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Corporates Equity – Argentina

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Equity Strategy

Market Update

Figure 1: Price Performance USD

18/9/2023	1D	1W	1M	YTD
VIST	2.8%	13.3%	11.8%	94.4%
GGAL	2.8%	3.6%	6.5%	70.8%
TXAR	6.4%	32.1%	17.1%	58.8%
BMA	3.6%	6.7%	9.2%	54.8%
YPF	2.9%	2.4%	-11.3%	50.2%
BBAR	2.8%	6.3%	5.5%	40.9%
S&P Merval	3.8%	12.2%	2.1%	38.7%
PAM	4.1%	11.2%	-5.2%	35.2%
SUPV	2.3%	5.6%	-4.3%	22.2%
TRAN	8.5%	15.6%	9.2%	15.6%
BYMA	1.0%	27.5%	18.7%	15.2%
CEPU	4.0%	10.7%	-2.7%	12.8%
TGS	6.7%	15.0%	-6.5%	4.3%
TEO	2.7%	2.1%	-3.8%	2.7%
TGN	5.2%	19.8%	-2.9%	2.5%
LOMA	4.9%	6.8%	-0.2%	-3.9%
VALO	4.4%	13.9%	10.7%	-5.4%

Stock Exchange: BYMA @BCS & NYSE

Source: TPCG Research based on Bloomberg

» MTD, Argentine equities posted mixed results after showing a strong performance since the beginning of the year. The S&P Merval, the main equity index that measures the performance of the most liquid and largest stocks trading on BYMA, grew by 2.1% mom when measured in USD. The top performer of the period in USD terms was BYMA closing at ARS 542 or USD 0.74 (@BCS), +16.8% mom and +18.7% mom, respectively. The worst performer MTD was YPF at ARS 9,641 and USD 13.08 (ADR), or -12.6% mom and -11.3% mom, respectively. Total volume traded YTD in BYMA for the selected credits amounted to close to USD 2.1bn, with YPF and GGAL accounting for 48.3% of the total. When adding the volume traded on NYSE, that figure more than doubles, with YPF, GGAL, and VIST representing around 61% of the total. When comparing the 1y performance, we see that Argentine equities' performance substantially outpaced its main EM ETFs peers.

Earnings Summary and Recent News

- » **O&G mid-streamers** continue to suffer from gas transportation tariffs substantially lagging the accumulated inflation pace, and lower international liquid prices in the case of TGS, resulting in a drop in the Adj. EBITDA for both. During the 2Q23 and 3Q23, the first tranche of the GPNK was inaugurated and TGS was awarded for its maintenance and operation. For TGN, the government finally launched the auction for the reversion of the North gas pipeline.
- » **O&G producers** showed lower revenues with local and international crude oil prices sliding down. In the case of YPF, gasoline and diesel sales dropped 5-7% yoy, explained by the net average realized price decreasing 11-6% yoy. However, YPF resumed crude oil exports to Chile through the TransAndino pipeline after 18 years. As a result, crude oil exports jumped to USD46mn from USD12mn in 1Q23. While YPF increased its Medanito oil exports, Vista decreased them as a consequence of the reduction of its crude oil production to focus on the Bajada del Palo Este and Aguila Mora pilot projects.
- » **Telecom's** margins narrowed once again as the company struggled to pass through the inflation and the peso devaluation into prices, while the client base grew marginally. In August, the ENACOM approved the call for the auction of 3 5G blocks to be held in October or November 2023, each block having a base price of USD 350mn.

Figure 2: YTD Volume in USD mn

Traded Volume YTD @ BCS	
VALO	21
TEO	31
SUPV	37
BYMA	40
TRAN	47
LOMA	52
BBAR	52
TGN	58
CEPU	89
TGS	99
BMA	119
TXAR	118
VIST	152
PAM	208
GGAL	435
YPF	608

Stock Exchange: BYMA

Source: TPCG Research based on Bloomberg

Figure 3: Merval Index Performance



Source: TPCG Research based on Bloomberg

Strategy

» Although all companies' results for the 3Q-4Q23 will be marred by the acceleration of inflation and the FX devaluation, we believe the O&G sector remains to show the highest growth potential in Argentina driven by exports. In the past weeks, equity performance was weak not only in Argentina but also internationally, as seen in the SPX, NDX, SXXP, DAX, and HSI indexes, among others. Argentine equities rallied since September 2022 until August 2023. On a YTD and YoY perspective, Argentine equities may look rich. However, this perception dissipates if we look at equity performance since 2013 onwards. In the case of YPF, the stock price was higher in 2013-2015 than in 2016-2018. In 2020 equities bottomed and prices were relatively flat for almost 2 years until 3Q22. We noticed that currently, some names are trading near pre-2019 PASO. Although uncertainties towards the presidential elections lead us to think that downside risk is increasing, we do not see equity prices tumbling to 2020-2021 levels. Considering that the upside potential continues to predominate, we remain Overweight rating on several names.

