Pampa Energía Q3 2019 Conference Call

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Presenting:
Gabriel Cohen, CFO
Lida Wang, Investor Relations Officer

Good morning everyone and thank you for joining our conference call.

I will make a brief summary of every business segment reviewing the quarter's key figures and the latest events since our last call in August. Our CFO Mr. Gabriel Cohen are joining us for Q&A session.

But before we begin, let me remind you that Pampa adopted the US Dollar as functional currency, therefore transactions are recorded in US Dollar since January of this year. For the comparative period of 2018, according to IFRS figures are reported in Pesos adjusted by inflation as of year end 2018 and shown in US Dollar at closing FX. This comparison might be difficult to read. Therefore, for a like-for-like basis, we are considering nominal figures reported last year Q3 in nominal terms and converted to dollars at average FX.

In the case of peso-linked subsidiaries such as our utilities, they continue to report under Peso functional currency, so their figures are adjusted by inflation and shown in dollars at September 2019's closing FX. In order to analyze their performance organically and to be in line with their reporting, the comparative figures are in Pesos adjusted by inflation until the end of September 2019 and shown in US$ at closing FX.

So, having made this clarifications, we can start. On slide 5, we wanted to make a quick stop by reviewing the quarter's financial highlights. Revenues fell year on year by 21%, mainly because of the 36% peso devaluation in our Peso-linked businesses Edenor, Transener, TGS; in addition to lower gas prices and FX freeze in E&P and reduced legacy remuneration at power generation. These negative effects were offset by the commissioning of new capacity since May 2019, adding more than 300 MW to the grid, and higher gas production. Quarter on quarter revenues also decreased by 24%, mainly explained by the high Peso depreciation affecting our regulated utilities, lower exports and production at our petchem facilities, partially offset by winter season pricing for legacy and gas reference price at CAMMESA, the new capacity commissioned since last May and higher gas production.

EBITDA also fell year on year by 5%, mainly explained by lower hydrocarbon prices, reduced legacy remuneration for our power plants and devaluation effect on our Peso inflation-adjusted utilities, partially offset by the commissioning of new power units, the acquisition of Ensenada Barragán power plant, higher gas production and dilution of peso-link expenses due to deval. Quarter on quarter, EBITDA increased by 10% mainly because of new power units explained above and full quarter of Ensenada Barragán, higher legacy remuneration and higher gas production and prices because of winter season, offset by peso depreciation and FX freeze at oil prices.

As we show on right below, oil and gas share represents one-fourth of Pampa's consolidated EBITDA given the current pricing environment at E&P, while electricity, led by power generation, takes the other three-fourths. Also, it is worth highlighting that almost 70% of Pampa's consolidated EBITDA is dollar-link, mainly from gas and power.

Moreover, as shown in the chart left below, in the third quarter of this year our capex decreased 30% compared to the same period of last year, mainly explained by lower pace in power generation expansion capex as in Q2 we commissioned PEPEs wind farms and Genelba Plus's new gas turbine, which is a key part of the CCGT ongoing project, in addition to lower Edenor's capex due to deval. If we compare to the last quarter, capex decreased by 29%, mainly driven by peso deval at Edenor's mostly peso capex, deceleration of power expansion capex due to the last stages of Genelba project and end of PEPE wind farms, offset by increased gas production mainly at El Mangrullo block.

So, as you can see on slide 6, in the third quarter of 2019 we reached an adjusted EBITDA of 270 million dollars, 5% less compared to an EBITDA of 283 million dollars recorded in the same period of 2018, mainly explained by decreases in electricity distribution, oil and gas, and holding and others, partially offset by increases at power generation and petrochemicals.

