Pampa Energía Q3 2022 Conference Call

Buenos Aires, November 8, 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 third 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. Hello everyone and thank you for joining our conference call. 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. It's been another solid quarter for all our businesses, though gas made it to the headlines again – as expected. Revenues increased 11% year-on-year and 7% quarter-on-quarter to 621 million dollars, mainly driven by seasonal gas sales, petchem commodity prices, electricity spot prices, and Energía Plus. However, the end of Loma and Piquirenda PPAs last year mainly offset these increases, as well as Loma's gas turbine number 5 outage and lagged regulated tariffs. 87% of our sales were dollar-linked; the remaining are electricity spot and regulated utilities.

The adjusted EBITDA amounted to 246 million dollars, 5% less year-on-year but similar quarter-on-quarter, basically explained by the same reasons detailed before, plus higher payroll in US$ terms. As you can see on the right below, the business share flipped and oil and gas led the consolidated adjusted EBITDA, thanks to our gas business, which took almost half of our EBITDA.

CapEx in Q3 was 87% higher year-on-year and 27% up quarter-on-quarter, mainly due to the fast pace at our power expansion project PEPE III and, to a lesser extent, the finishing touches in Barragán. E&P remained similar to last year but was 27% lower than Q2 as D&C activity slows down during the winter peak.

Moving on to power generation, as seen on slide 4, we posted an adjusted EBITDA of 89 million dollars in Q3, down 29% year-on-year and 10% quarter-on-quarter, mainly due to the maturity of PPAs and outages at Loma we mentioned before, plus higher peso expenses, offset by better spot energy (thanks to price increases in February and June) and increased thermal B2B sales.

Q3 dispatch was 17% down year-on-year, mainly due to limited gas procured by CAMMESA for power generation, affecting mostly Genelba and Barragán, which triggered higher dispatch firing liquid fuels. This quarter we also experienced certain outages and programmed overhauls, offset by higher water input.

The power generation business model relies on take or pay capacity payment. So, availability is what matters most. In Q3, we reached an outstanding rate of 96%, just a little above the 95% recorded last year. It'd have been higher if it wasn't for Loma #5 outage. So, again, Pampa's availability was way above the system average of 78%.

Regarding our expansion at Ensenada Barragán, the closing to CCGT is advancing as we are entering the last stages towards the COD. We successfully performed the steam blow and carried out our facilities reinstatement works to deliver the first steam to the turbine. We also keep working on commissioning the water treatment plant and the cooling tower. Around 200 people are working daily on this project to achieve COD, forecasted by the end of this year.

Moving to PEPE III wind farm expansion, the project is now 72% advanced. We completed the civil works and the wind turbine bases. We also received all the wind turbine components at the port of Bahía Blanca. As of today, we have nine wind turbines ready to be assembled. Vestas, our supplier, is already assembling the first section of the towers and the nacelles. The estimated COD is split into two stages, the first 54 MW by February 2023 and the remaining 27 MW by March 2023.

Moving on to E&P, between May and August, we delivered close to 11 million cubic meters per day as stipulated in Plan Gas. Still, because of better weather and hence, lower demand, we reduced to almost 10 million cubic meters per day in September. However, our gas production in Q3 outperformed by growing 20% year-on-year and 6% quarter-on-quarter, averaging 10.7 million cubic meters per day and outpacing nationwide growth that only increased by 4%. 76% of the quarter's production came from El Mangrullo and almost all tight gas.

This month we are adding 3.3 million cubic meters per day of evacuation and treatment capacity at this block, reaching 14 million cubic meters per day, more than doubling last year's capacity. Río Neuquén and Sierra Chata also contributed to the growing output but at a smaller pace. Though tight gas is our primary production source, we are drilling shale gas wells to increase our share. We drilled four shale gas wells at Sierra Chata and also drilled and completed two tight gas wells.

Last Friday, we also received news regarding the tender tapping the new pipeline, the extension of Plan Gas until 2028, and exports can be done on a take-or-pay basis, even during the winter, but following certain restrictions. So all are good signs toward bringing more stability to the gas market, but we are still waiting for more details.

Briefly commenting on E&P business figures as seen on slide 8, we posted an adjusted EBITDA of 117 million dollars in Q3, the highest quarter since 2018. This figure is 13% up year-on-year and 15% quarter-on-quarter, explained by the gas performance mentioned before and higher realized oil prices, offset by increased costs related to the growing activity, export and payroll expenses. Our total production averaged more than 68 thousand boe per day, of which 92% is gas.

Our lifting cost grew by 45% year on year and 16% quarter-on-quarter, explained by the increased Plan Gas commitment. However, the lifting cost only increased 22% year-on-year and 8% quarter-on-quarter, recording 6.6 dollars per boe, evidencing the efficiency of our operations.

Zooming in, crude oil represented 20% of the segment's revenue in the quarter. The volume sold was similar year-on-year but 27% up quarter-on-quarter, almost 6 thousand barrels per day of nearly own production.

During the quarter, local sales increased, offset by reduced exports. Realized price was more than 70 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 4.8 dollars per million BTU, 9% up year-on-year and quarter-on-quarter, driven by seasonality and export prices. This price is also the highest since 2018. Regarding the sales breakdown, Q3 is in peak season, which is skewed to retail because they hold priority under Plan Gas. As a result, we slightly reduced B2B share and gained exposure to exports despite selling in spot markets. Export share will take off during Q4 as we began exporting 1.5 million cubic meters per day under take or pay basis since October until May next year.

Briefly, about the petrochemicals business, it delivered another outstanding EBITDA of 19 million dollars in Q3, much higher than last year's 7 million dollars, primarily contributed by better prices of reforming products, plus the higher dispatch of octane bases in the local market, partially offset by higher raw material costs. However, quarter-on-quarter, the EBITDA remained similar because the higher sales volume was offset by a reduced styrene margin.

Sales volume was 7% down year-on-year, mainly due to lower exports and tire industry conflicts, offset by local demand growth for styrenics and octane bases. In Q3, one-third of the total sales volume was exported.

Moving on to cash flow, we recorded a free cash flow of 11 million dollars, driven by the outstanding operating performance from all three businesses, helped by leaner working capital, offset by debt service. The increased debt considers the Pesos raised in the local market and netted from the 2023 notes exchange we finalized last August. In addition, in Q3 we collected 20 out of the 40 million from Edenor's sale final milestone and acquired the full ownership of Mario Cebreiro wind farm for over 20 million. In summary, we generated 119 million dollars of net cash flow in the quarter, achieving 685 million cash by September.

Moving on to slide 12, this slide shows the consolidated figures of our financial position, including our affiliates at ownership, but let's focus on the Restricted Group that reflects the bond perimeter.

The debt profile reflects the successful exchange of 2023 notes by issuing 293 million dollars of amortizing 2026 notes and paying 122 million dollars in cash. Hence, we lowered international debt. In addition, taking advantage of the domestic liquidity and to upfront the higher seasonal working capital from Cammesa, we also issued a local bond for 22 billion pesos, due in 18 months, and took 7 billion net peso-bearing loans and 7 million dollars of pre-import credit facility.

So, we posted a gross debt of 1.6 billion dollars, similar to last quarter. 85% is dollar-denominated, bearing an average interest rate of 8.3%. Net debt and leverage ratio remained similar at 927 million dollars and 1.3 times. The average life decreased slightly to 3.7 years. As you can see, Pampa does not face relevant debt maturities until 2027.

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