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Central Puerto S.A.
Exchange: NYSE
Ticker: CEPU

Valuation date: November 8th, 2019
Recommendation: BUY
Industry: Utilities

Current Price: \$ 3.25
Target Price: \$ 6.27
Upside: 93%

Central Puerto S.A. (CEPU) is a key player in Argentina's power industry accounting for 18% of private-sector generation between 3Q 2018 – 2Q 2019. It currently operates seven power plants, with five more under construction, at strategic locations across the country.



Market Profile	
Closing Price Nov 8, 2019	U\$S 3.25
Outstanding Shares	1,514 M
52 Week Range (U\$S)	2.52 - 11.37
Average Daily Volume (U\$S)	532,603
Market Cap (U\$S)	651.7 M
EV/EBITDA	4.46x
Beta (2Y Weekly)	0.88
Enterprise Value (U\$S)	1.05 B

Source: Reuters

Valuation		
Methodology	Weight	Price
FCFF	80%	U\$S 4.25
EV/EBITDA	20%	U\$S 14.84
Target Price		U\$S 6.27
Upside		93%

INVESTMENT SUMMARY

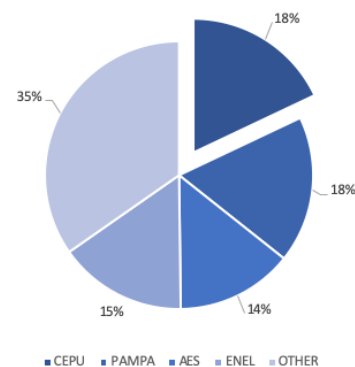
We issue a BUY recommendation on CEPU's ADR with a target price of US\$ 6.27, representing a 93% upside from the closing price of US\$ 3.25 per ADR as of November 8th, 2019. Our target price calculation is based 80% on Discounted Free Cash Flow to the Firm model and 20% in an EV/EBITDA multiple valuation. We base our recommendation upon the following cornerstones:

- **Rock-solid competitive position.** Central Puerto's diversified and strategically located generation fleet have resulted in 18% market share of private sector generation for 3Q 2018 – 2Q 2019 (Figure N° 1). By investing in top of line generation units, CEPU has constantly outperformed market average efficiency and availability metrics. Furthermore, CEPU's latest CAPEX investments respond to an aggressive plan that seeks to raise their renewable energy power plants installed capacity and take advantage of lucrative long-term power purchase agreements.
- **Central Puerto's intrinsic value.** Recent macro-economic instability has pummeled Argentine stocks and bonds. However, CEPU's fundamentals show hidden intrinsic value as stock is currently trading at 4.47x its earnings, 0.92x its book value and boasts a superb 42.9% EBITDA margin (June 2019).
- **Eyes on the prize: expectations of power market growth in Argentina.** The company has publicly expressed its intentions to maintain market share through the development and acquisition of new power plants. Lower than industry average DEBT/EBITDA give CEPU the upper hand when it comes to future growth via long term debt or bank markets. In fact, CEPU already possess 130 hectares of land and three gas turbines up its sleeve in order to boast its installed capacity in the years to come.

CURRENT HIGHLIGHTS

Argentina's political landscape under siege: After a landslide victory in the primary elections held on August 11th, Alberto Fernández and Vice-President Cristina Fernández de Kirchner defeated Mauricio Macri in the national elections held in October by almost 8%. Although the newly elected government takes office on December 10th, markets had already responded; after the primary election results were announced, Argentine stocks and bonds were heavily liquidated, generating losses of up to 48% according to the Merval Index (Figure N° 2). In order to prevent the economy from spiraling out of control, the Macri administration responded by increasing Central Bank's interest rates to a staggering 75% on August 12th. On August 28th, the Minister of Economy announced that the government would restructure certain debt obligations in order to delay principal payments and therefore have the necessary fire power to intervene the economy if panic erupted. Later, on September 1th, restrictions to FX markets were announced in order to protect the Central Bank's reserves after an FX run broke out. To top it off, the IMF announced that it would not disburse the US\$ 5,400 M, part of a US\$ 56,000 M loan granted in June 2018, until after the general elections. Though there is

PRIVATE SECTOR GENERATION
 MARKET SHARE
 3Q 2018 - 2Q 2019



COMPANY	GWH	%
CEPU	14700	18%
PAMPA	14519	18%
AES	11547	14%
ENEL	12676	15%
OTHER	28419	35%
TOTAL	81861	100%

Figure N° 1

Source: CEPU's 2Q 2019

much uncertainty regarding the future policies of the Fernández-Fernández de Kirchner formula, markets have anticipated a return to a more strictly regulated economy similar to that of Fernández de Kirchner’s last term in office.

