September 24th, 2024

Genneia S.A.

Genneia is Argentina's leading renewable energy generation company, specializing in the development, construction, and operation of wind and solar parks. It began operations in 2007 with the sale of thermal energy and became the first local company to offer wind energy in 2012, marking its entry into the renewable sector. Today, Genneia accounts for 20% of the country's renewable energy production.

The shareholders of Genneia include Argentum Investments I LLC with 44% (Darío Lizzano from TGLT and Caputo), Fintech Energy LLC with 25% (David Martínez from Cablevisión and Telecom), the Brito and Carballo families with 25% (Banco Macro), and Prado Largo S.A. with 6%.

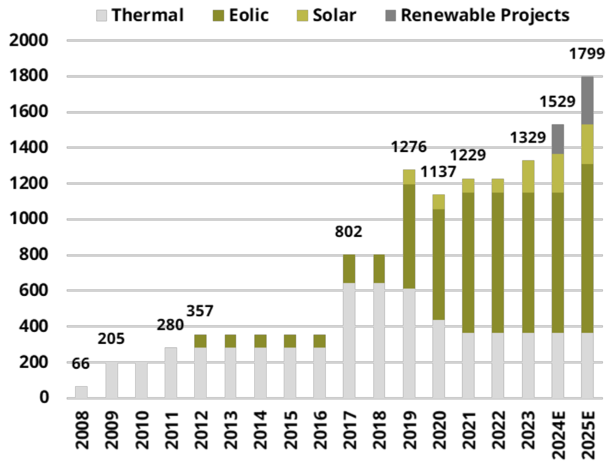
Production

As of the latest 2Q24 results, Genneia's total installed capacity reached 1,367 MW, with 57% generated from wind energy, 16% from solar, and 27% from conventional thermal energy. Compared to 2Q23, the company expanded its capacity by 5%, adding 60 MW in February following the launch of operations at the Tocota III solar park.

As noted in previous reports, Genneia has been steadily increasing its renewable generation capacity. It currently operates seven wind parks and three solar parks, while making progress on new projects: La Elbita wind park (162 MW) and Los Molles (90 MW) and Anchoris (180 MW) solar parks. La Elbita is expected to become operational in 4Q24, with Los Molles anticipated to start operations in 2Q25 and Anchoris in 4Q25.

Since 2018, Genneia has more than quadrupled its renewable installed capacity. By 2025, renewable assets are projected to account for 80% of the total installed capacity.

Evolution of Installed Capacity (MW)



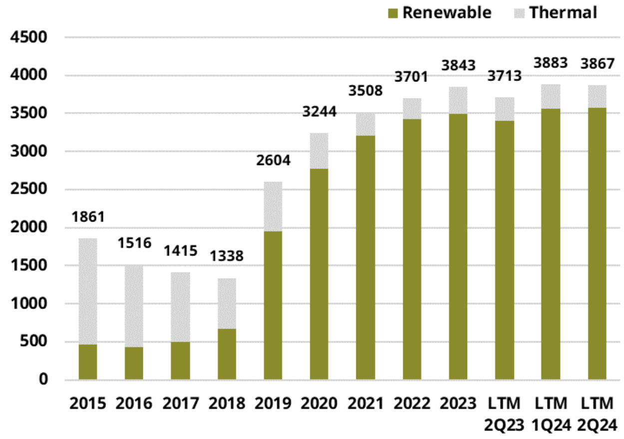
Source: Sekoia Research based on IR Genneia.

Capital expenditures for the Tocota III and La Elbita projects, totaling USD 290 million, have been fully financed, with 84% executed as of 2Q24. Meanwhile, the CAPEX for Los Molles and Anchoris, amounting to USD 250 million, is 38% executed, with USD 154 million still requiring financing. The promotion of clean energy enables Genneia to access international credit agencies and issue green bonds.

In terms of productivity, the average for 1H24 showed a decline compared to 1H23. The wind capacity factor remained stable at 45%, close to the company's historical average, while the solar capacity factor fell to 25%, marking its lowest level for the first half since 2019. Additionally, thermal availability decreased compared to the previous year, dropping from 99% to 97%.

The increased installed capacity offsets the decline in efficiency. During the 1H24, Genneia produced 1,892 GWh, representing a 1% increase compared to 1H23. Renewable sources contributed 1,760 GWh, accounting for 93% of the total and showing a 5% increase from 1H23, while conventional energy experienced a significant decrease, contributing 29% less than in the previous year.

Total Energy Generation (GWh)



Source: Sekoia Research based on IR Genneia.

