Pampa Energía Q3 2021 Conference Call

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Presenting:
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Hello everyone. 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.

On quarter's highlights, our E&P business achieved all-time-high gas production of almost 330 million cubic feet per day in September, as you can see in the graph. Also, we recorded the highest single-day output at 350 million cubic feet, precisely on September 15. The recovery of demand, exports, and Plan Gas have been the main contributors to this growth.

Moreover, this month we participated in the third round of Plan Gas, a take or pay auction to fill the remaining idle capacity at Neuquina Basin. We tendered and got awarded 71 million cubic feet per day, two-thirds of the total tendered volume, committing to deliver from May 2022 until December 2024 at 3.35 dollars per million BTU. Therefore, the following winter, we should be producing a new ATH of 400 million cubic feet per day, billing an annual average price of 3.6 dollars per million BTU. We highlight that Pampa is the only producer delivering the most significant gas increase compared to the winter of 2020.

In power generation, we are moving on with the PEPE III windfarm's expansion project by doubling its capacity to reach a total of 106 MW by 2023. We estimate roughly 80 million dollars of investment that will allow us to keep increasing our clean energy portfolio and strengthening our position in the B2B market.

In Q3, we achieved a substantial leverage reduction. Our net debt decreased by 125 million dollars in a single quarter. Year-to-date, we have accumulated 231 million of net leverage reduction.

Finally, just wanted to let you know that we released our 2020 sustainability report last month, audited for the first time. We show material improvements in water, energy consumption, and carbon footprint intensity, in line with the previous year's efforts to invest in efficient power technology and focus on gas. We seek transparency to share our ESG performance with our stakeholders, and your opinion will always be welcome.

Now, let's move on to the quarter's financial KPIs. Revenues increased 49% year-on-year to 577 million dollars in the quarter, mainly driven by Plan Gas boosted by the winter season, demand recovery and commodities prices hikes. All of them were partially offset by certain power plants outages and tariff freeze in utility businesses. In Q3, over 85% of our sales and EBITDA were dollar-linked.

The adjusted EBITDA amounted to 262 million dollars, 27% up year-on-year due to the same reasons detailed before, offset by higher E&P activity. Quarter-on-quarter, EBITDA increased by 9%, mainly due to seasonality and higher petchem volume sold, offset by increased raw material costs in petchem and outages at Plus power units. Thanks to strong investments and production growth, oil and gas is balancing back its EBITDA share for the first time in 3 years.

CapEx almost doubled year-on-year in Q3 but remained similar quarter-on-quarter, mainly due to Plan Gas and Barragán's expansion, offset by the commissioning of Genelba's second CCGT in July 2020.

Moving on to power generation, as seen on slide 7, we posted an adjusted EBITDA of 126 million dollars in Q3, slightly lower year-on-year, mainly due to outages and the end of Piquirenda's 10-year PPA, offset by higher B2B sales and higher thermal dispatch, especially at Loma. In the legacy units, the 29% peso update received last February was diluted by the devaluation. Quarter-on-quarter, EBITDA increased marginally due to better B2B sales and seasonality, offset by the retroactive spot price update.

Spot energy is 59% of our capacity but only represented 24% of our power generation EBITDA, which will keep shrinking unless recognition of price adjustments keeps up with devaluation. As these essential units to the grid continue being underpaid, it will be challenging to maintain them properly. However, recently, the Government approved a price improvement for thermal legacy units, especially those with low load factor. Said improvement is temporary, payable between September and May, and linked with electricity exports.

Moving to Pampa's operating figures, power generation in Q3 was 13% up year-on-year, surpassing nationwide demand. We recorded higher CCGT dispatch at Loma and #1 Genelba due to better gas supply, plus increased thermal dispatch with alternative fuels, offset by Plus units' outages and low water input at Pichi Picún Leufú. Quarter-on-quarter the output rose 18%, driven by seasonality but offset by said outages.

The power generation business model relies on capacity payment, so the most important is to keep the availability as high as possible, especially for PPA. The availability rate in Q3 reached 95%, slightly lower year-on-year mainly due to Nihuiles and the Energía Plus units partial outages.

Regarding our expansions, the closing to CCGT at Ensenada Barragán is more than 60% advanced. We continue working on the steam turbine, cooling tower, boilers and diverters. Also, we are finishing the civil works and commissioning the high voltage fields. Around 1,700 people work two shifts, with all COVID protocols in place to achieve COD by the second quarter of 2022.

