



Central Puerto, S.A.

1Q 2018 Results Call

May 15, 2018 at 12:00 p.m. Eastern

**CORPORATE PARTICIPANTS**

**Jorge Rauber** – Chief Executive Officer

**Fernando Bonnet** – Chief Financial Officer

## **PRESENTATION**

### **Operator**

Good morning, and welcome to the Central Puerto conference call following the results announcement for the first quarter ending in March 31<sup>st</sup>, 2018. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. Please note that this event is being recorded. If you do not have a copy of the press release, please refer to the investor support section on the company's corporate website at [www.centralpuerto.com](http://www.centralpuerto.com).

A replay of today's conference may be accessed while accessing the web in the investor support section of the Central Puerto corporate website.

Before we begin, please note that certain statements made by the company during this conference call are forward-looking statements, and we refer you to the forward-looking statement section of our earnings release and recent filings with the SEC. Central Puerto assumes no obligation to update forward-looking statements, except as required under applicable security laws. In addition, all financial figures were prepared in accordance with the IFRS, and are staged in Argentinian pesos, unless otherwise noted.

On the call today from Central Puerto is Jorge Rauber, Chief Executive Officer; and Fernando Bonnet, Chief Financial Officer.

And now I will turn the call over to Jorge Rauber. Mr. Rauber, you may begin.

### **Jorge Rauber**

Okay. Thank you, and welcome everyone. We're joining you this morning with our executive team from Buenos Aires, Argentina, to report on our first quarter 2018 and to answer any questions. Following an outstanding power capacity expansion in 2017, where more than 500 megawatts were awarded to Central Puerto in cogeneration units and in renewal projects, we entered 2018 with encouraging news from an operation and financial perspective. Our solid balance sheet and increased liquidity set the ground for continuous capacity expansion during this year.

Let's talk about our thermal projects first. This year we announced more than 420 new megawatts awarded in co-generation units with Lujan de Cuyo and San Lorenzo thermal plants. During the first quarter, these projects have made significant progress with electro mechanic and civil awards already contracted.

In the case of San Lorenzo plant, the steam turbine and the heat recovery steam generator have been already acquired. I am pleased to confirm that both projects are on time and within budget. Regarding the last hike in the exchange rate, we expect that our thermal project will also benefit from this devaluation, since part of the CapEx for the construction of these new plants are denominated in Argentine pesos, which may result in a lower CapEx measured in US dollars.

We also reaffirm our attractive growth profile when we announced in March the approval of commercial operation of Vuelta de Obligado combined cycle with an installed capacity of 778 megawatt. Vuelta de Obligado is the third plant of the FONINVEMEM consortium that totals 2,554 megawatts, and it's operated by Central Puerto.

As the largest private holder of these assets, we are well positioned for potential strategic opportunities considering that firstly, Central Puerto and its partner will receive the asset property right after ten years

of commercial operation. And secondly, that the government has been allowed to sell its pro rata equity interest as well.

The approval of commercial operation of Vuelta de Obligado will trigger beneficial effects for the company in the long- and short-terms. Looking forward, this event entitles Central Puerto to collect receivables for a total amount of 545 million in monthly installment during the next ten years, starting in May 2018. This collection will have a direct impact in cash flows from operation of approximately \$55 million and \$90 million during 2018, and 2019, respectively. Additional to the \$20 million that will be collected from the San Martin and Belgrano plants. And in the immediate term, it generated the accrual of dollar-denominated interest related to previous period that, together with exchange rate effects resulted in a one-time gain of almost 400 million booked in this quarter.

Fernando will give you shortly further detail on the figures and excellent results of the quarter, but before, I would like to give you a brief overview of operational progress of our renewal projects, and on opportunities coming next in the renewal sector.

During the first quarter, we have achieved a high degree of progress in the construction of La Castellana and Achiras I wind farms, and we expect these two new farms to be operational in June and July this year. These projects - awarded under Rounds 1 and 1.5 of Renovar program, with installed capacity 147 megawatts of prices of \$61 and \$59 per megawatt hour are expected to generate a combined annual adjusted EBITDA of between \$52 and \$37 million.

