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Electricity

EDENOR 2Q19

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EDENOR 2Q19

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September 19

EDENOR (EDN)
September 13th, 2019
AR\$ 19.25
Target Price: AR\$ 24

Rating: Market Under Performer

Price Range (ARS)

52 wk. Min.	52 wk. Max.
14.55	58



	Net Sales (AR\$ mill)	EBITDA (AR\$ mill)	Net Income (AR\$ mill)	EV/ EBITDA (x)	P/BV (X)	P/E (x)	EPS (AR\$)
2018	55.954	5.956	4.297	8,19	1,49	4,83	4,74
2019E	69.382	7.345	14.617	2,95	0,44	1,42	16,13
2020E	86.728	8.836	7.001	3,02	0,46	6,75	7,72

Share Outstanding (AR\$ m)	906	12M Range	14.55 / 58.0
Float (%)	25,10%	EPS Trailing	4,74
Market Cap (\$ m)	20.758	P/E Trailing	4,83
Net Debt (\$ m)	10.592	EPS Forward	16,13
EV (\$ m)	31.350	P/E Forward	1,42

Edenor (EDN): Huge uncertainty ahead. Market Under Performer.

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.

Edenor (EDN) could be negatively affected with this new scenario. We remain cautious on the stock.

Considering the described distress, we consider various events for our valuation.

Valuation

Considering a country risk premium of 1,800bps and a WACC rate of 22.5%, our TP is AR\$21.

Rating: Market Under Performer.

Risks of the thesis investment:

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

2Q19 Highlights

- Quarterly adjusted EBITDA increased 24.7% (significantly below inflation of 44.7%) to AR\$2,936 million (vs. \$3,100 million expected) as a result of a weak increase in domestic sales (21% yoy).
- 2Q19 Net income came strong to AR\$10,684 million (vs. AR\$ 149 million in 2Q18). However, all the improvement is explained by the result from the Regularization of Obligations Agreement between the company and the National State.
- The enforcement of this agreement implied a one-time partial recognition of AR\$6,906.4 million as part of the claim made by the firm against the state due to the tariff freeze (2006-2016), as well as an adjustment of liabilities recorded at the time of the agreement for AR\$ 6,160 million. Edenor will not receive any cash compensation and, in turn, it will undergo an investment plan for AR\$7.6 billion for the next three years.
- On July 16, Moody's maintained Edenor's rating at B1, although it lowered its outlook from stable to negative. Due to political turmoil and economic policies to come, Edenor could be subject to a cut in its credit rating.

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DCF Valuation

DCF (AR\$ m)	2019E	2020E	Terminal Value
Y/Y Sales growth	24,0%	25,0%	15,0%
Net Sales	69.382	86.728	86.728
EBIT Margin	5,9%	5,6%	60,0%
EBITDA Margin	10,6%	10,2%	10%
EBT	22.488	10.002	
Effective tax rate	35%	25%	25%
NOPAT	14.617	7.001	
Depreciations	3.278	3.999	2.000
Interest Paid	618	813	813
Working Capital	2.250	3.550	0,00
FCF	9.316	3.059	3.059
WACC	21,92%	21,92%	21,92%
VP FCF			29.570
Net Debt			10.592
FCFE			18.978
Shares Outstanding			906,5
Target Price			20,94

Inputs	
Country Risk	18,00%
Risk Free Rate	2,50%
Excess Return	5,00%
Beta	1,17
Cost of Equity	26,35%
Cost of Debt	10,00%
WACC	21,92%

Sensitivity Analyses			
Country Risk / WACC	1.100bps 14,55%	1.800bps 22,59%	2.200 bps 24,62%
Target Price (AR\$)	34,0	20,94	19,00

