Pampa Energía Q2 2022 Conference Call

Buenos Aires, August 12, 2022 (10 am Eastern Time)
Presenting:
Gustavo Mariani, CEO
Nicolás Mindlin, CFO
Lida Wang, Investor relations and sustainability officer

Margarita: Good morning everyone and thank you for waiting. I'm Margarita Chun from IR, and we would like to welcome everyone to Pampa Energía's second quarter 2022 results videoconference.

We inform you that this event is being recorded. All participants will be in listen-only mode during the presentation. After the Company's remarks, there will be a Q&A session. Questions can only be submitted in writing through Zoom. Should any participant need assistance, please send us a chat message.

Before proceeding, please read the disclaimer on the second page of our presentation. Let me mention that forward-looking statements are based on Pampa Energía's management beliefs and assumptions and information currently available to the Company. They involve risks, uncertainties and assumptions because they are related to future events that may or may not occur. Investors should understand that general economic and industry conditions and other operating factors could also affect the future results of Pampa Energía and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the videoconference over to Lida Wang, investor relations and sustainability officer of Pampa Energía. Please, go ahead.

Lida: Thank you Magui and everyone for joining our conference call. It's been a great quarter, but in the interest of time, I will make it short and sweet so we have plenty of time for Q&A with our CEO, Mr. Gustavo Mariani, and CFO, Mr. Nicolás Mindlin.

Let's start with the quarter's figures. Revenues increased 28% year-on-year to 587 million dollars, driven by rising gas output, commodities prices, B2B Energía Plus sales and higher legacy energy and regulated prices. However, lower income from Loma, Barragán and Piquirenda offset these increases because its PPAs expired. As a result, around 85% of our sales were dollar-linked.

The adjusted EBITDA amounted to 253 million dollars, 6% up year-on-year and 13% up quarter-on-quarter, explained by the same reasons detailed before and better petchem margins, offset by increased costs on maintenance and contractors from intense E&P activity and higher Peso-linked expenses because inflation is outpacing devaluation. Quarter-on-quarter, seasonality explains the boost in the EBITDA. As you can see on the right below, oil and gas led the consolidated adjusted EBITDA for the first time in a long time, thanks to our gas business, taking 59%.

CapEx in Q2 was 49% up year-on-year and 36% up quarter-on-quarter, mainly due to the growing Plan Gas commitment and power expansions at PEPE III and Barragán.

Moving on to power generation, as seen on slide 4, we posted an adjusted EBITDA of 99 million dollars in Q2, 18% down year-on-year and quarter-on-quarter, mainly due to PPA maturities we mentioned before and higher local currency expenses, compensated by better thermal B2B margins and spot energy sales despite the peso depreciation.

The outstanding operating performance also contributed to the EBITDA. Q2 generation was 18% up year-on-year, surpassing by far the national grid that only achieved 1% aggregated growth. Because of the peak season that began in May, our thermal units were highly demanded, with combined cycles dispatching at full capacity and dual units firing with liquid fuels.

The power generation business model relies on take or pay capacity payment. So, availability is what matters most. In Q2, we reached an outstanding rate of almost 98%, with minor outages at Piedra Buena. In contrast, we recorded roughly 96% last year due to Güemes and Genelba's partial outages. So, again, Pampa's availability was way above the system average of 77%.

Regarding our expansion at Ensenada Barragán, the closing to CCGT is advancing – now more than 85% done. We are preparing the facilities to perform the steam blow this month and running the pre-commissioning of the water treatment plant and the cooling tower. More than 450 people are working daily on this project to achieve COD, forecasted by the end of 2022.

Moving to PEPE III wind farm expansion, the project is beyond halfway advanced. We continue with the civil works, working on the wind turbine bases. We have already received the anchor cages, and the wind turbine components are arriving at the port of Bahía Blanca this month. The estimated COD is split into two stages, the first 50 MW by February 2023 and the remaining 31 MW by May 2023.

Moving on to E&P, our gas production reached a new all-time high record again, recording 11.2 million cubic meters per day in June. Currently, this is the level we are producing. The ramp-up is mainly explained by Plan Gas's last tender, which added 2 million cubic meters per day of deliveries since May. In addition, the exports to Chile, even during peak season, contributed to the production hike, all made on a spot basis, and higher sales to the industrial segment.

Therefore, during Q2 our gas production outperformed by growing 38% year-on-year and 14% quarter-on-quarter, averaging 10.2 million cubic meters per day and outpacing nationwide growth that only increased by 13%.

