August 19, 2024

**Transportadora de Gas del Sur S.A.**

Transportadora de Gas del Sur (TGS) is a leading Argentine gas company offering comprehensive services to the gas industry. As the foremost transportation company in the country, TGS operates across several segments: natural gas transportation, liquid gases, and midstream operations, among other services.

Its gas pipeline system connects gas fields in the south and west of Argentina with gas distributors, power generators, and industrial plants. In this highly regulated segment, the company transports 60% of the country's annual gas consumption through over 9,200 km of pipelines. TGS is also the second-largest liquid processor in the country, with a processing capacity of 47 MM m$^3$/d. The company sells over 1.1 million tons of liquids annually. Additionally, TGS has a significant presence in Vaca Muerta as a midstream operator, with 182 km of pipelines and a transportation capacity of 60 MM m$^3$/d, as well as gas treatment plants with a conditioning capacity of 14.8 MM m$^3$/d. In this segment, it operates and maintains the GPNK pipeline.

TGS's controlling entity is Compañía de Inversiones de Energía (CIESA), which holds 51% of the equity. CIESA's shareholders include Pampa Energía with 50%, Grupo Inversor Petroquímica (Sielecki family) with 27%, and PCT LLC of Brazilian Safra with 23%. Consequently, Pampa Energía indirectly owns 25.5% of TGS. The remaining equity is distributed as follows: ANSES holds 24%, free float in the NY and BA markets accounts for 20%, and TGS itself holds the remaining 5%.

## Results

TGS reported results for first half of 2024 (1H24). Most of the balance sheet is in USD, so we will review the figures by dollarizing flows and stocks at the average or closing official exchange rate, as appropriate.

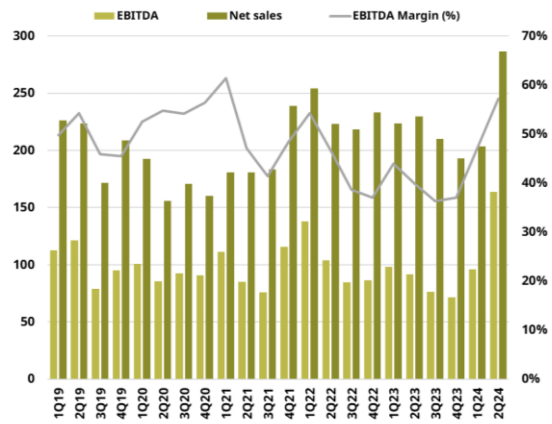
In our previous report (see here), we identified a significant drop in TGS's EBITDA and margins during the first nine months of 2023. This decline was primarily due to accumulated delays in tariff adjustments for gas transportation and the substantial impact of rising costs across all segments caused by high inflation of the peso. However, the devaluation last December, which reduced costs in local currency, combined with a significant improvement in gas transportation tariffs and continued growth in the midstream segment, led to very positive results in 1H24.

At the end of 1H24, sales totaled USD 490 million. This represents an 8% improvement compared to 1H23 and a 3% increase compared to 1H22. EBITDA performed remarkably, reaching USD 260 million, 37% higher than in 1H23 and 7% above 1H22. The operating margin reached 52%, a level not seen since 2020, and the EBITDA margin reached 53%, an improvement of more than 1,100 basis points from 1H23.

| million USD | 1S24 | 1S23 | Var (%) | LTM | 2023 | Var (%) |
|---|---|---|---|---|---|---|
| Net sales | 490 | 453 | 8% | 893 | 856 | 4% |
| Operating result | 256 | 182 | 41% | 397 | 323 | 23% |
| EBITDA | 260 | 190 | 37% | 408 | 338 | 21% |
| Operating margin | 52% | 40% | 1213 pb | 44% | 38% | 676 pb |
| EBITDA margin | 53% | 42% | 1115 pb | 46% | 39% | 621 pb |

**Source:** Sekoia Research based on financial statements.

**Net sales and EBITDA (mill. of USD)**




**Source:** Sekoia Research based on financial statements.

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**Natural Gas Transportation:** During the 1H24, this segment reported sales of USD 148 million, reflecting a notable 50% improvement compared to 1H23. Unlike previous periods, the tariff adjustment policy implemented by the new government enabled gas transportation to return to a growth trajectory, reversing the operational losses seen in 2023. Transportation sales accounted for 30% of TGS's total revenue, compared to 22% in 1H23. There is still room for improvement, as annual sales in this segment reached USD 386 million in FY19.

