

TGS (BCBA: TGSU2)

AR\$ 139.5 (August 12th, 2020)

Target Price (AR\$): 152.65

Target Price ADR: US\$ 5.25

Rating: Market Performer

Price Range (ARS)

52 wk. Min. 52 wk. Max.
67 165



	Net Sales (AR\$ mill)	EBITDA (AR\$ mill)	Net Income (AR\$ mill)	EV/EBITDA (x)	P/BV (X)	P/E (x)	EPS (AR\$)
2019	48.562	23.454	12.805	3,83	3,58	8,45	16,51
2020e	42.249	22.485	14.159	6,38	2,30	10,71	13,03
2021e	50.698	26.443	28.154	6,11	1,94	5,38	25,91

Share Outstanding (\$ m)	794	12M Range	67 /165
Float (%)	21,00%	EPS Trailing	16,51
Market Cap (\$ m)	110.832	P/E Trailing	8,45
Net Debt (\$ m)	21.216	EPS Forward	13,03
EV (\$ m)	132.048	P/E Forward	10,71

TGS: The worst quarter is here but future remains uncertain

Unsurprisingly, **TGS's** quarterly figures were worse than those seen in 1Q20 as the quarantine tightened and the economy came to a complete standstill.

Net sales were down 25.9% YoY to \$ 10,735 million, below our estimates of \$ 11,150 million. The deviation was justified by a greater than expected drop in the Production and Marketing of Liquids unit (-40% vs. -35% expected), partially offset by a greater than estimated improvement in Telecommunications unit (+21% vs. +8% expected).

The good news came from the cost management side, which fell 25.7% YoY, allowing gross margin to increase by 410 basis points compared to 1Q20.

Operating income fell 33.3% from 2Q19 driven by lower revenue, especially from the Gas Transportation business, whose last tariff hike took place in August 2019. In any case, compared to 1Q20, it was only 4.3% lower.

Cash flow generation has been very robust despite the adverse context. The operating cash flow became 225% higher as a consequence of the lower tax burden, better management of working capital and profit from hedging taken against the fall in prices of liquid fuels.

Thus, Cash and Equivalent position improved by \$ 7,328 million. Considering that, net debt stood at \$ 21,189 million against \$ 25,883 million as of December 31st, 2019.

Looking forward, the firm continues betting on Vaca Muerta's potential. In this regard, it reached a deal with Shell Argentina to install and operate a dehydration and regulation plant in Bajada de Añelo to provide services for a minimum of two years.

The collection of tariff invoices from major clients in Gas Transportation business has improved in recent weeks compared to the worst level of the crisis. Likewise, the comprehensive review of tariffs with the Government has been extended till December 2020. Finally, export taxes were imposed on the liquids that TGS operates. They will be 0% when the Brent oil is below USD 45, between 0% and 8% when the price is between US \$ 45 and US \$ 60 and greater than 8% when the price of the oil barrel is above USD 60.

We believe that the current stock price is near fair value considering the uncertain context. In any case, in the **short term**, the upside potential of the stock could be due to the compression of country risk, while the return to normality in economic activity is still very uncertain. **Rating: Market Performer.**

Million AR\$	2Q20	1Q20	2Q19	Y/Y	6M20	6M19	Y/Y
Net Sales	10.735	12.121	14.488	-25,9%	23.569	28.968	-18,6%
Cost of Sales	(4.047)	(5.070)	(5.446)	-25,7%	(9.117)	(11.507)	-20,8%
Gross Income	6.688	7.051	9.042	-26,0%	14.452	17.461	-17,2%
Gross Margin %	62,3%	58,2%	62,4%	-0,2%	61,3%	60,3%	1,7%
Adm. & Commercialization Costs	(939)	(1.172)	(1.203)	-21,9%	(2.179)	(2.464)	-11,6%
Other operating costs	21,00	59,00	(38)	-155,3%	84,00	(88)	-195,5%
Depreciations	(1.257)	(1.227)	(1.034)	21,6%	(2.484)	(2.013)	23,4%
Operating Income	4.513	4.711	6.767	-33,3%	9.873	12.896	-23,4%
Operating Margin %	42,0%	38,9%	46,7%	-10,0%	41,9%	44,5%	-5,9%
EBITDA	5.770	5.869	7.801	-26,0%	12.767	14.886	-14,2%
EBITDA Margin %	53,7%	48,4%	53,8%	-0,2%	54,2%	51,4%	5,4%
Net financial results	(2.054)	(255)	1.710	-220,1%	(2.324)	808	-387,6%
Income before Taxes	2.467	4.461	8.441	-70,8%	7.562	13.661	-44,6%
Tax Income	(726)	(1.410)	(2.543)	-71,5%	(2.219)	(4.110)	-46,0%
Net Income	1.741	3.051	5.898	-70,5%	5.343	9.551	-44,1%

