

24 June 2024

PAN AMERICAN ENERGY S.L.

Pan American Energy S.L. Sucursal Argentina (PAE) is engaged in the exploration, development, and production of oil and gas, as well as the refining and commercialization of hydrocarbons and by-products. Since its inception in 1997, PAE has become the leading local producer in the industry with 100% private capital.

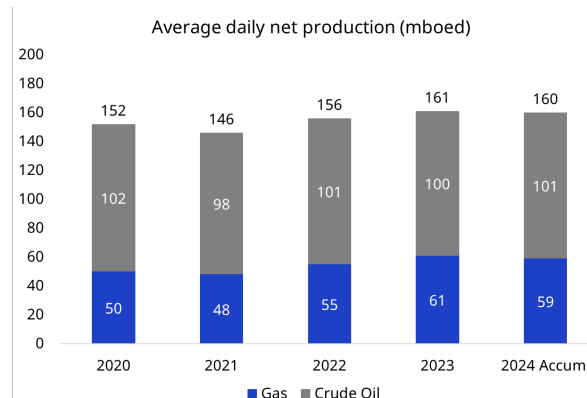
The company accounts for 15% of local crude oil production, making it the second-largest producer after YPF, and ranks third in natural gas production with 11%. PAE is fully integrated and ranks third in refining and fuel distribution in Argentina.

PAE Sucursal Argentina operates as the local subsidiary of the Spanish company Pan American Energy Group S.L., owned 50% each by entities controlled by British Petroleum plc (BP) and BC Energy Investments Corp. (formerly Bidas Corporation of the Bulgheroni family). In 2010, China's CNOOC Limited acquired Bidas' 50% stake, restructuring the company's current ownership.

Additionally, in 2012, Axion Energy was founded by the Bidas Corporation, acquiring refining and fuel sales assets from Exxon Mobil (Esso). In 2017, Axion was incorporated into PAE's structure after Bidas and BP consolidated their interests into a single integrated company.

Reserves & Production

PAE's refinery in Campana has a production capacity of 95,000 barrels per day, the country's third-largest, and currently operates 635 gas stations. As of the latest quarter ending March 31, 2024, oil production reached 101 mboe per day, with gas production at 59 mboe per day, similar to levels reported in the same period of 2023.



Source: Sekoia Research based on PAE's presentations.

Regarding reserves, PAE operates 13 production blocks and 7 exploration blocks in the Northwest of Argentina, Neuquén, and Golfo de San Jorge basins, totaling 1,436 mmboe in proven reserves (72% oil and 28% gas), which equates to an average of 25 years of production at current levels. Additionally, the company has certified reserves totaling 2,364 mmboe, with 63% conventional hydrocarbons and 37% unconventional.

Segments

Currently, 65% of total revenues come from sales in the domestic market. In this regard, 68% of the crude oil produced by PAE is used to supply almost entirely its refinery, which provides fuel and derivatives to the retail segment (44% of production), 22% to industry, and exports the remaining 34%. Additionally, 94% of the gas produced is allocated to the domestic market.

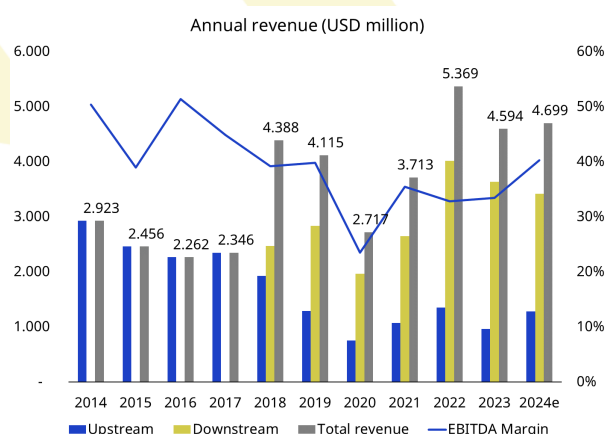
The remaining 35% of total revenues come from exports, of which 56% correspond to upstream (32% crude oil and 6% gas) and 44% to downstream. In this latter aspect, the company is one of the few nationally to have its own refinery, which allows it to export all incremental production without being limited by upstream export quotas.

