24 of May 2023

CAPEX S.A.

Founded in 1988, Capex began its operations in the hydrocarbon exploration and production segment. Over time, the company vertically integrated all of its operations, which involved the construction of a Combined Cycle Thermal Power Plant and an LPG Plant that supplies it. Furthermore, Capex has sought to establish a strong presence in the renewable energy segment through its subsidiaries, Hychico and EG WIND. This expansion includes the construction of two wind energy parks and the production of hydrogen and oxygen.

In 2017, the company initiated a significant growth process by expanding its hydrocarbon business. This expansion was achieved through the acquisition of stakes and concessions in various areas located in the provinces of Neuquén, Chubut, and Río Negro. The following are the businesses in which Capex and its subsidiaries participate:

Oil & Gas					
Operation	Province	Share	Operator	Concession expiration	Activity type
Field. Agua del Cajón	Neuquén	100%	Capex	2052	Oil & Gas Exploration and Production
Field. Pampa del Castillo	Chubut	95%	Capex	2026	Oil & Gas Exploration and Production
Field. Loma Negra	Rio Negro	37,5%	Capex	2034	Oil & Gas Exploration and Production
Field. La Yesera	Rio Negro	37,5% (1)	Capex	2037	Oil & Gas Exploration and Production
Field. Bella Vista Oeste	Chubut	100%	Capex	2045	Oil & Gas Exploration and Production
Field. Parva Negra Oeste	Neuquén	90%	Capex	2027	Oil & Gas Exploration and Production
Field. Puesto Zúñiga	Rio Negro	90%	Capex	2030	Oil & Gas Exploration and Production

Power Generation & Derivative Processing				
Operation	Province	Share	Operator	Activity type
Thermal Power Plant Agua del Cajón	Neuquén	100%	Capex	Power Generation
Liquefied petroleum gas plant Agua del Cajón	Neuquén	95%	Servicios Buproneu	Processing and separation of liq. gases derived from gas
Wind farm Diadema I	Chubut	85,2%	Hychico	Wind Power
Wind farm Diadema II	Chubut	99,3%	EG Wind	Wind Power
hydrogen & oxygen Production plant	Chubut	85,2%	Hychico	Renewable Energy

Source: Sekoia Research based on balance sheet data.

The company is controlled by Compañías Asociadas Petroleras (CAPSA), which holds 74.8% of the shares. Both Capex and CAPSA leverage their joint synergies in order to streamline their operations in the Oil & Gas sector. The majority shareholder of Capex is the Götz family, who have a significant history in the local oil industry. The Götz family holds a direct stake of 11.7% and an indirect stake of 74.8% through their control of CAPSA. The remaining percentage of shares is traded on the local stock market, with 10.7% held by the FGS of ANSES, and 2.8% held by minority shareholders.

Reserves

As mentioned in our previous reports (see here), Capex is among the top 10 Oil & Gas companies in the country and possesses proven reserves of 4,726 million cubic meters of oil and 7,346 billion cubic meters of gas.

According to the latest financial statements, crude oil reserves decreased by 21% y/y but increased by 33% compared to 2021. Meanwhile, gas reserves increased by 26% y/y and 29% compared to 2021. Additionally, the company received confirmation of a 25-year contract extension from the province of Rio Negro for the Puesto Zúñiga fields.[1]

Operation	Share	Concession expiration	Reserves		Proven		
					Total 01.31.23	Total 12.31.21	Total 12.31.20
Agua del Cajón	100%	2052	Gas	MMm3 (1)	4.285	4.285	4.783
			Oil	Mbbl	2.585	2.585	2.793
				Mm3	894	411	444
Bella Vista Oeste	100%	2045	Oil	Mbbl	7.937	7.937	7.214
				Mm3	1.262	1.262	1.147
Loma Negra	37,5%	2034	Gas	MMm3 (1)	2.189	820	812
			Oil	Mbbl	3.378	1.264	1.337
				Mm3	537	201	213
La Yesera	37,50%	2037	Gas	MMm3 (1)	212	80	40
			Oil	Mbbl	1.792	672	394
				Mm3	285	107	63
Pampa del Castillo	95%	2026	Gas	MMm3 (1)	30	71	43
			Oil	Mbbl	10.064	24.113	10.666
				Mm3	1.600	3.834	1.696
Puesto Zúñiga	90%	2047	Gas	MMm3 (1)	630	567	-
			Oil	Mbbl	930	836	-
				Mm3	148	133	-
Total	**100%**	-	**Gas**	**MMm3 (1)**	**7.346**	**5.823**	**5.678**
			Oil	**Mbbl**	**26.686**	**37.407**	**22.404**
				Mm3	**4.726**	**5.948**	**3.562**

Source: Sekoia Research based on balance sheet data.[2]

[1] On the other hand, in the La Yesera field, YPF chose not to participate in the extension of the area, leaving Capex as the holder of a 35% concession until 5/8/27. From that date onwards, this percentage will be managed by Capex, and the company's participation in the concession will increase to 72.5%.

[2] Expressed in 9,300 Kcal per m3.

