.5mn. Second, on July 14th, 2023, the company issued a local hard-currency bond of USD30mn at 8% coupon due on July 14th, 2025. In this way, with the proceeds, the company secured the cash sweetener for the exchange offer.

We are under the opinion that the exchange offer is fair. We calculated the exchange values considering that AES 7.75 2024s are currently at an ASK price of USD89 and yield 32.2%. Based on the exchange offers made by other Argentine companies, we estimate that the new AES 9.5 2027 yield will stand at 13%.

Our most probable scenario is that the total participation rate is near 80% (~USD220mn), in which 20% will participate in Option A and 80% in Option B. If that was the case, bondholders participating in Option A would receive USD0.56 in cash and USD0.45 in new bonds, implying an exchange value of +9.4%. In contrast, bondholders participating in Option B would receive USD1.05 in new bonds, indicating an exchange value of +8.7%.

In the table below, we established several scenarios to calculate Option A Cash Payment and the total Exchange Value at different yields, considering different participation rates in Option A and B.

Figure 4: Option A

Participation		Cash Payment	27s New Notes	Exchange Value (excl. Int. Accrued)										
Option A	Option B			9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	
12.5%	87.5%	\$0.89	\$0.11	100.4	100.1	99.8	99.6	99.3	99.1	98.9	98.6	98.4	98.2	
				12.8%	12.5%	12.2%	11.9%	11.6%	11.3%	11.1%	10.8%	10.6%	10.4%	
15.0%	85.0%	\$0.74	\$0.26	100.8	100.2	99.6	99.0	98.4	97.9	97.4	96.8	96.3	95.8	
				13.3%	12.6%	11.9%	11.2%	10.6%	10.0%	9.4%	8.8%	8.2%	7.7%	
17.5%	82.5%	\$0.63	\$0.37	101.2	100.3	99.4	98.6	97.8	97.0	96.3	95.5	94.8	94.1	
				13.7%	12.7%	11.7%	10.8%	9.9%	9.0%	8.2%	7.3%	6.5%	5.8%	
20.0%	80.0%	\$0.56	\$0.45	101.4	100.4	99.3	98.3	97.3	96.4	95.5	94.6	93.7	92.9	
				14.0%	12.8%	11.6%	10.5%	9.4%	8.3%	7.3%	6.3%	5.3%	4.3%	
22.5%	77.5%	\$0.49	\$0.52	101.6	100.4	99.2	98.1	97.0	95.9	94.8	93.8	92.8	91.9	
				14.2%	12.8%	11.5%	10.2%	8.9%	7.7%	6.5%	5.4%	4.3%	3.2%	
25.0%	75.0%	\$0.44	\$0.57	101.8	100.4	99.1	97.9	96.7	95.5	94.3	93.2	92.1	91.1	
				14.4%	12.9%	11.4%	10.0%	8.6%	7.3%	6.0%	4.7%	3.5%	2.3%	
27.5%	72.5%	\$0.40	\$0.61	101.9	100.5	99.1	97.7	96.4	95.1	93.9	92.7	91.6	90.4	
				14.5%	12.9%	11.3%	9.8%	8.3%	6.9%	5.5%	4.2%	2.9%	1.6%	
30.0%	70.0%	\$0.37	\$0.64	102.0	100.5	99.0	97.6	96.2	94.9	93.6	92.3	91.1	89.9	
				14.6%	12.9%	11.3%	9.7%	8.1%	6.6%	5.1%	3.7%	2.3%	1.0%	
32.5%	67.5%	\$0.34	\$0.67	102.1	100.5	99.0	97.5	96.0	94.6	93.3	92.0	90.7	89.4	
				14.7%	12.9%	11.2%	9.5%	7.9%	6.3%	4.8%	3.3%	1.9%	0.5%	

Source: TPCG Research estimates based on Exchange Offer Memorandum, Bloomberg

Figure 5: Option B

27s New Notes	Exchange Value (excl. Int. Accrued)										
	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	
\$1.050	106.2	103.8	101.3	99.0	96.8	94.6	92.4	90.4	88.3	86.4	
	19.4%	16.6%	13.9%	11.3%	8.7%	6.2%	3.8%	1.5%	-0.7%	-2.9%	

Source: TPCG Research estimates based on Exchange Offer Memorandum, Bloomberg

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