Starting in April, ENARGAS approved a 675% tariff increase. Initially, the new tariff was to be adjusted monthly from May based on an index composed of wages and inflation; however, this formula was suspended. Instead, the government approved a 4% increase starting in August and is expected to establish a new adjustment index based on projected inflation. By early next year, the government has committed to completing the "Revisión Tarifaria Integral" (RTI) to create a long-term tariff program with companies.

The segment's improvement is clearly reflected in EBITDA, which surged 115% in USD compared 1H23, now representing 32% of TGS's total EBITDA (up from just 16% in FY23). Additionally, the EBITDA margin increased significantly, rising from 39% to 56% in just one year. If the current tariff adjustment policy persists, TGS is expected to further enhance the segment's margins.

In terms of productivity, firm contracted capacity remained stable at 83.2 MM $m^3$/d in 1H24, while average daily deliveries increased to 67.6 MM $m^3$/d, up from 63.4 MM $m^3$/d in the previous year.
In September 2023, TGS requested an extension of its transportation license until 2037 from ENARGAS. In June, the regulator issued a report confirming TGS's full compliance with its obligations. It is anticipated that, following a new public hearing in the coming months, the executive branch will approve this extension. In this context, and under the tax reduction program for large investments known as the "Régimen de Incentivo para Grandes Inversiones" (RIGI), TGS has proposed a new investment plan of USD 700 million to expand its current transportation system. The project aims to boost transported volumes to replace gas and liquid imports during the winter season, with incremental production expected to reach 14 MM $m^3$/d by the winter of 2026.

**Production of Liquid Gases:** Sales for 1H24 reached USD 250 million, representing a 12% decrease compared to the same period in 2023. Unlike previous periods, which saw record production and sales, the local economic recession has impacted liquid gas sales. Local sales volumes, which account for 58% of the total, decreased by 18% compared to the previous year. In contrast, export volumes, making up 42% of the total, increased by 2%, largely due to a 42% rise in exported butane. Overall, volume declined by 10% compared to 1H23. In addition, international prices were insufficient to offset the reduction in quantities.

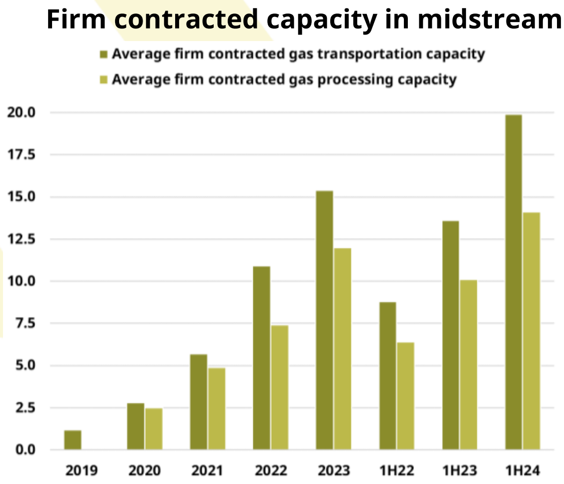
In 1H24, liquids represented 51% of total sales. 49% of liquid sales were exports (25% of all TGS sales), making it the only segment that generates revenue in foreign currency. For propane and butane, TGS must first supply the local market, but once the quota is met, it can offset local sales with exports.

However, the segment's EBITDA was positively impacted by the reduced cost of natural gas used for liquid production, which lowered production costs. In this lower-margin business, the decrease in gas prices resulted in an 8% improvement in EBITDA compared to the previous year, reaching USD 115 million. The

EBITDA margin also increased from 37% in 1H23 to 46%. Despite this improvement, the contribution of liquids to total EBITDA declined from 56% to 44% due to the weaker performance in comparison.

