

12th of October, 2023

**AES Argentina Generación S.A.**

AES Argentina Generación is one of the biggest energy generation companies in Argentina. Beginning operations in 1993, it has a diversified portfolio with three thermal power generation plants, four hydroelectric plants, and two wind parks. AES represents 7% of Argentina’s total capacity and 5% of the generated energy during 2022. It ranks third among generation companies, after Pampa Energía and Central Puerto. The company is wholly owned by the American energy giant AES Corp., which has 32 GW of generation capacity in more than 14 countries and has 46% of its portfolio in renewable energy.

**Production**

As of the end of the first semester of 2023, AES had a total generation capacity of 2,985 MW. AES generators are located in the provinces of Buenos Aires, Neuquén, Salta, and San Juan. 53% comes from thermal sources, 40% from hydroelectric sources, and the remaining 7% from renewable sources.

As part of the privatizations during the Menem administration, AES entered the Argentine energy market with the acquisition of the San Nicolás thermal power plant (675 MW). The plant uses gas, gasoline, and coal as fuel. Later, in 1995, AES obtained concessions for the Cabra Corral and El Tunal hydroelectric plants (112 MW), and in 1996, it acquired the Sarmiento thermal power plant and the Ullum hydroelectric plant (78 MW) from the government. The hydroelectric plants work under 30-year concessions, with agreements set to expire between 2025 and 2026.

In 2000, AES Corp. purchased the concession for the Alicurá hydroelectric plant from Southern Energy. The corporation also made a capital contribution of USD 140 million to reduce the company's debt. The 1,050 MW hydroelectric plant is the third biggest in Argentina, accounting for 23% of the energy generated by AES in 2022 and representing 35% of its installed capacity today.

Subsequently, in 2001, AES began operations at the combined-cycle Paraná thermal power plant, a project that had started in 1999. It accounts for 29% of AES's current installed capacity and generated 36% of its energy in 2022.

In 2020, the company invested USD 278 million in two wind parks, Vientos Bonaerenses and Vientos Neuquinos, each with a capacity of 100 MW. Furthermore, in 2022 AES executed the option to purchase shares of Sierras del Buendía S.A. This new AES subsidiary has permits to develop the 140 MW Macondo Wind Park. As such, wind energy accounted for 12% of the energy produced in 2022.

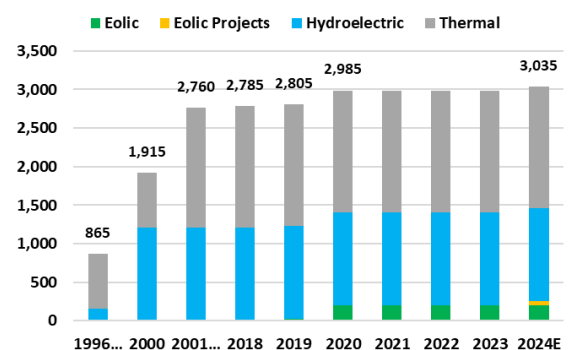
**Operating and Projected Assets**

Assets	MW	Regulation	Term	Start	End
<b>Thermal</b>	<b>1,578</b>				
Paraná	870	Base Energy	-	2001	-
San Nicolás	675	Base Energy	-	1993	-
Sarmiento	33	Base Energy	-	1996	-
<b>Hydroelectric</b>	<b>1152</b>				
Alicurá	1,050	Base Energy	40 years	2000	August-23
Cabra Corral	102	Base Energy	30 years	1995	November-25
El Tunal	10	Base Energy	30 years	1995	November-25
Ullum	45	Base Energy	30 years	1996	March-26
<b>Eolic</b>	<b>200</b>				
Vientos Bonaerens	80	Renovar	20 years	feb-20	feb-40
Vientos Bonaerens	20	MATER	-	oct-19	-
Vientos Neuquinos	100	MATER	-	jun-20	-

Source: Sekoia Research based on AES financial statements

Finally, in May 2023, the company announced a new investment of USD 90 million to expand the Vientos Bonaerenses wind park by 50 MW. It is estimated that the energy contracts will be closed by the end of this year, and operations will begin in 2024.