Figure 4: Summary of Securities

18/9/2023	PX		Vol LTM (USD mn)	Mkt Cap (USD mn)	LTM Fundamentals (USD mn)			Ratios			Rating
	ARS	USD			Net Income	EBITDA	Net Leverage	P/E	EV/EBITDA	P/BV	
O&G											
YPF	9,641	13.08	608	5,208	1,878	4,488	1.5x	2.8x	2.7x	0.5x	Overweight
VIST	20,524	27.93	152	2,618	333	792	0.6x	7.9x	3.9x	2.6x	Overweight
PAM	1,242	42.10	208	2,354	595	857	1.1x	4.0x	3.7x	0.9x	Neutral
TGN	839	1.15	58	506	65	89	-0.5x	7.8x	5.2x	0.6x	Overweight
TGS	1,802	12.06	99	1,864	198	498	0.2x	9.4x	3.9x	1.1x	Overweight
Utilities											
TRAN	462	0.63	47	282	27	69	-0.3x	10.3x	3.8x	0.6x	Neutral
Others											
TEO	787	5.35	31	2,328	-1,321	1,069	2.4x	-1.8x	4.6x	0.5x	Neutral

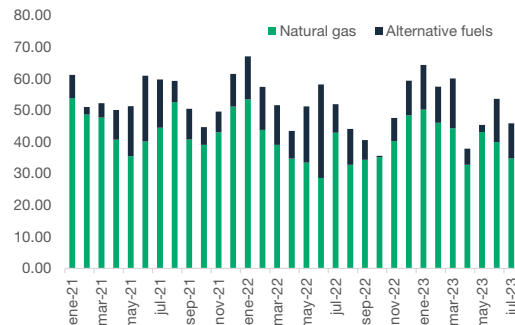
Source: TPCG Research based on Bloomberg and Company Reports

O&G & Utilities– Industry Overview

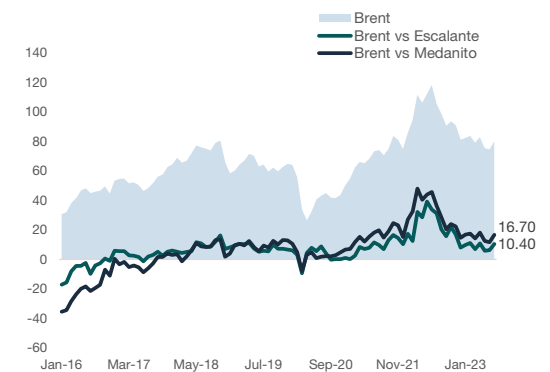
Recent News

- » **The Nestor Kirchner pipeline (GPNK)’s** first tranche was inaugurated in July 2023 with an extension of 573km (from Neuquén to PBA) and adding 11MMm3/d of transportation capacity. It is expected that the transported capacity grows to 22MMm3/d by January 2024 with the addition of loops and compression stations. TGS has been awarded for the operation and maintenance of the first tranche, for a period of 5 years extendable for an additional year. Regarding the second tranche, the auction for its development is expected to be launched in September 2023. It would consist of 467km (from PBA to Santa Fe) and add 22MMm3/d of transportation capacity. Unlike the first tranche, the second tranche would be privately financed. The COD is expected to be by end-2024 and to cost around USD 3.2bn.
- » **The Northern gas pipeline reversion** auction has been launched and is expected to begin in November, with the COD expected to be six months upon the commencement of the development. The project consists of the reversion of five compression plants and the construction of a 122.5km pipeline. Historically, the northern pipeline has been used to import gas from Bolivia to cope with Argentina’s energy matrix deficit reached during winter peaks. Given that Bolivia’s output decreased substantially, the idea is to replace it with Vaca Muerta’s production.
- » **Cammesa payment days delays remain high, although they have improved in the past months.** Power generation companies reported that April’s bill was paid within 80 days. It was down from 99 days of January’s bill. Our sense is that natural gas producers are facing the same delays with the payment of Plan Gas Ar. bills.
- » **Barril Criollo.** Until October 31st, 2023, Medanito crude oil price will stand at USD56/bbl.
- » **Electricity bills from the residential segment will not increase until November.** The government postponed September’s tariff increases to high and mid-income households to November.

