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Electricity

TRANSENER 2Q19

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TRANSENER 2Q19

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September 19

TRANSENER (TRAN)

6 September, 2019

AR\$ 18.25

Target Price: AR\$ 24

Exp. Return (USD): 32%

Rating: Market Performer

Price Range (ARS)

52 wk. Min.	52 wk. Max.
14.85	51.9



	Net Sales (AR\$ mill)	EBITDA (AR\$ mill)	Net Income (AR\$ mill)	EV/ EBITDA (x)	P/BV (X)	P/E (x)	EPS (AR\$)
2018	9.839	6.079	3.055	3,12	1,73	2,66	6,87
2019E	11.216	7.095	3.586	1,98	1,02	2,26	8,06
2020E	12.898	9.050	4.487	1,81	1,23	5,17	10,09

Share Outstanding (AR\$ m)	445	12M Range	14.85 / 51.9
Float (%)	47.3%	EPS Trailing	6.87
Market Cap (\$ m)	8.115	P/E Trailing	2.66
Net Debt (\$ m)	2.995	EPS Forward	8.06
EV (\$ m)	11.110	P/E Forward	2.26

Transener (TRAN): Political turmoil leads to an opportunity.

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.

Considering this scenario, RTI agreement (deal reached between Transener and the Republic) might be renegotiated, affecting our estimated cash flows for 2020 and 2021. In the case of **Transener (TRAN)**, current tariff adjustment index has a higher weighting of the wages index than the CPI index.

Even considering the worst case scenario, we consider that much of it is already factored in the stock's price. Since 9 August 2019 (last trading day before elections), **TRAN** is down 69% in dollar terms.

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Considering a country risk premium of 1,800bps and a WACC rate of 19.9%, our TP is AR\$24 (32% upside potential in pesos).

Rating: Market 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

As we mentioned in the previous report, the persistent inflation in Argentina continued eroding Transener's margins.

Quarterly gross margin reached 57.08%, 401bps lower than in 2Q18. Quarterly EBITDA stood at AR\$1,783.4 million (-6.6% y/y), below our estimation of AR\$1,810 million. FY 19 EBITDA was revised down from AR\$7,408 million to AR\$7,185 million.

We now expect FY 20 EBITDA of AR\$ 9.050 million, leading to an estimated EV / EBITDA of 1.9x.

Quarterly financial result improved due to the lower US dollar appreciation (AR\$276 million from FX result) and inflation adjustment result (AR\$619.6 million in 1H19). Besides, the company booked an AR\$6 million provision for the blackout of June 16 2019.

In terms of CAPEX, disbursements continued as planned: AR\$1,412 million during 1H19.

Although the firm remains financially solid, after the cash dividend distribution of AR\$3,300 million, Net Debt rose from - AR\$1,835 million to AR\$2,995 million.

We do not expect any new cash dividend distribution this year.

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DCF Valuation

DCF (AR\$ m)	2019E	2020E	Terminal Value
Y/Y Sales growth	14,0%	15,0%	11,0%
Net Sales	11.216	12.898	14.500
EBIT Margin	53,2%	52,1%	53,0%
EBITDA Margin	63,3%	70,2%	65%
EBT	6.034	6.914	7900
Effective tax rate	38%	32%	30%
NOPAT	3.586	4.487	5.021
Depreciations	915	1.144	1.144
Interest Paid	520	650	650
Capex	(2.796)	(3.355)	-3.355
Working Capital	(855)	(550)	-550
FCF	1.371	2.376	2.376
WACC	19,8%	19,8%	19,8%
VP FCF			13.655
Net Debt			2.995
FCFE			10.660
Shares Outstanding			444,7
Target Price			23,97

Inputs	
Country Risk	18,00%
Risk Free Rate	2,50%
Excess Return	5,00%
Beta	0,95
Cost of Equity	25,25%
Cost of Debt	12,00%
WACC	19,85%

Sensitivity Analyses			
Country Risk / WACC	1.100bps / 15,1%	1.800bps / 19,9%	2.200 bps / 22,6%
Target Price (AR\$)	38	23,97	19,1

Relative Valuation

Company	Country	Ticker	Market Cap (Million USD)	Price / Earnings	Price / Earnings Fwrd.	Price / Sales	Price / Book Value
Transener	ARG	TRAN	147,6	2,66	2,26	0,95	0,67
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

