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CENTRAL PUERTO 2Q19

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September 19

CENTRAL PUERTO

(CECO2)

6 September, 2019

AR\$ 19.25

Target Price: AR\$ 24.3

Exp. Return (USD): 26%

Rating: Market Performer

Price Range (ARS)

52 wk. Min.	52 wk. Max.
15.35	47.5



	Net Sales (AR\$ mill)	EBITDA (AR\$ mill)	Net Income (AR\$ mill)	EV/ EBITDA (x)	P/BV (X)	P/E (x)	EPS (AR\$)
2018	14.265	31.639	17.185	2,19	1,79	1,70	11,35
2019E	24.394	17.806	5.906	3,53	0,87	4,93	3,90
2020E	32.200	24.194	11.530	4,22	0,81	6,85	7,62

Share Outstanding (AR\$ m)	1.514	12M Range	15.35 / 47.5
Float (%)	25,10%	EPS Trailing	11,35
Market Cap (\$ m)	29.145	P/E Trailing	1,70
Net Debt (\$ m)	16.657	EPS Forward	3,90
EV (\$ m)	33.107	P/E Forward	4,93

Central Puerto (CEPU): Despite the sharp drop, uncertainty remains. Market Performer

The unexpected defeat of the ruling party (*Juntos por el Cambio*) in the primary elections, which 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 damages, the government set capital controls, "postponed" short term debt payments and moved forward towards expansionary fiscal policies that compromised the deal signed 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 the elections next October 27, 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 the tariffs "will be stepped upon" as much as possible during 2020, in order to control inflation and let real wages recover.

Central Puerto (CEPU) could face two negative constraints: the "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 19.18%, our TP is AR\$24.3 (26% 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 energy generation tariffs pesification.
3. Possibility of expropriation and / nationalization of companies in the energy sector.

2Q19 Highlights

- 2Q19 power generation increased 4% yoy to 3,256 GWh, above the 3,220 GWh expected. Hydroelectric power (+16% yoy) and Wind Energy advances (Achiras and La Castellana) offset the 36% yoy drop in some hydraulic units.
- Brigadier Lopez Plant acquisition provides an additional 280 MW (gas turbine with Siemens technology). CEPU paid US\$164,5 million, financed with a loan of US\$180 million, amortized in five equal quarterly installments as of month 18.
- VOSA credit (in US\$ terms) was normally collected in June and July for a total of US\$57.2 million and US\$19.8 million respectively.
- **Renewable Energies:** Commercial operations started in La Castellana II (14.4 MW) on 14 July, 2019. Viento La Genoveva II, a subsidiary of CEPU, signed a financing contract with Banco Galicia for US\$37.5 million in 23 July, 2019.

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DCF Valuation

DCF (AR\$ m)	2019E	2020E	Terminal Value
Y/Y Sales growth	71,0%	32,0%	15,0%
Net Sales	24.394	32.200	32.200
EBIT Margin	67,3%	69,3%	60,0%
EBITDA Margin	73,0%	75,1%	75%
EBT	9.087	15.373	0
Effective tax rate	35%	25%	25%
NOPAT	5.906	11.530	0
Depreciations	1.394	1.882	2.000
Interest Paid	1.250	1.650	1.650
Capex	(8.351)	(9.603)	0,00
Working Capital	2.250	3.250	0,00
FCF	8.131	65.368	65.368
WACC	19,18%	19,18%	19,18%
VP FCF			53.430
Net Debt			0
FCFE			36.773
Shares Outstanding			1514,0
Target Price			24,29

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	7,50%
WACC	19,18%

Sensibility Analyses			
Country Risk /	1.100bps	1.800bps	2.200 bps
WACC	14,55%	19,18%	24,62%
Target Price (AR\$)	44,0	24,30	18,00

Relative Valuation

Company	Country	Ticker	Market Cap (Million USD)	Price / Earnings	Price / Earnings Fwrd.	Price / Sales	Price / Book Value
Central Puerto	ARG	CEPU	440,6	1,70	4,93	3,69	0,77
Enel Central Costanera	ARG	CECO2	103,38	1,97	2,98	1,26	0,88
Cía. 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

