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**ENEL GENERACION COSTANERA 2Q19**

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# ENEL GENERACION COSTANERA 2Q19

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September 19

**ENEL GENERACION COSTANERA (CECO2)**  
**6 September, 2019**  
 AR\$ 8.10  
**Target Price: AR\$ 14.5**

**Exp. Return (USD): 79%**

**Rating: Market Performer**

## Price Range (ARS)

**52 wk. Min.    52 wk. Max.**  
 4.55            11.40



	Net Sales (AR\$ mill)	EBITDA (AR\$ mill)	Net Income (AR\$ mill)	EV/ EBITDA (x)	P/BV (X)	P/E (x)	EPS (AR\$)
2018	6.125	5.622	2.893	1,55	1,40	1,97	4,12
2019E	10.719	3.661	1.905	4,75	2,31	2,98	2,71
2020E	13.934	4.769	1.356	4,23	2,82	4,19	1,93

Share Outstanding (AR\$ m)	702	12M Range	4.55 / 11.4
Float (%)	24,30%	EPS Trailing	4,12
Market Cap (\$ m)	5.686	P/E Trailing	1,97
Net Debt (\$ m)	982	EPS Forward	2,71
EV (\$ m)	6.668	P/E Forward	2,98

## Enel Generacion Costanera (CECO2): Huge potential, higher risks

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 bank stocks have been hit harder.

The opposition candidate with the greatest chance of winning October 27 elections, Alberto Fernandez, expressed his intention about de-dollarizing energy tariffs. The most vulnerable sector to this change is **energy generation**. Both transport and electrical distribution are already pesified

In the case of a Fernandez victory, we believe that tariffs "will be stepped upon" as much as possible during 2020, in order to control inflation and let real wages recover.

**Enel Generacion Costanera (CECO2)** could face two constraints: "pesification" of the prices they receive for GW/h and the VOSA credit payments they receive from CAMMESA that are in dollar terms.

Considering the described distress, 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 20.35%, our TP is AR\$14.5 (79% potential upside in pesos).

**Rating: Market Performer**

### Risks of the thesis investment:

1. Deeper political and economic turmoil could lead to a massive default of sovereign and corporate debt.
2. Complete “freeze” of utilities tariffs in 2020 and unilateral pesification of energy generation tariffs.
3. Possibility of expropriation and / nationalization of the energy sector’s companies.

## 2Q19 Highlights

Quarterly net sales grew 4% yoy, to AR\$1,799.8 million (vs. AR\$ 1,850 million expected), due to an increase in the FX rate and the energy generation with own fuel, which offset lower demand explained by economic recession.

Operating profit stood at AR\$273 million (-70.8% yoy) in 2Q19 as a result of the increase in costs tied to the US dollar.

Quarterly net debt rose to AR\$982.3 million, driven by lower Cash & Equivalents to AR\$1,563 million after the cash dividend payment of AR\$ 2,000 million (AR\$ 2.84 per share).

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## DCF Valuation

DCF (AR\$ m)	2019E	2020E	Terminal Value
Y/Y Sales growth	75,0%	30,0%	15,0%
Net Sales	10.719	13.934	13.934
EBIT Margin	17,8%	18,9%	33,5%
EBITDA Margin	34,2%	34,2%	34%
EBT	1.936	1.808	1.808
Effective tax rate	35%	25%	25%
NOPAT	1.905	1.356	2.550
Depreciations	1.753	2.139	2.139
Interest Paid	1.138	1.398	1.398
Capex	(1.863)	(2.385)	(2.385)
Working Capital	(185)	(650)	(650)
FCF	2.747	1.857	1.857
WACC	20,4%	20,4%	20,4%
VP FCF			11.176
Net Debt			982
FCFE			10.194
Shares Outstanding			702,0
Target Price			14,52