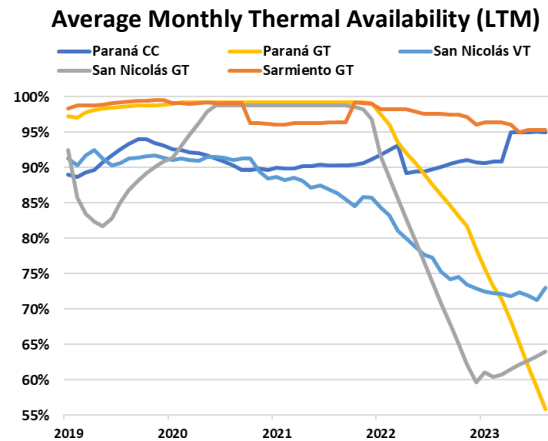
**Installed capacity (MW)**



Source: Sekoia Research based on AES investor presentations

Despite its recent expansion into renewables, the company has only expanded its installed capacity by 8% since 2001. The nearly 20 years without new investments, coupled with a tariff policy with significantly delayed prices, has resulted in AES having a portfolio heavily focused on conventional energy sources, with some highly amortized assets.

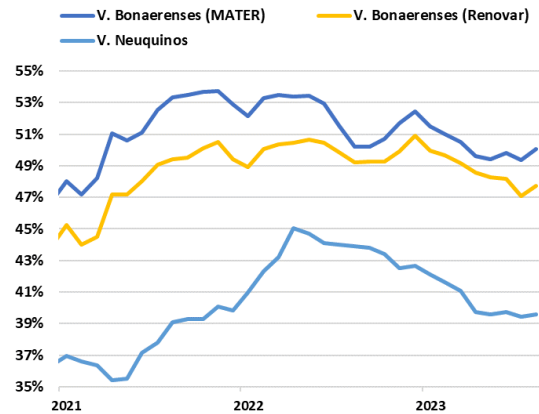
In terms of productivity levels, the dispatch of the thermal power plants has deteriorated due to maintenance work. As of the end of the most recent quarter, the gas turbine Paraná and the steam and gas turbines of San Nicolás reached an average thermal availability of 62%, 72%, and 63%, respectively. These are very low indicators compared to the ones achieved during the second quarter of the previous year, 89%, 78%, and 77%, respectively. The decrease in both plants' availability was due to maintenance tasks that were bigger than expected, resulting in more days with turbines out of service.



Source: Sekoia Research based on CAMMESA data

In contrast, in terms of hydroelectric sources, the production showed an increase compared to the same period of the previous year. This was purely due to hydrological factors, the average inflow of the Limay River at Alicurá was higher than in 2021. On the other hand, in the wind energy sector, due to lower wind speeds recorded the weighted average capacity factor at the end of the first half of 2023 was 49.5% for Vientos Bonaerenses and 39.7% for Vientos Neuquinos. This represented a decrease compared to the same period of the previous year.

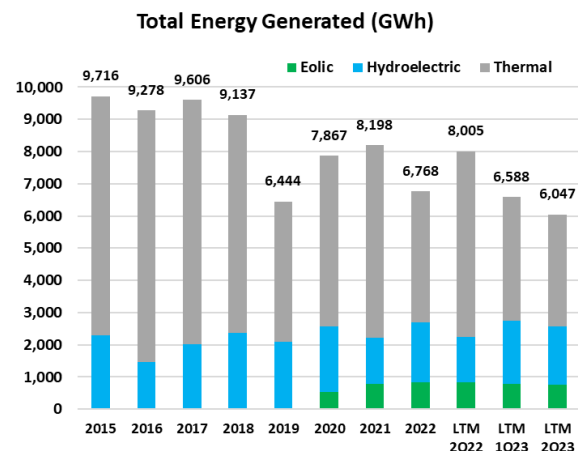
Average Monthly Load Factor (LTM)



Source: Sekoia Research based on CAMMESA data

In the trailing 12 months, AES's total energy generation reached 6,047 GWh, a year-on-year decrease of 24%. The decline was reflected in the 40% decrease in thermal volumes and an 8% decrease in wind energy, which could not compensate for the 27% increase in hydroelectric generation.

The decline in dispatch from the thermal power plants is also evident in historical terms. In 2016, AES generated 7,802 GWh from thermal sources, twice the amount dispatched in 2022. The lack of an attractive tariff policy not only failed to incentivize new investments but has also led to underutilization of available capacity.