Regarding the prices of the products marketed by PAE, from 2023 to date, the average price of Brent crude oil was USD 82 per barrel. Additionally, in December 2022, the Secretary of Energy awarded the company an initial volume offered in the Gas Plan of 2 million m³ per day of natural gas at USD 3.25 per million BTU starting from July 2023, an additional volume of 0.8 million m³ per day of natural gas at USD 3.35 per million BTU starting from January 2024, and finally, an additional volume of 1.75 million m³ per day of natural gas at USD 4.35 per million BTU for winter periods starting from 2025. Finally, the price of Premium fuel per liter has remained at USD 1.10 since early 2023.

Results

The company adopts the US dollar as its functional currency adjusted by year-end exchange rates for stocks and operation flows. Moreover, its income is largely denominated USD. Thus, financial statements will be analyzed in dollars using the official exchange rate (BCRA A3500) average or closing, as appropriate.

During the 2023 FY, sales reached USD 4.699 million, consistent with the annual average since the incorporation of Axion Energy and excluding years affected by COVID-19.



Source: Sekoia Research based on financial statements.

In the last quarter, total sales remained stable around USD 1.175 million, while total costs decreased by 2%. Consequently, EBITDA for the quarter reached USD 473 million, and margins expanded by 427 and 272 basis points compared to the same period in 2023.

PAE (Mill. USD)	1Q24	1Q23	Var (%)	1Q22	Var (%)
Revenue & Subsidies	1.175	1.182	-1%	1.277	-7%
Cost of sales	(757)	(804)	-6%	(1.039)	-23%
Operating costs	(196)	(172)	14%	(157)	9%
EBITDA	473	421	12%	285	48%
Operating Income	263	214	23%	84	155%
Net Income	167	152	10%	48	215%
Operating Margin	22%	18%	427 pb	7%	1152 pb
EBITDA Margin	40%	36%	272 pb	22%	1328 pb

Source: Sekoia Research based on financial statements.

Debt Profile

The company has a very good reputation and formidable access to credit. Between 2005 and 2009, it obtained loans from the IFC and the CAF totaling USD 1.220 million. Additionally, in 2023, it secured a new loan of USD 300 million from the same institution.

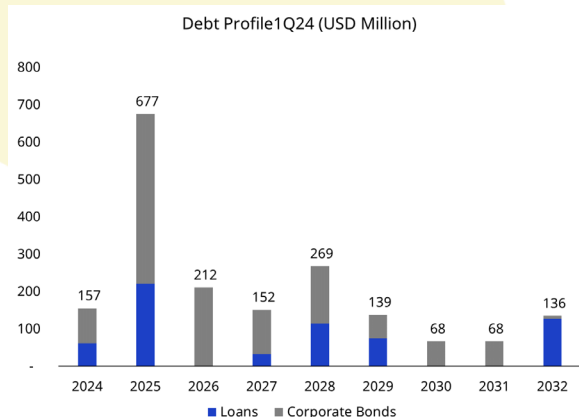
Total financial debt as of 1Q24 amounted to USD 1.917 million, of which 34% are loans from international organizations and banks and 66% are corporate bonds. Moreover, 85% of this debt is denominated in dollars or adjusted by the exchange rate, while 15% is in local currency.

As shown in the table below, the company has 16 bonds trading, with 55% in a dollar-linked fashion, 38% hard dollar, and the remaining 7% in pesos adjusted by UVA or BADLAR debt. This excludes the new bond issued by PAE after the latest financial statements were closed.

