Pampa Energía Q4 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 all are safe and well.

In the interest of time, I will summarize the latest events and financial figures, reviewing the year and the quarter, focusing on power and E&P. Our CEO Mr. Mariani and CFO Mr. Cohen are both here and joining us for Q&A.

In the fifteen years of Pampa Energía, 2020 was a year to remember. Our resiliency helped us to navigate the complex waters, operating an essential business smoothly amid the pandemic.

We kept growing our asset base, achieving another important milestone by commissioning Genelba's second CCGT, the most significant expansion project in Pampa's history. Genelba is highly demanded due to its efficiency and location and demonstrates exceptional availability since the beginning of operations. Our power generation goal has continually been growing on a sustainable basis, seeking maximum efficiency through renewable energy and highly productive thermal units. In the last five years, Pampa has more than doubled its installed capacity, leading the Argentine power market as the largest IPP. We expect to contribute 280 MW more from the CCTG expansion at Barragán within a year. I'll comment more later.

Also, we managed to keep producing relevant levels of gas without significantly curtailing our output, positioning ourselves as the third-largest unconventional producer in Neuquina Basin, the most prospective basin and reservoir in Argentina. This is worth highlighting, especially when the gas market could not grant any visibility and billing the lowest prices in years until a few months ago. The quality of our fields and the steadiness of our team contributed to this success.

After many years of difficulties, petrochemical is thriving again and back to the production levels of 4 years ago. Despite the country's recession, we are exporting record volumes of SBR to Brazil and witnessing a demand surge for styrene and octane bases linked with the industry recovery and the easing of the lockdown.

In a year like 2020, it was also a time to reorganize our portfolio of assets. After 15 years of controlling the country's largest electricity distributor, on December 28, we announced the sale of our controlling stake in Edenor, Pampa's most relevant strategic divestment decision made over the last few years. In light of lesser synergy opportunities and weakening margins, we exited to continue focusing on developing our core businesses: power generation and natural gas production. Also, reporting becomes leaner as Edenor is deconsolidated and classified as a discontinued business. Therefore, Pampa under IFRS is equivalent to the Restricted Group, as defined by Pampa's bonds covenants, equal to the parent company and controlled and operated subsidiaries. We are awaiting the regulator's clearance to complete the transaction.

So, before moving to the quarter's results, I wanted to comment on Pampa's annual figures briefly. These figures include Edenor, a discontinued operation, but it is operationally a part of Pampa until closing. In 2020 revenues decreased by 22% to 2.6 billion dollars, mainly due to the tariff freeze and devaluation effect over utility businesses, mainly affecting Edenor. Also, we recorded lower gas sales because CAMMESA is back in charge of the grid's fuel procurement, prices and volumes dropped for hydrocarbon sold, and legacy prices were reduced. All of them partially offset by our new capacity power units' contribution: Genelba, Barragán and PEPE windfarms. Roughly 45% of our sales were dollar-linked, but almost 70% came from dollar-denominated core businesses, power and gas in EBITDA terms.

The EBITDA amounted to 750 million dollars in 2020, 18% lower year on year, for the reasons explained before. However, we experienced cost efficiency gains that helped the EBITDA not fall hard. Power generation keeps leading the EBITDA share, driven by the increasing number of units with PPAs. As we show on the right below, excluding Edenor, electricity takes 70% of the consolidated adjusted EBITDA, while oil and gas exposure takes 30%, driven by gas and TGS.

Moreover, in 2020 our capex decreased significantly compared to 2019, partially because of the pandemic restrictions reducing to essential works. More importantly, Genelba expansion was almost already fully expensed in 2020 and the drilling and completion activities at E&P were placed on standby due to the uncertain environment. The expansion investment at Barragán partially offset this drop in CAPEX. Most of the 2020 CAPEX was to properly maintain our assets, specifically the rendering of quality service by our regulated utilities. By 2021, we expect E&P activity to strongly rebound thanks to the Plan Gas GSA and entering the last stages of the closing to CCGT at Barragán.

Moving on to the quarter's figures, revenues decreased 28% year on year to 599 million dollars, mainly due to the tariff freeze, lower fuel self-supply and drop in prices and volumes of oil, gas and legacy prices, partially offset by Genelba's new PPA. In Q4 20, roughly 50% of our sales were dollar-linked, but 90% in EBITDA terms, again mainly coming from our core businesses, PPA-power capacity, followed by E&P.

Adjusted EBITDA maintained stable by only reducing 6% year on year, amounting to 168 million dollars for the quarter, mainly explained by lower prices in US$ and a lesser volume of oil, gas and legacy, and tariff freeze, partially offset by Genelba's PPA, decreasing OPEX and increasing production efficiencies. Should we only consider continuing businesses, this means excluding Edenor, the EBITDA grew 8% year on year, mainly explained by power PPA. Quarter on quarter, EBITDA decreased by 28%, mainly due to seasonality and devaluation effect, offset by petrochemicals upside.