Source: Sekoia Research based on AES investor presentations

**Sales and EBITDA**

The latest results for AES are as of the end of the second quarter of 2023. The company earns most of its revenue in pesos, however, its liabilities are primarily in hard currency and the nature of its business requires significant capital investments. Accordingly, we will analyze the company's financial statements in dollars at the average or closing official exchange rate depending on the observed period.

In recent years, AES's revenues have followed the fluctuations in tariff policy. AES's sales depend primarily on the price of electricity sold to CAMMESA within the framework of the Base Energy regulatory system. The energy sales from the three thermal power plants, along with the four hydroelectric plants concessioned by AES, are tied to the tariff policy defined by the Secretary of Energy.

In 2017, Resolution 19/2017 dollarized the remuneration, which became payable based on the official exchange rate. As a result, revenues reached USD 335 million, and EBITDA reached USD 179 million. The EBITDA margin reached a peak of 53%. This tariff policy remained in effect until 2019 when Resolution 1/2019 reduced dollar remunerations and imposed new conditions that affected older and less efficient plants, including several of AES's assets.

The reduction in remuneration for Base Energy was further intensified in 2020. In the context of the Emergency Law, Resolution 31/2020 reverted to peso-denominated tariffs, significantly affecting the revenues of power generation companies. In addition to peso-denominated tariffs at a rate of 60 pesos per dollar, there was a reduction in guaranteed power prices. Consequently, thermal generators saw their remuneration reduced by 14% to 18%, while for hydroelectric generators, the decrease was almost 45%. The new tariff framework stipulated a monthly inflation adjustment based on the evolution of consumer (CPI) and wholesale (IPIM) prices, a regulation that the Secretary of Energy suspended in April 2020 and was never implemented. In 2020, AES achieved sales of USD 263 million, a 22% decrease

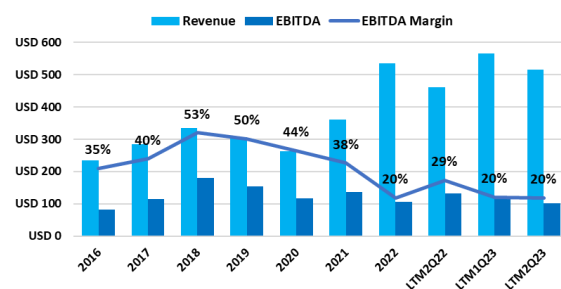
compared to 2018 and a 14% decrease compared to 2019, despite adding wind power capacity and generating higher energy volumes.

The tariff freeze continued during the pandemic until the beginning of 2021. Resolution 440/2021 updated tariffs by 29% starting in February 2021. Additionally, in November of the same year, Resolution 1037/2021 eliminated the power payment adjustment associated with the usage factor that disadvantaged older plants. These tariff improvements, combined with higher dispatch volumes, increased AES's revenues and EBITDA. However, due to mostly dollar-denominated cost of sales and expenses tied to inflation, margins continued to decline.

Tariff improvements became more significant in 2022. Resolution 238/2022 implemented increases of 20% and 10% in February and June, respectively. Meanwhile, Resolution 826/2022 improved remuneration for November and December and established a new schedule of increases for 2023, with a 25% and 28% increase in February and August, respectively. In 2022, AES ended with USD 536 million in sales.

In response to the clear lack of incentives for investment in thermal power plants, the Secretary of Energy issued Resolution 750/2023 in February 2023. It dollarized the tariffs in local currency for combined-cycle plants that adhere to a power availability agreement. AES included its Paraná plant to ensure coverage for the imported inputs required for maintenance.

**Revenue, EBITDA and margins. (in millions of USD)**



Source: Sekoia Research based on AES financial statements

Looking at recent data, sales for the first half of 2023 reached USD 223 million, 8% less than in the same period last year, but 55% higher than the first half of 2021. On the other hand, EBITDA declined by 5% compared to 2022 but was slightly higher than what was achieved during 2021. Recent tariff increases have managed to halt the deterioration of margins but it is clear that in a context of high inflation, AES's challenge remains its dependence on tariff policy.

**Operational Segments**

The company does not discriminate its revenues by source but by billing schemes. However, considering that the wind parks are the only ones operating under contracts, renewable energy revenues totaled USD 23 million in the last 12 months, accounting for 11% of total revenues. The remaining sales (88%) were paid by CAMMESA for dispatches from thermal and hydroelectric sources.