Million AR\$	2016	2017	2018	2019E	2020E
Net Sales	2.201	9.746	9.839	11.216	12.898
Y/Y Change Rate		342,8%	0,9%	14,0%	15,0%
Cost of Sales	(1.677)	(4.162)	(4.031)	(4.655)	(5.288)
Y/Y Change Rate		148,2%	-3,1%	15,5%	13,6%
Gross Oncome	524	5.585	5.807	6.561	7.610
Gross Margin	23,8%	57,3%	59,0%	58,5%	59,0%
Administrative Costs	(346)	(586)	(505)	(671)	(839)
Y/Y Change Rate		69,5%	-13,9%	33,0%	25,0%
Other operating costs	(54)	(75)	99	75	(45)
Operating Income	124	4.924	5.401	5.965	6.726
Operating Margin	5,6%	50,5%	54,9%	53,2%	52,1%
EBITDA	222	5.631	6.079	7.095	9.050
EBITDA Margin	10,1%	57,8%	61,8%	63,3%	70,2%
Financial Income	331	410	921	1.244	1.679
Financial Expenses	(197)	(309)	(442)	(690)	(966)
Other Financial Results	(327)	172	(904)	(485)	(525)
Income before tax	(69)	5.196	4.976	6.034	6.914
Income tax	18	(1.204)	(1.800)	(2.293)	(2.213)
Minority Interest	6	144	122	155	215
Net Income	-58	3.958	3.055	3.586	4.487
Net Margin %	-2,62%	40,62%	31,05%	31,97%	34,79%
Depreciation	98	682	678	915	1.144
Interests Paid	105	201	287	520	650
Capex	(223)	(1.036)	(2.663)	(2.796)	(3.355)
Working capital	50	(2.052)	(1.565)	(855)	(550)
FCFF	-28	1.753	-207	1.371	2.376

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Balance Sheet

Million AR\$	2017	2018	2019e	2020e
Current Assets				
Other Financial Assets	577	902	974	1.052
Receivables	2.011	1.676	3.481	4.167
Cash & Equivalent	4.483	4.725	2.550	3.188
Total Current Assets	7.071	7.302	7.005	8.407
Non current Assets				
Property, plants & equipment	10.213	12.129	13.949	14.158
Investments at amortized value	30	0	0	0
Deferred Tax	395	432	561	730
Other receivables	8	5	5	5
Total Non current Assets	10.645	12.567	14.515	14.893
Total Assets	17.716	19.869	21.520	23.300
Current Liabilities				
Provisions	106	84	166	206
Loans	101	139	51	51
Income Tax Liability	1.620	572	717	897
Payroll and Social Security	639	614	782	999
Trade accounts payable	540	1.181	853	1.058
Taxes payable	221	163	284	294
Employee benefits	87	84	61	61
Other liabilities	0	0	1	1
Total current liabilities	3.315	2.837	2.916	3.568
Non current liabilities				
Bonds	2.638	3.636	5.910	6.797
Employee benefits	439	444	640	794
Other	1.334	1.396	1.450	1.550
Total non current liabilities	4.411	5.476	8.000	9.140
Total Liabilities	7.726	8.313	10.916	12.708
Total Equity	9.991	11.556	10.604	10.592
Ratios				
Current Ratio	2,13	2,57	2,40	2,36
Acid Ratio	1,96	2,26	2,07	2,06
LT Debt / Assets	0,149	0,183	0,275	0,292
ROE	0,0%	0,0%	0,0%	0,0%
ROA	0,0%	0,0%	0,0%	0,0%
Chg. Working Capital		-247	-217	2.053

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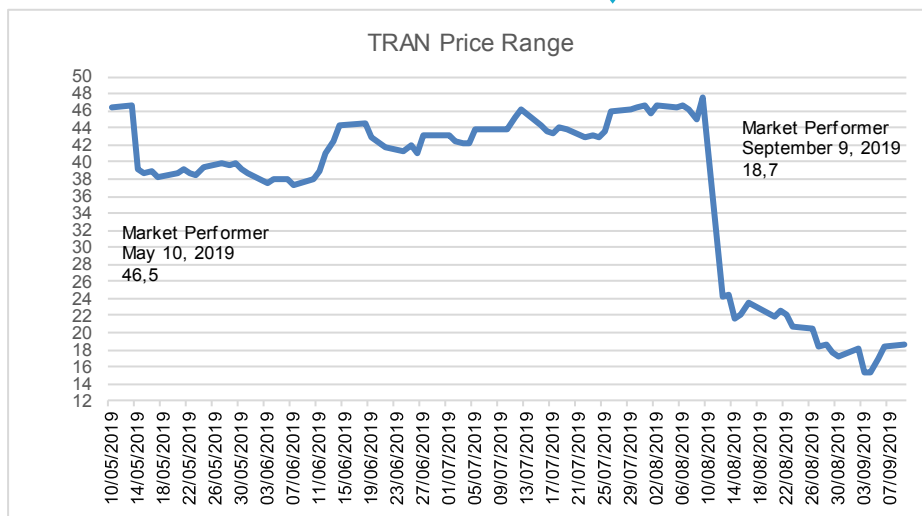
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Perform: expected to perform in-line with the underlying country index	X
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