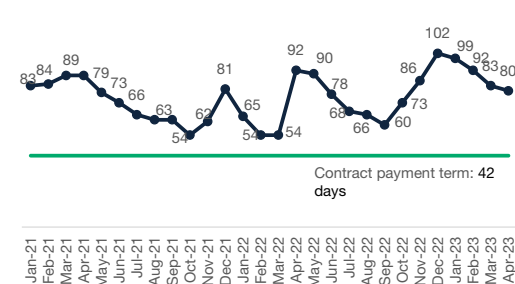
Thermal power plants' fuel consumption in Mm3/d



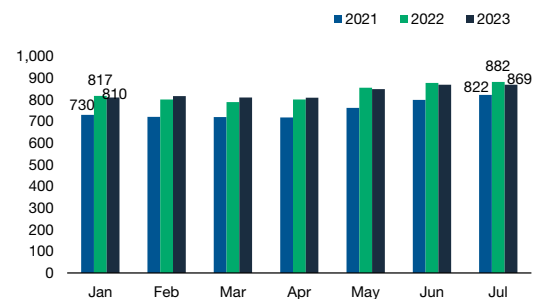
Price differential as of July-23 in USD/bbl



CAMMESA thermal and hydro energy avg payment days



Argentine O&G production | kboe/d



Source: TPCG Research based on Secretariat of Energy, CAMMESA, MSU Energy’s 2Q23 presentation

O&G – Transportadora de Gas del Sur (TGS)

Company Profile

TGS	
BBG Ticker	
NYSE	TGS
BYMA	TGSU2
Stock Price	
NYSE	12.06
BYMA (ARS)	1,802
Market Cap (USD)	1864
YTD Return (USD)	4.33%
Rating	Overweight

Source: TPCG Research based on Bloomberg

» TGS operates and maintains Argentina’s and Latin America’s largest natural gas pipeline of 9.2th kilometers throughout Argentina’s center, western, and southern areas. It transports around 60% of the consumed gas in the country and has a system capacity of 85.5 MMm3/d. It is also involved in producing and commercializing natural gas liquids, telecommunications, and midstream O&G services, which are non-regulated.

Recent News

- » In 2Q23 ENARGAS approved a new tariff increase of 95%, below what TGS requested in early 2023 of 135%. The pending tariff adjustment under the 2017 agreement (when the tariff scheme was revised and updated with the previous administration) amounted to 270% as of December 2022.
- » TGS has been awarded to operate and maintain the first tranche of the GPNK for five years, extendible for 1 extra year. In July 2023, the first stage began its operation with a transportation capacity of 11 MMm3/d. Two compression plants are expected to be ready before year-end, which will increase the transportation capacity to 21 MMm3/d.
- » The company finalized the expansion of modules 2 and 3 in its O&G midstream segment, adding 7MMm3/d of conditioning capacity and totaling 15MMm3/d. It also expects to deploy around USD 270mn for the development of modules 4 and 5 by 2024, being around USD 220mn to be done this year, to reach a total capacity of 28 MMm3/d.

Financial Summary

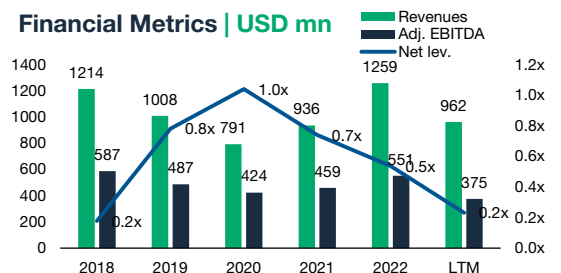
- » 2Q23’s revenue dropped 6.2%yoy to ARS 56.7bn: Natural gas transportation sales decreased by 23.7%yoy to ARS 13.5bn, given that the tariff increase applied was not enough to compensate for the accumulated inflation; Liquid sales fell by 3.5%yoy to ARS 33.7bn, affected by the decrease in international prices. Total volumes dispatched increased by 24%yoy to 287.2 th tons; Midstream revenues grew by 22.4%yoy to ARS 9.1bn, given higher natural gas transportation and conditioning services. For the 1H23, total sales went down by 14%yoy to ARS 114.2bn. The Adj. EBITDA decreased by 19%yoy to ARS 22.2bn in 2Q23, affected by lower revenues and higher costs, and the margin was down by 6.1ppyoy to 39.2%. For 1H23, the reported EBITDA dropped by 29%yoy to ARS 46.7bn, and the margin was down 8.7ppyoy to 41%.
- » FCF turned positive in the period at ARS 284mn, from negative territory in 2Q22, after a drop in taxes paid that offset lower FFO at ARS 24bn (-27%yoy).
- » As of June 30th, 2023, TGS’s total debt was down by 3.8% from FY22 to ARS 137.1bn (USD 534mn). Cash + ST investments climbed 80% from FY22 and reached ARS 114bn (USD 447mn), covering short-term debt by 19.8x. TGS’s LTM 2Q23 net leverage was down to 0.2x from 0.3x in LTM 1Q23.