Moving to power generation segment, during the third quarter of 2019 we posted an adjusted EBITDA of 131 million dollars, 19% higher than Q3 2018, mainly given by the recently acquired Ensenada Barragán power plant, that we co-own with YPF and we add at our 50% equity stake. Moreover, it also contributed our newly commissioned wind farms with PPAs and Genelba Plus's new gas turbines, as well as the devaluation impact on our peso-nominated costs and better Energía Plus margins. These effects were partially offset mainly by the reduction in legacy thermal remuneration as per Resolution 1, effective from March 2019, by which capacity payment during spring season of September has been reduced around 40% in dollars for Güemes' steam turbines and Piedra Buena, as they are the lowest dispatch rate units in our portfolio. The impact on our highest load factor units under thermal legacy – Genelba and Loma CCGTs – is smoother but during off-peak season (in Q3 that was September), it got 20% lower. Quarter on quarter, winter season pricing for legacy, PEPE wind farms with B2B PPAs and Ensenada Barragán contributed to the 31% increase in EBITDA.

Generation was 16% higher year on year mainly due to the gas turbines at Genelba Plus thermal power plant that are part of the closing to CCGT project as well as better load factor at Genelba's legacy CCGT, higher dispatch at Loma De La Lata because we manage to get gas and therefore, competitive Variable Production Cost (aka CVP) to get dispatched, plus higher generation coming from wind farms, which ranks senior in the dispatch priority because its variable cost is close to zero. These effects were partially offset by lower load factor at Güemes, Pilar and Piquirenda thermal power plants, caused by a higher CVP from the partial recognition of imported gas (even higher during winter season), therefore placing them behind in the dispatch priority in the grid, plus a lower dispatch required at Ingeniero White and Piedra Buena thermal power plants, because their variable cost was not competitive vis-à-vis wind generation in the south. Quarter on quarter, power generation increased mainly because of higher electricity demand in the grid during winter months, in addition to new thermal and wind units, partially offset by lower dispatch at lesser competitive thermal power plants.

The availability rate in the third quarter of 2019 was 95.0% with an installed capacity of 4.8 GW that includes the operation of recently acquired Ensenada Barragán thermal power plant, similar to the 94.2% availability achieved in the same quarter last year and also similar rate compared to Q2 2019.

Regarding the expansions we have in the pipeline, we are currently in the final stages of the closing to CCGT of 383 MW at Genelba, as you can see in the picture on slide 8. Last June we increased current gas turbine number 3 capacity by 19 MW and commissioned new gas turbine number 4 for 188 MW. They are billing as legacy capacity until the closing to CCGT begins operations. However, in mid-October we experienced heavy rains and a flood caused damages to the facilities, causing some delays but we are optimizing the cycle's commissioning procedure so we expect to achieve COD, which is Q2 2020.

On the other hand, as you can see on slide 9, by the end of last June we jointly acquired with YPF the thermal power plant Ensenada Barragán with an installed capacity of 567 MW running a PPA until April 2022. It has an expansion project to close the cycle, increasing 280 MW more with another PPA for 10 years with CAMMESA. By the end of September the JV company executed an EPC agreement with SACDE and Techint, but once engineering optimization is done, the works kick off is subject to Pampa and YPF's decision.

Regarding the existing debt of Ensenada for approximately 229 million dollars, at the end of August the JV agreed improving repayment schedule and lending conditions subject to finish the expansion by the end of 2021, if all commercial conditions prevail.

Moving on briefly to the distribution segment which was reviewed by our CFO at Edenor Leandro Montero yesterday in their earnings call, as shown in slide 10 during the third quarter of 2019 the EBITDA remained similar to the same period of 2018, amounting to 59 million dollars in the quarter, mainly because the FX variation was higher than the Own Distribution Cost update (aka CPD), which is overweighed in the salary index, that also lags CPI and PPI, in addition to lower demand and higher energy losses. These effects were partially offset by devaluation impact on labor and peso-linked operating costs, lower penalties due to the Liabilities Regularization Agreement executed in last May and as a result of Edenor's investments to improve quality of service, and collection of retroactive installments and social tariff caps that did not happen in 2018.

Year on year, during Q3 2019 we experienced lower demand of electricity by 5% due to mild weather, downturn in the economic activity and price-demand elasticity. Quarter on quarter the demand improved because of winter season.