Relative Valuation

Company	Country	Ticker	Market Cap (Million USD)	Price / Earnings	Price / Earnings Fwrd.	Price / Sales	Price / Book Value
Edenor	ARG	EDN	300,5	4,83	1,42	0,83	0,43
Cia. Energetica de Brasilia	BRA	CEBR3	171,00	7,69	n/a	0,27	1,19
Cia. Energetica 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
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 Pesos	2016	2017	2018	2019E	2020E
Net Sales	13.079	39.603	55.954	69.382	86.728
YoY Growth (%)		203%	41%	24%	25%
Energy Purchases	(6.060)	(20.820)	(31.876)	(40.936)	(50.302)
YoY Growth (%)		244%	53%	28%	23%
Gross Income	7.019	18.783	24.078	28.447	36.426
Gross Margin	53,7%	47,4%	43,0%	41,0%	42,0%
Administrative and Commercialization Costs	(2.779)	(6.072)	(7.905)	(9.486)	(12.142)
YoY Growth (%)		119%	30%	20%	28%
Distribution Costs	(6.147)	(9.247)	(10.913)	(13.641)	(18.006)
Other Costs	1.251	(1.102)	(1.319)	(1.253)	(1.441)
Operating Income	-657	2.362	3.941	4.067	4.837
Operating Margin	-5,0%	6,0%	7,0%	5,9%	5,6%
EBITDA	-1.891	1.904	5.956	7.345	8.836
EBITDA Margin	-14,5%	4,8%	10,6%	10,6%	10,2%
Debt Regularization Agreement	0	0	0	13.066	0
Financial Results	(1.276)	(2.285)	(6.270)	(4.850)	(3.585)
RECPAM	0	5.505	8.504	10.205	8.750
Income before Taxes	-1.932	5.590	6.175	22.488	10.002
Minority Interest	(69)	(69)	(69)	(69)	(69)
Income Tax	743	(510)	(1.877)	(7.871)	(3.001)
Net Income	-1.189	5.080	4.297	14.617	7.001
Net Margin %	-9,09%	12,83%	7,68%	21,07%	8,07%
Depreciation	352	2.148	2.561	3.278	3.999
Interest Paid	173	272	424	618	813
Capex	(2.474)	(7.897)	(8.550)	(9.405)	(10.816)
Working Capital	250	337	2.282	2.250	3.550
FCFF	-2.889	-60	1.014	11.357	4.547

Balance Sheet

	2018	2019e	2020e
Current Assets			
Inventories	1.260	833	867
Other receivables	241	350	350
Trade Receivables	7.588	17.346	9.540
Cash & Equivalents	4.618	5.204	4.770
Total Current Assets	13.706	23.732	15.527
Non Current Asstes			
Porperty, plan & equipment	62.475	71.846	86.215
Interest in joint ventures	8	0	0
Deferred tax asset	0	0	0
Other receivables	801	3.195	4.053
Total non current assets	63.284	75.041	90.268
Total Assets	76.990	98.773	105.795
Current Liabilities			
Trade payables	14.609	16.374	19.618
Other payables	1.922	901	855
Borrowings	1.077	285	200
Federred revenue	5	6	6
Salaries & social security	1.743	1.433	1.761
Benefit plans	32	31	31
Tax payable	617	3.935	1.500
Tax liabilities	784	1.433	1.761
Provisions	188	244	318
Total current Liabilities	20.978	24.642	26.050
Total non current liabilities			
Trade payables	286	508	651
Other payables	7.624	10.439	12.576
Borrowings	7.192	7.912	8.703
Deferred revenues	275	280	285
Salaries and social security	163	195	234
Benefit plans	385	443	509
Deferred Taxes	8.048	9.800	7.550
Provisions	1.070	1.445	144
Total non current Liabilities	25.044	31.021	30.652
Total Liabilities	46.022	55.664	56.702
Total Equity	30.968	43.109	49.094

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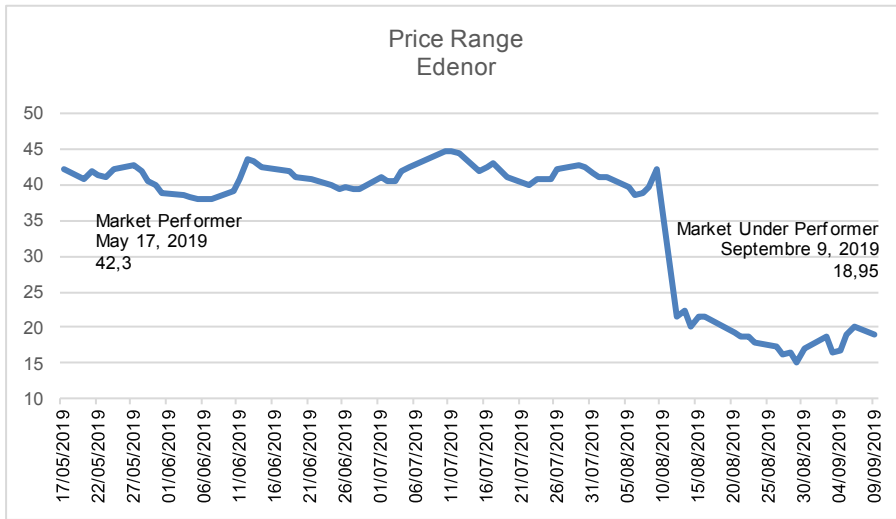
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Outperform: expected to perform above the underlying country index	
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