Pampa Energía Q2 2021 Conference Call

Buenos Aires, August 13, 2021 (10 am Eastern Time)
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. For more details, you can check our earnings release or feel free to contact us. Our CEO Mr. Mariani and CFO, Mr. Cohen, are both here and joining us for the Q&A session.

So, let's start commenting on the quarter's highlights. First, we recorded more than 50% year-on-year sales increase thanks to the Plan Gas winter peak, Genelba's new PPA and commodities prices hike. Moreover, our E&P business set another record as our flagship block El Mangrullo achieved all-time-high gas production of 226 million cubic feet per day two weeks ago, contributing to an increase in our overall production. This is a significant milestone for our E&P and the country's peak demand during winter. The record is more than 30% higher than last year's July and 3 times 2016's production level, showing the competitive productivity of tight gas formations.

Also, the quarter's performance is supported by higher prices – even higher than pre-pandemic levels, explained by winter seasonality, Plan Gas and commodity prices. Legacy prices also were boosted by the long-awaited increase in pesos, but the result is moderated in dollar terms as a result of devaluation. Our petchem business achieved another outstanding quarter, not only benefited by prices but also a recovering demand.

The regulator cleared the sale of Edenor's control, and the management change took place by the end of the quarter. Therefore, we ended a chapter and collected proceeds to keep focusing on our power and gas businesses, where there is cash flow generation. The final payment is due one year from closing.

Last but not least, we keep strengthening our financial position by reducing our leverage thanks to our free cash flow generation, reaching almost 1 billion dollars net debt. A healthy balance sheet coupled with a comfortable debt profile makes a great defensive strategy in challenging Argentina.

Now, let's move on to the quarter's key financial takeaways. Since Edenor was divested, let's only focus on the continuing operations. Revenues increased 52% year-on-year to 456 million dollars in the quarter, mainly driven by Plan Gas, winter seasonality, Genelba's new PPA and high commodity prices boosting petrochemicals and TGS liquid business, though partially offset by lower legacy prices in dollar terms, as well as tariff freeze and deval effect over utility businesses. In Q2 21, roughly over 80% of our sales and EBITDA were dollar-linked, mainly from our core businesses, PPA-power capacity, followed by E&P.

The adjusted EBITDA amounted to 241 million dollars, 79% higher year-on-year, primarily driven by the same reasons detailed before, plus production efficiencies and dilution of Peso-linked expenses due to the deval effect. Quarter on quarter, EBITDA increased by 18%, mainly explained by winter gas prices and the retroactive raise in legacy prices, offset by outages at Plus power units and petchem's scheduled maintenance in the reforming plant. Therefore, oil and gas is regaining exposure by taking a 48% share, as we show on the right below, while electricity takes 52% of the consolidated adjusted EBITDA.

Moreover, in Q2, CapEx more than doubled year-on-year and 66% up quarter-on-quarter, mainly explained by Plan Gas commitments during winter and Barragán's expansion, offset by the commissioning of Genelba's new CCGT in July 2020.

Moving on to the power generation segment, as seen on slide 5, we posted an adjusted EBITDA of 121 million dollars in Q2 2021, 26% higher year-on-year, mainly contributed by Genelba Plus CCGT, higher B2B electricity sales, legacy prices update and the devaluation impact on our Peso-nominated expenses. These effects were offset primarily by the dilution in dollars of legacy prices, higher energy purchases to cover B2B contracts and operation outages in June. Quarter on quarter, EBITDA increased by 5%, mainly due to spot prices update retroactively to February, offset by the off-peak pricing for spot energy and lower power dispatch in Q2 21.

Spot energy comprises 59% of our capacity but represented only 17% of our power generation EBITDA. Therefore, it will keep shrinking unless the next inflation adjustment outpaces devaluation. Still, it is key to continue with the proper maintenance of these plants, underpaid considering their contribution to the grid.

Moving to operating figures, power generation in Q2 21 was 10% up year on year, in line with the grid recovery. Like Q1, nationwide demand is back to pre-lockdown levels, mainly driven by industries, which is good news for GDP activity. We recorded higher dispatch in Genelba's new CCGT, thermal plants firing alternative fuels and increased load factor from wind farms, offset by lower gas-fired dispatch because of fuel limitations. However, quarter on quarter generation was 14% down, driven by the fall season and outages.

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 Q2 21 reached an outstanding 95.8%, slightly lower year-on-year mainly due to Güemes and Genelba's partial outages in June, which fully resumed last month.

Regarding our expansions, the closing to CCGT at Ensenada Barragán is almost halfway advanced. We are currently working on the boilers, cooling tower, water system and completing the steam turbine building's enclosure. Around 1,500 people are at the site, working with COVID protocols and reviewing the critical equipment to achieve COD by the second quarter of 2022. Once closed, Barragán's total installed capacity will be 847 MW, becoming one of the country's most efficient thermal units and Pampa's fourth-operated CCGT.

Moving to E&P results as seen on slide 7, we posted an adjusted EBITDA of 73 million dollars in Q2 21, recording a remarkable growth year-on-year, primarily driven by Plan Gas, which rebounded gas prices and volumes because of winter commitments, in addition to higher oil prices and recovering demand. However, more royalties from higher prices and increased well drilling and completion activities offset the rise in EBITDA. Quarter on quarter, the EBITDA more than doubled due to winter effect, offset by higher royalties.