We drilled 12 gas wells and completed 17, all tight and mostly at El Mangrullo block, where 72% of the quarter's production came from. Last May, we added 2.5 million cubic meters per day of evacuation and treatment capacity at El Mangrullo block. By the third quarter of 2022, the total capacity of this block will be 14 million cubic meters per day, more than double last year's capacity. Río Neuquén and Sierra Chata also contributed to the growing output but at a smaller pace.

Tight gas is our main production source, but we expect to increase our shale gas share further soon since we began drilling two horizontal wells at Sierra Chata this month as part of a new investment plan. We plan to complete 14 horizontal wells targeting the Vaca Muerta formation before June 2023.

Briefly commenting on E&P business figures as seen on slide 8, we posted an adjusted EBITDA of 102 million dollars in Q2, 39% up year-on-year and almost doubled quarter-on-quarter, explained by gas performance mentioned before and higher realized oil prices, offset by increased costs related to the growing activity and export expenses. Our total production averaged 65 thousand boe per day, of which 92% is gas.

Our lifting cost grew by 62% year on year and 35% quarter-on-quarter. However, efficiency-wise, the lifting cost increased 20% year-on-year and 5% quarter-on-quarter, recording 6.1 dollars per boe.

Zooming in, crude oil represented 19% of the segment's revenue in the quarter. The volume sold was similar year-on-year but 11% down quarter-on-quarter, being 4.7 thousand barrels per day. During the quarter, local sales increased, but exports reduced their pace to resume in last month July. Realized price was almost 73 dollars per barrel, primarily due to Brent and the gradual rise in the domestic price.

Back to gas, our average gas price of the quarter was 4.4 dollars per million BTU, 14% up year-on-year and 25% up quarter-on-quarter, driven by export prices and local spot prices due to seasonal gas demand.

As we are in peak season, our Q2 sales breakdown is skewed to retail as they have priority in winter under Plan Gas. We maintained our B2B share, and as mentioned before, we gained exposure to exports despite selling under spot.

We aim to keep up with this production level of 11 million cubic meters per day even after the winter ends, so we are working to place the excess output. A few days ago, we were cleared to export under take-or-pay 1.5 million cubic meters per day to Chile during the off-peak season.

Moving on to the petrochemicals business, it delivered another outstanding adjusted EBITDA of 19 million dollars in Q2, higher than last year's 16 million dollars, primarily contributed by a broader margin and volume of reforming products, plus the increasing demand for polystyrene, partially offset by higher raw material costs. Quarter-on-quarter, the EBITDA has more than tripled, driven by better product margins.

Sales volume was 19% up year-on-year, mainly due to demand growth for octane bases, polystyrene and naphthas. In Q2, 41% of the total sales volume were exports.

Regarding cash flow, we recorded a free cash outflow of 62 million dollars, mainly due to working capital impacted by seasonal billing and higher payment delays from CAMMESA. In addition, because of the gas commitment deliveries, we ramped up our E&P CAPEX significantly, by 55% year on year, plus the PEPE 3 renewable expansion investment. We recorded lesser debt service due to lower stock compared to 2021. In addition, we incurred a minor debt and collected Edenor's sale final installment. In summary, we reduced 41 million dollars of net cash in the quarter, achieving 566 million dollars of cash by the end of the quarter.

Moving on to slide 11, this slide shows consolidated figures, including our affiliates at ownership, but let's focus on the Restricted Group that reflects the bond perimeter.

We posted a gross debt of 1.5 billion dollars, similar to last quarter, 97% dollar-denominated, bearing an average interest rate of 7.8%. The average life decreased slightly to 3.9 years. During the quarter, we added minor peso loans. Though net debt slightly increased to 902 million dollars due to the cash outflow mentioned before, the net leverage ratio remained similar at 1.3 times.

Regarding our upcoming maturities, we tapped our 2023 notes last June and carried out an exchange offer successfully settled this week. Our goal was to strengthen our debt profile and preserve a solid cash position to move forward with an intense investment plan in our core businesses, especially gas production. Thanks to our bondholder's support, we successfully exchanged 407 million dollars out of the 500 million face value, with 48% choosing the cash and notes proposal and 52% picking the new notes compensation. Thus, we reduced debt by paying 122 million dollars in cash and extended principal by issuing 293 million dollars of new 2026 notes, amortizing annually from December 2024 to 2026 with a fixed interest rate of 9.5%.

In addition, we issued a local bond for 28 billion pesos, due in 18 months, and also took 7 billion of net peso-bearing loans. So, as you can see in the new debt profile after the exchange, until 2027, Pampa does not face relevant debt maturities.

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