Inputs	
Country Risk	18,00%
Risk Free Rate	2,50%
Excess Return	5,00%
Beta	0,86
Cost of Equity	24,80%
Cost of Debt	14,00%
WACC	20,35%

Sensibility Analyses			
Country Risk / WACC	1.100bps	1.800bps	2.200 bps
WACC	16,73%	20,35%	24,62%
Target Price (AR\$)	18,45	14,52	11,55

## Relative Valuation

Company	Country	Ticker	Market Cap (Million USD)	Price / Earnings	Price / Earnings Fwd.	Price / Sales	Price / Book Value
Enel Central Costanera	ARG	CECO2	103,38	1,97	2,98	1,26	0,88
Central Puerto	ARG	CEPU	522,0	1,68	2,35	2,04	0,80
Cia. Energética Minas Gerais	BRA	CIG	5.560,0	16,05	10,50	1,01	1,55
Equatorial Energia	BRA	EQUEY	4.850,0	21,20	24,43	1,75	3,52
Engie Energia Chile	CHI	ECL.SN	1.820,0	17,76	9,31	1,43	0,88
Light S.A.	BRA	LGSXY	1.470,0	24,09	10,66	0,50	1,76

Source: Reuters

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## Financial Statement

Million AR\$	2016	2017	2018	2019E	2020E
Net Sales	1.966	3.933	6.125	10.719	13.934
YoY Growth Rate		100,1%	55,7%	75,0%	30,0%
Cost of Sales	(1.212)	(2.685)	(2.916)	(8.360)	(10.729)
YoY Growth Rate		121,6%	8,6%	186,7%	28,3%
Gross Income	754	1.248	3.209	2.358	3.205
Gross Margin %	38,4%	31,7%	52,4%	22,0%	23,0%
Adm. & Commercialization Costs	(133)	(329)	(245)	(325)	(439)
YoY Growth Rate		148,2%	-25,8%	33,0%	35,0%
Other operating costs	136	635	1.683	(125)	(135)
Operating Income	758	1.553	4.648	1.908	2.631
Operating Margin %	38,5%	39,5%	75,9%	17,8%	18,9%
EBITDA	1.032	2.555	5.622	3.661	4.769
EBITDA Margin %	52,5%	65,0%	91,8%	34,2%	34,2%
Financial Income	8	357	1.721	2.667	3.334
Financial Cost	(624)	(1.111)	(3.215)	(3.697)	(4.806)
RECPAM (*)	0	96	1.157	1.058	650
Income before Taxes	141	895	4.311	1.936	1.808
Tax Income	(25)	(233)	(1.418)	(31)	(452)
Minority Income	0	0	0	0	0
Net Income	117	662	2.893	1.905	1.356
Net Margin %	5,93%	16,83%	47,24%	17,77%	9,73%
Depreciations	400	1.002	974	1.753	2.139
Interest	16	483	794	1.138	1.398
Capex	(1.141)	(313)	(1.620)	(1.863)	(2.385)
Working Capital	255	68	1.210	(185)	(650)
FCFF	-354	1.902	4.250	2.747	1.857

