

October 31, 2022

CAPEX S.A.

Capex is a company controlled by Compañías Asociadas Petroleras (CAPSA), which owns 74.8% of the shares. The majority shareholder of Capex is the Götz family which holds 11.7% of the shares directly and 74.8% indirectly through the control of CAPSA. The remaining percentage of Capex's shares is held by the public sector and minority shareholders in the local market.

After its foundation in 1988, Capex began its operations in the exploration and production of hydrocarbons in the Province of Neuquén and later integrated its operations vertically through its expansion to the generation of electric power and the construction of the 672 MW Combined Cycle Thermal Power Plant and an LPG Plant.

As part of this vertical integration, the gas produced by the hydrocarbon segment in the reservoirs is processed in the LPG Plant to separate the liquid fluids from the dry gas and use the latter as fuel in the Thermal Power Plant for the production of electricity. Subsequently, through its subsidiaries Hychico and EG WIND, the Group started to develop renewable energy projects including wind generation and hydrogen and oxygen production.

In 2017, the company began a growth process that included the expansion of its hydrocarbon exploration and production business through the purchase of different areas in Neuquén, Chubut, and Río Negro.

Production & Reserves

Given the substantial investments in O&G, the company increased its total sales volume by 70% and reconfigured its production matrix. In 2017,

the revenue share produced from thermal power represented 75% of its sales, while it now represents 31%. In contrast, revenues from O&G increased from 16% to 62% of the total revenues.

Regarding hydrocarbon extraction, oil production increased from 47 Mm3 per year in 2017 to 467 Mm3 per year in 2022, of which 73% is exported. As for gas, the increase was less significant, given that the company was already well positioned in this segment. Even so, its production increased by 20%, from 520 MMm3 per year to 630 MMm3 in the same period. Capex is thus positioned among the country's top ten producers.

Order	Gas	Mm3 LTM	Part. (%)	Order	Oil	m3 LTM	Part. (%)
1	YPF	12.465.724	28%	1	YPF	13.854.907	48%
2	Total	9.898.185	23%	2	PAE	5.466.675	19%
3	Tecpetrol	5.927.063	14%	3	Vista O&G	1.864.118	6%
4	PAE	4.941.557	11%	4	Pluspetrol	1.460.012	5%
5	Pampa	2.870.092	7%	5	Shell	1.261.438	4%
6	Pluspetrol	1.898.053	4%	6	CGC	890.463	3%
7	CGC	1.816.075	4%	7	Tecpetrol	741.278	3%
8	Enap	1.008.680	2%	8	Capsa	617.208	2%
9	CAPEX	579.140	1%	9	Pet.Com.Riv	460.667	2%
10	Vista O&G	495.094	1%	10	CAPEX	442.516	2%
11	Otros	1.920.539	4%	11	Otros	1.953.090	7%

Source: Sekoia Research based National Sec. of Energy.

On the other hand, the company has proven Oil reserves of 5,948 Mm3 and 5,823 bln m3 of Gas. This implies a significant increase of 67% in oil and 3% in gas. In addition, the company obtained the extension of the concession for 10 more years in the Loma Negra (until 2034) and La Yesera (until 2037) fields. In the latter, the company increased its share from 18.75% to 37.5% of the block's total production.

Field	% Part.	Concession Expiration	Reserves		Proven	
					Total 12.31.21	Total 12.31.20
Agua del Cajón	100%	2052	Gas	MMm3 (1)	4.285	4.783
			Oil	Mbbl	2.585	2.793
				Mm3	411	444
Bella Vista Oeste	100%	2045	Oil	Mbbl	7.937	7.214
				Mm3	1.262	1.147
			Gas	MMm3 (1)	820	812
Loma Negra	37,5%	2034	Oil	Mbbl	1.264	1.337
				Mm3	201	213
			Gas	MMm3 (1)	80	40
La Yesera	37,50%	2037	Oil	Mbbl	672	394
				Mm3	107	63
			Gas	MMm3 (1)	71	43
Pampa del Castillo	95%	2026	Oil	Mbbl	24.113	10.666
				Mm3	3.834	1.696
			Gas	MMm3 (1)	567	-
Puesto Zúñiga	90%	2030	Oil	Mbbl	836	-
				Mm3	133	-
			Gas	MMm3 (1)	5.823	5.678
Total	100%	-	Oil	Mbbl	37.407	22.404
				Mm3	5.948	3.562

