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Central Puerto

Central Puerto S.A.	Industry: Power Generation Company
Exchange: NYSE; BCBA	Recommendation: Hold
Ticker: CEPU; CEPU.BA	Current Price: ADR: 3.25 USD
Valuation as of November 11th, 2019	Target Price: 3.04 USD

EXECUTIVE SUMMARY

We issue a HOLD recommendation on CEPU with a 12-month target price of US $ 3.04 per ADS; representing a 6% downside from its November 8, 2019 closing price of US $ 3.25. Our valuation is based on a discounted Free Cash Flow for the Firm Model (intrinsic valuation). Our recommendation is based on the solid foundation established by the following key pillars: (1) the solid position as the main private provider of the country, (2) the stability of demand and the expectation of economic recovery along with power generation PPA´s as their main source of income and (3) the low leverage ratios compared to the rest of the industry

1. CEPU's rock-solid competitive position. The company's solid position is based on its growing 18% market share of the private market, which positions it as a leader while keeping other competitors in more than one arm away. This allows CEPU to maintain an average of 54.8% of EBITDA margin, practically 20% above the industry average, which allows to mitigate the volatility of the current macroeconomic scenario. Moreover, CEPU is able and ready to exploit efficiencies and capture any surplus in the demand for electricity due to its already executed investments.

2. The light at the end of the tunnel: expectations of growth for the industry in Argentina. As Argentine history has shown time and time again, one of the main drivers of economic recovery is the industry itself, which requires the country's energy matrix to be robust in terms of distribution, and to have the ability to supply the demand. This is evidenced not only in terms of activity and pure GDP, but also as a crucial factor in the fight against unemployment. On the other hand, power generation PPA´s are the main pillar of growth and we believe no one will dare to touch them as breaching a contract means that it will be almost impossible for any other sector in the country to attract foreign investments. In addition, and as the country needs new installed capacity –both thermal and renewable-, these contracts are considered as key to allow companies to get good financing conditions, as the repayment is guaranteed under the dollar PPA. In all, despite the expected changes for base energy, we are positive on the power generation industry as once all the modifications are done it will represent a good combination of dollar contracts and real pesos, both assuring a target profitability level with low volatility.

3. Time to WAIT. CEPU´s 59% YTD debacle is due to the macroeconomic crisis assembled by Alberto Fernandez´s triumph which gave an end to the higher price for Argentina shares. After all, the company still retains its position as one of Argentina's top-level firms, which should be a helping hand in the share price. However, CEPU is exposed to the possible new guidelines of the energy policy, which will prevent reaching the levels of the past.

COMPANY DESCRIPTION

Central Puerto S.A. ("CEPU", "Central Puerto", "the Company") is one of **Argentina's largest private power generation companies**. The Company, who started operations in 1992, has a power generation capacity of 4082 MW, representing **10.4% of Argentina's total installed capacity**. Generation portfolio is comprised of several generation facilities -chart on the right- with different technologies such as thermoelectric (62.6%), hydroelectric (29.5%), wind (7.6%), and 0.2% solar (0.2%), plus geographic diversification.

The Company primarily sells its production to the wholesale electric market, under "*Energía Base*" (base energy) regulated prices. Under this program, **CAMMESA** (wholesale electricity market administrator company in Argentina) supplies the fuel used by the thermal power plants.

Plant	Province	Technology	Contract	Capacity (MW)	%
Piedra del Águila	Neuquén	Hydro	Res. 1/19	1440	29.5%
El Puesto	Catamarca	Solar	Mater Private	12	0.2%
Centrales CABA	Buenos Aires City		Res. 1/19	1714	
Centrales Mendoza	Mendoza		Res. 1/20	500	
Terminal 6	Santa Fe	Thermal	PPA CAMMESA	324	62.6%
Central Brig Lopez	Buenos Aires City		PPA CAMMESA	420	
Luján de Cuyo	Mendoza		PPA CAMMESA	93	
La Castellana I	Buenos Aires City		PPA CAMMESA	101	
La Genoveva I	Buenos Aires City		PPA CAMMESA	87	
Achiras I	Córdoba		PPA CAMMESA	48	
Manque	Córdoba	Wind	Mater Private	57	7.6%
La Genoveva II	Buenos Aires City		Mater Private	42	
La Castellana II	Buenos Aires City		Mater Private	14	
Los Olivos	Córdoba		Mater Private	23	
TOTAL				4874	100.0%

Figure N 1 - Source: Company Reports

Additionally, because of CEPU contributions to **FONINVEMEM** (fund company aimed to invest in the increase of electricity supply in the wholesale market), the Company has a stake in the operation in different thermal power plants.

Plant	Province	Technology	Contract	Capacity (MW)	% Stake
San Martín (TJSM)	Santa Fe	Thermal	Res. 1/19	865	31%
Manuel Belgrano (TMB)	Buenos Aires	Thermal	Res. 1/19	873	31%
Central Vuelta de Obligado SA (CVOSA)	Buenos Aires	Thermal	Res. 1/19	816	56%
Total				**2554**	

Figure N 2 - Source: Company Reports

PPAs contracts are paid by CAMMESA. However, these are not regulated contracts -such as *base energy*-, but long-term contracts with a fixed price. On the other hand, MATER (Term-Market for Renewable Energies) consists of marketing the clean energy produced, not through CAMMESA but through "*WEM*" (large users of the wholesale electricity market), with a long-term contract and at a fixed price.

Plant	Province	Technology	Contract	Capacity (MW)
Brigadier López	Santa Fe	Thermal	PPA w/CAMMESA	280
Expansion	Santa Fe	Thermal	PPA w/CAMMESA	140
Total				**420**

Figure N 3 - Source: Company Reports

CEPU was awarded the *Integración Energética Argentina SA* ("IEASA", former ENARSA) bid called by IEASA to acquire the *Central Termoeléctrica Brigadier López* power plant ("Brigadier López") and certain assets and liabilities relating to such plant. Below, the detail of the plant, coupled with the projected expansion (it is expected that the combined cycle construction ends by 2020).