Market Update

» TGS’s price closed at USD 12.06 (ADR), or ARS 1,802 posting a MTD performance of -6.5%mom and -7.9%mom, respectively. Between TGS and TGN, we favor TGN for a short-term positioning (more on this below), but TGS for a long-term one. Unlike TGN, whose revenue depends entirely on natural gas transportation, TGS has a more diversified and unregulated share of revenues. Moreover, the ramp-up in Vaca Muerta’s production together with a potential update in gas transportation tariffs in the coming years with a new administration could unlock significant growth potential for TGS. Especially in its liquid and O&G midstream segments where the company expects to develop several projects to increase its transport and conditioning capacity.



Source: TPCG Research based on Bloomberg and Company Reports



O&G – Transportadora de Gas del Norte (TGN)

Company Profile

TGN	
BBG Ticker	
NYSE	-
BYMA	TGNO4
Stock Price	
NYSE	-
BYMA (ARS)	839
BYMA (@BCS)	1.2
Market Cap (@BCS)	506
YTD Return (@BCS)	2.47%
Rating	Overweight
Price Target (USD)	1.7

Source: TPCG Research based on Bloomberg

» Transportadora de Gas del Norte (TGN) is the second-largest gas transportation operator in the country. TGN operates Argentina’s center and northern areas through 6.8th kilometers of owned pipelines, which represents 40% of the total gas transported through trunk pipelines, and has a system capacity of 59.7 MMm3/d.

Recent News

- » TGN is working on the reversion of the direction of the transported gas in the northern trunk pipeline. Given Bolivia’s gas production decline and the ramp-up in Vaca Muerta’s output, the idea is to discontinue gas imports and replace them with new domestic production. The development will be completed in 3 stages, the first of which has already been developed. The National Government already launched the tender for the second stage of the reverse of the North gas pipeline.
- » The company obtained a favorable legal injunction against YPF, in which the last one agreed to pay TGN USD190.6mn in ARS in four annual installments each February 1st, from 2024 until 2027.

Financial Summary

- » 2Q23’s total revenue dropped by 15.5%yoy to ARS 14bn, due to the increase in tariffs being lower than the accumulated inflation, but partially offset by higher dispatched volumes at 7,022 MMm3 or +6.5%yoy. Interruptible & exchange and displacement volumes dispatched increased by +18.4% yoy to 3,747MMm3, mainly driven by the Central West pipeline, on the back of higher natural gas transportation for export (+72% yoy). Lower costs were not enough to compensate for the drop in revenues, and the EBITDA dropped by 49%yoy to ARS 4.7bn. The EBITDA margin dropped to 33% from 55% last year.
- » FCF turned negative in the period at -ARS 1.1bn. The drop was explained by exchange rate differences, losses from investments in affiliated companies, and higher account payables cash outflows. In terms of Capex, it increased +9% yoy to ARS 3bn.
- » As of June 30th, 2023, the company’s debt was comprised of a USD55mn loan with Itaú Unibanco S.A. Nassau Branch and leases for USD5mn, of which USD4.8mn are long term. The liquidity level remains solid, with cash + ST investments equivalents to USD109mn, resulting in a net debt of -USD 48mn.

Market Update

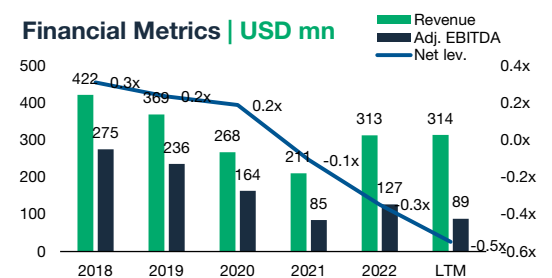
» We consider that TGN has lagged behind TGS. For more information, please do not miss reading *TGN flowing like nat. gas to the north*. We believe that a change in administration can increase the chances of a new normalization in the tariff scheme, consistent with the energy development momentum undergoing in the country after a significant ramp-up in Vaca Muerta’s output. We consider there is an opportunity to capture that spread in the short term. For that reason, we place an overweight rating on the company with a 12M PT of USD 1.7 (BCS), representing a potential upside of 48% in USD. The company currently trades at USD 1.15 (BCS) and has dropped -2.9%mom in USD terms.

Price Performance | TGN (@BCS)



Source: TPCG Research based on Bloomberg and Company Reports

Financial Metrics | USD mn



O&G - YPF

Company Profile

YPF	
BBG Ticker	
NYSE	YPF
BYMA	YFPD
Stock Price	
NYSE	13.08
BYMA (ARS)	9,641
Market Cap (USD)	5,208
YTD Return (USD)	50.17%
Rating	Overweight
Price Target (USD)	28.5

Source: TPCG Research based on Bloomberg

» YPF is an integrated energy company holding a leading market share in most segments, and one of the largest corporations in the country in terms of revenues and employees. The Argentine government owns 51% of the stake, while the other 49% floats in the NYSE and BYMA stock exchanges.