Moving to E&P, we posted an adjusted EBITDA of 104 million dollars in Q3, a remarkable growth year-on-year and quarter-on-quarter, driven by Plan Gas, winter season and demand recovery, offset by more royalties and resumption of activity.

Our total lifting cost increased 36% year-on-year and 26% quarter-on-quarter, explained by higher production output. However, lifting cost per unit stood at 6 dollars per boe, 11% more than last year but similar to Q2, mainly thanks to El Mangrullo's high productivity.

Our global production increased 23% year-on-year and 20% quarter-on-quarter, again mainly driven by Plan Gas winter commitment and local oil demand recovery to pre-pandemic levels. As a result, we averaged more than 57 thousand barrels of oil equivalent per day, of which 92% is gas.

On the oil side, which represented 23% of the segment's revenue in the quarter, volume sold increased by 40% year-on-year and 31% quarter-on-quarter to 5.9 thousand barrels per day, mainly explained by local demand, offset by lower exports. And oil price, driven by the Brent, was 50% up compared to last year but remained similar quarter-on-quarter.

Regarding gas, as shown on slide 10, our volume sold averaged 326 million cubic feet per day in the quarter, roughly 25% up year-on-year and quarter-on-quarter, for the reasons explained before.

Going back to our production performance, as I said before, we reached an all-time-high record in September. Again, El Mangrullo led the quarter's growth, contributing close to 70% of our overall gas. This block is wholly-owned and operated by us with outstanding productivity, boosted by the increased treatment capacity.

Our average gas price of the quarter was 4.4 dollars per million BTU, 76% up year-on-year and 14% 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 similar to Plan Gas pricing 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 have priority during winter, increasing its share to 39%. Also, we are growing our B2B share.

Regarding our E&P operations update, we strengthened our investment by recording 62 million dollars during the quarter, while it was marginal last year. This quarter we drilled 8 tight gas wells. Also, we completed 16 wells, of which 15 are tight and 1 is shale from Sierra Chata, which reached the maximum production rate of 28 million cubic feet per day, becoming one of the most productive gas wells in Vaca Muerta. Also, as I said in the previous call, we are expanding the gas treatment plant at El Mangrullo, reaching above 310 million cubic feet per day by the first half of next year. In oil, we drilled 13 wells and completed 10 at Gobernador Ayala and El Tordillo.

Moving to the petrochemicals business, we posted an adjusted EBITDA of 7 million dollars in Q3, similar year-on-year. The higher raw material costs and Plan Gas impact compensated for the significant rise in commodity prices and industrial demand recovery. Quarter-on-quarter, the EBITDA halved, driven by higher raw material costs, offset by increased sales of reforming products.

The year-on-year and quarter-on-quarter total sales volume increase was significant, especially in reforming products. In addition, roughly 50% of the quarter's sales were exported.

About cash and debt, though we are raising our Capex to accommodate Plan Gas commitments, we must highlight another quarter with solid cash flow generation, driven by the outstanding operating performance from our core businesses and improved margins in the upstream. During Q3, the free cash flow resulted in roughly 108 million dollars. In comparison, last year's quarter represented a 68 million dollars outflow due to higher working capital. Notice that this quarter, working capital and others were positive, mostly explained by improved collection from Cammesa, as shown in slide 13. Delays halved to 23 days compared to the maximum of 46 days achieved in Q1 this year. In addition, we repaid a net of 60 million dollars of principal debt and bought back shares for 3 million dollars. So in total, we generated 44 million dollars net cash, achieving 507 million dollars of cash position by the end of the quarter.

Moving on to slide 14, this slide shows consolidated figures, including our affiliates at ownership, but let's focus on the Restricted Group that reflects the bond perimeters.

As we began the call, our balance sheet keeps strengthening despite the context. We continue to reduce the gross debt, having canceled most of the peso maturities during the quarter for 65 million dollars, posting 1.4 billion dollars as of September 2021. Almost 100% denominated in US dollar, up from 96% in June. The Dollar-debt bears an average interest rate of 7.8%. The average life remained similar at 4.7 years.

As said before, cash increased 10% quarter-on-quarter to 507 million dollars. Therefore, net debt decreased by 125 million dollars to 917 million dollars, a remarkable reduction in just a single quarter. Given the lower debt and higher EBITDA, The net leverage ratio improved from 1.7 to 1.4 times quarter on quarter.

In the next 12 months, the Company faces less than 20 million dollars of maturities. Therefore, we expect to keep strengthening our balance sheet. As a result, S&P upgraded our stand-alone rating to B-.

So, this concludes our presentation. Thank you.