Source: Sekoia Research based on balance sheet data.¹

Latest Results

The company closes its balance sheet every April and the latest available results are for the 1Q23 as of July 31, 2022. In turn, due to the company's production structure, we will analyze the financial statements in US dollars.

The prices of the products exported by Capex are at historical highs, which mainly affects the last quarter of the fiscal year 2022 (Feb22/Apr22) and most of the first quarter of the current fiscal year 2023 (May22/Jul22). In this regard, this segment's revenues increased by 10% compared to the 4Q22 and by 142% compared to the 1Q22.

In contrast, despite the recovery of the local economy, sales corresponding to the electric power segment suffered several drawbacks. On the one hand, the delay in the update of energy prices, which was delayed until April 2022, when the Secretary of Energy updated by 30% the remunerated values of power (retroactive from February 2022) and added another 10% from June. On the other hand, the wind power

¹ Expressed in 9,300 Kcal per m3

generation segment was limited in delivering energy to the system due to restrictions in the dispatch due to caps in the existing national transmission capacity.

As a result, total sales for the 1Q23 reached US\$133 MM, 8% lower than in the previous quarter and 78% higher y/y. This translates into an EBITDA of US\$79 MM and an EBITDA margin of 59%. These values are equivalent to those obtained in 2018 and 2019 when the company was at its historic highs.

Capex (USD MM)	1Q23	4Q22	Var (%)	1Q22	Var (%)
O&G Sales	99	90	10%	41	142%
Energy Sales	31	48	-36%	31	-1%
Total Sales	133	145	-8%	74	78%
EBITDA	79	76	3%	48	65%
Operating Income	52	32	64%	30	74%
Net Income	47	17	170%	13	273%
Operating Margin	39%	22%	1.734 bps	40%	(99) bps
EBITDA Margin	59%	53%	668 bps	64%	(484) bps

Source: Sekoia Research based on balance sheet data.

Debt Profile

The company has a single debt of US\$243 MM corresponding to its corporate bond maturing in 2024. Taking advantage of its high liquidity, Capex carried out a strong repurchase of 61 MM bonds at an average price of 88%, which implied a 20% reduction of the initial issue for US\$300 MM.

In terms of its cash position, despite the 50% reduction in liquidity, the company has US\$58 MM available in cash and cash equivalents, 95% of which is denominated in US dollars. As a result, the net debt is US\$185 MM. Therefore, given the consolidation in the increase of its operating cash flow, the company has a net leverage of 0.8x and 8x interest coverage.

However, assuming a scenario where the foreign exchange market cannot be accessed, given that its liabilities and cash are in hard currency, this would imply dollarizing operating cash flow at the free exchange rate or blue chip swap. In this regard, Capex exports 47% of its production, which would reduce its annualized EBITDA level to US\$185 MM, bringing the net leverage ratio to 1x and interest coverage to 6x.

Capex (USD MM)	1Q23	4Q22	Var (%)	1Q22	Var (%)
Total Debt	243	248	-2%	258	-6%
Cash & Eq.	58	92	-46%	106	-56%
Net Debt	185	156	18%	152	21%
EBITDA LTM	244	245	0%	86	185%
Net Leverage	0,8	0,6	11 bps	1,8	101 bps
Interest Coverage	8,0	8,0	0 bps	3,2	479 bps

Source: Sekoia Research based on balance sheet data.

The bond has international legislation, pays semi-annual coupons with an annual rate of 6.875%, and currently trades at 95%. This leaves a yield to maturity close to 9.79% with a modified duration of 1.46 years.

