Pampa Energía Q2 2020 Conference Call

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Presenting:
Gustavo Mariani, CEO
Gabriel Cohen, CFO
Lida Wang, Investor relations and sustainability officer

Hello everyone and thank you for joining our conference call. I hope you and your loved ones are safe and well.

For the interest of time, I will make a brief summary of the quarter's key figures, the impact of COVID-19 and the latest events since our last call. We will focus on the core businesses of Pampa, power and E&P, as TGS and Edenor already held their calls earlier this week. As you can see, our CEO Mr. Gustavo Mariani and CFO Mr. Gabriel Cohen are both here and joining us for Q&A.

Before we begin, let me remind you that Pampa's figures follow US Dollar as functional currency. In the case of Peso-linked subsidiaries such as our utilities, their figures are adjusted by inflation and shown in dollars at the end of each reporting period FX.

Also, you can see in this slide what businesses are included when we talk about of Pampa consolidated, as well as Pampa restricted group, a definition we use for covenant purposes.

As you know, Argentina has been affected by COVID-19 pandemic and Federal Government set up a mandatory lockdown from March 20. Restrictions has been softening across the country but certain places such as Buenos Aires metro area has been extended from time to time, so activity still limited and therefore, affects the economy.

Most of Pampa's businesses were deemed essential, and we are running our operations with all the necessary safety and hygiene protocols such as minimum personnel in place, new workflows to keep social distancing, minimize exposure such as lengthen working shifts as well as off-duty time, and so on. Very important is that no wages have been adjusted nor personnel subject to furlough; almost 40% of our personnel is working remotely now. As we said in the last call, we revisited our capex and opex budget, reducing primarily in E&P, until improved environment.

We also are proud to see Genelba second CCGT operating and an outstanding power generation performance through this though quarter.

E&P faced the lowest prices in the last 5 years as a result of fall in demand, which tested our endurance but also went through satisfactorily. The fact we haven't given in much production during Q2 facilitated the ground for winter season, as demand rebounded and production rose to above 250 mcf per day.

Finally, it is worth noting our proactivity towards financial management, preventing us to be in a hurdle during macro instability. The agreement with sovereign bondholders constitutes a great step for Argentina, we remain prudent. We witnessed an improvement in collection rates across all businesses, helping our working capital.

So, let's start commenting the quarter's key takeaways. As shown on slide 5, revenues fell 40% year on year to 544 million dollars, mainly because of collapse in gas prices, the lesser fuel self-procured as this year CAMMESA took over most of the Grid's fuel consumption, tariff freeze for over a year impacting our regulated businesses, partially offset by new power generation units priced under PPAs. In Q2 20 around 40% of our sales were dollar-linked, but roughly 75% in EBITDA terms, mainly coming from our core businesses, power capacity followed by E&P.

Adjusted EBITDA decreased year on year by 56% to 120 million dollars for the quarter, mainly explained by lower E&P price and volume, tariff freeze at utilities and lesser legacy and Plus margin at power generation, partially offset by new capacity, lower E&P opex and royalties related to activity downturn, the positive effects from Edenor's Liabilities Regularization Agreement in Q2 19 and the dilution of peso-nominated costs because of FX depreciation. Quarter on quarter, EBITDA decreased by 46% because of the lockdown impact over prices combined with off-peak seasonality, therefore lower spot prices for power and gas prices. As we show on right below, power generation takes 70% of the consolidated adjusted EBITDA, while E&P takes 5%, purely led by gas, and the rest driven by TGS and Transener at our equity stake and marginally by petrochemicals.

Moreover, as shown in the chart left below, in the second quarter of this year our capex decreased significantly compared to last year, mainly because Genelba Plus's expansion project was nearly finished, E&P halted drilling and completion due to uncertain pricing environment, lower capex at Edenor because of deval and tariff freeze plus PEPEs were completed in Q2 2019.

In this slide 6, we want to briefly show you the impact of the lockdown in the Argentine power grid during Q2. The average demand reached 13 GW, 6% lower than last year. But if we compare with a pre-crisis year, 2018, the drop was 13%, although smooth if we compare to other sectors of energy industry or GDP, which is estimated to have fallen by 21% year-on-year, according to macro consensus. Industries are the most impacted by quarantine, especially those considered non-essential, while distcos are hit because of collapse in SMEs consumption, but partially offset by residential demand due to stay at home order and colder autumn. As we go into winter, demand recovers surpassing 2019.

Moving to power generation segment as seen on slide 7, during the second quarter of 2020 we posted an adjusted EBITDA of 95 million dollars, similar to Q2 2019, mainly given by the reduction and pesification of spot prices as from February 2020, in addition to lower margin and volume sold in Energía Plus. The latter and legacy's lack of inflation adjustment plus FX deval are the negative effects of COVID-19 in power generation. As from July this market is improving but still far from pre-pandemic levels.