CORPORATE STRUCTURE

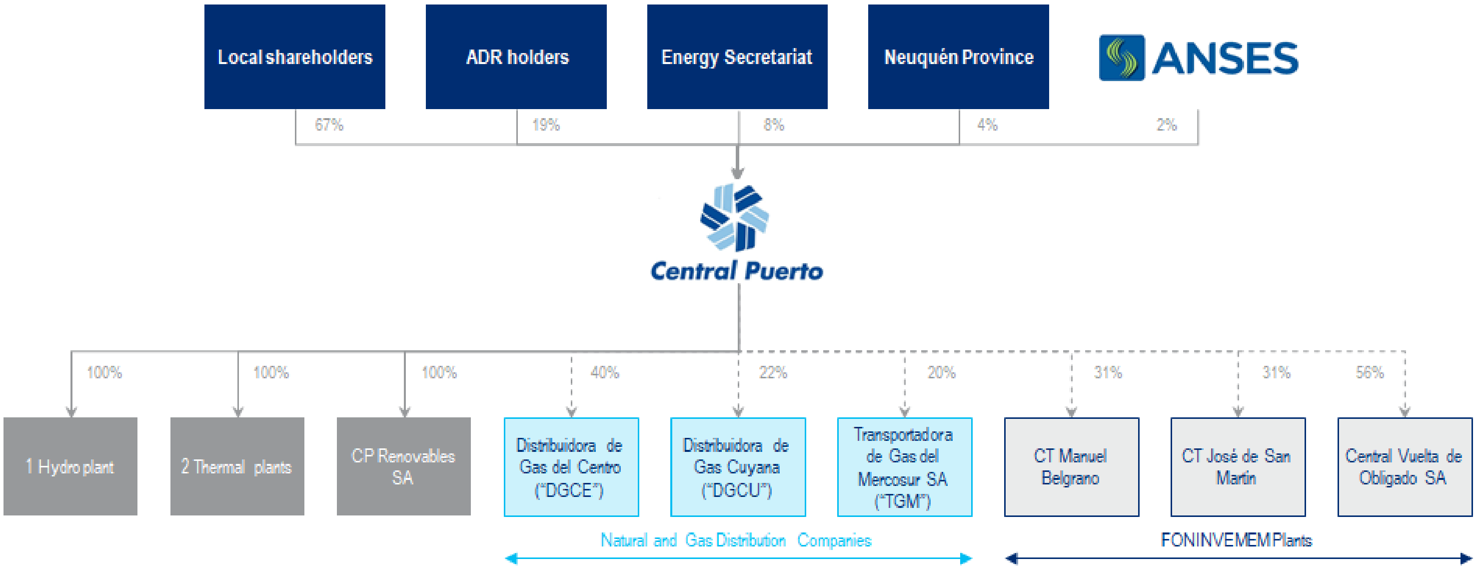


Figure N 4 - Source: Company Data

Apart from its stake in FONINVEMEM plants, CEPU has a minority stake in ***Distribuidora de Gas del Centro*** ("DGCE"), ***Distribuidora de Gas Cuyana*** ("DGCU") and ***Transportadora de Gas del Mercosur*** ("TGM"). Based in Córdoba, DGCE distributes natural gas to residential and commercial customers in the provinces of Córdoba, Mendoza, Catamarca, San Juan, La Rioja, and San Luis in Argentina. On the other hand, DGCU does the same in the area of Mendoza, San Juan and San Luis. Similarly, TGM has a 437-kilometer pipeline that connected the Argentine *Transportadora de Gas del Norte* ("TGN") network to the Brazilian border since 2000, and also moved gas to the south of Brazil through a 600-MW power plant in Uruguaiana.

CREDIT OVERVIEW

Company's income and cash generation rely mainly on the electricity sold to CAMMESA. Electricity generators, including CEPU, are paid by CAMMESA, which collects revenues from other wholesale electricity market agents. Hence, in case a significant number of wholesale electricity market agents -mainly distributors-, defaulted in the payment of amounts they owed to CAMMESA, or failed to pay in a timely manner, this should adversely affect CAMMESA's ability to meet its own payment obligations to generators or to pay them in a timely manner.

Together with this, **regulatory changes are one of the main risks faced by CEPU, given its dependence on base energy contract**, which was established under Resolution SE No. 95/13 -then replaced by Res. SEE No. 19/17, which denominated tariffs in USD and increased them in February, May and Nov'2017, and recently modified by Res. 1/19-.

On the other hand, Company's exposure to dollar PPAs will increase next year, as new projects are expected to be commissioned, thus reducing CEPU's dependence on base energy. Consequently, PPAs will represent close to 96% of the company's EBITDA versus the 5% represented back in 2018.

Resolution 19/17 was amended on Mar'2019 affecting thermal power generators in Argentina, and causing a pronounced sell-off in corporate bonds. In spite of that, we expect the Company to be able to maintain solid credit metrics, based on hydroelectric installed capacity, as well as some efficient combined cycle plants, coupled with the development of new projects with PPA contracts. During the last few years, the Company has significantly reduced the risks associated with the dispatch and supply of fuel, after increasing the average efficiency of its plants in the face of possible greater competition and/or deregulation of the sector.

Main changes introduced by new Res. 1/19 are as follows:

Capacity payments for older thermal power plants operating under Resolution 19/17 will be reduced from USD 7,000 / MW per month, to an average price of USD 6,250 / MW per month, with different buckets according to monthly demand (peaks during summer and winter months).

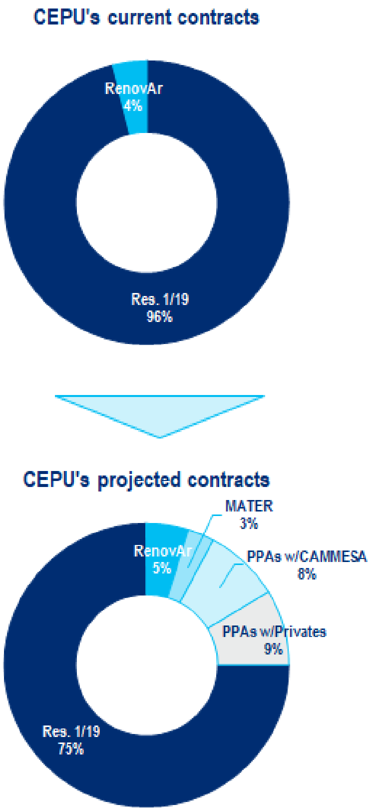


Figure N 5 – Company Data

The new scheme will also compensate efficiency, with efficient generators receiving higher payments based on dispatch factors.

Remuneration for Generated Energy (USD / MWh) - Thermal Generation				
Natural Gas	Gas Oil Fuel Oil	Biodiesel	Coal	Remuneration for Operated Energy
4.0	7.0	10.0	12.0	1.4
-20%	*-13%*	*-9%*	*-8%*	*-30%*

Figure N 6 – Res 1/19 – Team analysis

It is important to remark that CEPU presents a strong generation track record and high efficiency as aforementioned, that materially reduces the possibility of having a dispatch factor below 70%.

Important to remark that according to this regulation **remuneration will continue to be USD-linked, and that hydroelectric power generation and PPAs will not be impacted**. Still, new changes may be introduced (please refer to Projections section).