Results

Genneia's assets operate under various regulatory frameworks. Renewable energy projects are governed by RenovAr, Res. 202, MATER, and GENREN. All sales from renewable sources are linked to the official exchange rate, accounting for 85% of Genneia's total revenues over the last 12 months (LTM).

RenovAr and Res. 202, which together represent 58% of the total, are backed by FODER, a trust with the Argentine state as the trustee. Additionally, under RenovAr, agreements benefit from the added guarantee of the World Bank as the ultimate payer.

Through the MATER (Renewable Energy Futures Market), Genneia generated 10% of its total income. Genneia sells energy directly to private clients, without the mediation of CAMMESA, at more competitive and stable prices.

A smaller portion of renewable generation operates under GENREN, accounting for 17% of the total. Within this framework, sales lack guarantees beyond the payment obligation that CAMMESA must fulfill for dispatched energy.

Finally, the remaining 15% of income was generated from the sale of conventional energy to CAMMESA, also without guarantees. The Bragado II and III thermal plants operated under dollar contracts (Resolution 21), while the Cruz Alta plant operated under the Energía Base scheme, with prices in Argentine pesos and no defined adjustment mechanisms.

As mentioned earlier, Genneia's revenues are primarily linked to the official exchange rate. Due to the nature of its business, liabilities and assets are mainly denominated in dollars. Therefore, we will analyze the company's balance sheet and results based on the average or closing official exchange rate for each reporting period.

In H124, Genneia achieved revenues of USD 150 million, 1% above H123 and 2% higher than H122. Of the total, 83% was generated by renewables, which grew 3% compared to the previous year. The Sierras de Ullum and Tocota III solar parks contributed to this revenue growth. However, these gains were partially offset by lower revenues from wind energy due to reduced wind conditions and a decline in revenue from the Base Energy scheme of the Cruz Alta thermal plant.

On the other hand, EBITDA for 1H24 decreased significantly, totaling USD 112 million, which is 6% lower than in 1H23 and 5% less than 1H22. Renewable generation accounted for 98% of EBITDA, reflecting a 4% increase in dollar terms compared to 1H23.

The decline in EBITDA was primarily due to a loss of trade receivables. During 2023, Genneia experienced an average delay of 90 days in collections from CAMMESA. Following the change in government, the new administration postponed payments for dispatches from December 2023, January 2024, and February 2024. It wasn't until early May that the Secretariat of Energy established the payment of the outstanding balance. Payments for December and January were made using sovereign bonds maturing in 2038 (AE38) at par value and in accordance with the official exchange rate, while the February debt was settled in cash. Given that the AE38 parity was at 50% at the time of collection, Genneia incurred a loss of USD 5.2 million.

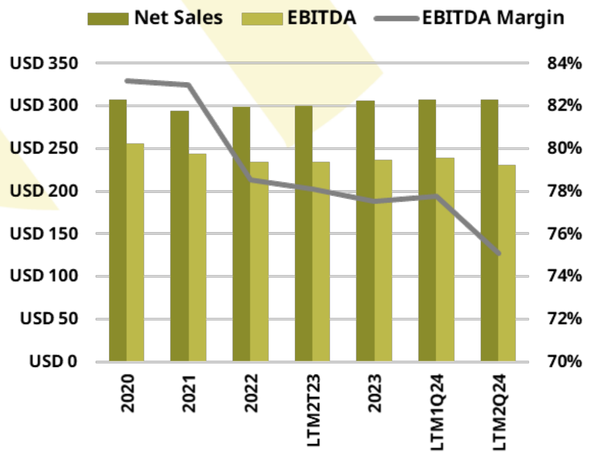
Additionally, EBITDA in 1H24 was affected by rising corporate-related expenses. Corporate EBITDA decreased by USD 3 million compared to 1H23, driven by increased hiring and rising costs associated with the company's expansion plan.

USD millions	1H24	1H23	Var (%)	1H22	Var (%)
Net Sales	150	149	1%	147	2%
Renewable Energy	125	122	3%	122	2%
Thermal	22	23	-3%	21	5%
Corporate and other	3	5	-32%	4	-18%
Operating Profit	78	86	-10%	84	-7%
Operating Margin	52%	58%	-600pb	57%	-500pb
EBITDA	112	119	-6%	119	-5%
Renewable Energy	110	106	4%	107	2%
Thermal	19	19	-2%	18	5%
Corporate and other	-16	-6	-185%	-6	-157%
EBITDA Margin	75%	80%	-500pb	81%	-600pb

Source: Sekoia Research based on Balance Sheets.

The transformation of Genneia began in 2016, following capital contributions from its partners, which led to increased revenues and EBITDA in the subsequent years. However, since 2020, rising expenses denominated in pesos and the expansion of costs associated with the company's growth have contributed to a deterioration in EBITDA margins. Over the last 12 months (LTM), the EBITDA margin reached 74%, representing a decline of 800 basis points compared to the fiscal year 2020.

