Pampa Energía Q4 2021 Conference Call

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Presenting:
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Hello everyone, and thank you for joining our conference call. We are pleased to share the latest events as well as the 2021 and fourth quarter results. Our CEO, Mr. Gustavo Mariani, and CFO, Mr. Nicolás Mindlin, are both here and joining us for Q&A.

Let's start with the latest events. In E&P, we are very proud of what we have been able to achieve in 2021 and very enthusiastic with the prospect for this year. Plan Gas provided the long-term incentives and visibility needed in this industry, and we reacted accordingly. In December 2021 we increased our natural gas production by 38% year-on-year. This is more than double the nationwide rise of 16% in production. And we are maintaining our production above 9 million cubic meters per day despite the off-peak season, because we are exporting almost 3 million cubic meters per day to Chile on a firm basis until April and we are responding to the demand hike in the local industrial and spot markets. Therefore, despite the commitment for 2022 is 9.3 million cubic meters per day, we will be achieving on average almost 10 million cubic meters per day.

During 2021 Pampa was the largest natural gas export awardee in the country, with a market share of 35% in GasAndes pipeline that connects to Chile. Our team is working at full speed for the upcoming winter, as we will be adding 2 million cubic meters per day more, awarded in the last round of Plan Gas. The total 11 million cubic meters per day of winter production is the minimum volume we are committed to, and this is 56% more than the 2020's winter.

On the other hand, a month ago the Government announced the long-awaited project to build a new pipeline, connecting Neuquina Basin to the provinces of Buenos Aires and Santa Fe, in order to sort out the current transportation bottleneck.

Our affiliate, TGS is uniquely positioned to become the operator of the first tranche of the new pipeline, given its know-how, expertise and infrastructure in the area. The Government has already launched the auction to secure the provision of the pipes and is eager to have the first tranche operational before 2023 winter.

As you can see on the chart, this pipeline's inicial transportation capacity will be roughly 10 million cubic meters per day by 2023 winter, but once fully online, the total increase will be roughly 40 million cubic meters per day by 2024 winter.

As this project progresses, the Government should be announcing the fourth round of Plan Gas, in order to secure the gas needed to fill up the new pipeline and reduce imports. The new auction for gas should be launched sooner rather than later, as producers will not only get ready to drill and complete new wells, but also build the necessary surface infrastructure to treat and transport the new production to the gathering network. The construction of these facilities will require as much time as the construction of the pipeline itself.

The fulfilment of this important project is crucial for the country as it will significantly impact its external account figures, but it is definitely a game changer for Pampa as it dramatically revalues its natural gas reserves in the Neuquina Basin and opens the possibility for doubling our production levels in the coming years.

Now let's briefly review the annual figures. 2021 was a great year, growing the investments in our core businesses, despite the COVID restrictions and the macroeconomic context.

The adjusted EBITDA amounted to 905 million dollars in 2021, 30% more than 2020. As we show on the right below, electricity takes 53% of the consolidated adjusted EBITDA, while oil and gas takes 47%, driven by gas and TGS.

As you can see on slide 5, in 2021 revenues increased by 38% to 2 billion dollars, mainly driven by natural gas volume and prices improvement, and the impact of the full year PPA of the new combined cycle at Genelba, commissioned in mid-2020. All of them were partially offset by the PPA maturity at Loma, diluted power spot prices and tariff freeze at our affiliates, TGS and Transener, since mid-2019. Keep in mind that all these figures exclude Edenor, a discontinued operation. Roughly 85% of our sales were dollar-linked.

In 2021 our CapEx increased significantly compared to 2020, mainly driven by the increased activity to achieve the production growth of natural gas and ongoing expansions at Barragán and PEPE III.

Now, let's move on to the quarter's figures. Revenues increased by 46% year-on-year to 557 million dollars, mainly driven by commodities price hike, Plan Gas, legacy energy additional remuneration and Energía Plus better volume and price. All of them were partially offset by PPA maturities at Loma and Piquirenda, as well as tariff freeze in utility businesses. Roughly 85% of our sales were dollar-linked.