Recent News

- » On September 12th, 2023, YPF issued a USD400mn USD-linked local bond maturing in 2028, with a 0% coupon.
- » YPF's diesel and gasoline prices will not increase until November 2023. The last increase was of 12.5% in August 17th, 2023.
- » In August, YPF awarded the exploration permits for the La Azcuenaga and Campamento Este fields in Palermo Aike shale formation in the Austral basin. YPF and CGC signed an MOU in May to drill the first exploratory well in that same shale formation. Palermo Aike formation recoverable resources are estimated in 10Bn of barrels equivalent.

Financial Summary

- » In 2Q23, YPF's revenues were USD 4,4bn, -12%yoy. Domestic sales, which accounted for 91%, were down by 7%yoy to USD 4bn. Exports sales decreased by -44% yoy with weak jet fuel and grain and flowers sales. The Adj. EBITDA was down by 34%yoy to USD1bn. The EBITDA margin eroded to 23% from 30% in 2Q22. In 2Q23, lifting costs were up to USD 16/boe from USD 14.6/boe in 1Q23 and USD 13.3/boe in 2Q22, due to higher activity and a strong increase in energy costs.
- » Total production was 513.1KBOE/D (+1.9%yoy / +0.5%qoq). Shale production grew by +18%yoy / +1.6%qoq to 230.5KBOE/D with oil production growing by +28%yoy / +2.3%qoq to 94.6KBBL/D. In contrast, conventional production was down by -7%yoy and -1.1%qoq to 242.9KBOE/D and tight production fell by 17%yoy to 39.7KBOE/D.
- » FCF was negative at -USD 172mn, on the back of lower FFO (-20%yoy USD1,4bn) and higher Capex (+65% yoy to USD1,4bn).
- » As of June- 31st, 2023, YPF's total debt including leases was up by +5.2%qoq to USD 8,3bn. Cash + Investments was up by +13%qoq to USD1,5bn, covering short-term maturities by 83%. The company's LTM 2Q23 reported net leverage was up to 1.4x from 1.2x in LTM 1Q23.

Market Update

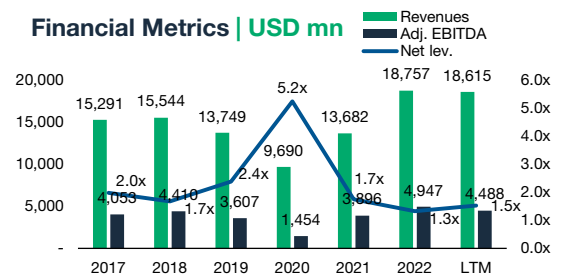
- » YPF closed at USD 13.08 (ADR) and ARS 9,641 with a MTD performance of -11.3% and -12.6%, respectively. The company rallied substantially one year from today, going up from USD 6.2 to the highest figure at USD 15.63 in July. On February 15th, we set YPF 12M target price at USD 28.5 (ADR), backed on our view that the company will increase its production output in the coming years after the finalization of several mid-stream projects to boost crude oil exports, representing a potential upside of 118%.

Price Performance | YPF



Source: TPCG Research based on Bloomberg and Company Reports

Financial Metrics | USD mn



O&G – Vista Energy (VIST)

Company Profile

VISTA	
BBG Ticker	VIST
NYSE	VIST
BYMA	VIST
Stock Price	
NYSE	27.93
BYMA (ARS)	20,524
Market Cap (USD)	2,618
YTD Return (USD)	94.36%
Rating	Overweight
Price Target (USD)	35

Source: TPCG Research based on Bloomberg

» Active in Argentina since 2018, Vista is an independent unconventional upstream producer with a focus on shale crude oil. The company has its main assets located in the Neuquina basin. Total production reached 46.6 Mboe/d in 2Q23, and close to 52% of LTM oil sales volumes were exported. As of FY22 total proved reserves totaled 251.6 MMboe, of which 83% were in the form of oil, and the market share for oil production (conventional and unconventional) placed the company after PAE and YPF with 7%.

Recent News

- » The company lowered production to focus on the Bajada del Palo Este and Aguila Mora pilot projects, and added 300 new pilot wells to its inventory, totaling 1,150 wells. After finishing the pilots, the company moved its drilling and completion equipment back to its flagship development in Bajada del Palo Oeste which should lead to ramp-up production in 3Q23 to export crude oil to Chile.
- » We believe that the agreement with Aconcagua to focus only on shale was assertive as it not only helped to decrease lifting costs but also gave room to the company to increase Capex for development facilities.

