



Capital
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Argentina

Electricity

PAMPA ENERGIA 2Q19

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Pampa Energia 2Q19

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September 19

PAMPA (BCBA: PAMP)

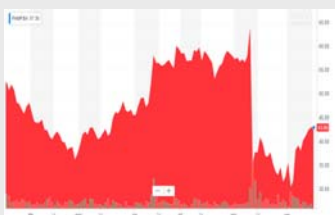
AR\$ 43.05 / US\$ 14.82

Target Price: \$ 40.60

Rating: Market Performer

Price Range (ARS)

52 wk. Min.	52 wk. Max.
29.15	64.5



	Net Sales (AR\$ mill)	EBITDA (AR\$ mill)	Net Income (AR\$ mill)	EV/ EBITDA (x)	P/BV (X)	P/E (x)	EPS (AR\$)
2018	110.080	32.224	10.808	4,67	1,28	7,95	5,95
2019E	134.298	38.652	33.589	3,97	0,79	2,33	18,51
2020E	167.872	53.799	28.660	2,22	0,80	3,30	15,79

Share Outstanding (\$ m)	1.815	12M Range	29.15 / 64.5
Float (%)	74,20%	EPS Trailing	5,95
Market Cap (\$ m)	78.137	P/E Trailing	7,23
Net Debt (\$ m)	103.195	EPS Forward	18,51
EV (\$ m)	181.332	P/E Forward	2,33

Pampa: Latest economic measures brought huge uncertainty

The unexpected defeat of the ruling party (*Juntos por el Cambio*) in the primary elections hit deeply in investor's confidence due to a dramatically changed economic outlook towards 2020.

The peso fell 25% against the dollar and risk spreads widened to more than 2,000bps. In order to control economic damage, the government set capital controls, postponed short term debt payments and moved forward to expansionary fiscal policies that compromised the deal reached with the IMF.

Despite the selloff in domestic assets has been across the board, utilities and banks stocks have been hit harder.

The opposition candidate with the greatest chance of winning the October 27 elections, Alberto Fernandez, expressed his intention to boost Vaca Muerta oil & gas production, abiding to the contracts' legal terms. However, doubts still remain about his energy policy.

At the holding level, there are several fronts where **Pampa Energia (PAMP)** is permeable:

1. Energy generation will be a matter of renegotiation.
2. The recent fuel prices' freezing has still to be solved as well as its impact on the Vaca Muerta and other basins.
3. Transportation and distribution could see their rate adjustments slowed.

Considering the above, we contemplate various events for our valuation.

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Valuation

Considering a country risk premium of 1,800bps and a WACC rate of 15.69%, our TP is AR\$40.60.

Rating: Market Performer.

Highlights 2Q19

- Quarterly net income reached AR\$22,519 million, which compares with a loss of AR\$8,677 in 2Q18. Most of this income is explained by an accounting profit of AR\$13,066 million in **Edenor (EDN)** as a result of the Regularization of the Obligations agreement signed with the State.
- 2Q19 EBITDA stood at US\$ 266 million (vs. US\$ 285 million estimated), 11% lower yoy, as a combination of lower prices in Energy and Oil and slower demand in electricity distribution.
- Electricity generation reached 3,727 GWh, +2% yoy, basically due to the starting of operations in some wind farms. In addition, the joint acquisition with YPF of the Ensenada de Barragan Thermal Power Plant, with an installed capacity of 567 MW (expandable up to 847 MW over the next 30 months), stands out.
- Energy distribution totaled 4,849 GWh, 9% lower yoy due to lower demand as the economic recession deepened.
- Positive news came in oil and gas production, reaching 48,500 boe/d (+ 6% yoy), although EBITDA fell 34% in dollar terms due to lower international prices and the end of the stimulus program Gas 2.
- Net debt reached US\$ 1,686 million, equivalent to 1.7x of adjusted EBITDA as of June 30, 2019.

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DCF Valuation

DCF (AR\$ m)	2019E	2020E	Terminal Value
Y/Y Sales growth	22,0%	25,0%	13,0%
Net Sales	134.298	167.872	14.500
EBIT Margin	21,3%	23,9%	23,0%
EBITDA Margin	28,8%	32,0%	31,0%
EBT	44.785	40.943	40.943
Effective tax rate	30%	25%	25%
NOPAT	33.589	28.660	28.660
Depreciations	10.096	13.629	13.629
Interest Paid	4.453	5.070	5.070
Capex	(29.218)	(34.477)	(34.477)
Working Capital	4.550	4.680	4.680,00
FCF	20.286	13.121	143.472
WACC	15,69%	15,69%	15,69%
VP FCF			176.878
FCFE			73.683
Target Price			40,60

Inputs	
Country Risk	18,00%
Risk Free Rate	2,50%
Excess Return	5,00%
Beta	1,2
Cost of Equity	26,50%
Cost of Debt	11,00%
WACC	15,69%

Sensibility Analyses			
Country Risk /	1.100bps	1.800bps	2.200 bps
WACC	12,60%	15,69%	1746,00%
Target Price (AR\$)	85,0	40,60	26,03

Relative Valuation

Company	Country	Ticker	Market Cap (Million USD)	Price / Earnings	Price / Earnings Fwd.	Price / Sales	Price / Book Value
Pampa Energia	ARG	PAMP	1.075,9	7,95	2,33	0,78	0,73
Light SA	BRA	LIGT3	1420,00	23,50	10,34	0,48	1,71
Companhia Energetica do Ceara	BRA	COCE5	1.000,0	13,05	n/a	0,80	1,43
Elektro Redes S.A.	BRA	EKT3	931,0	8,89	n/a	0,61	1,66