In addition, we continue delivering on capacity growth during the first and second quarter. We have recently added the possibility to sell 137 megawatt of new power capacity directly to large users. And at the renewable term market beating process, our renewable subsidiary, CP Renovables, was granted access to the grid for 16 megawatts in La Castellana I wind project, 79 megawatts in Achiras II wind project, and 42 megawatts in the La Castellana II wind projects.

We believe Central Puerto continuing performance has set us ahead and has reaffirmed our position as market leader in terms of capacity generation. We will continue showing the ability of the company to consistently increase and store capacity satisfying the growing demand with our assets and quickly adopt to the new rules of the changing environment.

And now I will turn over to Fernando, who will comment on the financial highlights of the quarter.

### **Fernando Bonnet**

Thank you, Jorge. Results achieved during the quarter proved the resiliency of our business model in a context of evaluation of local currency, based on the amenities of the dollar-denominated tariff adopted in the sector last year. Also, it's important to mention that before the last hike in the dollar value, Central Puerto had a long position in US dollars, and a short position in Argentine pesos. We didn't have to suffer any financial restriction.

As Jorge explained before, the approval of commercial operation of Vuelta de Obligado will generate a one-time gain of almost \$400 million, and increase the adjusted EBITDA level to approximately \$490 million. This operational gain was generated by the recognition of the accrued interest in past periods, and the impact of this generate difference on those amount over FONI receivables accrued between 2008 and 2012. So from now on, for comparative purposes, we'll refer to adjust EBITDA removing this noncurrent effect.

The adjusted EBITDA, excluding Vuelta de Obligado gain, was of around \$19 million, which compared to that of the first quarter of 2017, shows a significant increase of more than 200%. The increase was

mainly generated by a 30% increase in the revenues that totaled approximately \$90 million. The rise in the revenue showed the full impact of the tariff increased established in November last year, and an increase of almost 18 points in the lost profit margin, mainly driven by the exchange rate effect in the production costs that were mostly denominated in local currency.

And finally, it's worth to mention that these results were achieved despite a temporary decrease in the production of 10% explained by the scaled maintenance of our combined cycle plant that start new March and lasted until early May. In order to have a more precise estimation of our operational cash flow generated during the period, we generally add FONI collections to that adjusted EBITDA. In the first quarter, the FONI collections together with the adjusted EBITDA, excluding Vuelta de Obligado gain, total \$93 million, showing a 63% increase when compare the same period of the previous year.

All these positive results have impact our cash position net financial debt, that as of the end of March total approximately \$33 million. During the first quarter, our financial position was strengthened by a significant increase in cash and equivalent and current financial assets that reaches approximately \$181 million. After receiving dividends from Distribuidora and Inversora de Gas del Centro for \$14 million, and the price payment from YPF of 31.5 million related to the successful transfer of La Plata plant.

On the debt side, financial debt was almost nonexistent for Central Puerto as an individual entity, while CP Renovables, which holds the renewables projects received from the IFC and IAC the first disbursement of \$80 million directly related to the construction of La Castellana wind farm. Consolidated total debt, totaled approximately \$147 million in the renewal companies. During the second quarter, we are still increasing our liquidity, since the company received dividends from TGM and Inversora de Gas Cuyana for \$17.4 million. And on the renewal front, we also received \$51 million from IFC and IAC to finance the construction of Achiras wind farm.

Under the project finance structure for the construction of Achiras and La Castellana wind farm, we already receive almost all the funds from the financing. Since the part of the contract is denominated in pesos, we expect that the recent hike in US dollars may benefit us and result in a reduction of the CapEx measured in US dollars, leaving more cash available at the project completion, which will strength our financial position.

Our company is starting in 2018 with increasing installed capacity. We have high value adding projects with world class multilateral partners at competitive terms, and with a solid balance sheet ready to fund new growth opportunities, our effective capital and balance sheet management set the growth for a promising year ahead.

Thank you, and now we invite any questions for our team and some additional insights.

## **QUESTIONS AND ANSWERS**

### **Operator**

We will now begin the question-and-answer session. To ask a question, you may press star, then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press, star then two. At this time, we will pause momentarily to assemble our roster.

And the first question comes from Frank McGann from Bank of America Merrill Lynch. Please go ahead.

**Frank McGann**

Yes, hello. Two questions, if I might, not related to the quarter, per se, but of the environment right now. I was just wondering if you're seeing M&A opportunities that might enable you to buy additional assets or operations.