The adjusted EBITDA amounted to 199 million dollars, 8% up year-on-year, but 24% down quarter-on-quarter, due to seasonality of natural gas prices and Loma's PPA maturity, offset by spot energy extra remuneration. 53% of the quarter's consolidated adjusted EBITDA came from electricity.

CapEx in Q4 was more than double last year's figure and 55% more quarter-on-quarter, mainly due to increased activity to comply with Plan Gas commitments and power expansions at Barragán and PEPE III.

Moving on to power generation, as seen on slide 7, we posted an adjusted EBITDA of 105 million dollars in Q4, 13% down year-on-year and 16% down quarter-on-quarter, mainly due to one of Loma's PPA maturity, offset by the additional spot remuneration and higher thermal B2B margins. Compared to Q3, the seasonality on the legacy remuneration also affected the lower adjusted EBITDA.

Spot energy is 59% of our capacity but only represented 21% of our power generation EBITDA. The additional remuneration ended last month and we are waiting for the update for this year. Keep in mind that power demand is going up again, breaking its record this January with more than 28 GW. So, if these essential units continue being underpaid, it will be challenging to maintain them properly.

Moving on to Pampa's operating figures, power generation in Q4 was 6% up year-on-year, surpassing once more nationwide generation growth of only 1%. We recorded higher thermal dispatch at almost all our units, responding to the growing demand, except for the CCGT at Loma and the new CCGT at Genelba, due to their maintenance, and the lower dispatch with alternative fuels because the grid exported less electricity. It was also offset by lower renewable generation due to lower water input and wind sources.

The power generation business model relies on capacity payment, like a take or pay. So, availability is what matters most. In Q4 our availability continued high at 95.5%, similar year-on-year and quarter-on-quarter. Pampa´s availability was once again significantly above the system average of 79%.

Regarding our thermal expansion, the closing to CCGT at Ensenada Barragán is roughly 75% advanced. We continue working on all fronts: water intake structure, its treatment plant and cooling tower. We are also commissioning the boilers and the control system. Around 1,500 people are working daily on this project.

Despite all the efforts, the complexity and the impact of COVID have postponed the expected COD to the third quarter of 2022.

In renewable expansion, we keep strengthening our position in the renewable B2B market by expanding our windfarm PEPE III. We are adding 81 MW by mid-2023 and the investment is close to 130 million dollars. This is the fourth wind project for Pampa and once it is online, our total wind capacity will amount to 287 MW.

In order to finance part of this project, in January we issued our first green bond in the local market, denominated in Pesos but for the equivalent of roughly 30 million dollars, due in 18 months.

We are advancing with the civil works for the paths, platforms and foundations, as well as working on purchase orders and other permits. We will assemble the anchor cages by mid-2022 and achieve COD in two stages, the first 50 MW by February 2023 and the remaining by May 2023.

Moving on to E&P, we posted an adjusted EBITDA of 46 million dollars in Q4, which is 2.5 times last year's figure, driven by a 32% growth in volume sold, recovery of industrial demand and exports to Chile and also driven by a 47% increase in price. Quarter-on-quarter, it decreased by 56% mainly due to the seasonal price.

Our total lifting cost increased by 71% year-on-year and 32% quarter-on-quarter, explained by the increased activity to keep a high level of production of gas to export more to Chile and prepare for the 2022 winter commitment. The significant and rapid increase in production required the use of temporary facilities, increasing the lifting cost per unit to 7.8 dollars per boe, roughly 30% more than last year and Q3.

Our total production averaged more than 58 thousand barrels of oil equivalent per day, being 91% gas.

On the oil side, which represented 22% of the segment's revenue in the quarter, volume sold was similar year-on-year, being 4.7 thousand barrels per day, mainly explained by local demand, offset by lower exports. Quarter-on-quarter it was 21% lower due to lower trading and stocks recorded in Q4 21, exported in January 2022. Oil price was 42% up compared to last year but remained similar quarter-on-quarter.

