

15th January 2024

Compañía General de Combustibles

Since 1920, the Argentine company Compañía General de Combustibles (CGC) has been dedicated to the development, production, and exploration of natural gas, crude oil, and LPG (upstream), and, to a lesser extent, gas transportation (midstream). Upstream activities are mainly carried out individually, while gas transportation is done through associated companies.

The company is involved in exploration and exploitation activities in the oil and gas fields of the Austral, Northwest, Gulf of San Jorge, and Cuyana basins in Argentina, being the main operator in the Austral basin. Moreover, the average term for these concessions is 2035. Additionally, the company has a stake in Termap, a port-operating company in Comodoro Rivadavia and Caleta Olivia. Regarding midstream, CGC participates in 40% of the natural gas transported in Argentina through its indirect 28.23% stake in TGN via Gasinvest, a company it owns equally with Tecpetrol. Furthermore, the group owns 43.5% of Gasandes Argentina, 43.5% of Gasandes Chile, and 15.8% of Transportadora de Gas del Mercosur (TGM).

In 2014, the Corporación América group, led by Eduardo Eurnekian (CAAP), acquired 70% of CGC's shares through Latin Exploration SLU. The remaining 30% remained in the hands of another Argentine holding, Comercial del Plata (COME). CGC follows a fiscal year that ends in December, and its latest results were presented after the third quarter.

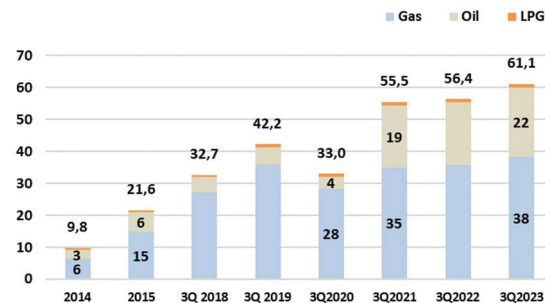
Production

During 3Q23, the company achieved a total production of 61.1 thousand barrels of hydrocarbons per day (Mboe/d), representing an 8% year-on-year increase and setting a new historical record for the company.

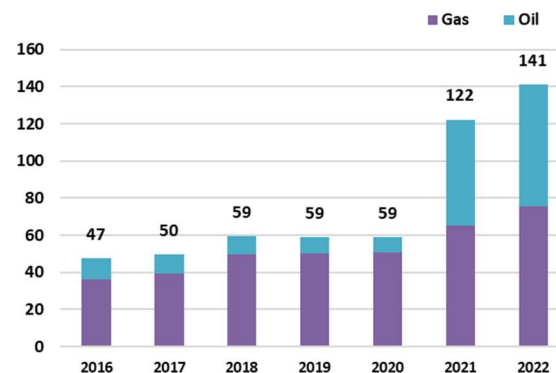
CGC has pursued an ambitious expansion plan in recent years. The most recent significant acquisition,

in mid-2021, was Sinopec (now CGC Energía), thus further consolidating production to over 60 Mboe/d and doubling proven reserves to over 140 MMboe.

Avg. Net Production (in Mboe/d)



Proven Reserves (in MMboe)

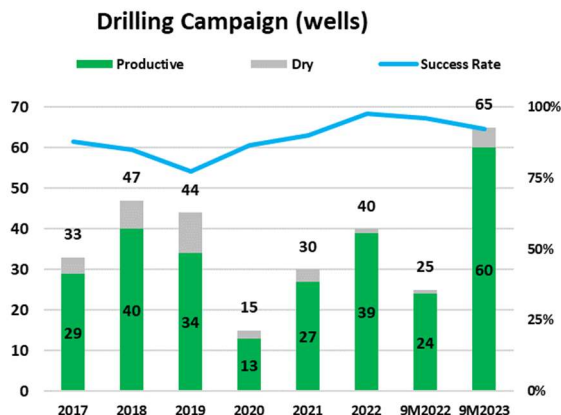


Source: Cucchiara Research based on FS.

In the third quarter of 2023, gas accounted for 63% of the total production, crude oil 35%, and LPG 2%. The commencement of Sinopec's operations balanced the production ratio between oil and gas, with crude oil production increasing more than fourfold, providing greater diversification and coverage against market and regulatory risks associated with gas.

