Pampa Energía Q4 2022 Conference Call

Buenos Aires, March 13, 2022 (10 am Eastern Time)
Presenting:
Gustavo Mariani, CEO
Nicolás Mindlin, CFO
Lida Wang, Investor relations and sustainability officer

Hello everyone and thank you for joining our conference call. I'll try to make it short and skip some parts already explained in the Earnings Release so we have plenty of time for Q&A with our CEO, Mr. Gustavo Mariani, and CFO, Mr. Nicolás Mindlin.

This quarter marks the end of 2022, and it's always helpful to look back and review what's been going with Pampa in the last 5 years since we acquired Petrobras Argentina. The challenges posed in this period did not prevent us from growing and delivering milestones.

Our core businesses, gas and power, grew significantly in the last five years. In 2022 we raised our peak gas production to more than 11 million cubic meters per day, and currently working to ramp it up to 16 million in 2023 thanks to the Plan Gas last tender, more than doubling our 2017 watermark and proudly becoming the company that grew the most its gas output since the pandemic.

Power generation did not stay quiet either: we became the largest independent power producer by investing in every tender or B2B, whether efficient thermal or green energy, adding more than 1.3 GW of installed capacity to reach 5.1 GW by 2022. In 2023, 323 MW more are coming online as we are inaugurating PEPE IV, and we commissioned two weeks ago Barragán with YPF, more than 12 years after the CCGT project started.

Our way of management helped us to gain efficiencies and be savvy over capex. Hence, we invested in accretive assets that increased our EBITDA and made it resilient. We made good use of our robust cash flow by enhancing our portfolio, strengthening our liquidity, substantially reducing our leverage and returning value to shareholders with share buybacks. 2022 was a great year in Pampa's history – we look forward to delivering outstanding results to become a leading efficient energy producer.

So now, let's focus on the quarter's figures, in which gas made it to the headlines again, as expected.

The adjusted EBITDA amounted to 183 million dollars, 7% less year-on-year, mainly because of lower PPA income as some contracts matured in Loma in late 2021 and Barragán in April last year, as well as Loma's gas turbine number 5 outage, higher payroll in US$ terms and lagged regulated tariffs affecting Transener and TGS. However, the off-peak gas exports to Chile, the higher spot power and reforming's outstanding results offset these decreases. 83% of our EBITDA was dollar-linked. Quarter-on-quarter, the drop is explained by the seasonality in gas and power demand and prices.

As you can see on the right below, the gas business helped oil and gas to lead the consolidated adjusted EBITDA, which took 56% of our EBITDA.

CapEx in Q4 was 13% higher year-on-year, mainly because of E&P as drilling and completion activity surges in off-peak season to achieve Plan Gas commitments. However, this variation was partially offset by the advanced progress in PEPE 4 wind farm, which implies lesser capex disbursements.

Moving on to power generation, as seen on slide 5, we posted an adjusted EBITDA of 86 million dollars in Q4, down 19% year-on-year and 4% quarter-on-quarter, mainly due to the end of some PPAs, outages at Loma and higher peso expenses, offset by better spot prices, higher dispatch and lower maintenance costs.

Q4 dispatch rose 11% year-on-year, while the national power grid dropped 1%. This is mainly due to last year's overhauls at Loma and Genelba, more gas for CPB, outstanding water input in Pichi Picún Leufú and capacity factor at wind farms, partially offset by Loma's #5 unit outage and less liquid and Bolivian fuel.

Availability is essential to collect take or pay capacity payment, especially from PPAs, contributing most of the EBITDA. In Q4, we reached an outstanding rate close to 97%, just above the 95.5% recorded last year. Again, way above the grid's 69%. It'd have been higher if it wasn't for Loma #5 outage.

Regarding our expansion at Ensenada Barragán, the closing to CCGT was commissioned two weeks ago, substantially improving the power plant's efficiency and, therefore, its load factor. In addition, CAMMESA granted clearance to the steam turbine for up to 260 MW, priced with a 10-year CAMMESA PPA. With the existing two gas turbines, the total installed capacity amounts to 827 MW, becoming one of the country's most efficient thermal plants.

Moving on to wind farm expansions, we acquired Arauco, a 100-MW wind farm located in the Province of La Rioja, in mid-December, billing a 20-year RenovAr PPA. The total price was 170 million dollars without leverage. The transaction was an excellent opportunity to keep boosting our green portfolio and invest in resilient assets.

Regarding PEPE 4, the project is now 86% advanced. We completed the cable installation, transformer station and tests. All the wind turbine components are in the facility, and we have commissioned 36 MW. However, due to climate conditions, among other factors, we estimate to complete the COD by the end of Q2 this year.

Also, last month we announced a new project, PEPE 6, which kicked off. We aim to add 300 MW investing more than 500 million dollars. The first phase will add 95 MW by the third quarter of 2024 with an investment of almost 190 million dollars. Keep in mind that PEPE expansions are all sold under B2B PPAs.