Efficiency Compensation		
Dispatch Factor ("DF")	Total Remuneration	Impact
DF < 30%	Base Remuneration * 0.7	**High**
30% < DF < 70%	Base Remuneration * (DF * 0.75 + 0.475)	**Medium**
DF > 70%	Base Remuneration	**None**

Thermal Generation (USD / MWmes)			
Scale		Minimum Price	Remuneration w/Commitment
Large Combined Cycle	> 150	3050	**7000** (Summer & Winter)
Large Steam Turbine	> 100	4350	
Small Steam Turbine	< 100	5200	**5500** (Autumn & Spring)
Small Gas Turbine	< 50	4600	

Figure N 7 – Res 1/19 – Team analysis

INDUSTRY OVERVIEW

Characteristics of the Argentine Power Market

- ✓ An atypical breakdown featuring Oil & Gas as the predominant energy sources, typical only of large hydrocarbon exporters such as countries in the Middle East, Russia, African LNG exporters, or Venezuela.
- ✓ In addition, +55% of consumption relies on natural gas, with gas penetrating consumption, despite significant restrictions to discourage potential demand for this energy source, which lead to substitution with alternate fuel sources for electric power generation, and direct restrictions on industrial demand in certain branches of industry, which is surpassed by few countries with significant excess natural gas production.
- ✓ Stagnant local energy supply -which in recent years also affected the domestic energy demand, mitigating the relative scarcity-; this is attributed to insufficient investments in a highly O&G dependent energy sector in order to effectively increase the domestic productive supply to meet a demand that rises during periods of economic growth.
- ✓ Demand for natural gas and electricity driven in some specific segments by **unreasonably low tariffs for the residential/commercial sector**, encouraging unreasonable growth in residential energy consumption.