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## Balance Sheet

In AR\$	2018	2019e	2020e
<b>Current Assets</b>			
Inventories	282.726.884	312.228.580	400.172.253
Other Non Financial Assets	33.623.071	28.005.000	29.000.005
Other Receivables	167.760.206	1.286.229.000	1.699.965.995
Other Financial Assets	82.287.194	88.870.170	95.979.783
Trade Receivables	1.838.009.688	2.250.900.750	2.786.829.500
Cash & Equivalents	2.723.725.341	1.750.000.000	2.555.000.000
<b>Total current assets</b>	<b>5.128.132.384</b>	<b>5.716.233.500</b>	<b>7.566.947.536</b>
<b>Non current assets</b>			
Property, plant & equipments	9.081.334.353	9.807.841.101	10.298.233.156
Investments in societies	122.700.639	145.000.000	42.282.813
Other financial assets	996.763.364	1.794.174.055	1.883.882.758
<b>Total non current assets</b>	<b>10.200.798.356</b>	<b>11.747.015.156</b>	<b>12.224.398.727</b>
<b>Total Assets</b>	<b>15.328.930.740</b>	<b>17.463.248.656</b>	<b>19.791.346.264</b>
<b>Current Liabilities</b>			
CAMMESA Debt	634.691.873	1.254.073.275	1.394.808.165
Trade payables	2.386.233.766	2.675.356.320	3.218.788.073
Other loans	567.935.478	1.003.258.620	1.072.929.358
Salaries and compensation	322.564.667	329.015.960	335.596.280
Loans	539.479.504	728.297.330	873.956.796
Fiscal payables	572.030.873	501.629.310	590.111.147
Personal benefits	9.365.875	55.000.000	65.000.000
<b>Total current Liabilities</b>	<b>5.032.302.036</b>	<b>6.546.630.816</b>	<b>7.551.189.817</b>
<b>Non current liabilities</b>			
CAMMESA Debt	1.485.382.516	2.926.170.975	3.433.373.944
Trade payables	173.508.438	585.234.195	697.404.082
Other payables	95.629.581	99.454.764	105.422.050
Loans	1.515.360.898	2.090.122.125	2.467.737.522
Personal benefits	98.001.465	107.801.612	118.581.773
Fiscal payables	156.279.999	190.661.599	219.260.839
Deferred tax	1.244.040.555	501.629.310	858.343.486
<b>Total non current liabilities</b>	<b>4.768.203.452</b>	<b>6.501.074.580</b>	<b>7.900.123.696</b>
<b>Total liabilities</b>	<b>9.800.505.488</b>	<b>13.047.705.395</b>	<b>15.451.313.513</b>
<b>Total Equity</b>	<b>5.528.425.252</b>	<b>4.415.543.261</b>	<b>4.340.032.750</b>
<b>Ratios</b>			
Current Ratio	1,02	0,87	1,00
Acid Ratio	0,91	0,61	0,71
LT Debt / Assets	0,196	0,287	0,298
ROE	52,3%	43,1%	31,2%
ROA	18,9%	10,9%	6,9%

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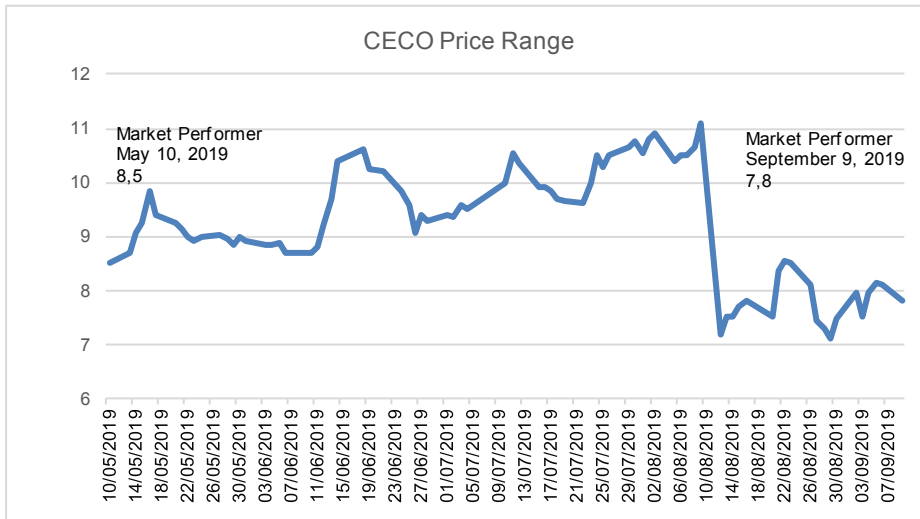
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As from March 28, 2018, the formula is:	
<b>Outperform:</b> expected to perform above the underlying country index	
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