Evolution of Revenue and EBITDA

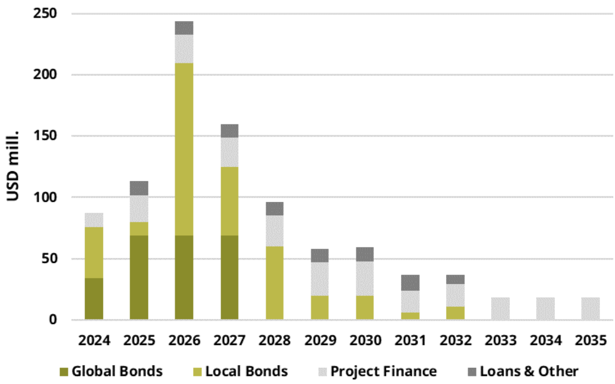


Source: Sekoia Research based on Balance Sheets.

Debt Profile

As of the end of 1H24, financial debt totaled USD 881 million, reflecting a 14% increase compared to the end of 1H23. Over the past year, the company issued new debt in the local market, capitalizing on the strong demand for dollar-linked and hard dollar instruments in Argentina due to a significant exchange rate gap. The debt was entirely denominated in dollars: 71% in corporate bonds, including 28% hard dollar bonds under New York law, 39% dollar-linked bonds, and 4% hard dollar bonds under Argentine law. The remaining 29% comprised credits from export agencies and development banks. As of 1H24, the average weighted life of the debt was 3.4 years.

Debt Maturities (Consolidated BS & Assoc.)



Source: Sekoia Research based on IR Genneia.

Considering cash and marketable securities, net debt reached USD 655 million, 7% higher than in H123. The increased debt was partially offset by a stronger cash and asset position. Based on LTM EBITDA, the company reached a net leverage of 2.8x, slightly above the levels in H123 and H122. Projecting the same interest paid in H124 into the second half, EBITDA coverage against interest declined to approximately 4 times.

USD millions	2Q24	4Q23	Var (%)	2Q23	Var (%)	4Q22	2Q22
Financial Debt	881	826	7%	771	14%	751	741
Cash & Fin. Assets	226	148	53%	161	40%	149	126
Net Debt	655	678	-3%	609	7%	602	616
EBITDA (LTM)	231	237	-3%	235	-2%	235	247
Net Debt/EBITDA	2,8	2,9	0,0	2,6	0,2	2,6	2,5
Annual Interest	58	54	7%	47	22%	58	68
EBITDA/Interest	4,0	4,4	-0,4	5,0	-1,0	4,1	3,6

Source: Sekoia Research based on Balance Sheets.

GNNEIA 8 ¾ 2027

The NY law bond is classified as a Green Bond by the International Capital Market Association (ICMA). It features a coupon rate of 8.75%, matures in 2027, and has ten semi-annual installments. With 40% of the principal already repaid, its duration is currently 1.5 years. The bond has a minimum denomination of USD 1,000 and trades clean at around 102%, offering a yield of 7.4%. Notably, the bond is backed by receivables from the Madryn I and II wind farms, supported by FODER. Payments are made by CAMMESA through a local trust.

Source: Bloomberg.

Outlook

Since the end of 2023, the bond has experienced a significant compression of risk. A more stable environment, characterized by a decrease in country risk and falling Treasury bond yields, has positively impacted the bond's valuation. Additionally, demand for local bonds with strong credit quality has risen recently, particularly following the introduction of the Asset Regularization Regime in Argentina.

With revenues linked to the official dollar, the company's income followed the currency adjustment at the end of the 2023. Furthermore, by operating with well-secured assets, the losses from CAMMESA credits did not significantly impact the company's cash flows.

The increased renewable capacity allows for continual improvement in the quality of its regulatory framework. By 2026, Genneia estimates that 30% of its revenues will derive directly from MATER. Given the current wind and solar projects, the level of leverage is expected to decrease in the coming quarters.

Compared to peers with similar durations, it operates with a yield above PAMPAR 9 ½ 2026 (5.9%) but below YPF Luz 10% 2026 (8.5%). Given that YPF Luz closed 2Q24 with a comparable level of leverage, we prefer its issuance at current prices.

Nonetheless, due to the prudence of its management and its ability to secure financing, GNNEIA 8 ¾ 2027 remains an attractive option for diversifying Argentine corporate portfolios, which are currently predominantly focused on gas and oil industry.

Kind regards,

Sekoia Research
research@sekoia.com.uy