Valuation

Considering a country risk premium of 2.050 bps and a WACC rate of 18.83%, our TP is AR\$152.6.

Sensibility Analyses			
Country Risk / WACC	1.200 bps 13,83%	2.050 bps 19,01%	2.500 bps 22,97%
Target Price (AR\$)	272,0	152,63	119,75

Rating: Market Performer.

Risks of the investment thesis:

1. Hyperinflation process that could lead to a deepening of the economic crisis.
2. Higher (than reported) export taxes on the company's products.
3. Recurrent freezing on domestic natural gas prices could affect TGS' operating cash flow.

DCF Valuation

DCF (AR\$ m)	2020E	2021E	Terminal Value
Y/Y Sales growth	-13,0%	20,0%	15,0%
Net Sales	42.249	50.698	58.303
EBIT Margin	42,8%	41,3%	40,0%
EBITDA Margin	53,2%	52,2%	52,2%
EBT	14.159	28.154	28.154
Effective tax rate	30%	30%	30%
NOPAT	9.911	19.708	19.708
Depreciations	4.411	5.514	5.514
Interest Paid	3.050	3.250	3.250
Capex	(12.746)	(14.020)	(14.020)
Working Capital	(1.883)	10.550	10.550,00
FCF	1.644	23.194	124.673
WACC			18,83%
VP FCF			142.481
Net Debt			21.216
FCFE			121.265
Shares Outstanding			794,5
Target Price			152,63

Inputs

Country Risk	20,50%
Risk Free Rate	1,50%
Excess Return	5,50%
Beta	0,92
Cost of Equity	27,06%
Cost of Debt	9,00%
WACC	18,83%

Sensitivity Analyses

Country Risk / WACC	1.200 bps	2.050 bps	2.500 bps
WACC	13,83%	19,01%	22,97%
Target Price (AR\$)	272,0	152,63	119,75

Relative Valuation

Empresa	País	Ticker	Market Cap (Million USD)	Price / Earnings	Price / Earnings Fwrd.	Price / Sales	Price / Book Value
Transportadora Gas del Sur	ARG	TGSU2	842,2	8,45	10,71	2,50	1,90
Copec	CHI	COPEC	10145,00	63,80	26,50	0,46	0,98
Cosan S.A.	BRA	CSAN	6058,00	26,12	18,74	0,45	3,08
Ultrapar Participacoes	BRA	UGPA	3.866,0	25,18	18,30	0,24	2,25

Fuente: Refinitiv

Financial Statement

Million ARS	2016	2017	2018	2019	2020E	2021E
Net Sales	7.402	19.953	52.400	48.562	42.249	50.698
YoY Growth Rate		169,6%	162,6%	-7,3%	-13,0%	20,0%
COGS	(4.436)	(11.935)	(25.314)	(24.531)	(19.857)	(24.842)
YoY Growth Rate		169,1%	112,1%	-3,1%	-19,1%	25,1%
Gross Income	2.966	8.018	27.085	24.030	22.392	25.856
Gross Margin	40,1%	40,2%	51,7%	49,5%	53,0%	51,0%
Com. And Adm Costs	(669)	(1.541)	(3.783)	(4.144)	(4.393)	(5.052)
YoY Growth Rate		130,4%	145,5%	9,6%	6,0%	15,0%
Other operating costs	(66)	(272)	(1.370)	(128)	75	125
Operating Income	2.232	6.206	21.932	19.759	18.074	20.929
Operating Margin	30,2%	31,1%	41,9%	40,7%	42,8%	41,3%
EBITDA	2.519	8.226	25.352	23.454	22.485	26.443
EBITDA Margin	34,0%	41,2%	48,4%	48,3%	53,2%	52,2%
Financial Income	405	1.137	14.629	8.535	4.100	9.250
Financial Expenses	(1.219)	(2.131)	(20.863)	(17.587)	(14.550)	(10.550)
Investments in companies	2	22	28	(32)	985	1.025
RECPAM	0	466	1.856	6.154	5.550	7.500
Income before Tax	1.420	5.699	17.582	16.829	14.159	28.154
Income Tax	(489)	53	(20)	(4.024)	(4.248)	(8.446)
Minority Interest	3	0	0	6	8	8
Net Income	931	5.752	17.561	12.805	9.911	19.708
Net Margin	12,57%	28,83%	33,51%	26,37%	23,46%	38,87%
Depreciations	287	2.020	4.379	3.676	4.411	5.514
Interest paid	280	304	1.675	1.631	1.950	1.443
Capex	(596)	(1.309)	(12.497)	(15.932)	(12.746)	(14.020)
Working Capital	250	106	6.429	11.353	(1.883)	10.550
FCFF	1.151	6.873	17.547	13.533	1.644	23.194