Results

The company's fiscal year closes in April, and the latest available results correspond to the first nine months of 2023, ending on January 31, 2023. Additionally, in order to gain a better understanding, we will analyze the financial statements in dollars, using the average official exchange rate or the closing rate, as applicable, considering the company's production structure.

Following significant investments made since 2017, Capex has experienced a 70% increase in sales and has also experienced a change in its revenue profile. Currently, 70% of its revenues come from hydrocarbon exploitation, two-thirds of which are exported, while the remaining 30% comes from sales of energy and derivatives targeting the domestic market.

At present, the company diversifies its production into the following segments: hydrocarbon extraction and exploitation, thermal power generation, processing of liquid gases and derivatives, renewable energy generation, and oxygen production.

Oil and Gas: The company produces a type of heavy oil with an extraction cost of around USD 32 per barrel but it has a significant penetration in the international market allowing capex to export 68% of its production. Revenues reached USD 263 million during the first nine months of 2023, a 58% increase compared to the same period last year and a 214% increase compared to the same period in 2021.

Sales in the domestic market increased by 42%, mainly due to a volume increase. Meanwhile, revenues in the foreign market increased by 12% due to both volume and price increases.

Oil production at the end of 3Q23 increased by 13.5% to 333,256 m^3 compared to 3Q22, thanks to the incorporation of crude oil from the Puesto Zúñiga area and the positive results obtained from other investments, primarily in the Bella Vista Oeste and Pampa del Castillo areas.

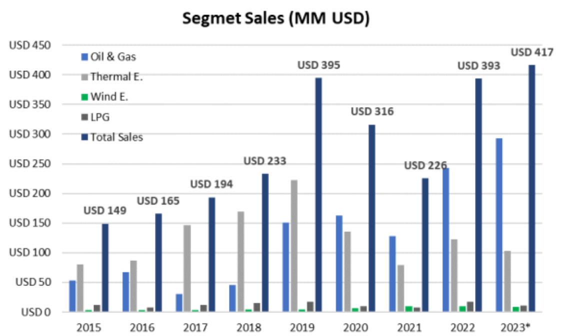
Thermal Power: The company utilizes its entire gas production for thermal power generation, exclusively supplying the domestic market.

Revenues generated from the operations of the ADC Thermal Power Plant reached USD 93 million, marking a 9% increase compared to the same period last year. However, it should be noted that there is a distortion caused by the difference between the devaluation rate in 2022 of 72% and the inflation rate of 95%. Consequently, the revenues measured in pesos decreased by 18%. Furthermore, the revenues associated with the compensation recognized by CAMMESA to Capex for the company's own gas consumed in the ADC Thermal Power Plant decreased by 13%.

As the dispatch volumes of electricity-generating gas remained constant, the revenues from power generation decreased primarily due to a lower selling price. In 2021, the Ministry of Energy eliminated the update of remunerative values with the Consumer Price Index (IPC) and the Producer Price Index of the Manufacturing Sector (IPIM). Then, in April 2022, energy prices increased by 30% with an additional 10% increase starting in June, and another 30% increase in December. The latest resolution foresees a 25% increase from February 2023 and an additional 28% increase from August 2023. However, these increases were not enough to offset the aforementioned inflation, and based on current estimations, they will also fail to compensate for future inflation too.

Wind Energy: Revenues for the first nine months of 2023 amounted to USD 8 million, indicating a 13% increase compared to the same period last year.

Liquefied Petroleum Gas (LPG): Accumulated revenues amount to USD 10 million for the first nine months, reflecting a 10% decrease compared to the same period last year. This decline is primarily attributed to a 20% decrease in the volume of propane sold and a 12% decrease in butane, both resulting from the lower gas production recorded in the Agua del Cajón area. Furthermore, there were significant drops in international prices for both products, with propane experiencing a 29% decrease and butane seeing a 41% decrease.



Source: Sekoia Research based on balance sheet data.

In summary, total sales for the period reached USD 374 million, indicating a 39% increase compared to the same period last year. It is noteworthy that 4Q22 and 1Q23 were exceptional in terms of international prices for the company, generating revenues well above the average of recent quarters. With a conservative projection, annual revenues are estimated to be around USD 417 million, a 6% increase compared to the 2022 fiscal year.

On the other hand, business and administrative costs increased by 48%, 9% above sales. This increase is mainly attributed to higher royalty and export duty payments, as well as increased payroll and salary adjustments. Consequently, the EBITDA margin contracted by 469 bps to 52%.

Segment Sales	9M2023	9M2022	Var (%)	9M2021	Var (%)
Oil & Gas	263	167	58%	84	214%
Thermal Energy	93	85	9%	56	65%
Wind Energy	8	7	13%	7	9%
LPG	10	11	-10%	5	94%
Hydrogen	0,4	0,3	18%	0	33%
Oxygen	0,2	0,1	34%	0	62%
Capex (USD MM)	**9M2023**	**9M2022**	**Var (%)**	**9M2021**	**Var (%)**
Total Sales	374	270	39%	153	145%
Business & Adm. Costs	86	58	48%	31	172%
EBITDA	193	152	27%	70	176%
Operating Result	81	82	-1%	-8	-1138%
Net Result	36	34	7%	-22	-265%
Operating Mg	22%	30%	(880) pbs	-5%	2.678 pbs
EBITDA Mg	52%	56%	(469) pbs	46%	574 pbs

Source: Sekoia Research based on balance sheet data.