On slide 8, let me briefly comment on E&P figures. We posted an adjusted EBITDA of 72 million dollars in Q4, 57% higher year-on-year because of the Plan Gas deliveries, gas export prices, and higher oil demand and prices, offset by lesser gas export volume and increased costs related to the growing activity and payroll. However, quarter-on-quarter, EBITDA is down 39%, primarily due to seasonality.

Our lifting cost slightly grew yearly but was down quarter-on-quarter due to seasonality. Efficiency-wise, the lifting cost per boe performed in the opposite way, recording 7 dollars per boe in the quarter, 3% down compared to last year.

In Q4, our total production averaged almost 62 thousand boe per day. Zooming in, crude oil represented 9% of our E&P output. Still, it reached 22% of the segment's revenue, mostly because of export prices linked to Brent and export volumes, which tripled compared to last year.

Last December, we successfully extended the Plan Gas contracts until December 2028. Furthermore, regarding the tender tapping the first stage of the new gas pipeline to be online on July 2023, Pampa got awarded 4.8 million out of 11 million cubic meters per day at a similar price until 2028. This is excellent news as it contributes significant organic growth and long-term visibility to our gas business. Therefore, by this winter, we will more than double the maximum record registered in 2020, producing almost 16 million cubic meters per day by investing 1.1 billion between 2020 and 2023.

Besides the upcoming new capacity in the main pipeline, our shale gas campaign will support the significant ramp-up in production for the first time in our history. In Q4, we drilled two wells and completed five wells to Vaca Muerta at Sierra Chata, confirming its great potential for shale development. Most of the 490 million capex in E&P is destined to drill and complete 24 wells to Vaca Muerta in El Mangrullo and Sierra Chata.

Still, tight gas is our primary production source. So as we engage in a shale gas campaign to increase our share, this year, we'll connect 2 horizontal wells at El Mangrullo and keep drilling in Río Neuquén, which YPF operates.

Our gas production in Q4 was 6% up year-on-year but 11% down quarter-on-quarter due to seasonality, averaging 9.5 million cubic meters per day and outpacing nationwide, that only grew 2%. 72% of the quarter's production came from El Mangrullo, where we commissioned the second gas treatment plant last November, with a capacity of 4.8 million cubic meters per day, replacing temporary facilities and covering subsequent winter ramp-up. Therefore, El Mangrullo can produce up to 14 million cubic meters daily.

The average gas price of the quarter was 3.9 dollars per million BTU, 24% up year-on-year due to export prices but 20% down quarter-on-quarter because of seasonality. Regarding the sales breakdown, Q4 is fairly distributed, with retail in off-peak and lesser exports year-on-year, but it still represents 13% of output with higher prices. Exports will remain under take or pay even during winter since we obtained permits until June this year.

In 2022, thanks to the outstanding work of our technical team and the shale gas productivity at Sierra Chata block, we recorded a 14% increase in our proven reserves, amounting to 179 million boe. Although we held the production record in 2022, the reserve replacement ratio was 2 times, and the average life was kept at 8 years. The additions reflect the excellent results of the shale gas pilots to the Vaca Muerta formation at Sierra Chata and El Mangrullo, tripling shale reserves certified in 2021.

The petrochemicals business's EBITDA grew by 68% year-on-year, posting 15 million dollars in Q4, primarily contributed by domestic reforming and polystyrene sales, plus a lower cost of virgin naphtha, offset by reduced margin and demand of styrene and rubber. In Q4, 30% of the total sales volume was exported. As you can see left below, after we reorganized the production strategy in 2019, we could smoothly navigate the volatile commodities prices, producing at maximum capacity close to historical records.

In spite of intensive E&P capex, in Q4, we recorded a free cash flow of 101 million dollars, driven by the outstanding operating performance of all three businesses. Working capital reduced as seasonality let CAMMESA a higher frequency of payments, offset by debt service and income tax early payment of 15 million dollars. The increased debt considers the US$-link raised in the local market. In addition, in Q4, we acquired the Arauco wind farm that demanded to pay the first installment for 128 million. In summary, we generated 15 million dollars of net cash flow in the quarter, achieving 700 million cash by the end of the year.

Moving on to slide 14, we show the consolidated figures of our financial position, including our affiliates at ownership. Let's focus on the Restricted Group that reflects the bond perimeter. We posted a gross debt of 1.6 billion dollars, similar to last quarter. 84% is dollar-denominated, bearing an average interest rate of 8.4%. Taking advantage of the domestic liquidity and diversifying our leverage sources, we issued a 5-year zero-coupon US$-link for an additional 50 million, plus 100 million peso-bond at Badlar rate plus 2%.

Net debt and leverage ratio kept going down, recording 913 million dollars and 1.2 times. The average life also decreased to 3.6 years. Pampa does not face relevant debt maturities until 2027, thanks to the successful bond exchange made in August last year.

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