Moreover, as shown left below, in the fourth quarter of this year, our capex decreased significantly compared to Q4 19, mainly due to the impact of the pandemic and completion of expansion projects.

Despite the lockdown and economic crisis, 2020 power demand ended up almost unaffected, thanks to the gradual recovery from the lockdown and power exports made by CAMMESA, a highlight for the grid, growing national generation by 2% year on year. 2021 may continue this path, as domestic demand increases as industries recover capacity utilization and life is back to normal; on January 25, the grid recorded a new power demand record high – the last time was three years ago in 2018.

Moving to the power generation segment, as seen on slide 8, during the fourth quarter of 2020, we posted an adjusted EBITDA of 121 million dollars, 13% higher than Q4 19, mainly given by Genelba Plus CCGT's contribution, higher B2B renewable sales as well as the devaluation impact on our Peso-nominated expenses. These effects were partially offset mainly by the change to peso and freeze of legacy prices. Quarter on quarter, the end of winter season lowered spot energy prices and dispatch in Q4 20, decreasing the EBITDA by 8%. While spot energy comprises 59% of our capacity, it only represented 23% of our power generation EBITDA in the quarter and will keep shrinking until the regulator grants inflation adjustment.

Generation in Q4 20 was 16% higher year on year and 10% up quarter on quarter, which exceeded the national grid's growth, driven by export demand as explained before fulfilled with our three CCGT at Genelba and Loma as they rank senior in the dispatch. To a lesser extent, our efficient dual-fuel units Parque Pilar and Ingeniero White were also requested. However, lesser efficient thermal units such as Piedra Buena and Güemes hardly dispatched in 2020.

Keep in mind that the power generation business model relies on capacity payment, so lower dispatch does not impact the revenue-making as long as availability is outstanding, especially for PPA-based energy. The availability rate in Q4 2020 reached 94.1% with an installed capacity of 5 GW operated by Pampa, slightly decreased year on year and quarter on quarter performance mainly due to major overhauls at Nihuiles and Barragán, as well as forced unavailability of one gas turbine at Güemes.

Regarding our remaining expansions in the pipeline, our crucial project is closing to CCGT at Ensenada Barragán thermal power plant, as you can see on slide 9. This is a 280 MW CCGT project in the south of Greater Buenos Aires, critical infrastructure for Argentina's grid. The project is almost 30% advanced; we've been doing civil works at the cooling tower and starting with the water treatment facility. We also continued with the turbine's building, installing the main pipelines and all remaining equipment inside the building. 800 people are right now at the site, working with the strictest protocols to minimize the circulation of COVID. Keep in mind that Pampa operates Ensenada Barragán, and it is the fourth CCGT project for us. Once closed, the installed capacity will amount to 847 MW, contributing to the grid with one of the most efficient thermal units.

In 2020 national gas production was severely affected by the weak investment landscape that began about a year and a half ago. The graph we see in the slide shows the evolution of production and dependency on gas imports and liquid fuels to fulfill the demand, which is more inefficient, paid with hard currency and way more expensive than local gas, among other issues. As the domestic production increased, imports reliance shrank – until 2020. The production fell 7% year on year, but the demand remained stable. Therefore, the demand deficit was covered with imported gas and liquid fuels. We expect this negative trend on production to reverse, as Plan Gas is in place since January this year.

So, moving on to the results on E&P, as you can see on slide 11, in Q4 2020, we posted an adjusted EBITDA of 19 million dollars, similar to Q4 2019, mainly because of lower gas volumes and prices, partially offset by lesser costs related to the activity downturn and efficiency.

We recorded 24 million dollars of lifting cost, 40% improvement compared to Q4 19, driven by devaluation and higher productivity at competitive blocks such as El Mangrullo. By boe produced, we reached 6 dollars of lifting cost, 34% less than Q4 2019 but higher quarter on quarter because of seasonality.

Despite the harsh environment, our oil and gas production decreased only 8% year-on-year and 7% quarter on quarter in Q4 2020, reaching 44 thousand barrels of oil equivalent per day, of which 90% is composed of natural gas. The quarter-on-quarter reduction is mainly explained by seasonality. The variations are in line with the country's changes.

On the oil side, which represented 27% of the segment's revenue in the quarter, volume sold marginally decreased year-on-year to 4.7 thousand barrels per day, mainly impacted by the lockdown, although improving significantly since December. This was partially offset by conventional production from Los Blancos, a productive block formerly part of Chirete, where we discovered oil after 34 years in the Noroeste Basin.

During Q4 2020, crude oil prices decreased by 18% year on year, reaching 41 dollars per barrel, bouncing back from the sharp fall at the beginning of the lockdown. Domestic demand gradually recovered since September but still lower than pre-quarantine levels, placing 86% of its production to the local market and the remaining exported.