Regarding gas, as shown on slide 11, our volume sold averaged 9 million cubic meters per day in the quarter, 32% up year-on-year and similar quarter-on-quarter.

Our production performance was again led by El Mangrullo, achieving another record-high in December and representing 70% of the quarter's production. This block is wholly owned and operated by us with outstanding productivity, boosted by its increased treatment capacity that we will talk about later. It was also followed by Río Neuquén's growth, which almost doubled year-on-year thanks to active drilling and completion of wells.

Our average gas price of the quarter was 3.1 dollars per million BTU, 47% up year-on-year but 30% down quarter-on-quarter due to seasonal price. Export prices were high while local prices out of the GSA were also similar to Plan Gas pricing levels.

As you can see right below, 2021 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 40%. Also, we are growing our B2B share and taking opportunities in the Chilean market.

Regarding our operations, in 2021 we completed the shale well at Sierra Chata, targeting the Vaca Muerta formation. It reached the maximum production rate of almost 800 thousand cubic meters per day with 36 fracking stages, becoming one of the most productive gas wells in Vaca Muerta. Also, as mentioned in the previous call, we keep expanding the gas treatment plant at El Mangrullo. By 2022 winter, it will grow from 6.4 to almost 9 million cubic meters per day of capacity, and since the third quarter of 2022, it will be above 13.5 million cubic meters per day. So, we are more than doubling its capacity compared to the end of 2021.

In 2021, thanks to the outstanding work of our technical team and the productivity at El Mangrullo block, we recorded a 1.8 positive reserve replacement ratio, showing an average life of 8.4 years. The proven reserves reached 157 million boe, 11% higher than 2020 and 92% gas, mainly explained by the better production performance and well recovery factor at El Mangrullo, followed by Río Neuquén and Sierra Chata. We also succeeded in certifying shale reserves from the Vaca Muerta formation, 40% more than 2020's volume.

Moving on to the petrochemicals business, we posted an adjusted EBITDA of 9 million dollars in Q4, similar year-on-year. The higher raw material cost impact was offset by the significant rise in commodity prices and local demand recovery. Quarter-on-quarter, the EBITDA grew slightly, driven by better prices and the off-peak period for natural gas cost.

Sales volume remained similar year-on-year but 12% down quarter-on-quarter, mainly because in Q3 there was an additional dispatch of stocks as in Q2 a seasonal maintenance at the reforming plant took place. In Q4, 41% of the total sales volume were exports.

About cash and debt, although we raised 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 less interest payment due to lower debt. During Q4, the free cash flow resulted in 47 million dollars. In comparison, last year's quarter was 84 million dollars, mainly due to the minimum CapEx and Loma's PPA still in place, but offset by higher interest payment. Also this quarter, working capital and others were positive, mostly explained by improved collection from Cammesa. Delays almost halved to roughly 20 days compared to the end of 2020. In addition, we repaid a net of 9 million dollars of principal debt and collected dividend and other proceeds for 29 million dollars in our Ecuador operation. So in total, we generated 66 million dollars net cash in the quarter, achieving 573 million dollars of cash position by the end of 2021.

Moving on to slide 15, this slide shows consolidated figures, including our affiliates at ownership, but let's focus on the Restricted Group that reflects the bond perimeters.

During the quarter, we paid minor debt maturities, but if you consider the whole year, during 2021 we reduced more than 190 million dollars of debt. By the end of 2021, we posted a gross debt of 1.4 billion dollars. The dollar-debt bears an average interest rate of 7.8%. The average life as of 2021 is 4.4 years.

Thanks to the operating cash flow, cash increased 23% year-on-year to 573 million dollars. Therefore, net debt decreased by 282 million dollars year-on-year to 866 million dollars. The net leverage ratio improved from 2.4 times in 2020 to 1.3 times in 2021.

In the next 12 months, the Company faces less than 20 million dollars of maturities. Therefore, we expect to keep strengthening our balance sheet. Also it is worth highlighting that our international bonds are rated above the sovereign's ratings.

So, this concludes our presentation. Thank you.