Efficiency-wise, we recorded 25 million dollars of lifting cost, 20% more than last year, due to wells drilling and completion reactivation activities, offset by higher productivity at competitive gas blocks such as El Mangrullo, higher oil production and the devaluation. By boe produced, we kept below 6 dollars of lifting cost, 10% higher year-on-year but similar quarter on quarter.

Our global production increased 9% year-on-year and quarter-on-quarter, again mainly driven by the Plan Gas. Oil demand is improving post-lockdown but still hasn't reached pre-pandemic levels. As a result, we averaged almost 48 thousand barrels of oil equivalent per day, of which 90% is gas.

On the oil side, which represented 22% of the segment's revenue in the quarter, volume sold increased by 11% year-on-year to 4.5 thousand barrels per day, explained by export demand. The 40% quarter-on-quarter increase is primarily due to exports concentrated in Q2 21. As per crude oil prices, which are driven by the Brent, it almost tripled last year's due to the lockdown, while quarter-on-quarter remained similar. Our production is still down 1 thousand barrels daily to pre-pandemic levels – we expect to recover them gradually.

Regarding gas, as shown in slide 8, our sales averaged 262 million cubic feet per day in the quarter, 4% up year-on-year driven by the Plan Gas GSA. Production could have been higher, but blockades during April 2021 affected the output, impacting our employees and equipment's daily operation. Therefore, our production since May was slightly lower than our GSA commitment, which we fully recovered this month, overproducing the target of 320 million cubic feet per day. In addition, gas producers, including Pampa, were granted force majeure, so no penalties to pay. Quarter on quarter, the 9% increase is primarily explained by the beginning of the winter peak season and better B2B sales from industrial demand. On a note of color, nationwide gas production during the quarter was only 1% down year-on-year, evidencing the Plan Gas effect. Demand is rising to pre-pandemic levels, driven by large users and retail consumption.

Going back to our quarter production performance, El Mangrullo led the quarter's production growth, contributing close to 70% of our overall gas. This block is wholly-owned and operated by us with outstanding productivity, boosted by the temporary production facility we installed in May and reached all-time-high record by the end of July.

During the second quarter of 2021, our average gas price was 3.9 dollars per million BTU, doubled year-on-year and almost 40% up quarter on quarter, again explained by the Plan Gas winter peak. The B2B and spot prices out of this GSA also reflected the seasonality but haven't reached Plan Gas levels.

As you can see right below, the year-to-date sales are more diversified, similar to the country's breakdown. Gas retailers are also part of Plan Gas and soared during winter because of their priority, increasing its share to 30%, compared to last quarter's 18%. Also, we are working to grow our B2B sales, with positive results increasing our market share. The only segment shrinking was gas exports, which will be resumed from October with take or pay deliveries to Chile.

Regarding our E&P operations update, we strengthened our investment recording 55 million dollars during the quarter, almost 3 times higher than last year. This quarter was quite active, drilled and completed 11 tight gas wells, in line with the winter peak. As I said in the previous call, we are building the second gas treatment plant at El Mangrullo, which will more than double the current capacity to reach 290 million cubic feet per day by the first half of next year. In oil, we drilled 4 wells and completed 5 from the San Jorge basin.

Moving to the petrochemicals business, this segment delivered another solid quarter, achieving 4 times last year's EBITDA, mainly explained by the significant rise of international reference prices, higher local virgin naphtha supply and demand growth linked to industry recovery, offset by increased raw material costs influenced by said reference prices and Plan Gas impact.

The year-on-year sales volume increase was significant for all products. Still, quarter on quarter decreased 22% due to the reforming plant's seasonal maintenance. In addition, roughly 40% of the quarter's sales were exported. Since the international prices are volatile and seasonal, we do not expect this outperformance for the second half.

Before getting into cash and debt, we must highlight the solid cash flow generation reported during the quarter, supported by the outstanding operating performance from all three businesses and improved profitability thanks to higher realized prices. During Q2, the free cash flow resulted in roughly 72 million dollars, 50 million dollars more than last year's quarter. Notice that working capital was negative, mainly driven by higher seasonal billing and Plan Gas effect, and to a lesser extent, the increase in collection days from Cammesa. In addition, we collected Edenor's second sale installment and former Plan Gas receivables for a total of 64 million dollars; we repaid 71 million dollars of mostly peso debt maturities and bought back shares for 11 million dollars. So in total, we generated a net of 54 million dollars, achieving 462 million dollars of cash position by the end of the quarter.

Moving on to slide 11, this slide shows consolidated figures, including our affiliates at ownership, but let's keep focusing on the Restricted Group for covenant purposes. Since Edenor was deconsolidated, Pampa under IFRS is the Restricted Group.

The gross debt continued to decrease, amounting to 1.5 billion dollars as of June 2021. 96% denominated in US dollar, up from 91% in March, as we've been paying down short-term peso debt. The dollar-debt bears an average interest rate of 7.4%, while the peso-debt averages less than 37% interest. The average life remained at 4.6 years.

As we said before, the cash amounted to 462 million dollars, 13% higher quarter-on-quarter. So the net debt decreased to 1 billion dollars. In addition, the net leverage ratio improved from 2.3 to 1.7 times due to higher EBITDA.

In the next 12 months, the Company only faces less than 100 million dollars of maturities, most in local currency. Moreover, our last Peso bond matures by the end of this month, roughly 65 million dollars. Therefore, we expect to keep reducing short-term debt, strengthening our balance sheet. As a result, FitchRatings upgraded our bonds' to B-, few Argentine corporates are above the sovereign ceiling.

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