



Central Puerto

Central Puerto S.A.

Q2 2019 Results Earnings Conference Call

Tuesday, August 13, 2019, 01:00 P.M.
Eastern

CORPORATE PARTICIPANTS

Jorge Rauber - *Chief Executive Officer*

Fernando Bonnet - *Chief Financial Officer*

Milagros Grande - *Corporate Finance Manager*

Tomás Daghlian - *Investor Relations Officer*

PRESENTATION

Operator

Good morning, and welcome to the Central Puerto Conference Call following the results announcement for the quarter ended on June 30, 2019. 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 (0). After today's presentation, there will be an opportunity to ask questions. Please note, 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. A replay of today's call may be accessed by accessing the webcast in the investor support section of the Central Puerto corporate website.

Before we proceed, 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 statements 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 securities laws.

In addition, all financial figures were prepared in accordance with IFRS and are stated in Argentinean pesos unless otherwise noted. On the call from Central Puerto is the Jorge Rauber, Chief Executive Officer; Fernando Bonnet, Chief Financial Officer; Milagros Grande, Corporate Finance Manager, and Tomás Daghlian, Investor Relations Officer, and now, I will turn the call over to Jorge Rauber. Mr. Rauber you may begin.

Jorge Rauber

Thank you. We are joining here today with our team from Buenos Aires, Argentina to report on results of the second quarter 2019 and to answer any questions you may have regarding the current situation.

Yesterday was a very difficult time for our company and the Argentinean stock market in general. We want to ensure you that our team is closely looking at the situation in order to mitigate any impact from the recent events.

That said, I will refer first to the operative figures of the quarter and then continue with some recent news regarding Central Puerto. Finally, Tomás will analyze the financial results.

During the second quarter, we generated 3.3 terawatt hours of electricity, a 4% increase as compared to the same quarter 2018. This increase was mainly due to a 16% increase in thermal generation, which in the second quarter 2018 was affected by the maintenance of our Central Puerto Combined Cycle and 147 gigawatt hour of additional energy from the wind farms Achiras and La Castellana, which started operating during the third quarter 2018. This increase was partially offset by a 36% decrease in energy generation from hydro power plants due to less waterflow.

For the general market, electricity generation during the quarter decreased 9.1% compared to the same period of the previous year according to CAMMESA mainly due to a decrease in the demand by residential and industrial customers.

Our thermal units reached 92% availability in the period, increasing 13 percentage point from the level of time during the second quarter 2018. As a comparison, the average availability of the thermal units during the second quarter 2019 was 80% according to CAMMESA. We continue with the construction of our thermal and renewable energy projects. Regarding the Luján de Cuyo, we expect that the unit to start commercial operations in November this year and the Terminal 6 San Lorenzo project to start the operation during the second quarter of 2020.

We have good advances in our renewable energy projects too. On July 16th, the wind farm La Castellana II commenced its operations and we expect the same for La Genoveva II during the next weeks. Regarding the Manque projects, we have recently changed the schedule for the construction, and we expect it to start to commercial operation in November this year instead of September as originally planned. The budget for this project remains the same.

The rest of the renewable energy projects have also good advances in their construction schedule and are within budget as well. Regarding the projects under the term market regulatory framework, it is important to mention that we have already sign contract for 79% of our expected electricity generation from them.

These are long-term bilateral contracts entered into directly with large customers with prices set in U.S dollars. During this quarter, we signed a transfer of the Brigadier López power plant adding 280 megawatt to our current installed capacity. The results associated to the Brigadier López plant have been included on Central Puerto's income statements starting from June 2018.

Finally, we continue with the collection of the monthly installations of the Vuelta de Obligado agreement as scheduled. Additionally, during June and July, we collected Ps. 2,562 million and Ps. 825 million, including value-added tax related to installments corresponding to the first through 10th installment of this agreement respectively which totaled approximately equivalent of \$57.2 million and \$19.8 million using the exchange rate up-to-date of each collection, and now I will turn the call over to Tomás, who will comment on the financial highlights of the quarter.

Tomás Daghlian

Thank you, Jorge. Before starting, it is worth noting that the financial statements as of and for the quarter ended on June 30, 2019 include the effects of inflation adjustment, applying International Accounting Standard No. 29. Accordingly, the financial figures that I will mention have been stated in the terms of Argentine pesos of the end of our reporting period, including the data from the previous periods and the growth comparisons here mentioned.

Consequently, the comparative information included the financial statements for the quarter ended on June 30, 2018 is not comparable to the financial statements previously published by us. The results achieved during the second quarter of 2019 were in line with our expectations considering the reduction in the power and energy prices for the units under the Energía Base regulatory framework.