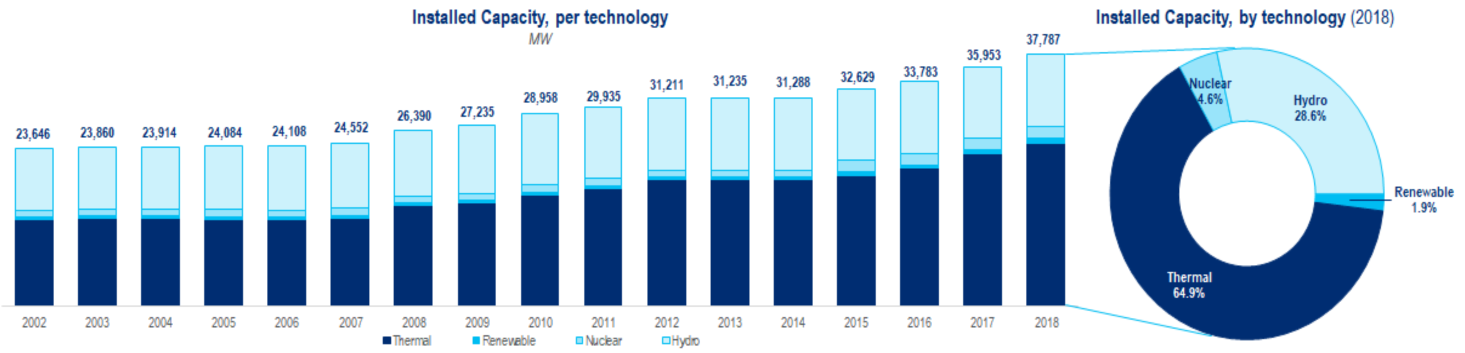


Figure N 8 – Res 1/19 – Team analysis

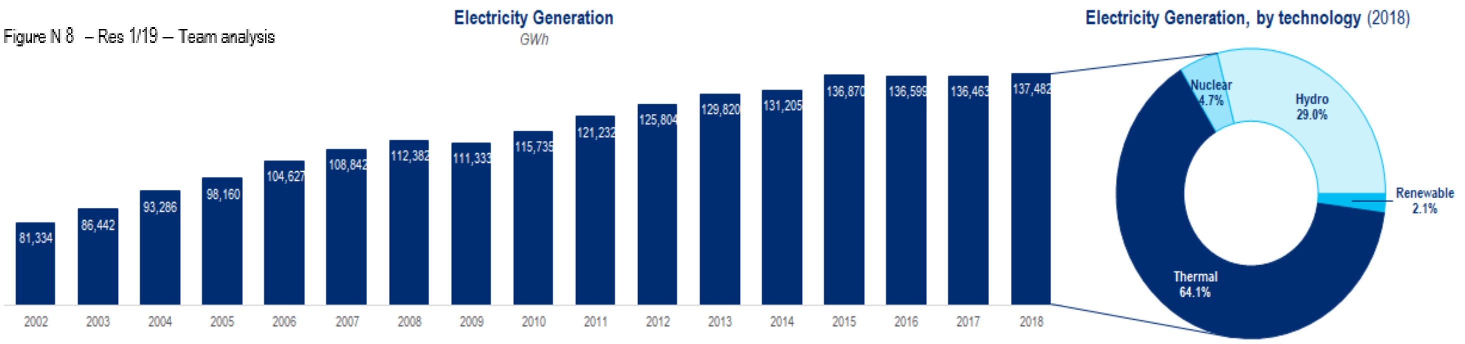


Figure N 9 – Res 1/19 – Team analysis

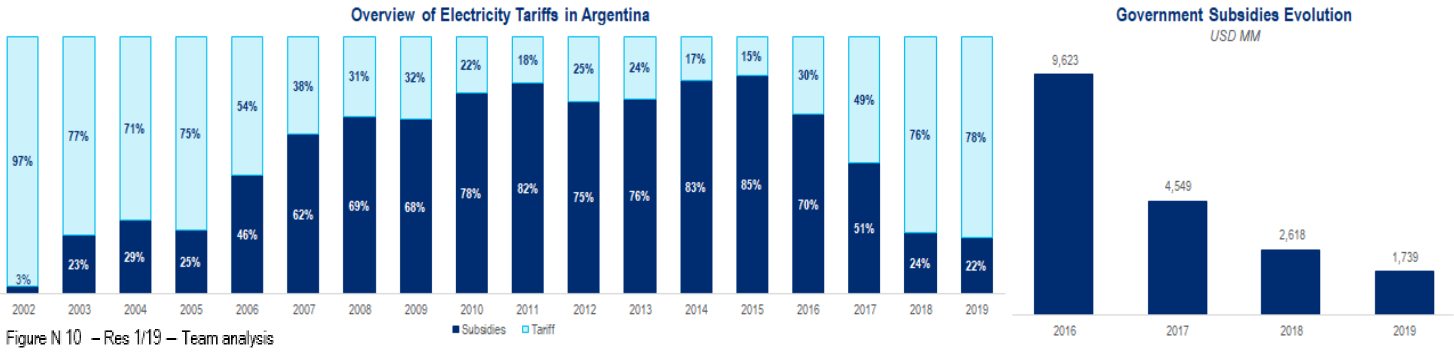


Figure N 10 – Res 1/19 – Team analysis

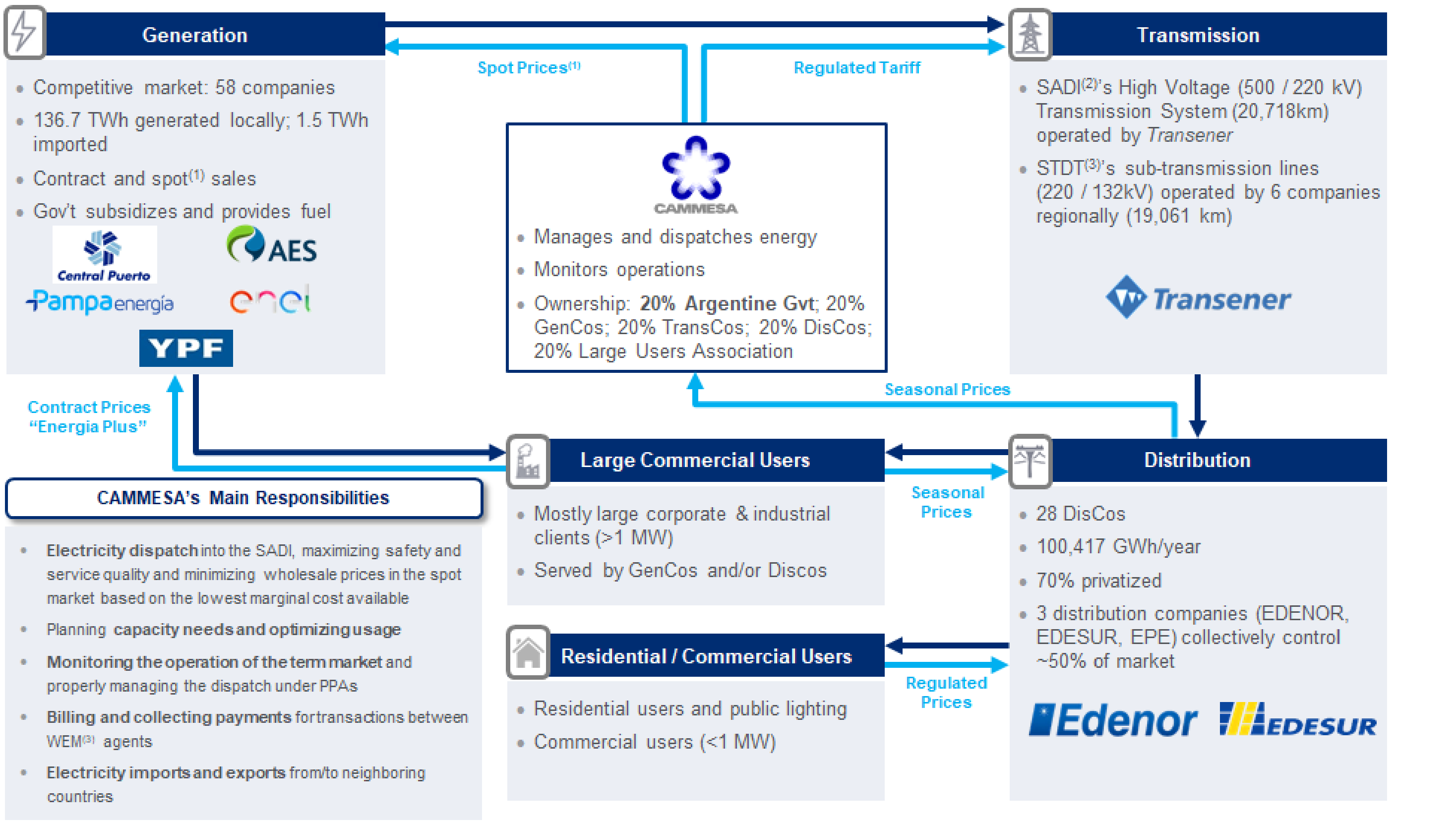
Regarding the supply of fuels, up to Nov'2018, the provision mechanisms consisted in transferring the contracted volumes of natural gas for the electric power generat ors so that they are managed by CAMMESA, in order to optimize the consumption of natural gas in the most efficient generation units.

On Novembe r 6th, 2018, the Secretary of Energy published Res. 70/2018, which established certain changes in the management of fuels that have been in operation since December. Main changes are as follows:

- ✓ The possibility for generators to procure the supply of own fuel for the generation of electric energy;
- ✓ The costs of generation with own fuel will be valued according to the mechanism of recognition of the variable production costs recognized by CAMMESA and;
- ✓ The Agency in Charge of Dispatch ("OED", in Spanish) will continue with the commercial management and dispatch of fuels for those generating agents that do not or cannot make use of the faculty foreseen in the norm

Argentine Power Market Structure

Compañía Administradora del Mercado Mayorista Eléctrico S.A. ("CAMMESA") is a private, non-profit company in charge of administrating Argentina's wholesale power market.



(1) Spot prices recognized as the marginal cost of the last gas-fired power station dispatched, regardless of whether the last-dispatched station operates under a different technology. (2) High Voltage Transmission System. (3) Local Transmission System

Figure N 11 – Prepared by team based on energy secretariat reports

Transactions among different participants in the electricity industry take place through the Wholesale Electricity Market ("WEM"), where generators, distributors and certain large users of electricity could buy and sell electricity at prices determined by supply and demand, and were allowed to enter into long-term electricity supply contracts.

The WEM consists of:

ENERGÍA BASE

Resolution provides remuneration for power (based on technology and scale) and energy, establishing USD-denominated prices. **The off-taker is CAMMESA**, and prices are regulated.

SPOT MARKET

Where prices are established on an hourly basis as a function of economic production cost.
Negotiated within third-parties, without the involvement of CAMMESA.

TERM-MARKET / PPAs

Where quantities, prices and contractual conditions are agreed upon directly between sellers and buyers; below, a couple of examples:

Off-taker: CAMMESA

RenovAr: program for the supply of electricity from renewable sources.
Other contracts, such as Res. 220/2007.

Off-taker: Third parties

Energía Plus: specific regime which allowed newly installed generation sold to a certain category of Large Users to be remunerated at higher prices, to be **freely negotiated between the parties**.
MATER *(Term-Market for Renewable Energies)*: consists of marketing the clean energy produced, not through CAMMESA but with Large Users of the WEM, with a long-term contract and at a fixed price.

Figure N 12 – Prepared by team based on energy secretariat reports

COMPARABLES

Identifier	Company Name	Price / EPS	Enterprise Value To Sales	EV / Revenue	EV / EBITDA
CEPU.BA	Central Puerto SA	3.16	2.52	1.75	2.83
PAM.N	Pampa Energia SA	5.08	1.32	0.95	3.33
EDN.BA	Edenor S.A.	3.84	0.22	0.17	1.28
ENEV3.SA	Eneva SA	15.72	4.53	3.55	8.61
ENELGXCH.SN	Enel Generacion Chile SA	11.22	2.25	2.41	6.22
EGIE3.SA	Engie Brasil Energia SA	13.04	5.06	5.21	8.82
TIET11.SA	AES Tiete Energia SA	9.72	3.72	3.69	5.71
AESGENER.SN	AES Gener SA	8.36	2.11	2.18	6.16

Figure N 13 - Source: Reuters Refinitiv. Includes international peer companies. Expressed in times.