These effects were partially offset by our stake at Ensenada Barragán power plant, PEPE 2 and 3 windfarms with private PPAs and Genelba Plus capacity increase, as well as lower costs related to lower energy purchases and the deval impact on our Peso-nominated costs. Quarter on quarter, off-peak pricing for spot energy and lower power dispatch in Q2 20 contributed to the 16% decrease in EBITDA. While spot energy comprises 65% of our capacity, only represented 38% of our power generation EBITDA in the quarter, and will keep shrinking thanks to the commissioning of the second CCGT at Genelba, and further once Ensenada expansion is online.

In Q2 20, generation was 7% lower year on year, in line with lower electricity demand in the national grid because of the lockdown. As the demand is lower, the marginal unit to be dispatched is cheaper, but also renewables are disrupting the dispatch ranking, therefore, the combined cycles are the last units to fulfill the demand. Our two combined cycles at Loma and Genelba were fully dispatched, as well as our non-conventional energy, but the remaining thermal units were mostly not required. Quarter on quarter, power generation decreased 25% mainly because of the lockdown and seasonality.

Despite the demand contraction witnessed in the country, the power generation business model relies on capacity payment, so lower dispatch does not much impact on the revenue making as long as availability is outstanding, especially for PPA-based energy. The availability rate in the second quarter of 2020 reached 98.6% with an installed capacity of 4.8 GW operated by Pampa, 330 basis higher than same quarter last year, mainly because last year Piedra Buena and Plus unit at Güemes faced outages.

As I mentioned earlier, we are proud to have achieved one of the most important milestones at Pampa's 15-year history, with the commissioning of the second CCGT at Genelba on July the second. CAMMESA granted clearance to the second steam turbine for 199 MW, completing the expansions for a total of 400 MW, priced under a 15-year PPA executed with CAMMESA. Despite the pandemic and the delays incurred until it was deemed essential, Pampa executed COVID-free protocols with contractors, thus achieving the COD on time and disbursing roughly 320 million dollars, 9% lower than the budget, mainly because FX diluted peso capex. Now Genelba is the largest and one of the most efficient thermal power plant in the country, as you can see on slide 8 the picture of the existing CCGT and the new one, with a total installed capacity of 1.2 GW, located in the gate of Buenos Aires metro area.

The remaining expansion in the pipeline is Ensenada Barragán thermal power plant, as you can see on slide 9. This is a 280 MW CCGT project at the south of Greater Buenos Aires, which is a critical infrastructure for Argentina's grid. During May and June we placed a purchase order for the cooling tower and kept digging to set the foundation base. However, works were halted for most of July until July 20, when we got an essential waiver and resumed operations focusing on the construction of critical path to achieve COD by Q1 2022, therefore to bill a PPA for 10 years with CAMMESA.

The lockdown negatively impacted the domestic gas demand, but to a way lesser extent than crude oil and GDP, dropping year-on-year 8% in Q2, mainly driven by lower industrial consumption because of the non-essentials shutdown and economic downturn, lesser gas fired by CAMMESA due to lower power demand, plus less gas for cars and exports. This was partially offset by higher retail consumption because of colder weather.

Moreover, during second quarter the lockdown coincided with the gas off-peak season, which bottoms at fall and spring in Argentina, dropping even sharper the gas demand and therefore, bringing down traded prices. Gas consumption is rising as we are in winter season, but still below previous years watermark. However, CAMMESA demand is unfulfilled and is covering with imported gas and liquid fuels.

So moving on to the results on E&P, as you can see on slide 11, during Q2 2020 this segment posted an adjusted EBITDA of 6 million dollars, 88% lower than in Q2 2019, mainly because of COVID-19 impact to lower prices, partially offset by lesser costs related to activity downturn, lower royalties and deval dilution on peso costs.

Despite the tough environment, our overall production in Q2 2020 decreased 10% year on year but only 5% quarter on quarter, reaching around 44 thousand barrels of oil equivalent sold per day, of which 91% is composed by natural gas.

On the oil side, which represents only 14% of the segment's revenue in the quarter, volume sold decreased 17% year on year and 23% quarter on quarter, reaching 4.1 thousand barrels per day, mainly due to the collapse in demand and prices affected by the lockdown and lack of storage capacity, resulting in drilling activities on standby. During Q2 2020 the crude oil sales price decreased year on year by 65% and quarter on quarter by 58%, reaching 21 dollars per barrel. Although in mid-May the Government set *barril criollo* at 45 dollars per barrel in the domestic market, but the demand was collapsed. Consequently, Pampa exported at a discounted price on Brent a total of 2.3 barrels per day of Escalante and for the first time Medanito. 59% of our oil production is Escalante heavy oil, which is sweet and given the current clean fuels trend is pricing premium to Medanito light oil.