Energy losses reached 23.1% rate in the third quarter 2019, 265 basis higher than the 20.4% for the same period 2018 and 390 basis above last quarter, identified in residential end-users, especially low income users that do not have access to gas distribution grid, partially offset by lower volume of energy demand. We are targeting at users that steal electricity from us by performing market discipline actions and installing customized pre-charged meters. Therefore, we are increasing our customer base, but this is being offset by plugging offs at SMEs and large users due to the GDP recession. Energy cost decreased by 21% in US$ year on year, due to the peso depreciation offset by the gradual subsidies removal, but still half is subsidized compared to the full cost of electricity. Keep in mind that energy cost is a pass-through for Edenor.

Moving on to the news update in the segment, in mid-September 2019 Edenor agreed with the Federal Government to keep billing the tariff schedules in force, thus the 19% CPD update as well as seasonal price for electricity are deferred. However, Edenor was allowed to keep collecting retroactive installments for delayed application of the previous tariff adjustment in March 2019.

As you can see on slide 11, during Q3 2019 in the oil and gas segment we posted an adjusted EBITDA of 52 million dollars, 32% lower than in Q3 2018, mainly because it is still reflecting the downward trend in gas sale prices since August 2018, lower oil prices mainly due to FX freeze discretional measure by the Government, and higher gas treatment costs at El Mangrullo, partially offset by 13% higher production of gas, driven by the vertical integration with power generation and lower royalties and expenses that are peso-linked. On the other hand, quarter on quarter EBITDA was similar, mainly explained by higher gas production and better pricing as seasonal demand started on June, partially offset by lower oil prices because of the FX freeze.

Our overall production in Q3 2019 increased 11% year on year and 3% quarter on quarter, reaching to nearly 50 thousand barrels of oil equivalent per day, of which 90% is composed by natural gas.

On the oil side, production level year on year decreased 10% reaching 4.8 thousand barrels per day, but quarter on quarter remained similar, mainly because of lower well completion activity at El Tordillo and no contribution from Chirete in the quarter, in process of facilities accommodation for exploitation. During Q3 2019 the crude oil sales price decreased year on year by 26% and quarter on quarter by 18%, reaching 49 dollars per barrel, mainly because the Government imposed a FX freeze at oil domestic prices as of August 9 for 90 days and a Brent reference of 59 dollars per barrel, selling at 20% lower prices than what it should have been. 61% of our oil production is Escalante heavy oil, which is sweet and given the current clean fuels trend narrows Medanito prices.

Please turn to slide 12, where we want to explain in deeper detail the situation in gas. Regarding the gas production, the quarter reached an average of 270 million cubic feet per day, 13% increase year on year and 3% quarter on quarter, mainly explained by the production increase at **El Mangrullo**, a block in which gas evacuation capacity was expanded since the end of last year, and is fully operated by us. By September 2019, the gas production level of **El Mangrullo** reached 155 million cubic feet per day, 60% higher than in September last year and contributing almost 60% of our overall gas production. These positive effects were partially offset by lower production in other gas-bearing blocks because of lack of visibility on sale prices, which was affected by excess of supply of gas driven by the disruption of shale developments, specifically backed up by the Unconventional Gas Plan Resolution 46 and, especially during winter period, bottlenecks at the main transportation pipelines. These effects negatively impacted on **Rincón del Mangrullo** block with a lower drilling rate and natural decline, and a minor decrease at **Río Neuquén** and **Aguaragüe** blocks. In the case of **Sierra Chata**, it kept similar production due to completion of two horizontal tight wells in Q3 2019.

During third quarter 2019, our accrued weighted average sale price for gas was 3.3 dollars per million BTU, 26% lower year on year and slightly higher than last quarter, mainly due to the reduction on the reference price for gas fired at power plants and the gas tenders on an interruptible basis conducted by CAMMESA. Since June gas prices rebounded as it marked the beginning of the winter period, with a 37% increase in dollars at power plants reference price by CAMMESA and higher spot prices due to seasonal demand, but since September it returned to off-peak season prices reflecting excess of supply and transportation bottlenecks, also impacting negatively the commercialization in industrial segment.