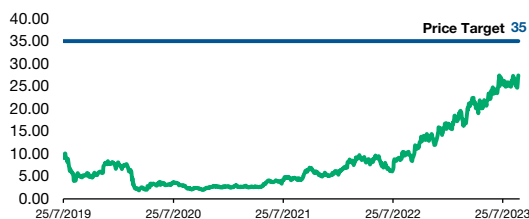
Financial Summary

- » In 2Q23, revenues were down by 22%yoy and 24%qoq to USD 231mn, with exports sales decreasing 26%yoy and 36%qoq to USD 108.6mn and sales to local refineries decreasing by 20%yoy and 6%qoq to USD 104.0mn. The average realized export price was down by 31%yoy to USD 68.6/bbl and the average domestic price was down by 5%yoy to USD 60.3/bbl. The Adj. EBITDA closed at USD 152mn, decreasing 25.5qoq and yoy.
- » Vista's FCF turned negative to -USD 84mn in 2Q23 after 4 consecutive positive quarters, explained by the decrease in FFO (-33%yoy; -17%qoq), the recovery of crude oil inventory, advance payments for transport infrastructure, higher taxes paid, and the increase in Capex (+63%yoy; +22%qoq).
- » As of June 30th, 2023, cash + short-term investments were USD 222.6mn, covering short-term debt (including leases) by 326%. The LTM 2Q23 net leverage remained low at 0.6x (incl. leases), although it was up from 0.4x in LTM 1Q23.

Market Update

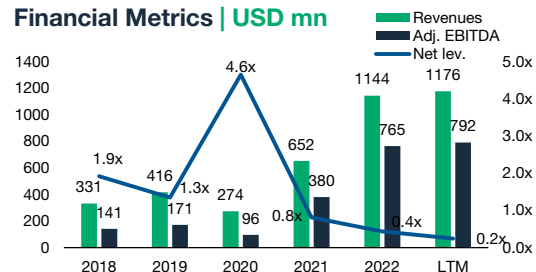
» VIST closed at USD 27.93 and ARS 20,524 with a MTD performance of +11.8% and +10.3%, respectively. It is worth noting that VIST has been one of the top performers since the pandemic, posting over a 7x increase. We remain Overweight on VIST as it has ambitious growth perspectives, strong liquidity levels and low indebtedness levels. On February 15th, we set VIST 12M target price at at USD 35, which represents a potential upside of 25% to the current market value.

Price Performance | VIST



Source: TPCG Research based on Bloomberg and Company Reports

Financial Metrics | USD mn



O&G – Pampa Energía (PAM)

Company Profile

PAMPA	
BBG Ticker	
NYSE	PAM
BYMA	PAMP
Stock Price	
NYSE	42.10
BYMA (ARS)	1,242
Market Cap (USD)	2,354
YTD Return (USD)	35.24%
Rating	Neutral
Price Target (USD)	45

Source: TPCG Research based on Bloomberg

» Pampa Energía is one of the largest power generators and the 6th largest upstream producer, although it ranks 1st in tight gas production. The company is also active in petrochemicals, midstream (through a 29.3% stake in TGS), and electricity transmission (through a 26.3% stake in Transener). In numbers, as of FY22 total power generation capacity was 5,088MW (12% of Argentina’s installed capacity), O&G average production was 63.1 kboe/d (proved reserves of 179 MBoe, where 94% is gas), and petrochemical capacity amounted to 280 k ton/y.

Recent News

- » The company added 81MW of renewable energy in mid-June after finalizing the PEPE IV wind farm development, which will work under B2B PPAs.
- » Pampa swapped 100% of its stake in Greenwind farm (100MW) for a 45% stake in the Rincon de Aranda block in the Neuquina Basin with Total Austral S.A. Consequently, Pampa became the sole owner of the block. In this way, the company aims to increase crude oil production. The company plans to account for 1 DUC well, 1 pilot PAD with 4 wells, and initial facilities for 2024.