Regarding gas, as we can see on slide 12, Q4 20 reached an average of 239 million cubic feet per day of volume sold, 21% lower year on year, mainly due to lower exports to Chile and weak industrial demand, which is still recovering since the lockdown. These effects were partially offset by higher volumes to CAMMESA and our new CCGT at Genelba. Compared to last quarter, volume sold decreased 10% due to seasonality.

Lower pricing impacted negatively on the breakeven equation, thus the activity collapsed and higher depletion takes place. Therefore, production was lower at our gas-bearing blocks but was partially offset by increases at El Mangrullo, a block with outstanding productivity wholly owned and operated by us. In Q4 20, El Mangrullo reached 160 million cubic feet per day of gas production, 6% higher than Q4 19 and contributing close to 70% of our overall gas, ranked the fourth largest gas-producing block at Neuquina basin.

During the fourth quarter of 2020, our average gas price was 2.1 dollars per million BTU, 17% less than Q4 2019, explained by the lower exports, resumed just in December due to the higher demand from CAMMESA to fulfill power exports. Also affected CAMMESA's reductions on the reference price, additionally impacting industrial and spot prices. Though CAMMESA tender prices during Q4 2020 were around 2.2 in the Neuquina Basin, reflecting the off-peak season, since 2021, we are selling about 70% of the gas through the Plan Gas GSA to CAMMESA and DistCos.

As you can see right below, 2020 production is skewed towards CAMMESA, but placing an increasing share for vertical integration at Genelba Plus CCGT's, rising from the last call's 22% sale share to 26%. However, as of 2021, we assigned that gas to CAMMESA as part of Plan Gas.

By the end of 2020, the Government launched the long-awaited Plan Gas tender, setting a turning point for the business. This 4-year gas supply agreement GSA seeks to revert the declining trend on local gas production. Pampa was the third-largest awardee in the Neuquina Basin, growing 15% in annual production and 28% in winter, the year's peak period. Under this new scheme, we are committed to producing at least 254 million cubic feet per day of base production, of which 70% are destined to Plan Gas priced at 3.6 dollars per million BTU. Pampa has to deliver an additional output of 66 million cubic feet per day priced at 4.7 dollars per million BTU during the winter. The surplus from base production will be sold in the spot market. Thus, we will continue focusing on the development of tight gas, with an aggregate investment of more than US$250 million over the four years of the program, which allows us to expect an increase in profitability and cash flow generation.

Before the Plan Gas tender and given the uncertainties in gas prices, we reassessed our activities with no drilling and completion in Q4 20 and registered the lowest activity level in 2020, in line with the sector's mood. However, as I mentioned before, since the tender award in the Plan Gas GSA, our production is estimated to grow 28% during the peak period compared to 2020, the highest increase among the leading gas players.

In 2020, despite the challenging context, we recorded a 1.4 positive reserve replacement ratio for the third consecutive year and an average life of 8.6 years. The proven reserves reached 142 million boe, 5% higher than 2019 and 90% gas, mainly explained by the better production performance and well recovery factor at El Mangrullo, and to a lesser extent, the new oil-bearing block Los Blancos. We also succeeded in certifying shale reserves from the Vaca Muerta formation, 2.5 times the volume recorded in 2019.

Finally, moving on to slide 15, our sound balance sheet grants us some degrees of freedom compared to other industry peers during this challenging environment. In this slide, we show all the Company's layers, but let's focus on the Restricted Group for covenant purposes.

As of year-end, the restricted group gross debt recorded 1.6 billion dollars, similar to last September. 88% denominated in US dollar, which was 86% in September 2020, bearing an average interest rate of 7.5%. Average life decreased from 4.9 years to 4.8 years. The cash amounted to 466 million dollars, which is 33% higher than the 352 million dollars in September 2020, mainly due to positive operating cash flow and positive working capital as DSO improved and stabilized at 80 days, partially offset by Peso debt payment and buybacks. The restricted group's net debt decreased 9% compared to last quarter, amounting to 1.1 billion dollars and the net leverage ratio improved from 2.8 times to 2.4 times.

It is worth highlighting that the cumulative maturities from now until 2022 amount to the equivalent of 203 million dollars, of which 92% is denominated in Pesos.

Pampa consolidated with affiliates recorded a net debt of 1.4 billion dollars, 90 million dollars less than last September, mainly due to cash increase and deconsolidation of Edenor. Net leverage was maintained at two times like last September.

Regarding share buybacks, the shareholders' meeting of last December approved to cancel 5.6 million treasury ADRs, in the process of registration before the Argentine Public Registry of Organizations. As of today, our outstanding capital amounts to 56.8 million ADRs. The board also approved a new program for up to 30 million dollars, with a price cap of 16 dollars per ADR.

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