The fuel self-procurement for our power generation helped to recover gas production levels, we are destining almost all our production there. Though it does not improve pricing, we cover our breakeven cost and it helps to have a certain offtake especially during weak demand periods and to monetize some synergies between power and gas businesses. As you can see on the slide 12, the average gas prices that we recorded to demand have been plunging since second half of 2018, falling to the lowest point in years and hardly covering the country's marginal breakeven cost. Winter season picked up prices but as evidenced in the past, the domestic production was not enough to cover the domestic gas demand, needing to cover roughly 20% deficit of gas consumed in winter season with gas imports from LNG and Bolivia with much higher prices than those paid to domestic producers.

Moving on to the news update in the segment, on August 21, 2019 the Undersecretariat of Hydrocarbon and Fuels approved terms and conditions to export natural gas to Chile on a firm basis during off-peak season. In this sense, Pampa was granted the permit to export from our production at Neuquina Basin to ENAP Refineries in Chile for a maximum volume of 21 million cubic feet per day at a price of 3.11 dollars per million BTU, which is net of export duties and transportation costs. Additionally, exporting companies should compensate the higher costs incurred by the power grid due to the use of alternative fuels, like LNG and fuel oil, for power plants, supported by the Government.

Regarding the natural gas billed to residential segment, there are three news affecting Pampa and TGS. First, regarding the tariff flattening for winter consumption, we estimate that as of September receivables collectable by Pampa and TGS would amount to roughly 48 million and 1.3 billion pesos, respectively, but no regulation was issued establishing the payment. Second, the FX difference on natural gas traded between April 2018 and March 2019, that was set to be collected from the Federal Government in installments as from October, Pampa adhered to this procedure and estimated receivables at 966 million pesos, but the collection is pending as of the today. Finally, the gas regulator decided that the FX variation of natural gas prices and TGS's cost variation update that should have been granted in October 2019, both to be deferred to January 2020.

Before I move on from oil and gas, I wanted to give you a quick update of our operations. During the third quarter of 2019, 26 wells were drilled and 23 wells were completed. Our focus is the development of blocks with tight gas reservoirs. During Q3 19 7 tight gas well were drilled at **El Mangrullo**, which is very important for the maintenance of the record production in the block. We also completed 2 horizontal tight gas wells at **Sierra Chata** as I mentioned before.

During August 2019 2 shale gas wells in Vaca Muerta were completed at **El Mangrullo** block, both with horizontal extension of 8 thousand feet, with two different landing points using Zipper Frack Technology, with 36 fracturing stages per well, using 45 hundred sacks of proppant per stage, 72 hundred tons of proppant per well. The results of the completion of these wells, which are still in testing phase, are very promising, producing at the expected rates over 400 thousand cubic meters per day since October 2019.

Another important milestone was the drilling of a shale oil well at **Rincón de Aranda** targeting Vaca Muerta during Q3 19, an exploratory block operated by us with 55% stake, partnered with Total. The well has horizontal extension of almost 7 thousand feet and currently we are carrying the final completion works, thus ready for testing phase by the end of the year.

In petrochemicals, we posted an adjusted EBITDA of 3 million dollars during the third quarter of 2019, higher year on year and quarter on quarter, mainly because of higher reforming price spreads, lower peso-linked costs due to deval plus lower costs of gas given market negative trends and virgin naphtha purchased domestically instead of importing. These effects were partially offset by lower styrenics demand and lower spreads.

In operating terms, total sales volume of our petrochemicals segment in Q3 19 decreased 12% year on year and 22% quarter on quarter, totaling 75 thousand tons, due to lower exports and closing of ethylene and BOPs plants, offset by higher SBR domestic sales.

Finally, our holding and others segment presented an adjusted EBITDA of 25 million dollars in the third quarter of 2019, 22% lower year on year and 38% quarter on quarter. This is mainly due to the lower EBITDA adjusted by our ownership from our affiliates TGS and Transener because of the peso depreciation that outpaced the cost variation adjustments, in addition to lower income from fees collected at holding.