<i>Million Pesos</i>	2016	2017	2018	2019E	2020E
Net Sales	3.563	9.639	14.265	24.394	32.200
YoY Growth Rate		170,5%	48,0%	71,0%	32,0%
Cost of Sales	(2.070)	(5.199)	(6.487)	(14.148)	(16.744)
YoY Growth Rate		151,2%	24,8%	118,1%	18,3%
Gross Income	1.493	4.439	7.779	10.245	15.456
Gross Margin	41,9%	46,1%	54,5%	42,0%	48,0%
Administrative Expenses	(445)	(1.056)	(1.389)	(1.876)	(2.363)
YoY Growth Rate		137,1%	31,6%	35,0%	26,0%
Other Expenses	1.053	790	24.107	8.042	9.220
Operating Income	2.100	4.173	30.496	16.412	22.313
Operating Margin %	59,0%	43,3%	213,8%	67,3%	69,3%
EBITDA	2.342	3.439	31.639	17.806	24.194
EBITDA Margin %	65,7%	35,7%	221,8%	73,0%	75,1%
Financial Income	421	1.559	2.280	2.166	2.924
Financial Expenses	(620)	(1.201)	(6.301)	(7.876)	(8.664)
Oter Results	148	1.021	(2.962)	235	750
Inflation Adjustment	-	-	-	(1.850)	(1.950)
Income before taxes	2.049	5.553	23.514	9.087	15.373
Resultado antes impuest	(69)	(69)	(69)	(69)	(69)
Tax Income	(718)	(1.081)	(6.604)	(3.180)	(3.843)
Minority Interest	(7)	(29)	(334)	22	25
Other Results	438	791	276	0	0
Net Income	1.769	5.263	17.185	5.906	11.530
Net Margin %	49,65%	54,60%	120,47%	24,21%	35,81%
Depreciation	202	1.202	1.143	1.394	1.882
Interest paid	42	46	300	813	1.073
Capex	(1.070)	(5.734)	(6.959)	(8.351)	(9.603)
Working Capital	50	106	(120)	2.250	3.250
FCFF	992	883	11.549	2.012	8.131

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Balance Sheet

Thousand AR\$	2018	2019e	2020e
Current Assets			
Inventories	242.510	341.511	482.995
Other non-financial assets	847.611	1.101.894	1.377.368
Trade receivables	13.124.076	15.855.881	22.539.745
Other Financial Assets	1.212.551	2.024.674	2.672.570
Cash & Equivalents	1.283.877	950.000	1.609.982
Total current Assets	16.710.625	20.273.961	28.682.658
Non-current Assets			
Property, plant & equipment	11.850.455	48.150.000	52.965.000
Investments in associates	1.232.058	1.453.828	1.671.902
Other non-financial assets	245.000	245.000	245.000
Intangibles assets	563.499	704.374	845.249
Trade receivables	23.537.745	17.075.564	24.149.726
Inventories	48.203	48.203	48.203
Total non-current Assets	37.476.960	67.676.969	79.925.080
Total assets	54.187.584	87.950.929	108.607.738
Current Liabilities			
CAMMESA debt	2.919.015	1.839.282	2.511.572
Trade payables	2.075.744	4.527.464	5.358.019
Employee benefits	387.694	465.232	558.279
Loans	1.011.208	1.213.450	1.456.140
Tax income payable	3.962.611	1.908.233	2.305.981
Other liabilities	2.010.877	3.961.531	4.520.829
Provisions	496.169	595.403	714.483
Total current liabilities	12.863.317	14.510.594	17.425.302
Non-current liabilities			
CAMMESA debt	1.946.010	2.122.249	2.846.448
Other debts	2.350.000	2.585.000	2.714.250
Loans	4.731.933	20.500.000	24.600.000
Employee benefits	120.000	132.000	145.200
Deferred Tax payable	2.724.414	5.659.330	6.362.648
Total non-current liabilities	11.872.357	30.998.578	36.668.546
Total Liabilities	24.735.674	45.509.173	54.093.848
Total Equity	29.451.910	42.441.757	54.513.891

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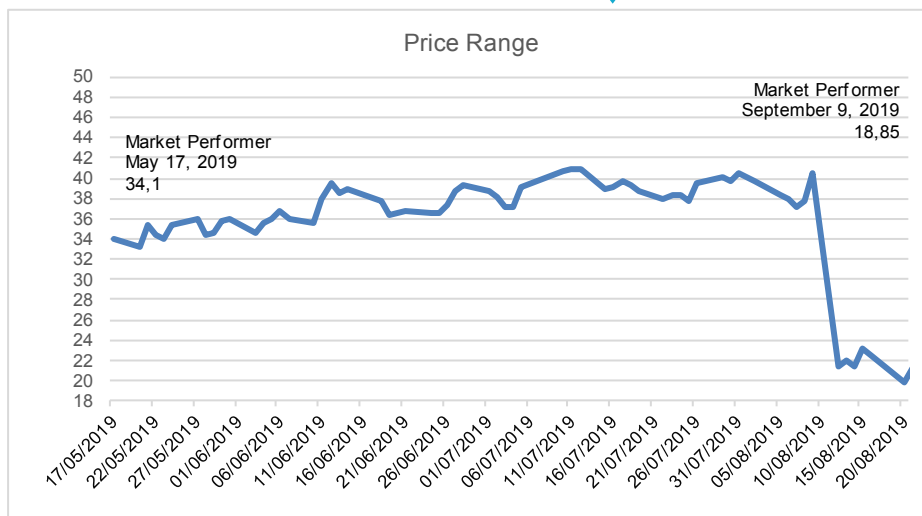
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As from March 28, 2018, the formula is:	
Outperform: expected to perform above the underlying country index	
Perform: expected to perform in-line with the underlying country index	X
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Perform	67%
Underperform	9%

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