And secondly, in terms of moving towards term contracts with industry and with others, any update on what your expectations are for when that might be allowed?

**Jorge Rauber**

Okay. I thank Frank for your question. I will answer that, I mean, it's two parts to be answered. The first one is if that the market, the situation the market will give us additional opportunity in order to acquisition. I mean, we are—the first objective we have is the acquisition of the asset has been—the government has been allowed to sell. In fact, last Friday they had publicly presented a kind of preliminary bidding document in order to get insights from the market so that will be our first objective for sure, I mean, that situation will perhaps prevent some ambassador from taking risks in this market, but I see this as a very good opportunity in the sense that we are operating this market, and perhaps the situation will allow us to have less competition.

In the sense that some players could, I mean, decide to leave the country because of the situation, we don't see any movement so far, but for sure we are prepared to analyze, and willing to enter in discussion if the opportunity arises.

Regarding the change in regulation, we see the government has kind of delayed the positions related to this change.

The first objective will be to give, again, the generators the opportunity to buy their own fuel, which was part of what we explained to the market, I guess in the last call. I mean the first objective for them is to give the opportunity to buy fuel directly from—I mean, each generator from the market that has the advantage to allow us to enter in the long-term contracts, which are not allowed in this moment, but mainly, regarding fuel purchase, not so much in terms of long-term contract with the customers.

For the customers, they are, as long as we know, they are working in several alternatives, because the main promise is how to allow, how to create rules to allow the distributors to pass through the tariff for the customers. That will be perhaps the last step they are going to take toward the regulatory change, starting with fuel for sure, and perhaps the next step will be the long-term market for electricity contracts.

**Frank McGann**

Okay. Thank you very much.

**Operator**

And, once again, if you have a question, please press star, then one.

And the next question comes from Florencia Torres from TPLC. Please go ahead.

**Florencia Torres**

Hi, congratulations for the results. I would like to ask you if you can give me a guidance regarding CapEx plan for upcoming year, especially for these 2020.

**Fernando Bonnet**

Okay. Regarding the thermal projects we already have under construction, the two co-generation projects, we have a CapEx estimated of—a total CapEx estimated of—for the Lujan de Cuyo, \$92 million, and for the Terminal 6 it's \$300 million. We already spent for the first one, for the Lujan de Cuyo, we already spent \$46 million, and for Terminal 6 we already spent \$41 million.

So we expect an additional CapEx for these two projects of the rest of the amount, we spend more or less, in total, \$300 million more of CapEx during 2018, 2019 and almost 2019 and a little part of 2020. This is the remaining CapEx for the thermal projects that we already have under construction.

In the case of the renewals one, we have almost finished the first two ones, so this is almost already—all the CapEx is already spent, and with the proper financing. We have an additional project of in Navarra which is La Genoveva. We are signing this PPA in June this year, and we expect to finish the project in 2020, on May. So for this project we expect the total CapEx of, more or less, \$105 million. And just as we have been doing in the renewal side, we expect the project financing, we expect to spend 30% as an equity and 70% as a debt. So this is additional \$30 million on CapEx on the equity side. Okay. Thank you.

**Florencia Torres**

And, I'm sorry. So, for 2018, some part of the \$300 million from thermal project and a small part regarding La Genoveva will be invested in in this year?

**Fernando Bonnet**

Yes. Correct. So we expect for this year, more or less, of \$100 million, \$120 million in total.

**Florencia Torres**

Okay. Perfect. So this will be until 2020, and then it will start to decline?

**Fernando Bonnet**

Yes.

**Florencia Torres**

Okay. Perfect. Thank you so much.

**Fernando Bonnet**

This is for the projects we have already granted. Also if we—of course if we have new projects, we expect a new project—

**Florencia Torres**

Yes. Not including potential auction.

**Fernando Bonnet**

Yes. Correct.

**Florencia Torres**

Perfect. Thank you. We're clear.

**Operator**

And, once again, if you have a question please press star then one.

## **CONCLUSION**

### **Operator**

Being that there are no further questions, this concludes our question-and-answer session.

I would like to turn the conference back to Mr. Rauber for any closing remarks.

### **Jorge Rauber**

Well, thank you to everyone for your interest in Central Puerto and your continued support of our company. We encourage you to please call us at any time for any information. Thank you and have a good day.

### **Operator**

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.