Financial Summary

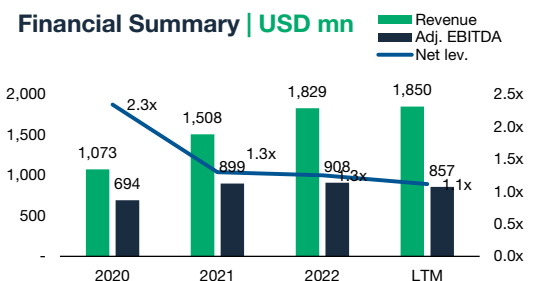
- » In 2Q23 total sales closed flat at USD 464mn, with exports accounting for 22% of the total (+2.3ppyoy). The reported Adj. EBITDA closed at USD 222mn, decreasing 12.5%yoy, and resulting in a margin of 47.8% (-6.9ppyoy). For the 1H23 period, total sales grew by 2.4%yoy to USD 895mn. The reported Adj. EBITDA reached USD 428mn, -10.5%yoy.
- » Power Generation sales grew by 4%yoy to USD 171mn, given a higher average volume sold to 5,523GWh (+17%yoy) which was partially offset by a lower average price at 37 USD/MWh (-7%yoy). The reported Adj. EBITDA went down 1%yoy to USD 98mn. O&G total sales grew by 13%yoy to USD 187mn, given higher exports and deliveries to CAMMESA that were partially offset by lower domestic demand due to warmer weather, and a drop in international oil prices. The reported Adj. EBITDA decreased by 4%yoy to USD 97mn. Petrochemicals sales dropped by 16%yoy to USD 132mn, and the reported Adj. EBITDA by 48%yoy to USD 10mn. The decrease was mainly explained by lower prices (-29%yoy).
- » As of June 30th, 2023, the cash & equivalents closed at USD 872mn, increasing 13.4%qoq, and covering 243% of the ST debt (incl. leases). Total debt (incl. leases) reached USD 1,669mn. The reported LTM2Q23 net leverage stood at 1.1x, down from 1.2x in LTM1Q23.

Market Update

- » PAM’s price closed at USD 42.10 (ADR) and ARS 1,242 with a MTD performance of -5.2%mom and -6.8%mom, respectively. YTD the company’s share price has increased by +35.2% and reached our target. For that reason, we are now moving to a neutral rating on the stock.



Source: TPCG Research based on Bloomberg and Company Reports



Utilities – Tansener (TRAN)

Company Profile

TRANSENER	
BBG Ticker	
NYSE	-
BYMA	TRAN
Stock Price	
NYSE	-
BYMA (ARS)	462
BYMA (@BCS)	0.63
Market Cap (@BCS)	282
YTD Return (@BCS)	15.58%
Rating	Neutral

Source: TPCG Research based on Bloomberg

» Privatized in 1993, Transener obtained a 95-year concession for the transmission of extra-high-voltage electricity. The company operates and maintains 85% of the national extra-high-voltage network comprised of 12.4th km of transmission line, and through its subsidiary, it has the concession to operate the Buenos Aires trunk network of 6.2 th km. The transmission business is highly regulated, and CAMMESA is responsible for the payment of transmission services. Pampa Energia holds a 26.3% stake in the company.

Recent News

» From mid-2019 to 2021, the government did not allow for any price increase in tariffs, so they remained flat in a highly inflationary context. In 2022, the government allowed for an increase of 67% and 69%, for the company and its subsidiary. In 2023, the government allowed for a new price increase of 154.5% and 154.1% respectively.

Financial Summary

» Total sales reached ARS 16bn in 2Q23 (USD 63mn), increasing 3.7%yoy given the hike in tariffs done during 1Q23 at 154%, above the expected inflation for the year, but below the accumulated inflation since 2019. The regulated segment represented 89% of total sales. The Adj. EBITDA closed at ARS 6.5bn (USD 26mn), decreasing by 7.6%yoy given that the Opex went up by 11.6%yoy to ARS 11.9bn given higher costs and penalties. For the 1H23, total sales reached ARS 35.4bn (USD 138), increasing by 33.5%yoy, and the Adj. EBITDA grew by 70.2%yoy to ARS 16.3bn (USD 64mn).

» The FCF remained on negative territory in 1H23, though improving by 33%yoy to -ARS 2.4bn (-USD 9mn). The FCF continued to be affected by delays in CAMMESA payments, which affected the company’s collections. It was also influenced by higher capex, increasing by 50%yoy to -ARS 3.4bn.

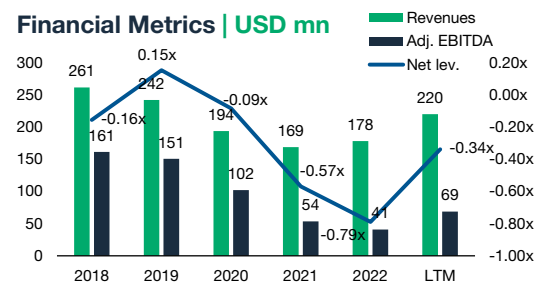
» The cash & eq. closed at ARS 6.4bn (USD 25mn), covering 15.1x the ST debt. Total debt reached ARS 0.4bn (USD 1.7mn), representing a net leverage position of -0.34x as of LTM 2Q23 in USD terms.