Balance Sheet

Million AR\$	2019	2020e	2021E
Current Assets			
Other Financial Assets	4.393	4.833	5.316
Inventories	308	422	700
Trade Receivables	6.474	6.549	7.858
Cash & Equivalents	9.765	10.253	11.791
Total Current Assets	20.940	22.057	25.666
Non Current Assets			
Property, plant & Equipment	74.552	85.735	98.595
Other assets at amortized cost	5	9	9
Investment in associates	79	110	154
Deferred Income Tax	16	1	1
Other receivables	9	18	18
Total non Current Assets	74.661	85.873	98.777
Total Assets	95.601	107.930	124.443
Current Liabilities			
Provisions	589	695	869
Financial Debt	1.722	2.184	2.733
Income tax payable	18	1.911	3.801
Payroll and social security	646	1.120	1.288
Trade payables	4.113	2.879	3.602
Taxes payable	353	156	156
Other	511	551	595
Total current Liabilities	7.952	9.497	13.045
Non current Liabilities			
Loans	31.861	38.233	48.173
Contact liabilities	2.927	305	305
Deferred tax liabilities	4.778	2.650	3.250
Total non current Liabilities	39.566	41.188	51.728
Total Liabilities	47.517	50.685	64.773
Total Equity	48.083	57.245	59.670

Ratios	2019	2020e	2021e
Current ratio	2,63	2,32	1,97
Acid ratio	1,23	1,08	0,90
LT Debt / Assets	0,333	0,354	0,387
ROE	26,6%	17,3%	33,0%
ROA	13,4%	9,2%	15,8%

TGS 2Q20

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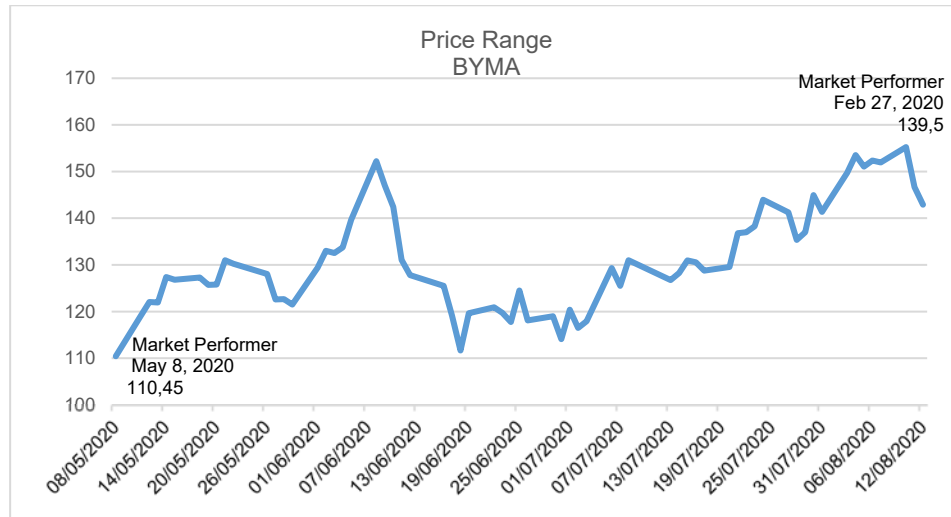
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Perform: expected to perform in-line with the underlying country	X
Underperform: expected to perform below the underlying country	

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Perform	5%
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