Debt Profile

Capex has a total financial debt of USD 289 million, with USD 239 million in a hard dollar corporate bond maturing in May 2024. Additionally, in February 2023, the company issued two additional bonds denominated in pesos and indexed to the official exchange rate, with a 0% coupon and a maturity date set for February 2026 and 2027 respectively.

Regarding its cash position, in September and October, the company reduced its cash and financial assets by 62% through the payment of USD 75 million in dividends (at USD 0.4159 per share). As a result, the company has cash and equivalents of USD 14 million, with 75% of it denominated in pesos. It also holds inventories worth USD 24 million, following a 20% increase in unsold crude oil stock. Therefore, the net debt amounts to USD 251 million. Nevertheless, with a consolidated increase in its operating cash flow, the company has a net leverage ratio of 1.2x and interest coverage of 6.7x.

Now, assuming a scenario of no access to the official FX market, this would imply dollarizing the operating cash flow and 37% of its cash at the blue-chip swap. Its annualized EBITDA would be reduced to USD 162 million resulting in a net leverage ratio of 1.6x and an interest coverage ratio of 5x. These values remain conservative for the industry.

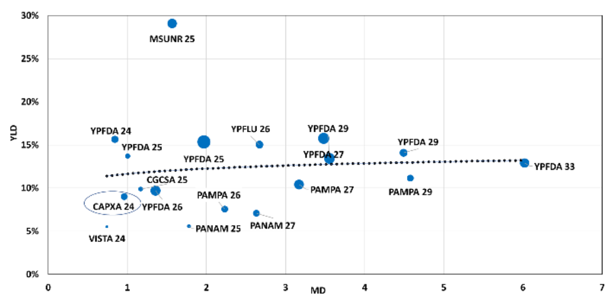
Capex (USD MM)	9M23	9M22	Var (%)	9M21	Var (%)
Total Debt	289	244	18%	268	8%
Cash & Eq.	12	20	-40%	22	-48%
Financial Inv.	3	81	-97%	103	-98%
Inventory	24	20	21%	9	-98%
Net Debt	251	123	103%	133	88%
EBITDA Ann.	217	215	1%	103	110%
Net Leverage	1,2	0,6	0,6	1,3	-0,1
Interest Ann.	32	30	6%	31	3%
Interest Coverage	6,7	7,1	-0,3	3,3	3,4

Source: Sekoia Research based on balance sheet data.

The hard dollar bond has international legislation and trades around 98% in the international market, implying a YTM of 9% and a modified duration of 0.9.

Source: Bloomberg.

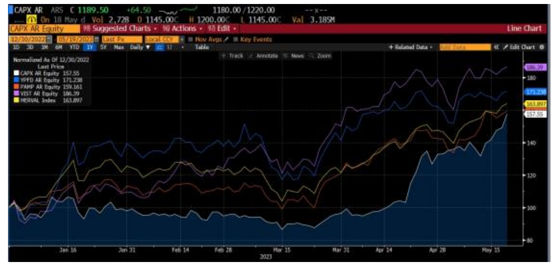
Given its solid financials, it is reasonable that Capex is placed below the yield curve between companies in the Oil & Gas industry.



Source: Sekoia Research based on Bloomberg data.

Stock

Capex shares are listed in BYMA and have a very low trading volume. The stock had an exceptional performance in 2022 with a rise of 639%, significantly surpassing the Merval index (+236%) and outperforming comparable Argentine stocks listed on the leading panel (YPFD +378%, VIST +485%, PAMP +262%). Currently, it represents 10% of YPF's market capitalization, 67% of PAMP's, and 50% of VIST's. In the 2023 YTD, the stock has increased a 157%.



Source: Bloomberg.

Perspectives

The company is exposed to the regulatory risks of the domestic energy market, coupled with a lower margin on which its high-quality wells are profitable. From a debt standpoint, the dividend payment in 2022 did not appear excessive but given the challenging exchange rate situation and the possibility of new restrictions in the FX market, we believe the company should have maintained a larger cash position for 2023. In fact, the recent decline in parity is likely a reflection of this.

However, we see it as the most likely scenario for Capex to seek a voluntary exchange in 2023 and offer a higher coupon to its bondholders. At these parity levels, waiting to receive payment in 2024 or considering a new longer-term bond with a higher coupon both seem like a good options to us.

Nevertheless, the company has been one of our favorites in the Argentine market for many years. Our USD fixed income funds CYC Dólares Renta Fija and CYC Renta Fija Argentina hold 13.5% and 14% respectively of Capex 2024. Additionally, from an equity perspective, we remain optimistic both about the sector and the company's excellent management. Our local equity fund, CYC Renta Mixta, holds a 7% position in the stock, making it one of the funds with the highest ownership of the shares locally.

Best regards.

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