As additional information, CEPU's **strong share of 17-18% in the private sector** is followed by competitors Pampa Energia (~16.4%), AES (~17%), Enel (~16.4%), and others (~32.7%).

FINANCIAL ANALYSIS

*It is important to mention that, following the categorization of Argentina as **highly inflationary** -in accordance with IFRS-, companies should now report results applying IFRS rule IAS 29; that is, in an inflation-adjusted currency at the end of the reporting period.*

Central Puerto SA	Dec'17	Dec'18
Key Financial Highlights (USD M)	*Annual*	*Annual*
Net Revenues	254,933	377,308
EBITDA	129,994	208,461
EBITDA Margin	*50.99%*	*55.25%*
Net Income	139,952	463,380
Cash From Operations	81,225	122,007
Free Cash Flow	(99,840)	(101,160)
Free Cash Flow After Dividends	(149,802)	(138,656)
Current Ratio	0.99x	1.20x
Total Debt / EBITDA	1.20x	0.97x

Figure N 14 – Company Data

Company's sales presented a relevant increase during FY2018, mainly derived from tariff increases established by Res.19/17, which set higher prices for energy generation and machine availability and set them in USD. FY2018 was fully impacted by the Nov'17 tariff increase. In line with this, the COD of the first two wind farms (La Castellana I and Achiras I), as from the 3Q18, and the increased hydro generation due to greater water flow boosted revenues; these were offset by a reduction in thermal generation, as a result of scheduled maintenance in the Puerto combined cycle plant during 2Q18.

On the profitability side, cost of goods sold reduction, coupled with dilution of fixed costs, and erosion of ARS-linked costs, contributed to improve margins in more than 400bps, thus increasing EBITDA. As stated by the Company, EBITDA Margin for eolic energy is 80%, as it only has maintenance cost but not fuel consumption. However, initial Capex is strong but followed by positive flows. Thermal units generate a 55% of EBITDA Margin, and considering the highest plant maintenance costs. Regarding financing costs, it is mostly related to eolic energy, which they are financing with 70% equity and 30% debt.

Res. 1/19 drives operating margins decrease as prices by 15% and 20% in relation to power or electric generation to base energy (main source of income). It is notable that energy base counts with set tariffs by the government. On the contrary, EBITDA expansion is based on new plants participation. Most relevant ones are Lujan de Cuyo and Terminal 6, plus Brigadier López (operating results shown starting in June 2019).

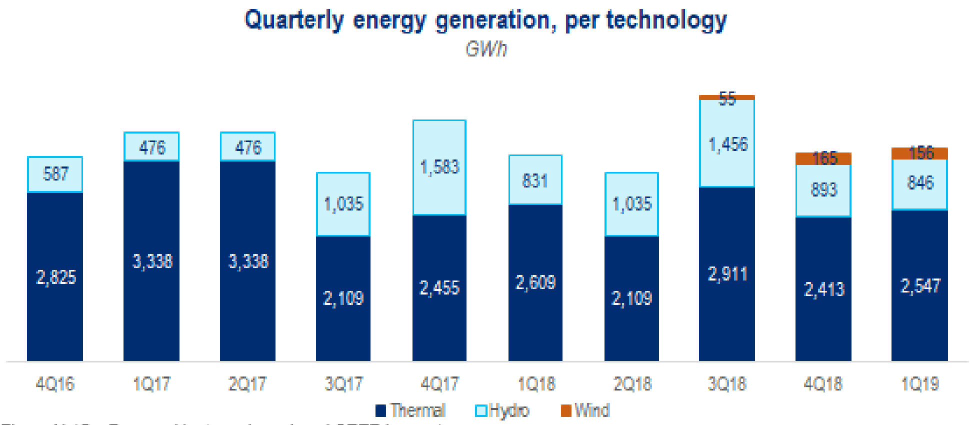


Figure N 15 – Prepared by team based on AGEERA reports

Cash generation remained strong during periods under analysis, though offset by the large Capex investments the Group is currently undergoing. Total debt increased in ~USD 45 MM, as a result of the USD 50.7 MM disbursement of the B-tranche of the AB Loan with IFC, for the financing of La Castellana I and Achiras I wind farms (on a Consolidated Basis, as CEPU acts as guarantor of the renewables projects under CP Renovables SA, up to nine months after the respective CODs). However, the growth in EBITDA drove to an improvement of Total Debt / EBITDA, which as of Dec'18 stood at 0.97x.

Capex Plan: During the 2015-2018 period, the Company inve sted +USD 500 MM in Capex, significantly increasing the efficiency of its assets. As for next periods, CEPU would be investing in the development of renewables (mainly, wind farms) and new cogeneration facilities, as well as in the acquisition of Brigadier López power plant. Find below the main highlights of the Company's plans.

CapEx Plan (2019-20)	Province	Technology	Contract	Capacity (MW)	Estimated COD
		Renewables			
La Castellana II	Buenos Aires	Wind	MATER	15	July 2019
Achiras II (Manque & Los Olivos)	Córdoba	Wind	MATER	80	January 2020
La Genoveva I	Buenos Aires	Wind	RenovAr 2	88	May 2020
La Genoveva II	Buenos Aires	Wind	MATER	42	August 2019
El Puesto	Salta	Solar	MATER	12	August 2020
		Co-Generation			
Luján de Cuyo	Mendoza	Thermal	PPA	93	November 2019
San Lorenzo	Santa Fe	Thermal	PPA	330	May 2020
		Acquisitions			
Brigadier López	Santa Fe	Thermal	PPA w/CAMMESA	280	
Combined Cycle construction	Santa Fe	Thermal	PPA w/CAMMESA	140	
TOTAL CAPEX				1080	

Acquisition of Brigadier López power plant: plant price is USD 165 MM, plus a USD 161 MM debt assumed. Expected Capex, which includes the incorporation of a steam turbine, will increase capacity on 140 MW, reaching 420 MM of installed capacity, to be sold under PPAs with CAMMESA.

Figure N 16 – Company Data

KEY SUCCESS FACTORS

CEPU is the most relevant power generation private company, in a scenario in which 70% of power is produced by the private sector and characterized by four main players. Company currently has a 17-18% of market share in the private sector, as confirmed by them during CFA Project call.

In addition, CEPU counts with the **key strategic location of their turbines, high efficiency machinery and logistics for fuel consumption**. **Plants are strategically located close to the docks** and that provides significant dynamism in periods of shortages.

With **90 years in the sector and solid experience in the construction of both combined cycle and wind power plants, cogenerations, and construction of new units**, they distinguish themselves for their **experience in the management of both suppliers and contractors** that in the end reflects in lower costs. This is supported by the **strong technological profile** of the Company.

CEPU's management has over 25 years in the industry. As leaders in the segment, they are developing eight plants simultaneously, which shows their strength in engineering internal teams and capacity to add new projects. In addition, their sales mix proves itself to be defensive against government changes in the regulatory environment.