Regarding the gas production, on slide 12 we can see Q2 20 reached an average of 253 million cubic feet per day of volume sold, 10% lower year-on-year but stable quarter on quarter despite price collapse due to the lockdown and the lack of long-term contractualization. Lower pricing impacts on the breakeven equation, therefore producers respond with a lesser drilling rate and natural decline takes place. And because of that, production was lower in Rincón del Mangrullo and Río Neuquén, and a minor decrease at Sierra Chata and Aguaragüe blocks, which were partially offset by increases at El Mangrullo, a block in which evacuation infrastructure was expanded given the outstanding productivity and upside potential, and also keep in mind that it is fully owned by us, holding operatorship as well. In Q2 20, El Mangrullo reached 153 million cubic feet per day of gas production, 5% higher than Q2 19 and contributing close to 65% of our overall gas, ranked the fourth highest gas producing block at Neuquina basin. It is also remarkable that 7% of Q2 20 production corresponded to shale gas from the completion of two horizontal wells at El Mangrullo block last year.

During second quarter 2020, our average price for gas was 2 dollars per million BTU, 37% lower year on year and 15% quarter on quarter, mainly driven by the sharp price reduction on CAMMESA tenders in April and May. The lockdown led to a drop in demand, especially from large users, and lesser thermal power; supply overhang forced producers to adjust prices to prevent curtailments and keep billing. CAMMESA outcome also affected industrial segment and spot prices. Since June prices increased close to reference price of 2.7, reflecting the demand recovery due to winter season and lockdown easing, but prices are still in the lowest point in years and barely covering the replacement cost, impacting the investment horizon. Also as you can see right below, our production year to date is skewed towards CAMMESA and our own Energía plus units, leaving 15% to other segments. Since the commissioning of Genelba Plus CCGT, we've been procuring own gas, rising the intersegment exposure from 14% to almost 25%. The lower domestic prices were partially offset by exports to Chile, which GSA ended on mid-May. Since then we are fully selling domestically, awaiting Secretary of Energy's clearance to continue exporting to Chile.

Regarding our activities, due to COVID-19, the mandatory lockdown and uncertainties in gas prices, we have been reassessing our activities as from March 2020, but continuing with the operation of our oil and gas fields with the minimum but essential requirements. Therefore, no drilling and completion was registered in Q2 20, in line with the sector. Currently we have 11 wells drilled but pending of completion, of which 8 are located at El Mangrullo, awaiting for better pricing horizon.

Moving on the bottom line of the P&L, in terms of net income attributable to the owners of the Company, Pampa reported a consolidated gain of 4 million dollars in the second quarter of 2020, whereas in the same period of 2019, 400 million dollars was reported, mainly due to Edenor's one-off non-cash profit in Q2 19 of 308 million dollars, in addition to lower operating margins in oil and gas and regulated businesses, and lesser inflation exposure gain because of lower passive net monetary position allocated to the electricity distribution segment and income tax charge.

Finally, moving on to slide 14, our proactivity towards the cash and liability management paid-off. In this slide we show all the layers of the company, from restricted group to consolidated figures, but for covenant purposes let's focus on the restricted group, that is primarily Pampa parent company.

We continued optimizing every aspect of our indebtedness, highlighting that during Q2 2020 Pampa paid at maturity 23 million dollars, in addition to 45 million dollars bond buyback at face value, partially offset by new short-term Peso bonds for a total of 26 million dollars, as well as net borrowing in pesos of 20 million dollars. Therefore, the restricted group gross debt in Q2 20 recorded 1.6 billion dollars, similar to March 2020.

The gross debt is 89% denominated in US dollar, which was 92% in March 2020, bearing an average interest rate of 7.7%. Average life remained around 5.3 years. The cash amounted to 393 million dollars, which is slightly higher than the 373 million dollars in March 2020, mainly due to positive working capital as a result of lower billing, improvement in DSO and collection of Plan Gas 2017. So the restricted group net debt remained similar to last quarter below 1.2 billion dollars and net debt to LTM EBITDA stayed at 2.6 times.

After Q2, we issued Peso bond for 87 million dollars, plus domestic net borrowing of 10 million. Pampa also repurchased bonds for 27 million dollars face value and redeemed Peso bond series 4 for 17 million dollars. Therefore, we are fully shifting our banking debt to local currency. It is worth highlighting that the cumulative maturities from now until 2022 amount to 186 million dollars, which 90% is nominated in Pesos.

In terms of consolidated including affiliates at ownership, Pampa recorded a net debt of 1.5 billion dollars, 2 times EBITDA and 105 million dollars less than last March due to reduced net leverage at Edenor and affiliates.

Finally, we have a share buyback program with price cap of 13 dollars per ADR and outstanding 38 million dollars. As of the date, we hold direct and indirectly 2.2 million treasury ADRs, thus Pampa's outstanding capital stock amounts to 61.7 million ADRs.

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