

MSUNRG 2025 a pearl in Argentine waters

We reiterate our recommendation on **MSUNRG 6.875 2025s**. We expect MSU Energy to announce an exchange offer of its 2025 bond or a new issuance and tender like YPF did with the 2024 bond. The company will need liability management considering its tight liquidity position. The USD600mn bond matures on February 1st, 2025. The company cash & cash equivalent was USD16.7mn, with FCF of USD79mn, while short term debt was USD147.6mn in FY23. To reach high participation, MSU Energy must offer an attractive bond structure. It is key that MSU Energy PPAs contracts are due in 2033 and 2035, 8-10 years after the maturity of the 2025s bond. Except for Edenor, which issued a bullet bond, Argentine companies offered sinking bonds with coupons above 9%, and maturities of between 5 and 7 years.

We expect that MSU Energy regain the momentum it lost due to MSUNRG 6.875s 2025 offering a low coupon and become relevant again among Argentine corporate bonds. Historically, the MSU Energy bond traded at similar levels than Generacion Mediterranea bond (ALBAAR). Generacion Mediterranea FY23 results were weak, with EBITDA decreasing by 14% yoy, FCF turning more negative, and cash + ST investment covering ST debt by 41%, and net leverage (recourse debt) increasing to 6.3x from 5.5x LTM3Q23. Despite this, the ALBAAR 9.875 2027 indicative ask price is USD92.00 (yield: 16.2%), a price differential of USD10 with MSUNRG 6.875s 2025.

Among Argentine power generation companies, MSU Energy is the only company with a 100% of its revenues coming from thermal energy PPAs with Cammesa. It explains the company showing the highest EBITDA margin among peers. In 2023, thermal energy demand decreased due to the increase in river flows boosting hydro generation, which has dispatch priority over thermal energy, and mild weather. As a result, MSU Energy sales decreased by 5.7% yoy to USD189mn, with volumes sold decreasing by 34% yoy to 1,938GWh. Cash liquidity has been tight partly due to Cammesa payment delays. The company to finance working capital tapped the local market, like its peers.

Figure 1: MSU Energy’s liquidity position is far away to cover 2025 maturity

	Pampa Energia* PAMPAR	AES Arg AES	YPF Luz YPFLUZ	GEMSA ALBAAR	Genneia GNNEIA	MSU Energy MSUNRG	Capex SA** CAPXAR
Power generation capacity							
Installed Capacity	5,332MW	2,985MW	3,174MW	1,404MW	1,329MW	750MW	706MW
Under construction	+140MW	-	+155MW	+454MW	+355MW	-	-
In USDmn							
Revenues	648.0	193.9	490.1	201.3	285.4	189.3	410.4
Adj. EBITDA	392.0	31.7	383.1	111.2	219.8	158.1	117.0
Net Income	210.0	(121.6)	1.5	(22.5)	71.4	56.7	(15.5)
Gross Margin	-45%	11%	51%	43%	66%	72%	51%
ADJ. EBITDA Margin	60%	16%	78%	55%	77%	84%	29%
Capex	259.0	9.4	252.3	48.2	214.4	13.5	190.8
Free Cash Flow	n.a.	5.3	102.9	(83.6)	(28.2)	79.0	(87.8)
Cash & Cash Eq. + ST Investments	834.4	74.4	114.3	114.5	147.9	16.7	35.5
ST Debt (incl. leases)	224.3	150.2	183.4	282.6	154.7	147.6	67.9
Total Debt (incl. leases)	1,447.9	306.5	897.1	1,147.8	826.3	780.4	362.8
(Cash + ST Investments) / ST Debt	372%	49%	62%	41%	96%	11%	52%
Gross Leverage (incl. leases)(LTM)	2.2x	3.9x	2.3x	6.6x	3.8x	4.9x	3.1x
Net Leverage (incl. leases)(LTM)	0.9x	2.9x	2.0x	6.3x	3.1x	4.8x	2.8x

Source: TPCG Research based on companies.

It is important to highlight that MSU Energy’s debt levels remain high because the company decided not to restructure its 2024 global bond when the Central Bank regulation from 2020-2023 induced companies to restructure their debts in hard currency. The company to address the payments of the amortizations issued hard dollar bonds in the local market with coupons ranging from 7.5% to 9%, which main clients were from the retail segment.

By doing that the company showed a positive sign: its commitment to international investors. It was also a way to reduce interest expense, as the 2024 was a floating bond. Local hard-currency bonds maturing this year are Class IV 7.5% USD9.3mn due in May, Class V 8% USD12.6mn due in July and, Class VI 9% USD45.5mn due in November. On March 8th, 2023, the company issued a Class X 8.25% USD14.0mn, in which USD5.9mn Class IV and USD2.5mn Class V bondholders participated by exchanging their bonds.

Although MSU Energy’s liquidity is low, we do not rule out MSUNRG 6.875 2025s rallying considering the case of AES Argentina. The company cash + cash equivalents + ST investments was between USD77mn and USD104mn at the time of the announcement of the AES 7.75 2024 USD300mn exchange offer. Even so, the exchange offer participation rate was 53%, below the average at 78%. The reason was that many investors were confident that the company was going to pay. As the maturity of the bond approached, it became more difficult to source the bond. Finally, AES Argentina canceled the USD128.6mn debt outstanding with internal cash generation and the proceeds of a USD60mn syndicated loan payable in ARS.