RISKS

Regulatory Risk. Changes in regulations may affect CEPU's generation assets. The Argentine Government has intervened in the electricity sector in the past, and is likely to continue intervening. Throughout the last years, the Argentine Government adopted a number of material changes to the regulatory framework applicable to the electricity sector. These changes severely affected electricity generation, distribution and transmission companies and included the introduction of a new price-setting mechanism in the wholesale electricity market, which had a significant impact on electricity generators and generated substantial price differences within the market.

Although we do not expect significant changes in the short term -considering the recent tariff adjustment through Res. 1/19, given the fact that a new party/coalition takes office in December, new regulatory changes might be introduced, in order to reconcile several objectives, namely (i) cutting energy subsidies in order to reduced fiscal burden, (ii) preventing new consumer's electricity bills hikes, and (iii) honoring the large capacity payments agreed in PPAs. However, it currently exists a consensus that remuneration to electricity generators will remain USD-linked.

As detailed by the Company during the call held with CFA Project participants, the major characteristics that they foresee with the upcoming Fernandez Fernandez formula are related to the maintenance of capital controls, and also a potential impact in base energy for machinery that is not efficient.

CEPU indicates that most prices are set in USD but paid in ARS at official exchange rate. Similarly, bilateral contracts (two thirds of their income) are not subject to modifications. Only contracts not set under Res. 1/19 are subject to changes (ARS and with prices updates without a fixed schedule). As a consequence, it is notable that base energy prices represent one third of companies' result thus impact would be moderate.

Lastly, CEPU states that they are better positioned against the rest of the market as their machinery is highly efficient. With an 80% utilization ratio units are the less affected by price changes. On the contrary, steam turbines due to their inefficiency would be more affected by price changes.

Macro and FX weaknesses. CEPU is exposed to FX volatility, as it sales are USD linked, while part of its fixed costs (salaries, taxes, among others) are denominated in ARS. In this way, the appreciation of the ARS might negatively affect Central Puerto's profitability margins, as a result of higher expenses measured in USD terms. However, we understand that, given the current political uncertainty, a material appreciation of the ARS is highly unlikely. On the other hand, a recession or a material downturn in economic activity should be translated into reduced energy consumption, affecting Company's sales of energy.

Fuel shortages. Several generation facilities are equipped to run mainly on gas and, in the event that gas becomes unavailable, these facilities will not be able to switch to other types of fuel in order to continue generating electricity. However, CEPU's diversified technologies should contribute to mitigate this risk. Additionally, CAMMESA's recent gas bid has declined costs in USD, due to excess of supply.

Project Execution Risk. We do not have major concerns with Company's expansion pipeline. CEPU is one of Argentina's largest private power generation companies, and counts with the know-how to develop this kind of projects; example of this is the recent inauguration of La Castellana I and Las Achiras I wind farms.

Environmental risk. Considering that most of the environmental issues arise at the time of construction, at which players have to obtain the proper licenses in order to continue with the development of assets, we understand that CEPU's new wind farms face an environmental risk. However, this is offset by the fact that the Company has already obtained the necessary licenses for most of its new projects.

PROJECTIONS - ASSUMPTIONS

Sales

2019: drop in sales driven by RES 1/19 regulatory change (that apply to 75% of sales), offset by incremental income coming from Brigadier López - starting in June 2019- and Lujan de Cuyo / **2020**: 10% average drop for the sales linked to RES 1/19. Similarly, we now consider the full year of sales arising from Brigadier López and that will increment sales in USD 167mm. Considering the USD 72mm estimated increase in EBITDA. We consider a 43% average gross margin the Company has shown within historic information as a reference. Positive net increase of USD +123mm. For *downside scenario*, additional regulatory changes driven by new country administration imply an additional 10%. / **2021-2023**: sales projected in line with PBI estimations. For *upside scenario*, we consider the construction for the incremental Brigadier López capacity that would increase sales in USD 66mm. Plant already counts with a capacity of 280MW through a single gas turbine and would thus reach an increased capacity till 420mm (+140MW; incorporation of a steam turbine whose production would be bought by CAMMESA).

Gross Margin

Changes mainly driven by production and labor costs, whose increases are in line with inflation. For the periods when projected inflation is above devaluation, costs in USD increase, thus reducing operating margins. We maintain operating margin proportion considering June 2019 historical information. / **2020-2023**: For *upside scenario*, we consider a more efficient cost structure as Brigadier López allows reaching combined cycle targets. For *downside scenario*, we considered a more stressed cost structure.

Capex

As per company updates shared during CFA project call, CEPU estimates to invest USD 270mm in Capex for 2019 and 2020, excluding Brigadier López expansion. / **2019**: USD 387mm for end on year (includes USD 297mm already invested as of Jun'2019) / **2020:** remaining USD 180mm to reach target. For *upside scenario*, USD +120mm for Brigadier López expansion. For *downside scenario,* we contemplate USD 100mm only, for maintenance purposes only. / **2021:** USD 40mm for maintenance. *Upside*: USD 50mm. *Downside*: USD 110mm, composed by USD 80mm postponed since 2020 and USD 30mm for maintenance. / **2022-2023**: USD 40mm per year for maintenance only. *Upside*: USD 50mm. *Downside*: USD 30mm.

Dividends: no dividends distribution considered, in line with latest years and based on prioritization of Capex needs. CEPU has not a formal dividend policy; therefore, these can be reduced according to Company's liquidity and financial needs.

Debt and Interest Expense

Upside case: projections show a financing need for *upside case* to expand Brigadier López capacity and reach combined cycle targets (construction start date is still under analysis). However, CEPU does not foresee issues with financing as most of the projects already have it assigned. / *Downside case*: cash needs would led to the postponement of Capex (exc. Maintenance).

Assumptions for interest rate payments consider interests paid against average debt as a reference given diversified loan portfolio (IFC; JPM, Citi, Morgan Stanley; CAMMESA; etc.

COMPANY VALUATION

Peers	Market Cap (mm)	Enterprise Value (mm)	Historic EV/EBITDA (FY)	EV / Revenue	Price / EPS	Price / Cash Flow Per Share	Price / Book Value Per Share	Price / Revenue	Dividend Per Share Yield (%)	HQ Country	Beta 5 Yr	Total Debt (mm)	Cash (mm)
Empresa Dist y Com Norte SA	144.3	236.5	7.45	0.15	3.68			0.09	23.5%	Argentina	1.04	269.1	0.9
Central Puerto SA	651.7	1,055.2	3.05	1.87	3.62	2.29		1.15		Argentina	0.93	258.3	
AES Tiete Energia SA	1,161.9	1,878.6	21.64	3.70	9.55	7.85	3.80	2.29	10.0%	Brazil	0.61	1,063.8	
Pampa Energia SA	1,306.7	2,827.4	5.15	0.91	4.25	2.86	0.66	0.42	0.0%	Argentina	0.99	2,418.6	92.8
Eneva SA	2,659.9	3,655.7	6.55	4.06	15.61		1.43	2.96		Brazil	0.65	1,340.5	10.7
Enel Generacion Chile SA	3,558.3	4,629.4	7.11	2.11	9.11		1.22	1.62	8.3%	Chile	0.94	1,213.8	37.1
AES Gener SA	1,721.5	5,126.1	5.03	2.06	7.44	2.32	0.65	0.69	18.7%	Chile	0.85	3,434.4	234.0
Engie Brasil Energia SA	8,858.3	11,716.0	7.80	5.20	12.79	8.74	4.39	3.93	7.0%	Brazil	0.56	2,505.0	15.0