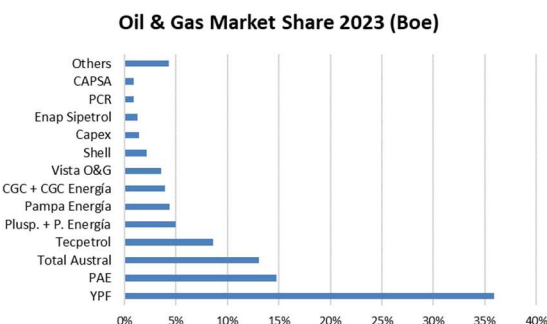
As previously discussed in our Reports ([see here](#)), the company aims to differentiate itself from competitors by expanding its development in the southern provinces of Argentina. In 2022, CGC initiated offshore exploration through an agreement with the Norwegian state-owned company Equinor in Tierra del Fuego. In 2023, along with YPF, the company drilled the first well in the Palermo Aike

shale formation, the second-largest unconventional play in Argentina. In the first 9 months of the year, the company drilled 65 wells (including 12 exploratory wells), with 60 proving to be productive. Of the total, 57% of these wells were associated with natural gas exploitation.



Source: Cucchiara Research based on institutional presentation.

After ten years of substantial capital investments, CGC has achieved a remarkable market repositioning. In 2023, it maintained its position in the top 10, ranking as the sixth non-state company, with a 3.9% market share, a contribution similar to that of Pampa Energía and Vista Oil & Gas.



Source: Cucchiara Research based on Department of Energy.

Sales and Results

We will analyze the company's results on a consolidated basis. Due to the nature of its business tied to the international market, sales and results will be presented in dollars at the average or closing official exchange rate corresponding to each period, facilitating comparison over time.

Cumulative sales for the first 9 months of 2023 reached USD 1,036 million, reflecting a 35% increase compared to the same period last year and a 112% increase compared to 2021. The significant growth was mainly attributed to the consolidation of CGC Energía results from the third quarter of 2021. Segment-wise, oil sales (Crude + LPG) accounted for 56% of revenues, reaching USD 584 million, a 17% increase over the first 9 months of 2022. This segment benefited from stable international prices throughout 2023, exceeding USD 80 for both Brent and WTI.

Revenues from gas sales accounted for 40%, totaling USD 415 million, an 83% increase compared to 2022. The substantial difference is due to the extension of the original contracts of Round 5.1 of the GasAR Plan until 2028, with a new price of 3.45 USD/MMBTU. Moreover, CGC participated in Round 5.2 tenders for incremental production, securing an additional price of 9.50 USD/MMBTU.

CGC (USD mill.)	9M22	Var. (%)	9M22	Var. (%)	Var. USD (%)	Var. (bps)
Oil deliveries	584	56%	501	65%	17%	-881
Natural Gas	415	40%	227	30%	83%	1.049
Services and others	24	2%	29	4%	-15%	-138
Incentives	13	1,2%	12	1,5%	8%	-30
Total	1036	100%	769	100%	35%	0

Source: Cucchiara Research based on institutional presentation.

On the other hand, it is worth noting the improvement in adjusted EBITDA for the first 9 months of 2023, reaching USD 326 million and expanding by 33% compared to 2022. However, a significant increase in sales costs compared to previous periods led to a sharp decline in the company's margins. As a countermeasure, the company continues to build its inventories, reaching USD 113 million, a 63% increase compared to the end of 2022 and a 133% increase compared to 2021.

CGC (USD mill.)	9M23	9M22	Var (%)	9M21	Var (%)
Sales	1.036	769	35%	488	112%
Cost of Sales	849	601	41%	274	210%
Gross profit	187	168	11%	214	-12%
Adjusted EBITDA	326	245	33%	274	19%
Operating Income	77	99	-22%	171	-55%
Gross Margin	18%	22%	-379 bps	44%	-2575 bps
EBITDA Margin	31%	32%	-44 bps	56%	-2464 bps
Operating Margin	7%	13%	-544 bps	35%	-2772 bps

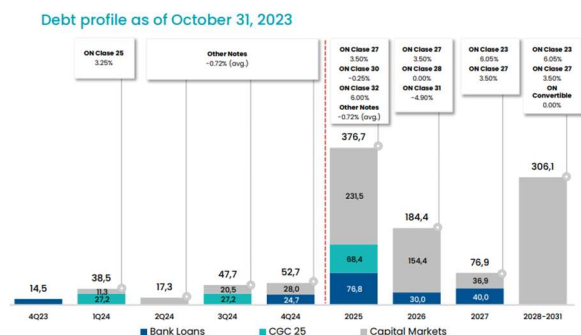
Source: Cucchiara Research based on FS.

Debt Profile

In the last year, CGC placed debt for approximately USD 770 million, predominantly adjusted for exchange rates with an average maturity of 30 months and an average rate of only 1.10%. Total financial debt reached USD 1.11 billion, representing a 56% increase compared to the same period last year. This completely changed its debt profile, which, at the close of the latest accounting results, consisted of the following: 83% in corporate debt (bonds and promissory notes), 13% in bank loans, and 2% in debts with related parties.