Revenues from continuing operations increased 74% to Ps. 5.8 billion in the second quarter, mainly driven by:

- 1) One, an increase in energy generated during the second quarter of 2019 of 4% as compared to the second quarter of 2018 and 13 percentage point increase in availability of thermal units under Energía Base, which was 92% during the second quarter of 2019.
- 2) An increase in exchange rate for the quarter, higher than inflation for the period, which impacted tariffs set in U.S. dollars in terms of Argentine pesos current at the end of the reporting period. As a reference, the average foreign exchange rate during the second quarter increased 87% compared to the second quarter of 2018, while the inflation rate for the 12-month period ended on June 30, 2019 was 56%.
- 3) An increase in fuel remuneration for units under Energía Base, which amounted to Ps. 1.8 billion during the second quarter of 2019, mainly because of income in accordance to Resolution 70, in some of the units under Energía Base regulatory framework compared to Ps. 202 million during the second quarter of 2018.
- 4) A 445% increase in sales under contracts, which amounted to Ps. 546 million during the second quarter of 2019 as compared to Ps. 100 million in the second quarter of 2018, mainly due to the energy generated of wind farms Achiras and La Castellana I, which started operations during the third quarter of 2018 and revenues related to the recently acquired Brigadier López plant accrued during June 2019 as Jorge mentioned before, which amounted to Ps. 344 million.

It is worth noting that according to the transfer contract, the economic effects of this transaction were considered as of April 1, 2019. However, applying the accounting standards, the results associated to Brigadier López plant have been included on Central Puerto's income statement starting in June 2019, since the results of April and May were considered as part of the fair value of the liabilities and assets acquired. This increase in revenues was partially offset by the decrease in energy and power prices for units under Energy Base Regulatory framework established by Resolution 1, as Jorge mentioned before, starting on March 1, 2019.

Our gross profit in the quarter increased 64%. This increase was due to the above-mentioned revenues and was partially offset by an increase in the cost of sales that totaled Ps. 3.3 billion, compared to Ps. 1.8 billion in the second quarter of 2018. The increase in the cost of sales was mainly driven by:

First, an increase in the purchase of fuel and related concepts, which totaled Ps. 1.8 billion during the second quarter of 2019, as compared to Ps. 0.4 billion in the second quarter of 2018 due to; a); the cost of self-supplied fuel purchased in accordance to Resolution 70, as was mentioned before, and b); a higher price of natural gas used in the units that generate steam or electric energy under the Energía Plus framework, mainly due to an increase in the exchange rate for the second quarter of 2019, which was higher than the inflation for the period, which impacted the U.S. dollar denominated prices of natural gas in terms of the Argentine pesos. As a reference, the average foreign exchange rate during the second quarter of 2019 increased 87% compared to the second quarter of 2018, while the inflation rate for the 12-month period ended on June 30, 2019 was 56%.

Second, an 8% increase in non-fuel related costs of production, which totaled Ps. 1.5 billion in the second quarter of 2019 as compared to Ps. 1.4 billion in the second quarter of 2018, mainly due to; a); a 16% increase in compensation to employees and a 150% increase in maintenance costs, which was partially offset by a 31% decrease in fees and compensations for services.

Operating income before other operating results, net, increased 86% to Ps. 2.1 billion, compared to Ps. 1.1 billion in the second quarter of 2018. This increase was due to the above-mentioned increase in gross profit and a less-than-proportional increase in administrative and selling expenses that totaled Ps. 421 million, which represents a 3% increase as compared to Ps. 409 million in the second quarter of 2018.

Our adjusted EBITDA was around Ps. 3.1 billion, which includes Ps. 377 million in interest on foreign exchange difference associated with the FONI and similar programs and trade receivables, which are denominated in U.S. dollars. Without taking into account this effect, our adjusted EBITDA during the second quarter of 2019 was Ps. 2.8 billion, an increase of 55% as compared to Ps. 1.8 billion obtained in the same period of 2018. This increase was mainly driven by the increase in gross profit mentioned above.

In order to have a more precise estimation of the operational cash flow generated during the period, it is important to consider the FONI collections. During the second quarter, we collected Ps. 3 billion from the FONI trade receivables, including the collections from CVO mentioned by Jorge earlier.

Consolidated net income was Ps. 1.4 billion in the second quarter of 2019. In addition to the above-mentioned factors, net income was: A), positively impacted by lower financial expenses that amounted to Ps. 590 million in the second quarter of 2018, compared to Ps. 2.1 billion in the second quarter of 2018; and B), negatively impacted by lower financial income, which amounted to Ps. 556 million during the second quarter of 2019 compared to Ps. 1.4 billion in the second quarter of 2018. In each case -- in both cases, in A and B, mainly due to the foreign exchange difference over U.S. dollar denominated debt and financial assets respectively, which excludes FONI and other trade receivables.

Additionally, the results from the share of profit of associates decreased to Ps. 240 million in the second quarter of 2019 as compared to Ps. 484 million in the second quarter of 2018, mainly due to weaker results from Ecogas.

Finally, results for exposure to the exchange rate to the change in the purchasing power of currency totaled Ps. 1.2 billion during the second quarter of 2019 as compared to Ps. 770 million in the second quarter of 2018. During the second quarter of 2019, we received loans to finance our expansion projects. We received \$100 million for the acquisition of Brigadier López plant, \$44 million for the Luján de Cuyo project, \$37.5 million for La Genoveva II and \$12.5 million for La Castellana II.