I’m going to only briefly review **TGS** as they just had their earnings call last Friday; TGS’s EBITDA adjusted by our direct and indirect stake of 25.7% contributed to Pampa 18 million dollars in the quarter from an implicit total of 71 million dollars, 36% lower than Q3 18, mainly due to FX variation higher than lagged-granted PPI that covers cost variation for regulated gas transportation business, the drop in references prices denominated in US$ for NGLs, lower natural gas processed volumes because of lower ethane sales due to Dow’s technical outage, which was normalized in October, partially offset by lower cost of gas per MBTU.

In relation to the midstream project of the Vaca Muerta pipeline, the northern tranche for 35 miles was finished, connecting the Rincón la Ceniza field with the southern tranche of this pipeline. Thus, so far, 85% is commissioned. Regarding the Litoral main gas pipeline tender, the Government postponed the opening of bids until March 2020. Moreover, in October TGS’s Shareholders Meeting approved the distribution of a dividend consisting in 29.4 million common shares in treasury and a cash dividend of 238 million pesos to offset taxes, if applicable.

As per **Transener**, its EBITDA adjusted by our indirect shareholding of 26.3% contributed 10 million dollars in the third quarter of 2019, from an implicit total of 37 million dollars, 4% higher than same period in 2018, mainly because Transener got the corresponding tariff increase of 19% in August 2019, but in August 2018 their scheduled tariff increase was delayed to November 2018.

Regarding share buybacks, so far we acquired 7.5 million ADRs, of which in October 2019 6.1 million were approved to be cancelled by Shareholders’ Meeting. Because of the markets’ volatility and the difference between the value of the Company’s assets and the quoted price of Pampa in the stock exchanges, we consider repurchasing our own shares one of the best investments and accretive actions towards shareholders that we are undertaking. Therefore Pampa's Board approved the fifth share buyback program for 50 million dollars, with price cap of 14.5 dollars per ADR.

In terms of net income attributable to the owners of the Company, Pampa reported a consolidated gain of 116 million dollars in the third quarter of 2019, whereas in the same period of 2018 a loss of 128 million dollars was recorded, mainly explained by lower accrual of losses from FX difference as a result of change in the functional currency, as I explained at the beginning of this call.

Finally, moving to slide 16, we must highlight the low and well spread leverage of the Company, as well as a solid cash position held compared to other peers in the industry and in Argentina. We have always been very proactive towards the cash and liability management, especially after witnessing volatility, high yields and narrow window in the international financing market. We continued redeeming the short term facilities, highlighting that so far this year Pampa redeemed at maturity and pre-cancelled roughly a total of 310 million dollars.

The consolidated gross debt including affiliates at ownership decreased to 2.4 billion dollars, 150 million lower than June 2019, mainly because of repurchases of own corporate bonds – that so far at Pampa we bought back 84 million face value, plus debt payments, and to a lesser extent, deval effect on the peso-bearing loans. Consolidated gross debt is 93% denominated in US dollar, lower than the 99% as of June 2019, bearing an average interest rate of 7.8% and 75% is placed at the parent.

Consolidated cash amounted to 699 million dollars, which is lower than the 863 million dollars in June 2019. Closing Q3 2019, we were holding 93% of our cash in US dollars.

We also show here stand-alone key debt figures for our bondholders. Even after cancelling roughly 310 million dollars, the principal maturities belonging to Pampa stand-alone that are left in 2019 and combined until 2022, amounts to 236 million dollars, which is by far exceeded by the 549 million dollars' cash position at the parent.

Net debt slightly increased to 1.7 billion dollars. However, restricted group's net debt fell to 1.2 billion dollars, and net debt to last twelve months EBITDA remained low at 1.9 times at consolidated level and 2 times at restricted group.

So this concludes our presentation. Now, I will turn the word to the operator, who will open the floor for questions. Thank you.