15th January 2024

# Compañía General de Combustibles

Since 1920, the Argentine company Compañía General de Combustibles (CGC) has been dedicated to the development, production, and exploration of natural gas, crude oil, and LPG (upstream), and, to a lesser extent, gas transportation (midstream). Upstream activities are mainly carried out individually, while gas transportation is done through associated companies.

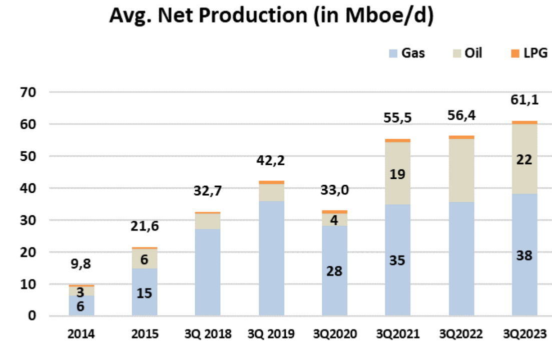
The company is involved in exploration and exploitation activities in the oil and gas fields of the Austral, Northwest, Gulf of San Jorge, and Cuyana basins in Argentina, being the main operator in the Austral basin. Moreover, the average term for these concessions is 2035. Additionally, the company has a stake in Termap, a port-operating company in Comodoro Rivadavia and Caleta Olivia. Regarding midstream, CGC participates in 40% of the natural gas transported in Argentina through its indirect 28.23% stake in TGN via Gasinvest, a company it owns equally with Tecpetrol. Furthermore, the group owns 43.5% of Gasandes Argentina, 43.5% of Gasandes Chile, and 15.8% of Transportadora de Gas del Mercosur (TGM).

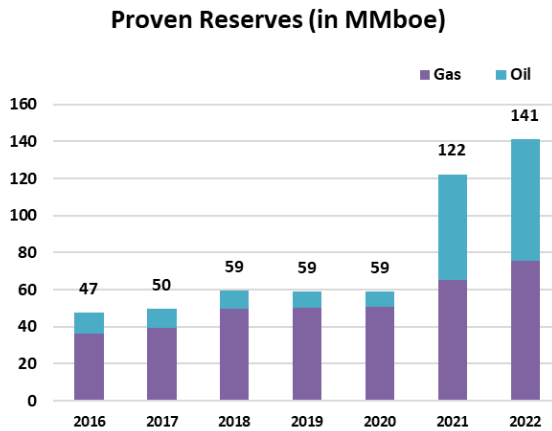
In 2014, the Corporación América group, led by Eduardo Eurnekian (CAAP), acquired 70% of CGC's shares through Latin Exploration SLU. The remaining 30% remained in the hands of another Argentine holding, Comercial del Plata (COME). CGC follows a fiscal year that ends in December, and its latest results for the fiscal year 2023 were presented after the third quarter.

## Production

During 3Q23, the company achieved a total production of 61.1 thousand barrels of hydrocarbons per day (Mboe/d), representing an 8% year-on-year increase and setting a new historical record for the company.

CGC has pursued an ambitious expansion plan in recent years. The most recent significant acquisition, in mid-2021, was Sinopec (now CGC Energía), thus further consolidating production to over 60 Mboe/d and doubling proven reserves to over 140 MMboe.

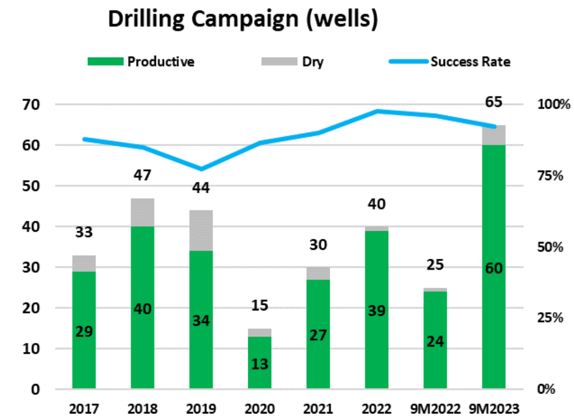



**Source:** Cucchiara Research based on FS.

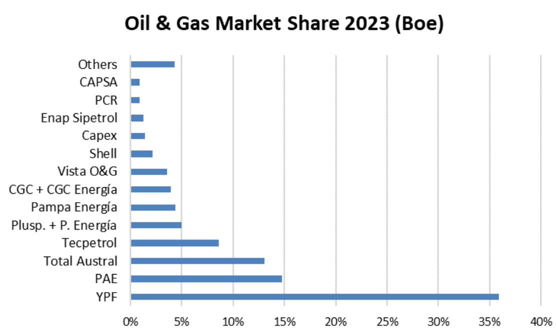
In the third quarter of 2023, gas accounted for 63% of the total production, crude oil 35%, and LPG 2%. The commencement of Sinopec's operations balanced the production ratio between oil and gas, with crude oil production increasing more than fourfold, providing greater diversification and coverage against market and regulatory risks associated with gas.