**Hydroelectric Generation:** Alongside other major hydroelectric plants in our country like El Chocón (1,200 MW), the original concession for Alicurá had a 30-year expiration date, which ended on August 11, 2023. However, one month before the expiration date, using the framework provided by the contracts, the government, through the Secretary of Energy, resolved to extend the concessions for 60 consecutive days, with the possibility of an additional 60-day extension. In this regulatory back-and-forth, AES will continue to be in charge of the plant, now with an expiration date of October 10 extendable to December 9, one day before the change of government. AES wishes to continue the concession.

USD Mill.	6M2023	6M2022	Var (%)	6M2021	Var (%)
Generation	143	164	-13%	77	85%
Power	56	52	7%	44	26%
Contracts	23	26	-10%	21	10%
Other	2	1	34%	1	44%

Source: Sekoia Research based on AES financial statements

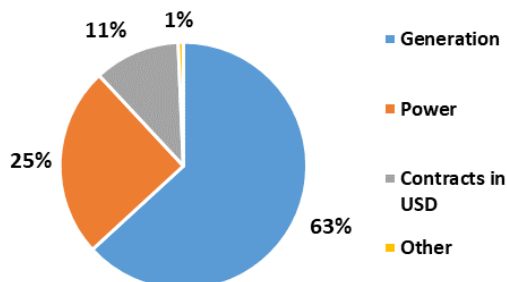
**Renewable Generation:** The 200 MW wind assets operate under regulatory frameworks with dollar-denominated prices through PPA contracts, payable at the official exchange rate. These are the only revenues AES has outside the Base Energy scheme. 80 MW are under the RenovAr framework, which allows for long-term PPA contracts between AES and CAMMESA. The remaining 120 MW falls under the MATER (Mercado a Término de Energías Renovables), enabling AES to sell energy to large industrial users under private long-term PPA contracts. The planned 50 MW expansion of Vientos Bonaerenses would further increase AES's participation in the MATER scheme.

**FONINMEM:** AES has been participating in the Fondo para Inversiones Necesarias que Permitan Incrementar la Oferta de Energía Eléctrica en el Mercado Eléctrico Mayorista ("FONINMEM") since its creation. This fund was established for the State to settle accounts payable to generators from 2004 to 2013. In the case of FONINMEM III, which constructed and maintains the Guillermo Brown thermal power plant, AES is still expected to receive monthly payments until April 2026. The payments are denominated in dollars and are paid at the official exchange rate. As of the end of the first half of 2023, the credits totaled USD 120.2 million.

**Debt Profile**

As of the end of June 2023, AES's consolidated financial debt totaled USD 296 million, 6% less than the end of 2022 and 17% lower than the same period of the previous year. The financial debt is fully payable in hard currency. At the latest closing, 96% corresponds to AES 7 ¾ 02/02/24 while the remaining 4% were bank loans in dollars.

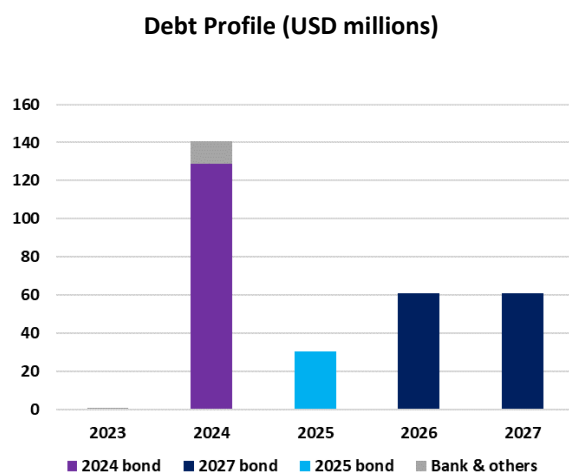
Revenue by contract scheme



However, days after the last closing, in compliance with BCRA regulations, the company initiated the exchange of its bond for a total of USD 274.5 million. AES offered bondholders two options: A) a new 2027 bond (AES 9 ½ 08/16/2027) with 4 semi-annual amortization installments, plus a cash consideration or B) 105% of the exchanged principal in the new bond. The cash option had a cap of USD 30.5 million, which was fully financed by the issuance of a new hard dollar Argentine Law bond, AES 8 07/15/25, issued during the participation period.