Market Update

» TRAN grew by 9.2% MTD in dollar terms, closing at ARS 462 or USD 0.63 (@BCS). We place a neutral rating on TRAN, despite we believe it could have a positive price action if there is a change in regime towards a more market-friendly administration. We consider that the company’s growth opportunities remain uncertain at this point. First, tariffs have grown below the accumulated inflation since 2019 and the new administration would need to undergo an integral tariff revision. The quickness and level of the update would be material not only for recovering its profitability but also for encouraging the company to develop new projects. Second, there isn’t any expansionary project in the pipeline, despite the growing demand from power generators for developing new projects. In this line, a key feature in the concession agreement is that TRAN is not obliged to develop new projects, but rather maintain the current infrastructure. Finally, even if there were to be any expansionary project, the company would need to finance it through international markets given the size of the capex. That raises additional questions, given that the company faces significant currency mismatch risks as its revenues are denominated in pesos. But more importantly, recurrently in the past, the government discretionally froze price increases for extended time periods hurting the company’s cash generation capabilities.



Source: TPCG Research based on Bloomberg and Company Reports



Other Industries – Telecom Argentina (TEO)

Company Profile

TELECOM	
BBG Ticker	
NYSE	TEO
BYMA	TECO2
Stock Price	
NYSE	5.35
BYMA (ARS)	787
Market Cap (USD)	2,328
YTD Return (USD)	2.69%
Rating	Neutral

Source: TPCG Research based on Bloomberg

» Telecom Argentina is the largest integrated telco in the country offering convergent ICT services. Founded in 1990, it is active in mobile telephony, cable television, internet, and fixed and data services, holding a leading market share position in most segments.

Recent News

» On August 28th, ENACOM approved the call for the 5G auction to be held in October or November 2023, though the timing and conditions generated noise in the industry. The 3 main mobile operators (Telecom, Telefonica, and Claro) joined forces to delay the tender until they negotiate with the regulator (i) a cheaper base price, currently at USD 350mn for each block, (ii) clarification on the usage of the additional spectrum discretionary allocated to ARSAT, and (iii) clarification on the effect on the Decree N° 690/2020 on the pricing scheme for the 5G. We believe that the impact on the industry would take some time even if the auction is completed this year, given that the available handsets capable of using 5G currently stand below 10% and around 25% of the new handsets being sold have it. We also do not expect a material change in Telecom’s capex moving forward as it has been developing 5G sites leveraging on the 4G network under DSS since 2021.

Financial Summary

» In 2Q23 total revenues fell by 8.1%yoy to ARS 251bn (USD 979mn), given that ARPU grew below inflation in all segments but was partially offset by a higher client base (+0.29%qoq; +0.44%yoy). The Adj. EBITDA dropped by 7.2%yoy to ARS 66bn (USD 258mn), dropping at a slower pace than revenue given that the Opex decreased by 8.4%yoy to ARS 185bn. For the 1H23, the revenue and Adj. EBITDA dropped 9.3%yoy and 15.8%yoy to ARS 517bn (USD 2bn) and ARS 147bn (USD 572mn), respectively.

» The 1H23 FCF grew by 3.9%yoy to ARS 36bn (USD 142mn).

» As of June 30th, 2023, the cash & equivalents closed at ARS 80bn (USD 312mn), increasing 9.8% from FY22 and covering 0.32x the ST debt. Total debt closed at ARS 743bn (USD 2.9bn), decreasing by 0.9% from FY22 and representing in USD, a net leverage position of 2.4x, from 2.3x in LTM 1Q23. It is worth noting that during July, the company issued USD 180mn in the local markets, and paid the sinking of TECOAR25 for USD 116.7mn.

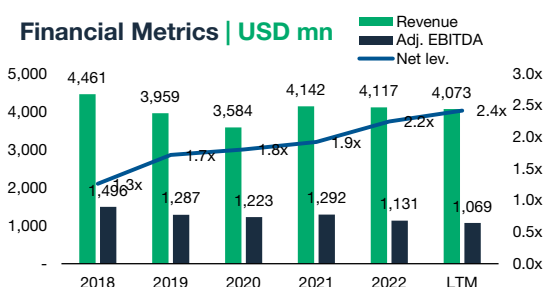
Market Update

» Despite strong credit fundamentals, growth opportunities are limited in the short-to-medium term compared to other industries such as the energy. The resolution of the economic and political imbalances remains uncertain for the remaining of this year, and the next one. In a context in which inflation remains high, the profitability will continue to weaken, and with that, the company’s cash flow. In terms of 5G, the company is leveraging on the current 4G network using Dynamic Spectrum Sharing (DSS) and is expected to participate in the coming 5G auction.

» If there is a change in administration, to a more market-friendly one, we believe there could be an upside in TEO’s price, but it should be limited compared to other industries, as it would be related to a drop in the discount factor rather than an improvement in projected cash flow. For that reason, despite the underperformance YTD relative to the benchmark and other industries, we place a neutral rating on Telecom. TEO currently trades at ARS 787, and USD 5.35 (ADR), with a MTD performance of -4.9%mom and -3.8%mom respectively.



Source: TPCG Research based on Bloomberg and Company Reports



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