As previously discussed in our *Reports* (*see here*), the company aims to differentiate itself from competitors by expanding its development in the southern provinces of Argentina. In 2022, CGC initiated offshore exploration through an agreement with the Norwegian state-owned company Equinor, acquiring a 25% stake in two promising exploration permits with high potential east of Tierra del Fuego. In 2023, along with YPF, the company drilled the first well in the Palermo Aike shale formation, the second-largest unconventional play in Argentina. In the first 9 months of the year, the company drilled 65 wells (including 12 exploratory wells), with 60 proving to be productive. Of the total, 57% of these wells were associated with natural gas exploitation.



**Source:** Cucchiara Research based on institutional presentation.

After ten years of substantial capital investments, CGC has achieved a remarkable market repositioning, moving from the 40th position to become the sixth-largest hydrocarbon production company in Argentina in 2021. In 2023, it maintained its position in the top 10, ranking as the sixth non-state company, with a 3.9% market share, a contribution similar to that of Pampa Energía and Vista Oil & Gas.



**Source:** Cucchiara Research based on Department of Energy.

## Sales and Results

We will analyze the company's results on a consolidated basis. Due to the nature of its business tied to the international market, sales and results will be presented in dollars at the average or closing official exchange rate corresponding to each period, facilitating comparison over time.

Cumulative sales for the first 9 months of 2023 reached USD 1,036 million, reflecting a 35% increase compared to the same period last year and a 112% increase compared to 2021. The significant growth was mainly attributed to the consolidation of CGC Energía results from the third quarter of 2021.

Segment-wise, oil sales (Crude + LPG) accounted for 56% of revenues, reaching USD 584 million, a 17% increase over the first 9 months of 2022. This segment benefited from stable international prices throughout 2023, exceeding USD 80 for both Brent and WTI.

Revenues from gas sales accounted for 40%, totaling USD 415 million, an 83% increase compared to 2022. The substantial difference is due to the extension of the original contracts of Round 5.1 of the GasAR Plan until 2028, with a new price of 3.45 USD/MMBTU. Moreover, CGC participated in Round 5.2 tenders for incremental production, securing an additional price of 9.50 USD/MMBTU.

| CGC (USD mill.) | 9M22 | Var. (%) | 9M22 | Var. (%) | Var. USD (%) | Var. (bps) |
|---|---|---|---|---|---|---|
| Oil deliveries | 584 | 56% | 501 | 65% | 17% | -881 |
| Natural Gas | 415 | 40% | 227 | 30% | 83% | 1.049 |
| Services and others | 24 | 2% | 29 | 4% | -15% | -138 |
| Incentives | 13 | 1,2% | 12 | 1,5% | 8% | -30 |
| Total | 1036 | 100% | 769 | 100% | 35% | 0 |

**Source:** Cucchiara Research based on institutional presentation.

On the other hand, it is worth noting the improvement in adjusted EBITDA for the first 9 months of 2023, reaching USD 326 million and expanding by 33% compared to 2022. However, a significant increase in sales costs compared to previous periods led to a sharp decline in the company's margins. As a countermeasure, the company continues to build its inventories, reaching USD 113 million, a 63% increase compared to the end of 2022 and a 133% increase compared to 2021.

| CGC (USD mill.) | 9M23 | 9M22 | Var (%) | 9M21 | Var (%) |
|---|---|---|---|---|---|
| Sales | 1.036 | 769 | 35% | 488 | 112% |
| Cost of Sales | 849 | 601 | 41% | 274 | 210% |
| Gross profit | 187 | 168 | 11% | 214 | -12% |
| Adjusted EBITDA | 326 | 245 | 33% | 274 | 19% |
| Operating Income | 77 | 99 | -22% | 171 | -55% |
| Gross Margin | 18% | 22% | -379 bps | 44% | -2575 bps |
| EBITDA Margin | 31% | 32% | -44 bps | 56% | -2464 bps |
| Operating Margin | 7% | 13% | -544 bps | 35% | -2772 bps |

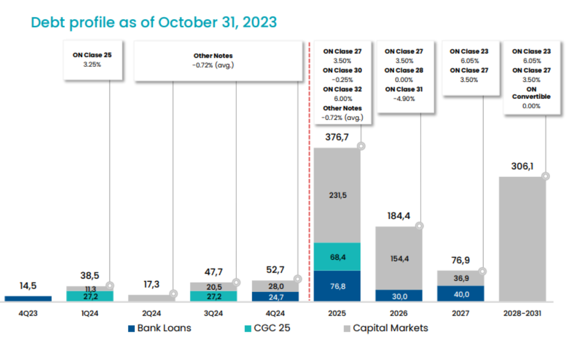
**Source:** Cucchiara Research based on FS.