Due to the lack of participation in the exchange, AES extended the participation period three times and had to grant early exchange benefits to all participants. The exchange was completed at the end of August, with the company having to waive the minimum participation condition of 70%. The participation amounted to USD 145.6 million, 53% of the total (17% chose option A and received 62.5% in cash and 38.3% in bonds, while 36% opted for option B and received 105% in bonds). The new 2027 bond was issued for USD 122 million, and the company paid USD 30 million for the consideration and accrued interest with the credit provided by the bond due in 2025.

As a result of the exchange and new issuances, AES was unable to reduce its financial liabilities but managed to slightly extend the average maturity of its debt.



Source: Sekoia Research based on AES financial statements

On the other hand, the company's cash and current financial assets amounted to USD 89 million, which are almost wholly denominated in pesos. AES has only USD 13.3 million in hard currency (15% of the total), of which USD 12.1 million is restricted as collateral for bank loans due in 2024. The rest corresponds to banks, term deposits, and mutual funds in pesos.

After the completed exchange, net debt would stand at USD 205 million, which is 13% lower than at the end of 2022 and 40% lower than at the end of 2Q2022. Using trailing EBITDA, the company would have net a net leverage of 2, a significant improvement compared to previous periods. The decline in EBITDA due to lower gross margins and rising costs was offset by loan repayments and increased cash positions.

Moreover, the annual interest payments on financial debt remain relatively stable. The increase in debt cost was partially offset by the reduction in debt. The weighted average cost of debt after the exchange rose from 6.8% to 7.7% year-on-year, and due to lower EBITDA, the EBITDA to interest (coverage) ratio decreased from 5.2 to 4.4.

USD Mill.	2Q2023	4Q2022	Var (%)	2Q2022	Var (%)
Financial debt	295	315	-6%	357	-17%
Cash and eq.	89	78	14%	21	335%
Net financial debt	205	237	-13%	336	-39%
EBITDA (LTM)	102	106	-3%	133	-23%
Net Leverage	2.0	2.2	-0.2	2.5	-0.5
Annual interest	23	23	2%	25	-7%
Interest Coverage	4.4	4.6	-0.2	5.2	-0.9

Source: Sekoia Research based on AES financial statements

Furthermore, if we include the flows that the company expects to receive in the next 12 months from the monthly installments plus interest from FONINVEMEM, AES would receive USD 42.5 million. Net leverage would improve to 1.4, and the interest coverage would reach 6.2.

Nevertheless, we can consider a stress scenario with no access to the official foreign exchange rate for the purchase of foreign currency and debt service

payments. Such scenario is of extreme relevance for AES 7 ¼ 02/02/24.

Considering an average FX spread of 96% in the first half, EBITDA would almost halve, reaching USD 52 million. On the other hand, financial debt is issued 100% in dollars and cash and financial assets in pesos are at 85%, the result would be an increase in net debt to approximately USD 244 million.

In this scenario, AES would increase its net leverage to 4.7, and the interest coverage would decrease to 2.2. In 2024, the company has to pay USD 141 million in principal, with cash close to USD 51 million and projected EBITDA of USD 52 million, making it a highly stressed scenario. The equation improves if we incorporate 21.6 USD million from FONINVEMEM installment payments at the blue chip swap rate, but this would still be insufficient to cover the payments.

**Fixed Income**

The 2024 bond will have to pay USD 1,038.75 per 1,000 nominal. It has minimum trading quantity of 150,000 nominal and trades at around 88%. Its low parity and a yield to maturity of 41.6% reflect the risks associated with rolling it over at maturity.

Bond Description		Issuer Description		Identifiers	
<b>Pages</b>					
<b>Issuer Information</b>					
10 Bond Info	Name	AES ARGENTINA GENERACION	FIGI	BBG00FVBFN2	
11 Addl Info	Industry	Electric (BCLASS)	ISIN	USP1000CAA29	
12 Reg/Tax	<b>Security Information</b>				
13 Covenants	Mkt Iss	EURO-DOLLAR	ID Number	AM2938323	
14 Guarantors	<b>Bond Ratings</b>				
15 Bond Ratings	Ctry/Reg AR	Currency USD	S&P	CCC-	
16 Identifiers	Rank	Sr Unsecured	Series	Fitch	CCC
17 Exchanges	Coupon	7.500000	Type	Composite	CCC-
18 Inv Parties	Cpn Freq	S/A	<b>Issuance &amp; Trading</b>		
19 Fees, Restrict	Day Cnt	ISMA-30/360	Iss Price	100.0000	
20 Schedules	Maturity	02/02/2024	<b>Aggregated Amount Issued/Out</b>		
21 Coupons	Iss Yield 7.750		USD	300,000.00 (M) /	
22 Interest	Calc Type (1)STREET CONVENTION		USD	128,646.00 (M)	
23 Quick Links	Pricing Date	01/26/2017	Min Piece/Increment		
24 ALLQ Pricing	Trade Hist	150,000.00 / 1,000.00	1.00/ 1.00		
25 ORD Qf Recap	1st Coupon Date	08/02/2017	Par Amount	1,000.00	
26 TDH Trade Hist	Exchange Notice Date	07/13/2023	Book Runner	CS,ITAU,JPM	
27 CACS Corp Action	Exchange Expiration Date	08/24/2023	Reporting	TRACE	
28 CF Filings	<b>Holders</b>				
29 CN Sec News	ISS'D IN EXCHANGE OF CUSIP 00107VAA1/ISIN USP1000CAA29.				
30 HDS Holders					
31 Send Bond					



