

RESEARCH

Weekly corporate recap

📅 February 10, 2022

Better to play it safe

In a context of regulatory uncertainty over the electricity market, part of our strategy is to play it safe in a sector that has proven to be supported by all governments since 2007.

Our take is that renewable energies will be a crucial sector while companies with cash flow predictability will be the ones that can get through this challenging operating environment.

As mentioned on January 26th in our report “Renewable Projects are Not Lost” recently, there have been improvements in regulations implemented by the Energy Secretariat on the operation of the Renewable Energy Term Market (MATER) that incentivize bilateral contracts between private parties (PPAs) for the use of renewable energies by large users.

Within the renewable energy sector, Genneia has proven to obtain COD for its projects, finance its CAPEX, and reduce its net debt levels to 3.1x LTM EBITDA as of Q3 2021.

Genneia has USD 235 MM LTM of EBITDA where ~89% comes from renewable sources. The company has been decreasing its thermal installed capacity and plans to continue growing in renewables.

93% of revenues come from PPAs with a weighted average contract life of 15 years. All contracts are dollarized, and 58% are guaranteed through the renewable energy development fund called **Fondo para el Desarrollo de las Energías Renovables (FODER)**. FODER is a trust backed by the World Bank. It is important to note that FODER was created with national funds planned to back payments for many projects that did not materialize, **so FODER usually is overfunded.**

Growth opportunities for the company may come from the construction of renewable projects adjacent to the client's production facilities so that large energy users can have energy without going through the SADI, the Argentine electricity interconnection system.

GNNEIA 27s is trading at 93.67 clean, yielding 11.6% with a current yield of 9.34%. We prefer GNNEIA 27s over PAMPAR 27s & PAMPAR 29s for its lower duration and the proximity of the following coupon payment on March 2nd.

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