Bonds 1Q24 (USD Million)						
Bond (Class)	Maturity	Sink schedule	Type	Law	Coupon	Outstanding
5	2024	Bullet	DL	ARG	3%	81
23	2024	Bullet	BADLAR +	ARG	2%	6
27	2024	Bullet	BADLAR +	ARG	2,5%	4
7	2025	Bullet	DL	ARG	4,75%	100
21	2025	Bullet	USD	NY	7,25%	105
28	2025	Bullet	USD	ARG	4,95%	20
10	2025	Bullet	UVA +	ARG	3,49%	26
25	2025	Bullet	BADLAR +	ARG	2,74%	47
14	2026	Semiannual	DL	ARG	3,69%	19
29	2026	Bullet	USD	ARG	2,99%	20
30	2026	Bullet	USD	ARG	5,7%	30
12	2027	Semiannual	USD	NY	9,125%	300
18	2027	Bullet	DL	ARG	1,25%	25
26	2028	Bullet	DL	ARG	1%	120
13	2031	Semiannual	DL	ARG	5%	260
17	2032	Semiannual	DL	NY	4,25%	80
31	2032	Annual	USD	NY	8,5%	400

Source: Sekoia Research based on financial statements.

In June 2023, the company rescheduled payments for loans of USD 100 million with the International Finance Corporation, originally due in 2027 and extending them to 2032. Additionally, in April of this year, it issued a USD 400 million bond maturing in 2032.



Source: Sekoia Research based on financial statements.

At the end of the first quarter of 2024, the company reported cash & marketable securities totaling USD 397 million. Thus, the net leverage ratio represents only 1x the LTM EBITDA. This does not include inventories totaling USD 651 million.

Debt ratios (USD million)	1Q24	1Q23	y/y %	1Q22	y/y %
Loans	1.040	1.196	-13%	1.714	-30%
Corporate Bonds	1.274	1.321	-4%	1.299	2%
Total Debt	1.917	1.993	-4%	2.497	-20%
Cash & Marketable Securities	397	265	49%	482	-45%
Inventories	651	591	10%	558	6%
Net Debt	1.521	1.727	-12%	2.015	-14%
Annual interest (2024e)	216	145	49%	288	-50%
LTM EBITDA	1.595	1.909	-16%	1.345	42%
Net leverage	1,0	0,9	5%	1,5	-40%
Interest Coverage	7,4	13,1	-44%	4,7	182%

Source: Sekoia Research based on financial statements.

PAE has a bond maturing in 2027, secured by a debt reserve account that must hold a minimum of 100% of the funds needed for the next debt service, financed by exports. The bond carries a coupon of 9.125%, it trades at 104/105%, has a yield to maturity of 6.5%, a duration of 1.6 years and a minimum piece of 1.000. The sink schedule is composed of semiannual payments with amortization in five installments of 20% starting from 2025.

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Source: Bloomberg

Furthermore, as mentioned earlier, this year PAE issued a new amount of USD 400 million due in 2032, guaranteed by the parent company (Pan American Energy Group S.L). It carries an 8.5% coupon with semiannual payments and amortization in three annual installments starting from 2030. The bond has a piece of 1.000 and trades at 103.75/104.75%, with a yield to maturity of 7.7% and a duration of 5.1 years.

It should be noted that because of BCRA regulations, debts exceeding three years for companies with foreign export earnings may not liquidate those exports in order to meet their financial obligations.

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Source: Bloomberg

For many years, PAE has been one of the local corporate credits with which we feel comfortable. It trades above most Argentine corporates due to its solid financial ratios, backed by its strong shareholders, its parent company holding other businesses in Latin America, and above all, its smooth access to long-term credit via international organizations. Based on these fundamentals, our fixed income fund holds PANAME 2032.

At current prices and considering it operates in Argentina, we would expect some adjustment in its parity to find a more attractive entry point. At a yield of around 8% (102.50%), it would look appealing given the issuer's quality. It's an excellent company with a strong track record in debt commitment and access to global credit, but its prices are somewhat high given local risks.

Kind regards.

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