We used the proceeds of these loans for the expansion of our current installed capacity including the acquisition of the Brigadier López plant and the thermal and renewable energy projects.

Thank you, and now, we invite you to ask any questions to our team.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. To ask a question you may press star (*) then one (1) on your touch-tone 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 (2). At this time, we will pause for a moment to assemble our roster. Our first question today will come from Frank McGann of Bank of America. Please go ahead.

Frank McGann

Okay. Thank you, very much. I just was wondering how you are thinking about your investment program and as you are looking at the uncertain environment here, the market itself has already been somewhat soft because of excess capacity, but I was wondering if you had any just thoughts on how the current uncertainty and perhaps your views on possible policy going forward could impact those investment plans?

Jorge Rauber

Okay. Thanks, Frank. I will answer this question as long as I can. The first thing to say is that we assume, and our expectation is that the government if changes, as expected, will not change the regulation regarding the PPAs, which are currently set in US dollars. All our expansion planning is based on PPAs paid in dollars and we do not expect any kind of change. Why? Because it is what they did in the past, in fact they were in power for a long time and always comply with the rules regarding the PPAs. So our expansion plan, the units that we are building today, the renewable projects and the power plants, we will continue as expected without any kind of change. Probably the regulation will change for the existing plants perhaps there is some risk of pesification, but that will just target the legacy capacity and not the expansion of all the units of the system.

Change in regulation regarding the PPAs will have a very bad impact on the market. There are a lot of projects under construction and the changed regulation regarding this will be very bad sign for the market, and we do not expect them to take this kind of measure.

Frank McGann

Okay. If I could just follow-up -- in terms of FONINVEMEM payments, is it correct to say that since they started that plan under the Cristina government that -- they paid all the amounts that were due at the time that, that you would not expect any change in payments that would come from remuneration from that plan?

Jorge Rauber

No, for sure, they created that scheme. Our contract was signed with them, and for the years that we were related to that kind of program, with that government they always comply with the installments. They duly paid all the amounts that were agreed. So we do not expect changes regarding this. I mean, it was a project created by them.

Fernando Bonnet

Yes, and another important thing regarding that is that the amount that is still unpaid is not a significative amount for the government. Is a very small portion. We have in our balance sheet \$490 million dollars, we are the biggest [holder]. So the remaining portion of that FONINVEMEM scheme is not relevant for the government.

Frank McGann

Thank you very much.

Tomás Daghlian

Thank you.

Operator

Again, if you would like to ask a question, please press star (*) and then one (1). Our next question today will come from Ezequiel Fernández of CrediCorp. Please go ahead.

Ezequiel Fernández

Hi, good day. This is Ezequiel Fernández from CrediCorp Capital. A couple of questions have been already addressed. Thank you. I would like to go back to the FONINVEMEM receivable. If you could give us a little bit more color on what is the legal structure of the agreement, is it a contract between private parties? Any sense of what could make this solid would be helpful? Thank you.

Jorge Rauber

It is basically agreement between the government and private generators in order to invest in account receivables which were outstanding at that time. So it is basically this. After that it was implemented through a trust, but it is basically agreement between the government and the private generators signed by the previous administration, which was previous to Macri, the Kirchner administration.

Ezequiel Fernández

Thank you. Yes, I am more or less aware of the layers of history with the FONINVEMEM, but I wanted to know if the contract is precisely with the federal government or being with CAMMESA, it can be considered a contract between private entities or not?

Jorge Rauber

I mean our agreement is directly with the government. After that it was implemented through an agreement, a contract between the trust and CAMMESA in order just to collect the money that after that is sent to pay us, but our agreement is with the government.

Ezequiel Fernández

Okay, great. Thank you very much.

Operator

Once again, ladies and gentlemen, if you would like to ask a question, please press star (*) and then one (1). We have a question from Arthur Byrnes of Deltec Asset Management. Please go ahead.

Arthur Byrnes

Thank you. I wanted to ask a question. Assuming your revenues continue to be honored going forward, does the 20 odd percent devaluation of the currency affect in any way your ability to repay debt?

Fernando Bonnet

No, because our debt is very small in comparison with our revenues today. We are below 1.5, yes, 1.4 times EBITDA. So we do not see any problem to repay our debt.

Tomás Daghlian

Besides that, we expect that for next year 65% of our EBITDA will come from the PPA contracts which are not subject to changes in there conditions and the currency in which they are fit. So we think that we are in a good position and besides, we have the FONINVEMEM cash flow.

Arthur Byrnes

Very good. Thank you very much.

Operator

Ladies and gentlemen, this will conclude our question-and-answer session. At this time, I would like to turn the conference back over to Mr. Rauber for closing remarks.

CONCLUSION

Jorge Rauber

Thank you to everyone and for your interest in Central Puerto. We encourage you to call us at any time for any information that you may need. Thank you and have a good afternoon.

Operator

Ladies and gentlemen, the conference has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.