Since the currency crisis of 2018, the bond has consistently yielded above the Argentine corporate curve and has exhibited significant volatility. Its yield increases almost linearly as its maturity date approaches.

On the other hand, the 2027 bond has a coupon rate of 9.5% and matures in 4 semi-annual installments until its maturity in August 2027, with a minimum trading volume of 1 nominal. The 2027 bond has no trading volume yet.

Bond Description		Issuer Description		Identifiers	
<b>Pages</b>					
<b>Issuer Information</b>					
10 Bond Info	Name	AES ARGENTINA GENERACION	FIGI	BBG01J34MLN9	
11 Addl Info	Industry	Electric (BCLASS)	ISIN	USP1000CAE41	
12 Reg/Tax	<b>Security Information</b>				
13 Covenants	Mkt Iss	EURO-DOLLAR	ID Number	Z16125895	
14 Guarantors	<b>Bond Ratings</b>				
15 Bond Ratings	Ctry/Reg AR	Currency USD	S&P	CCC-	
16 Identifiers	Rank	Sr Unsecured	Series	Fitch	CCC
17 Exchanges	Coupon	9.500000	Type	Composite	CCC-
18 Inv Parties	Cpn Freq	S/A	<b>Issuance &amp; Trading</b>		
19 Fees, Restrict	Day Cnt	ISMA-30/360	Iss Price	100.0000	
20 Schedules	Maturity	08/16/2027	<b>Aggregated Amount Issued/Out</b>		
21 Coupons	Iss Yield 9.500		USD	121,990.60 (M) /	
22 Interest	Calc Type (77)PRO-RATA-PAR SINKS		USD	121,990.60 (M)	
23 Quick Links	Pricing Date	07/13/2023	Min Piece/Increment		
24 ALLQ Pricing	Trade Hist	150,000.00 / 1,000.00	1.00/ 1.00		
25 ORD Qf Recap	1st Coupon Date	08/30/2023	Par Amount	1,000.00	
26 TDH Trade Hist	Exchange Notice Date	07/13/2023	Book Runner	CS,ITAU,JPM	
27 CACS Corp Action	Exchange Expiration Date	08/24/2023	Reporting	TRACE	
28 CF Filings	<b>Holders</b>				
29 CN Sec News	ISS'D IN EXCHANGE OF CUSIP 00107VAA1/ISIN USP1000CAA29.				
30 HDS Holders					
31 Send Bond					

**Outlook**

Considering the income from FONINVEMEM, the leverage ratio appears moderate. Net leverage is not high, but in the context of strong exchange rate pressure and a macroeconomic environment without reserves, liquidity is the pressing issue. In this thesis, the market turned its back on AES in the last exchange. We believe this was a consequence of the company's significant currency mismatch.

At the moment, it is not clear how the company will meet the payment of the 2024 bond. The inability to obtain a good debt rollover continues to put pressure on short-term liquidity risks. A scenario of dual exchange rates would be a knockout for the company, nor would a significant devaluation of the official exchange rate be entirely advantageous.

Despite the high yield, the bond's parity remains high at 88% leaving ample room for downward movement in the event of increased financial stress, complicating a rollover. We do not hold a position in AES in our funds, as we are not comfortable with the

issuer. While the parent company, AES Corp., is an energy giant after the recent experience of Guacolda in Chile, a debt rescue by the parent company does not seem very likely.

Best regards,

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