## Debt Profile

In the last year, CGC placed debt for approximately USD 770 million, predominantly adjusted for exchange rates with an average maturity of 30 months and an average rate of only 1.10%. Total financial debt reached USD 1,115 million, representing a 56% increase compared to the same period last year. This completely changed its debt profile, which, at the close of the latest accounting results, consisted of the following: 83% in corporate debt (bonds and promissory notes), 13% in bank loans, and 2% in debts with related parties.

In July of the previous year, after a private agreement with Dow Chemical Company, CGC subscribed to convertible bonds for a capital amount of USD 200 million. The subscription allowed CGC to early redeem dollar-linked debt from the market. Thus, of the total debt, 62% corresponds to dollar-linked bonds; 11% to the hard-dollar class 17 bond under New York law maturing in 2025; 9% in Argentine law bonds payable in hard currency, and the remaining 18% to bank loans and intercompany debts.

Due to the financial debt, the company will have to pay approximately USD 35.6 million annually in interest. Thanks to favorable local market conditions for issuing dollar-linked bonds and the company's notable access to the market, the cost of financing decreased to approximately 3.2% per year—a very low rate due to the effect of dollar-linked issuances. Of the total, 49% of the financial debt matures in less than two years, while the remaining 51% is distributed until 2031, resulting in an average life of 2.7 years.




**Source:** Institutional Presentation.

CGC's cash and equivalents reach USD 147 million, with 74% denominated in dollars. Financial assets, all denominated in dollars and valued at fair value, reached USD 150 million (composed of quoted stocks and sovereign debt securities). Thus, the company's liquidity amounts to USD 297 million, reflecting a 12% reduction compared to the previous year.

Consequently, net financial debt stands at USD 818 million, representing a 62% increase. At these levels, debt ratios are 1.9 for net leverage and 12.2 for interest coverage.

| CGC (USD Mill.) | 3Q23 | 3Q22 | Var. (%) | 3Q21 | Var. (%) |
|---|---|---|---|---|---|
| Total Debt | 1.115 | 714 | 56% | 592 | 88% |
| Cash & Equivalents | 147 | 205 | -28% | 330 | -55% |
| Marketable Securities | 150 | 5 | 3228% | 8 | 1762% |
| Net Debt | 818 | 505 | 62% | 255 | 221% |
| Annualized EBITDA | 435 | 327 | 33% | 365 | 19% |
| Leverage | 1,9 | 1,5 | 22% | 0,7 | 169% |
| Annual Interest | 36 | 35 | 3% | 40 | -11% |
| Interest Coverage | 12,2 | 9,5 | 29% | 9,2 | 33% |

**Source:** Cucchiara Research based on FS.

### CGCSA 9 ½ 03/08/25 Corp

The bond has an annual interest coupon of 9.5% and pays interest semiannually in March and September. The bond began amortizing in September 2022, and its current residual value is 60.1%. There are 2 semiannual installments of 13.3% remaining and a final installment of 33.5% due in March 2025, reducing its duration to just 0.8 years.

The bond trades clean at 101% with a yield to maturity of 8% and a minimum denomination of 1,000.

**Source:** Bloomberg.

### Outlook

For more than ten years, the company heavily invested in the energy sector, and in recent years, the global context shifted towards a greater demand for fossil fuels. Combined with the country's repositioning as a key player in this market and its potential opening, CGC has the opportunity to exploit its acquired capabilities in production, exploitation, and reserves, as well as in the transportation and export of gas and oil to neighboring countries.

CGC 2025 is a bond with good performance, a short duration, and an attractive amortization schedule to add to a portfolio. The decline in operating margins, coupled with increased debt and reduced cash, has raised its leverage ratios. Nevertheless, considering the company's expansion, CGC maintains a manageable financial position.

As we have been mentioning, Argentine corporates listed in the international market compressed significantly compared to regional comparables, but there are still attractive names, and CGC is one of them. For this reason, we continue to maintain a significant position of the hard-dollar bond in our funds.

Kind regards,

juan@cucchiara.com.ar
ian@cucchiara.com.ar
manuel@cucchiara.com.ar
tomasmangino@cucchiara.com.ar