Figure N 17 - Source: Reuters

		WACC U$D *Nominal*	Source / Notes
Risk free rate in nominal terms	rf	1.73%	Market yield on US Treasury securities at 10-year constant maturity, quoted on investment basis. Source: US Federal
Country Risk premium	CR	8.00%	
		9.73%	
Beta unlevered	Bu	0.73	5Y weekly. Based on 10 comparable companies
Beta levered	Bl	0.93	
Market Risk premium	(rm-rf)	5.96%	Based on anlayst consensus
Cost of Equity	Ke	14.07%	$Ke = rf + Bl * (rm - rf) + C$
Interest rate	Kd	5%	
Tax rate	t	35%	
Debt (%)	D	38%	Based on historical data of the company.
Equity (%)	E	62.0%	
WACC		9.93%	$WACC = Ke \times E + Kd \times (1 - t) * D$

Risk Free rate in nominal terms
Market yield on U.S. Treasury securities at 10-year constant maturity, quoted on investment basis

We estimated a WACC rate in nominal terms in order to discount the cash flows corresponding to the first year. Then for the remaining projections, we will be using another rate considering the historic average of the country risk, which is equal to 800bps (source: JPM).

Based on an analysis of various market information providers and current local market practice, we have considered an *equity market risk premium* of 5.96%.

An average unlevered guideline beta for the Company is 0.93, representing the estimated sensitivity of the selected guideline public companies' stock returns to that of the overall market portfolio.

ANNEX 1: Macroeconomic Projections

	2018	2019 E	2020 E	2021 E	2022 E	2023 E
National Inflation (annual variation, Dec.)	47.6%	52.5%	47.0%	40.0%	32.0%	25.0%
Inflation (average)	34.3%	53.4%	50.4%	42.6%	35.9%	28.1%
Exchange rate $/US$ (end of Dec.)	37.8%	68.0%	95.0%	128.0%	163.0%	198.0%
Exchange rate $/US$ (annual average)	28.1%	49.0%	80.7%	111.0%	144.3%	179.9%
Nominal GDP (annual variation)	-2.5%	-3.0%	-2.0%	1.5%	2.5%	3.5%
Nominal GDP (billons of US$)	519.9	443.6	398.1	418.2	447.4	474.7
Monetary policy rate (Dec)	59.3%	58%	40%	32%	24%	20%

Figure N 18 - Source: Econviews (Oct-Nov'2019 report)

ANNEX 2: Financial Models & Projections

Income Statement

TTM Standardised in Millions of U.S. Dollars

	2019			2020E	2021E	2022E	2023E
	Mar-2019	Jun-2019	Dec-2019E	Dec-2020E	Dec-2021E	Dec-2022E	Dec-2023E
Revenue	625.30	606.50	606.50	723.00	733.85	752.19	778.52
Total Revenue	625.30	606.50	606.50	723.00	733.85	752.19	778.52
Cost of Revenue, Total	323.00	318.60	318.60	378.85	384.53	394.15	407.94
Selling/General/Admin. Expenses, Total	56.00	48.80	46.96	39.91	41.91	44.42	46.20
Depreciation/Amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest/Investment Income - Operating	(568.80)	(316.20)	(98.00)	(98.00)	(98.00)	(98.00)	(98.00)
Interest Exp.(Inc.),Net-Operating, Total	(568.80)	(316.20)	(98.00)	(98.00)	(98.00)	(98.00)	(98.00)
Unusual Expense (Income)	72.40	73.50	73.50	73.50	73.50	73.50	73.50
Other Operating Expenses, Total	(81.70)	(71.90)	(71.90)	(71.90)	(71.90)	(71.90)	(71.90)
Total Operating Expense	(199.10)	52.90	(171.16)	(224.36)	(232.04)	(244.17)	(259.74)
Operating Income	824.40	553.60	435.34	498.64	501.80	508.02	518.77
Interest Expense, Net Non-Operating	(64.80)	(59.00)	(65.00)	(63.00)	(60.00)	(19.00)	(4.00)
Interest/Invest Income - Non-Operating	(187.80)	(140.90)	22.00	22.00	22.00	22.00	22.00
Interest Inc.(Exp.),Net-Non-Op., Total	(252.60)	(199.90)	(43.00)	(41.00)	(38.00)	3.00	18.00
Other, Net	(4.00)	(8.30)	(8.30)	(8.30)	(8.30)	(8.30)	(8.30)
Net Income Before Taxes	567.80	345.40	384.04	449.34	455.50	502.72	528.47
Provision for Income Taxes	199.50	116.20	134.42	157.27	159.43	175.95	184.97
Net Income After Taxes	368.40	229.20	249.63	292.07	296.08	326.77	343.51
Minority Interest	14.30	(0.80)	14.00	14.00	14.00	14.00	14.00
Net Income Before Extra. Items	382.70	228.30	263.63	306.07	310.08	340.77	357.51