Source: Reuters

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Financial Statement

Million ARS	2016	2017	2018E	2019E	2020E
Net Sales	25.110	82.008	110.080	134.298	167.872
YoY Growth (%)		226,6%	34,2%	22,0%	25,0%
Cost of Sales	(20.153)	(59.339)	(74.161)	(89.308)	(109.117)
YoY Growth (%)		194,4%	25,0%	20,4%	22,2%
Gross Income	4.957	22.669	35.919	44.990	58.755
Gross Margin	19,7%	27,6%	32,6%	33,5%	35,0%
Commercialization Costs	(2.132)	(4.776)	(6.451)	(7.935)	(9.363)
YoY Growth (%)		124,0%	35,1%	23,0%	18,0%
Administration Costs	(3.628)	(7.481)	(7.751)	(9.844)	(11.517)
YoY Growth (%)		106,2%	3,6%	27,0%	17,0%
Other operating expenses	2.194	1.645	(872)	(855)	(955)
Subsidiary Participation	592	1.813	4.464	2.200	3.250
Operatin Income	1.983	13.870	25.309	28.556	40.170
EBITDA	7.246	19.420	32.224	38.652	53.799
Financial Income	0	0	0	13.066	0
Financial Expenses	849	2.333	3.751	5.251	6.302
Other financial expenses	(4.277)	(8.750)	(11.944)	(13.138)	(16.029)
RECPAM	(80)	(3.774)	(32.365)	(1.100)	650
Income before tax		11.478	23.696	12.150	9.850
Incoem Tax	(1.525)	15.157	8.447	44.785	40.943
Income Tax	1.201	985	(658)	(11.196)	(12.283)
Participación no Controlante	0	0	0	0	0
Divestment stakes	72	(1.893)	3.019	0	0
Net Income	-252	14.249	10.808	33.589	28.660
Net Margin	-1,00%	17,38%	9,82%	25,01%	17,07%
Depreciation	2.976	5.550	7.766	10.096	13.629
Interest Paid	3.250	2.647	3.253	4.453	5.070
Capex	(13.362)	(18.290)	(25.407)	(29.218)	(34.477)
Working capital	(2.500)	(2.550)	1.660	4.550	4.680
FCFF	-9.888	1.606	-1.920	23.469	17.562

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Balance Sheet

Thousand AR\$	2018	2019e	2020e
Current Assets			
Inventories	5.169	6.043	7.218
Other	3	4	5
Trade receivables	26.489	28.202	33.574
Financial Assets	16.603	14.773	20.145
Cas & Equivalents	9.097	7.386	9.233
Total current assets	57.361	56.409	70.175
Non current assets			
Property, plant & equipment	125.005	162.507	195.008
Participation in associates	15.333	18.802	17.627
Other	455	255	265
Intangible Assets	6.080	2.686	3.357
Trade Receivables	9.521	9.401	13.430
Deferred Tax Asset	80	6.043	6.379
Total non current Assets	156.474	199.693	236.066
Total Assets	213.835	256.102	306.241
Current Liabilities			
Other	54	100	100
Trade Payables	24.756	22.327	28.370
Beneficiary Plans	162	194	233
Loans	12.901	15.481	18.577
Social Security	2.726	2.862	3.005
Tax Income payable	1.084	1.150	1.350
Fiscal Debts	2.052	4.019	4.910
Provisions	871	750	650
Total current Liabilities	44.606	46.884	57.197
Non current liabilities			
Trade Payables	8.162	10.717	13.640
Provisions	5.499	7.145	9.275
Fiscal Debts	542	705	881
Tax Income payable	1.034	965	785
Loans	69.189	75.912	92.749
Beneficiary Plans	1.175	1.351	1.486
Deferred Tax Liability	15.354	16.522	20.732
Other	591	1.685	1.750
Total non current liabilities	101.546	115.001	141.298
Total Liabilities	146.152	161.885	198.495
Total Equity	67.683	94.217	107.746

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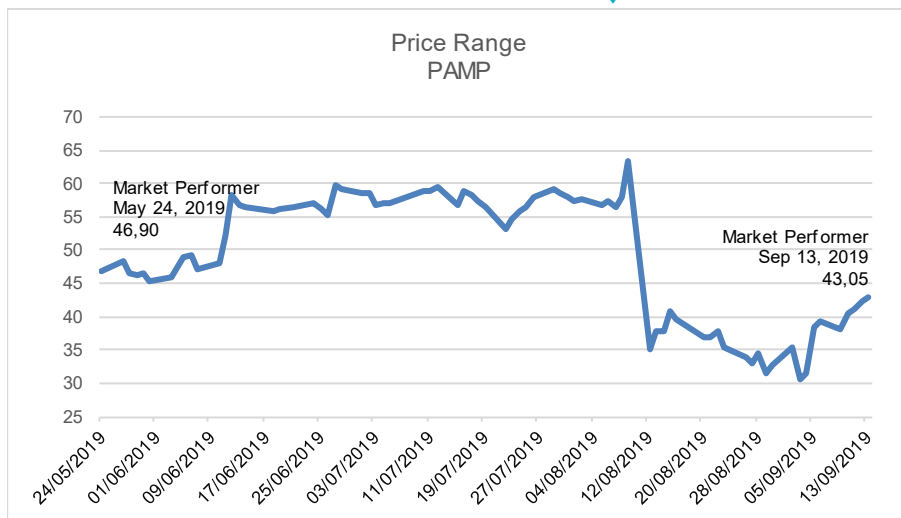
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As from September 10, 2019, the formula is:	
Outperform: expected to perform above the underlying country index	
Perform: expected to perform in-line with the underlying country index	X
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