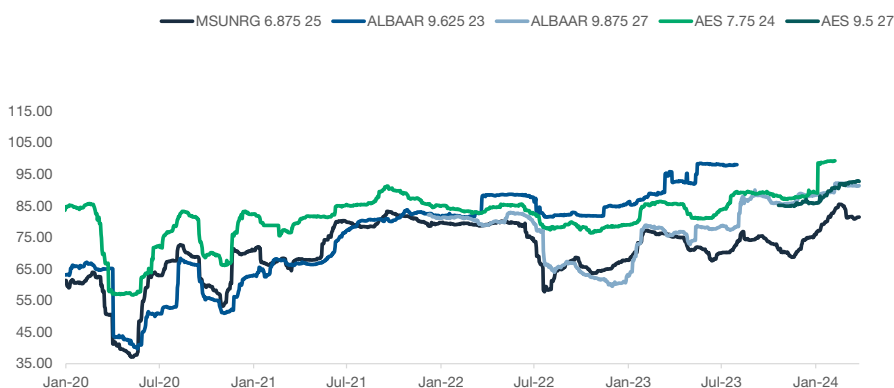
MSUNRG 2025 is one of the few bonds with an amount outstanding >USD500mn in the Argentine corporate space. The bond amount outstanding is USD600mn. There are only 5 corporate bonds with a higher amount outstanding PAMPAR 7.5 2027 (USD636mn), YPF DAR 9 2029 (USD748mn), YPF DAR 9.5 2031 (USD800mn), YPF DAR 6.95 2027 (USD809mn) and YPF DAR 8.5 2025 (USD1,132mn).

Below we review past exchange offers strategies:

- **Buy AES 7.75 2024 to enter the EO and get paid at maturity or sell the new AES 9.5 2027.** AES 7.75 2024 price was around USD80-USD81 twelve months before the maturity of the bond. A month before the announcement of the exchange offer, the bond increased rapidly to USD89-90. In the period between the exchange offer announcement (August 13th, 2023) and the release of its results (August 24th, 2023), the bond price was quite stable. It jumped a month before the maturity, when Milei won the presidential election and fears of the company not having access to the FX market to cancel the bond disappeared. Currently, AES 9.5 2027 indicative ask price is USD93.75 (yield: 12.3%)
- **Buy PAMPAR 7.375 2023 and GENNEIA 8.75 Secured 2022s to enter the EO: A defensive option.** Pampa Energia and Genneia bonds has always been among the most expensive bonds among Argentine corporate bonds because of their strong fundamentals. The new bonds: PAMPAR 9.5 2026 and GNNEIA 8.75 Secured 2027 were the most resilient to sell-offs. It is partly explained by bonds becoming less liquid, in line with their lower amount outstanding. For instance, the PAMPAR 7.375 2023 amount outstanding was USD500mn, while the PAMPAR 9.5 2026 amount outstanding is USD293mn.

Figure 2: MSUNRG 2025 has lagged ALBAAR and AES global bonds

MSU Energy's bond price performance vs. peers



Source: TPCG Research based on Bloomberg

Figure 3: MSU Energy's 4Q23 and FY23 summary financials.

Summary financials (in USDmn)	FY22	FY23	Chg yoy	4Q22	4Q23	Chg yoy
Income Statement Items						
Revenues	200.7	189.3	-5.7%	50.6	47.2	-6.8%
Opex	(57.6)	(60.0)	4.1%	(14.9)	(14.7)	-1.8%
EBITDA	166.0	158.1	-4.8%	41.8	40.5	-3.1%
Net Income	42.4	56.7	33.7%	8.7	36.1	314.6%
Gross Margin	75%	72%		73%	73%	
EBITDA Margin	83%	84%		83%	86%	
Balance Sheet Items						
Short Term Debt	179.8	147.6	-17.9%	179.8	147.6	-17.9%
Long Term Debt	714.2	632.7	-11.4%	714.2	632.7	-11.4%
Total Debt	894.0	780.4	-12.7%	894.0	780.4	-12.7%
Cash & Cash Eq. + ST Investments	81.5	16.7	-79.5%	81.5	16.7	-79.5%
Gross Leverage (LTM)	5.4x	4.9x		5.4x	4.9x	
Net Leverage (LTM)	4.9x	4.8x		4.9x	4.8x	
Cash / ST Debt	45%	11%		45%	11%	
ST Debt / Total Debt	20%	19%		20%	19%	
Cash Flow Items						
FFO after cash interest & taxes	80.5	94.0	16.8%	23.5	24.0	2.0%
Change in Working Capital	(26.9)	(1.4)	-94.6%	(6.9)	(1.8)	-73.6%
CFO	53.5	92.5	72.8%	16.5	22.1	33.8%
Capex	(1.5)	(13.5)	805.3%	(0.2)	(3.5)	n.m.
Disposals	-	-	n.m.	-	-	n.m.
Free Operating Cash Flow	52.1	79.0	51.8%	16.3	18.6	14.0%
Acquisition (Disposals)	-	-	n.m.	-	-	n.m.
Free Cash Flow	52.1	79.0	51.8%	16.3	18.6	14.0%
OCF/Total Debt	6%	12%		7%	11%	
FOCF/Total Debt	6%	10%		7%	10%	
FCF/Total Debt	6%	10%		7%	10%	
Capex/Sales	1%	7%		0%	7%	

Source: TPCG Research based on MSU Energy's FFSS

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