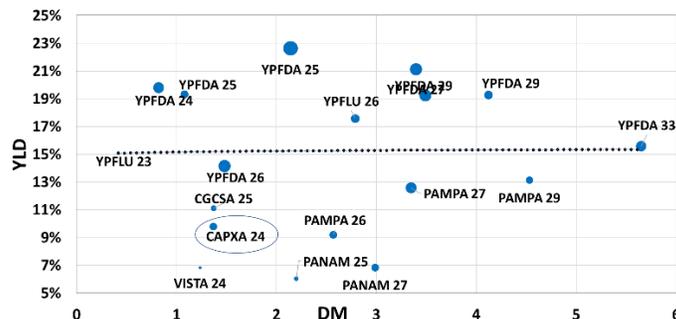
25 Bond Description		20 Issuer Description	
Pages			
Issuer Information			
10 Bond Info	Name	CAPEX SA	Identifiers
10 Adm. Info	Industry	Electric (BCLASS)	FIGI
10 Reg./Tax	Security Information		BBG00GNZ534
10 Covenants	Mkt Iss	EURO-DOLLAR	ISIN
10 Quarters	Ctry/Reg	AR	USP20058AC08
10 Bond Ratings	Rank	Sr Unsecured	ID Number
10 Identifiers	Coupon	6.875000	AN5563613
10 Exchanges	Cpn Freq	S/A	Bond Ratings
10 Inv Parties	Day Cnt	ISMA-30/360	S&P
10 Fees, Restrict	Maturity	05/15/2024	CCC+
10 Schedules	CALL	09/26/22@101.72	S&Pna
10 Coupons	Iss Yield	6.875	raBBB-
	Calc Type	(1)STREET CONVENTION	Fitch
	Pricing Date	05/10/2017	Composite
	Interest Accrual Date	05/15/2017	CCC+
	1st Settle Date	05/15/2017	Issuance & Trading
	1st Coupon Date	11/15/2017	Aggregated Amount Issued/Out
			USD 300,000.00 (M) /
			USD 300,000.00 (M)
			Min Piece/Increment
			1,000.00 / 1,000.00
			Par Amount 1,000.00
			Book Runner JOINT LEADS
			Reporting TRACE



Source: Bloomberg.

Given its strong balance sheet fundamentals, it makes sense that Capex is positioned well below

the yield curve of companies operating in the same sector.



Source: Sekoia Research based on Bloomberg.

Equity

CAPX's shares trade in the Argentine general stock and exchange market (ex S&P Merval Index) with a very low market capitalization, similar to the recently delisted PGR (Phoenix Global Resources PLC). Since 2022, Capex has performed extraordinarily well with a YTD gain of 476% in local currency, well above the S&P Merval index (+170%) and outperforming comparable Argentine stocks (YPFD +251%, VIST +298%, PAMP +199).

However, in contrast to the leading PAMP, YPFD, or VIST, its very low trading volume is worth mentioning, which poses a potential risk for the investor. CAPX's market capitalization represents only 6% of PAMP, 3% of YPFD, and 20% of VIST.



Source: Bloomberg.

The company does not usually distribute dividends. Only in 2022, due to the aforementioned results, the company decided to allocate part of its earnings to pay dividends for US\$27 MM, equivalent to US\$0.155 per outstanding share.

Outlook

The main risks that the company may face are regulatory risks from energy sales, commodity price risks from hydrocarbon sales, and limited access to foreign currency due to the critical exchange rate situation in the country. In this regard, given its payment capacity, financial strength, and clear maturity profile, Capex is undoubtedly a corporate bond to have in the portfolio in the event of a minimum price cut.

The bond has been one of our favorites in the Argentinean market for several years. Our fixed-income funds [CYC Renta Fija Argentina](#) and [CYC Dólares Renta Fija](#) have an 11% allocation respectively. On the equity side, we remain optimistic about both the sector and the company's excellent management. Our local equity fund, [CYC Renta Mixta](#) concentrates 10% of the stock in its assets, which makes it one of the local funds with the largest holdings in the stock.

Best regards.

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