**Midstream:** TGS continues to experience productive growth in Vaca Muerta. In 2023, the gas treatment capacity of the Tratayén plant was expanded to 14.8 MM $m^3$/d. Additionally, the company extended its pipeline network in the Neuquén basin to 182 km, increasing its transportation capacity to 60 MM $m^3$/d. This expansion has led to new contracts and higher sales levels. In 1H24, revenues reached USD 89 million, accounting for 18% of TGS's total sales, marking a 33% increase compared to the 1H23.

Investments have positively impacted the segment's operational results. As of the 1H24, EBITDA totaled USD 63 million, a 38% increase from the same period last year, representing 24% of TGS's total EBITDA with a robust margin of 70%.



**Source:** Sekoia Research based on financial statements.

TGS is advancing with a USD 320 million investment to install two new modules at the Tratayén plant, expected to commence operations in 2H24. This expansion will nearly double the plant's treatment capacity to 28 MM $m^3$/d, with 13.2 MM $m^3$/d dedicated to LPG extraction. Additionally, in July 2023, TGS began operating the GPNK pipeline in the Tratayén-Salliqueló segment, which spans 573 km. Since December, the company has also incorporated the Mercedes-Cardales segment, an 80 km pipeline that complements the GPNK.

## Debt Profile

As of 1H24, TGS reported financial debt of USD 561 million, 6% higher than reported at 1H23. The debt is 100% dollar-denominated, 85% of it is composed of a corporate bond maturing in 2025, 12% in bank loans, and 3% in leases.

After the close of the quarter, TGS offered an early redemption of its 2025 bonds (ON). With 64% participation, the company redeemed the remaining USD 171 million outstanding, fully settling the debt. To finance this payment, TGS issued a new bond maturing in 2031. This bullet bond carries an 8.5% coupon with semi-annual payments and has an issuance amount of up to USD 490 million.

Thus, TGS created a new debt profile, free of significant capital payments until 2031. The company only needs to make payments of USD 76 million in the next 12 months and USD 10 million between 2025-2027.

TGS's cash and cash equivalents closed at USD 42 million in 1H24. Funds are mostly allocated to working capital, with 92% consisting of local currency mutual funds. Meanwhile, the company's financial assets increased compared to 1H23, totaling USD 586 million. These instruments are 87% dollar-denominated (32% in dollar-linked and 55% in hard dollar). Cash and marketable securities are considerable, considering CAPEX of USD 128 million during 1H24.

Net debt ended up being negative at USD 53 million. Compared to 1H23, interest coverage improved due to the early redemption of the 2025 bonds, resulting in lower interest payments in 2024. As a result, the company is in an excellent financial position. TGS is well-positioned to take advantage of a new environment with lower interest rates and/or a compression of the Argentine EMBI to finance future investment projects.

| million USD | 2Q24 | 2Q23 | Var (%) |
|---|---|---|---|
| Financial debt | 576 | 534 | 8% |
| Cash and equivalents | 42 | 33 | 27% |
| Financial assets | 586 | 506 | 16% |
| Net debt | -53 | -5 | 1045% |
| EBITDA (LTM) | 408 | 361 | 13% |
| Net debt/EBITDA | -0.1 | 0.0 | -0.1 |
| Annual interest | 31 | 38 | -17% |
| EBITDA/Interest | 13.1 | 9.6 | 3.5 |

**Source:** Sekoia Research based on financial statements.

### TRAGAS 8 ½ 2031

The bond trades at 101%-101.75%, offering a yield of 8.2% with a modified duration of 5.1 years. The 2031 bonds are accessible to retail investors, with a minimum investment of 10,000 and increments of 1,000.


**Source:** Bloomberg.

### Outlook

Since its issuance, the bond has benefited from reduced risk alongside the decline in U.S. Treasury yields. Among Argentine corporate bonds governed by New York law, such as those from YPF, Pampa, and PAE, the TRAGAS 8.5% 2031 bond stands out as one of the best options in terms of risk/return ratio. Consequently, our dollar-denominated fixed income funds maintain a significant weighting in the bond.

Considering its negative net debt and its strong financial position, it is an excellent option for achieving attractive returns with low risk. Additionally, the company still has room for improvement; in the coming quarters, the tariff adjustments granted should enhance gas transportation margins, while midstream will continue to expand in Vaca Muerta.

Best regards

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