Figure N 19 - Source for historical information: Reuters Refinitiv

Balance Sheet

Quarterly Standardised in Millions of U.S. Dollars

	2017	2018	2019			2020E	2021E	2022E	2023E
	Dec-2017	Dec-2018	Mar-2019	Jun-2019	Dec-2019E	Dec-2020E	Dec-2021E	Dec-2022E	Dec-2023E
Assets ($ Millions)									
Cash and Short Term Investments	95.2	65.2	53.5	66.2	65.2	1.3	48.5	149.3	386.7
Total Receivables, Net	308.4	314.3	293.9	243.8	287.4	349.5	404.7	413.6	441.3
Total Inventory	10.5	6.6	6.9	7.9	6.9	6.9	16.9	19.9	27.9
Prepaid Expenses	3.3	1.7	3.3	3.3	3.3	3.3	18.3	18.3	25.3
Other Current Assets, Total	34.1	13.0	7.0	3.1	3.1	3.1	8.1	8.1	12.8
Total Current Assets	451.5	400.8	364.5	324.4	369.0	367.2	499.6	612.3	897.1
Property/Plant/Equipment, Total - Net	938.6	670.5	627.6	1,086.4	1,400.6	1,522.8	1,504.1	1,483.9	1,461.6
Intangibles, Net	106.9	66.4	55.4	59.4	48.0	59.4	61.4	76.4	91.4
Long Term Investments	98.4	59.4	53.7	63.6	63.6	63.6	90.9	102.7	117.7
Note Receivable - Long Term	206.6	495.4	418.9	436.6	394.1	471.6	501.6	521.6	536.6
Other Long Term Assets, Total	45.3	8.8	8.3	13.4	8.0	8.0	18.0	22.0	22.0
Total Assets	1,847.3	1,701.4	1,528.4	1,983.6	2,283.3	2,492.5	2,675.5	2,818.9	3,126.4
Liabilities ($ Millions)									
Accounts Payable	80.0	51.3	61.7	76.1	61.7	61.7	53.7	51.7	51.7
Accrued Expenses	25.7	11.6	9.3	9.2	30.2	14.2	12.3	12.3	12.3
Current Port. of LT Debt/Capital Leases	179.3	73.9	57.2	123.2	15.0	47.0	195.0	87.0	4.0
Other Current liabilities, Total	173.0	196.6	182.3	62.3	184.0	154.0	104.0	104.0	104.0
Total Current Liabilities	458.1	333.4	310.6	270.6	290.9	276.9	365.0	255.0	172.0
Total Long Term Debt	201.2	184.5	161.6	486.1	471.1	424.1	229.1	142.1	138.1
Total Debt	380.6	258.3	218.8	609.3	486.1	471.1	424.1	229.1	142.1
Deferred Income Tax	206.9	142.4	123.6	128.8	134.4	157.3	159.4	166.0	185.0
Minority Interest	25.7	13.9	12.5	20.7	28.0	12.0	12.0	12.0	12.0
Other Liabilities, Total	65.1	62.6	52.7	82.0	100.0	57.3	35.0	28.0	46.0
Total Liabilities	957.1	736.8	660.9	988.3	1,024.4	927.5	800.5	603.0	553.0
Shareholders Equity ($ Millions)									
Common Stock, Total	81.4	40.2	35.0	35.6	35.6	35.6	35.6	35.6	35.6
Additional Paid-In Capital	624.1	356.1	309.5	382.3	382.3	382.3	382.3	382.3	382.3
Retained Earnings (Accumulated Deficit)	173.5	568.2	523.0	577.4	841.0	1,147.1	1,457.2	1,797.9	2,155.4
Other Equity, Total	11.2	--	--	--					
Other Comprehensive Income	11.2	--	--	--					
Total Equity	890.2	964.5	867.5	995.3	1,258.9	1,565.0	1,875.1	2,215.8	2,573.3
Total Liabilities & Shareholders' Equity	1,847.3	1,701.4	1,528.4	1,983.6	2,283.3	2,492.5	2,675.6	2,818.9	3,126.4

ANNEX 3: Projected Cash Flow

Base Scenario - Cash Flow

TTM Standardised in Millions of U.S. Dollars

Cash Flow-Operating Activities ($ Millions)	2019E	2020E	2021E	2022E	2023E
Cash at beginning of the period	65.20	1.31	48.46	149.30	386.68
Cash flow	(63.89)	47.15	100.84	237.38	335.37
Cash at the End of the period	1.31	48.46	149.30	386.68	722.04
Operative Profit	**435.34**	**498.64**	**501.80**	**508.02**	**518.77**
Working Capital Investment	29.40	(62.06)	(5.24)	(8.87)	(12.72)
Depreciation and Amortization	72.78	57.84	58.71	60.18	62.28
Income Tax	(134.42)	(157.27)	(159.43)	(175.95)	(184.97)
Operating Cash Flow	**403.11**	**337.15**	**395.84**	**383.38**	**383.37**
Capex	(387.00)	(180.00)	(40.00)	(40.00)	(40.00)
Net Cash Flow Investing	**16.11**	**157.15**	**355.84**	**343.38**	**343.37**
Loan Amortization	(15.00)	(47.00)	(195.00)	(87.00)	(4.00)
Interest Paid	(65.00)	(63.00)	(60.00)	(19.00)	(4.00)
Dividens declared and Paid	0.00	0.00	0.00	0.00	0.00
Net Cash Provided by Financing Activities	**(63.89)**	**47.15**	**100.84**	**237.38**	**335.37**

Upside Scenario - Cash Flow

TTM Standardised in Millions of U.S. Dollars

Cash Flow-Operating Activities ($ Millions)	2019E	2020E	2021E	2022E	2023E
Cash at beginning of the period	65.20	1.31	(71.54)	202.78	618.23
Cash flow	(63.89)	(72.85)	274.32	415.45	520.02
Cash at the End of the period	1.31	(71.54)	202.78	618.23	1138.25
Operative Profit	**435.34**	**498.64**	**685.28**	**696.09**	**713.43**
Working Capital Investment	29.40	(62.06)	(5.24)	(8.87)	(12.72)
Depreciation and Amortization	72.78	57.84	58.71	60.18	62.28
Income Tax	(134.42)	(157.27)	(159.43)	(175.95)	(184.97)
Operating Cash Flow	**403.11**	**337.15**	**579.32**	**571.45**	**578.02**
Capex	(387.00)	(300.00)	(50.00)	(50.00)	(50.00)
Net Cash Flow Investing	**16.11**	**37.15**	**529.32**	**521.45**	**528.02**
Loan Amortization	(15.00)	(47.00)	(195.00)	(87.00)	(4.00)
Interest Paid	(65.00)	(63.00)	(60.00)	(19.00)	(4.00)
Dividens declared and Paid	0.00	0.00	0.00	0.00	0.00
Net Cash Provided by Financing Activities	**(63.89)**	**(72.85)**	**274.32**	**415.45**	**520.02**

Downside Scenario - Cash Flow

TTM Standardised in Millions of U.S. Dollars

Cash Flow-Operating Activities ($ Millions)	2019E	2020E	2021E	2022E	2023E
Cash at beginning of the period	65.20	1.31	57.40	16.12	189.56
Cash flow	(63.89)	56.09	(41.28)	173.45	268.85
Cash at the End of the period	1.31	57.40	16.12	189.56	458.41
Operative Profit	**435.34**	**427.58**	**429.68**	**434.09**	**442.26**
Working Capital Investment	29.40	(62.06)	(5.24)	(8.87)	(12.72)
Depreciation and Amortization	72.78	57.84	58.71	60.18	62.28
Income Tax	(134.42)	(157.27)	(159.43)	(175.95)	(184.97)
Operating Cash Flow	**403.11**	**266.09**	**323.72**	**309.45**	**306.85**
Capex	(387.00)	(100.00)	(110.00)	(30.00)	(30.00)
Net Cash Flow Investing	**16.11**	**166.09**	**213.72**	**279.45**	**276.85**
Loan Amortization	(15.00)	(47.00)	(195.00)	(87.00)	(4.00)
Interest Paid	(65.00)	(63.00)	(60.00)	(19.00)	(4.00)
Dividens declared and Paid	0.00	0.00	0.00	0.00	0.00
Net Cash Provided by Financing Activities	**(63.89)**	**56.09**	**(41.28)**	**173.45**	**268.85**