In July of the previous year, after a private agreement with Dow Chemical Company, CGC subscribed to convertible bonds for a capital amount of USD 200 million. The subscription allowed CGC to early redeem dollar-linked debt from the market. Thus, of the total debt, 62% corresponds to dollar-linked bonds; 11% to the hard-dollar class 17 bond under New York law maturing in 2025; 9% in Argentine law bonds payable in hard currency, and the remaining 18% to bank loans and intercompany debts.

Due to the financial debt, the company will have to pay approximately USD 35.6 million annually in interest. Thanks to favorable local market conditions for issuing dollar-linked bonds, the cost of financing decreased to approximately 3.2% per year—a very low rate due to the effect of dollar-linked issuances. Of the total, 49% of the financial debt matures in less than two years, while the remaining 51% is distributed until 2031, resulting in an average life of 2.7 years.



Source: Institutional Presentation.

CGC's cash and equivalents reach USD 147 million, with 74% denominated in dollars. Financial assets, all denominated in dollars and valued at fair value, reached USD 150 million (composed of stocks and sovereign debt securities). Thus, the company's liquidity amounts to USD 297 million, reflecting a 12% reduction compared to the previous year.

Consequently, net financial debt stands at USD 818 million, representing a 62% increase. At these levels, debt ratios are 1.9 for net leverage and 12.2 for interest coverage.

CGC (USD Mill.)	3Q23	3Q22	Var. (%)	3Q21	Var. (%)
Total Debt	1.115	714	56%	592	88%
Cash & Equivalents	147	205	-28%	330	-55%
Marketable Securities	150	5	3228%	8	1762%
Net Debt	818	505	62%	255	221%
Annualized EBITDA	435	327	33%	365	19%
Leverage	1,9	1,5	22%	0,7	169%
Annual Interest	36	35	3%	40	-11%
Interest Coverage	12,2	9,5	29%	9,2	33%

Source: Cucchiara Research based on FS.

CGCSA 9 ½ 03/08/25 Corp

The bond has an annual interest coupon of 9.5% and pays interest semiannually in March and September. The bond began amortizing in September 2022, and its current residual value is 60.1%. There are 2 semiannual installments of 13.3% remaining and a final installment of 33.5% due in March 2025, reducing its duration to just 0.8 years. The bond trades clean at 101%/101.5% with a yield to maturity around 8% and a minimum denomination of 1,000.

Page	Issuer Information	Identifiers
12 Bond Info	Name: COMPANIA GENERAL COMBUST	FIGI: BBG00X3VM2B4
13 Addl Info	Industry: Independent (BCLASS)	ISIN: USP3063DAB84
13 Req/Tax	Security Information	ID Number: Z03100344
13 Covenants	Mkt Iss: EURO-DOLLAR	Bond Ratings
13 Identifiers	Ctry/Req: AR	Currency: USD
13 Exchanges	Rank: Sr Unsecured	Series: REGS
13 Fee Parties	Coupon: 9.500000	Type: Fixed
13 Fees, Restrict	Cpn Freq: S/A	Moody's Local: AA-ar
13 Schedules	Day Cnt: ISMA-30/360	Iss Price
13 Coupons	Maturity: 03/08/2025	Iss Price
13 Interest	MAKE WHOLE @50.000 until 03/08/25/SINKABLE	Aggregated Amount
13 Quik Links	Iss Spd	USD 204,289.00 (M) / USD 122,777.69 (M)
13 ALLQ	Pricing	Min Piece/Increment
13 QD	Q1 Recap	1,000.00 / 1,000.00
13 DDI	Trade Hist	Par Amount
13 GCS	Corp Action	Interest Accrual Date
13 CF	Filing	09/08/2020
13 CN	Sec News	1st Settle Date
13 HSS	Holders	03/08/2021
13 Bond	ISS'D IN EXCHANGE OF CUSIPS 20448QA48 AND P3063DA40.	Reporting



Source: Bloomberg.

Outlook

For more than ten years, the company heavily invested in the energy sector, and in recent years, the global context shifted towards a greater demand for fossil fuels. Combined with the country's repositioning as a key player in this market and its potential opening, CGC has the opportunity to exploit its acquired capabilities in production, exploitation, and reserves, as well as in the transportation and export of gas and oil to neighboring countries.

CGC 2025 is a bond with good performance, a short duration, and an attractive amortization schedule to add to a portfolio. The decline in operating margins, coupled with increased debt and reduced cash, has raised its leverage ratios. Nevertheless, considering the company's expansion, CGC maintains a manageable financial position.

As we have been mentioning, Argentine corporates listed in the international market compressed significantly compared to regional comparables, but there are still attractive names, and CGC is one of them. For this reason, we continue to maintain a significant position of the hard-dollar bond in our funds.

Kind regards,

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