New power plants up and running: On October 7th, 2019, CEPU announced it was granted the commercial approval of its latest cogeneration unit located within the Lujan de Cuyo facility, in the province of Mendoza. This unit, with an installed capacity of 95 MW, will sell energy and power capacity under a Power Purchase Agreement (PPA) entered into with CAMMESA while steam will be sold to a private off-taker. It is also worth mentioning that 42 MW wind farm “La Genoveva II”, located in the southern region of Buenos Aires Province, began operating back in September. “La Genoveva II” will sell its power generation to private sector clients through long-term PPA’s. However, this year’s biggest addition to CEPU’s fleet was the acquisition of the Brigadier López Power Plant, located in the province of Santa Fe, which boasts a whopping 280 MW of installed capacity and will sell its power into the wholesale energy market (WEM). The plant was purchased from IEASA, a state-owned company, through a U\$S 165 M payment and a U\$S 161 M loan which will be fully canceled by March 2022. Furthermore, CEPU aims to invest another U\$S 120 M in this facility in order to close the open cycle which will add an additional 140 MW as well as improve the plant’s efficiency due to the fact that exhaust fumes from the gas turbine will act as the fuel source for the steam turbine. Altogether, the new unit’s (Figure Nº 3) combined capacity of 417 MW, represent an increase of 10.94 % to the 3810 MW fleet CEPU was operating until this point.

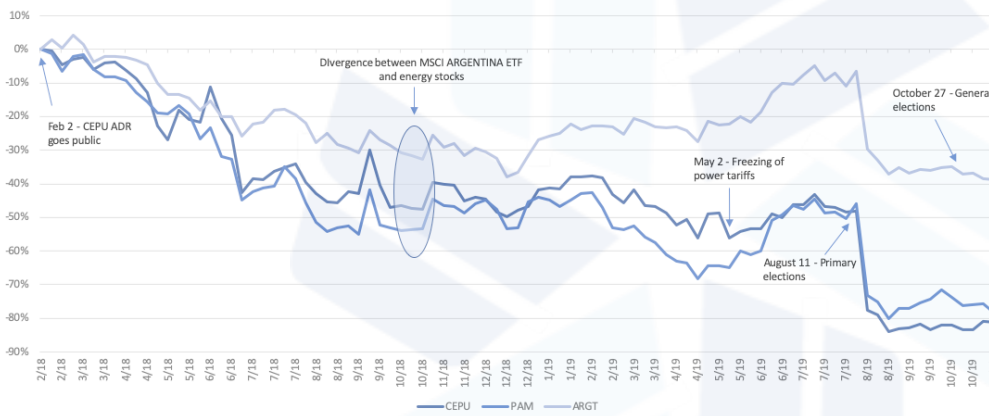
Stock performance not for the faint of heart: Since its debut in the NYSE back in February 2018, CEPU’s sponsored ADR has had its shares of ups and downs. Although it hit the market at U\$S 17.70, a rocky start left investors with a 50% loss after only six months, due to a crumbling Argentine economy in which the Peso was devaluated by 50%. On April 17th, 2019, in an effort to regain political approval ratings, the government announced the freezing of power tariffs, ultimately condemning the stock to perform at a U\$S 8.53-12.27 range up until the primary elections held in August. Despite a 10% spike on the day before the primaries, unexpected results favoring opposition leader Alberto Fernández provoked one of the biggest market crashes in recorded history. To this day, CEPU’s shares have plummeted 82% since they hit the streets back in 2018 as well as having significantly underperformed the Merval Index over the past year.

Top 5 biggest market crashes (1950-2019)		
Index	1-day % change	Year
Sri Lanka Stock Market Colombo All-Share Index	-61,7	1989
S&P Merval Index	-48	2019
S&P Merval Index	-45,2	2002
The Kazakhstan Stock Exchange Index KASE	-38,6	2002
Mongolia Stock Exchange Top 20 Index	-35,4	2004

Figure Nº 2
Source: Reuters

New power plants in 2019			
Facility	Technology	MW	COD
Lujan de Cuyo	Cogeneration	95	Oct. 2019
Brigadier Lopez	Gas turbines	280	Jun. 2019
Genoveva II	Wind farm	42	Sep. 2019
Total MW		417	

Figure Nº 3
Source: CEPU’s press releases



For comparative purposes we analyzed CEPU and PAM, as Pampa Energía is probably CEPU’s closest peer. Apart from being listed in the same stock exchange they are alike in terms of market cap, installed capacity and location of assets. MSCI Argentina ETF was used a proxy of Argentine ADRs performance.

BUSINESS DESCRIPTION

Central Puerto’s beginnings trace back to 1992, when pursuant to Executive Decree No. 122/92, and due to the privatization process of Servicios Eléctricos del Gran Buenos Aires (“SEGBA”) the company was incorporated and registered within the Public Registry of Commerce of the city of Buenos Aires. With headquarters in Buenos Aires, Argentina, and more than 803 employees, the company currently operates seven power plants, has five more underway and another under further development. According to official data, by generating 14.700 GWh, CEPU was responsible for approximately 18% of private sector power generation between 3Q 2018 – 2Q 2019. Although power sales represent 97% of revenues, the company also sells steam and owns a stake in natural gas distribution companies. CEPU’s solid track record coupled with its stellar management team has turned this company into a force to be reckoned with.

Variety of technologies and generation sources diversify risk: One of CEPU’s most desirable qualities is their balanced portfolio of generation technologies (Figure Nº 4). Apart from thermal generation, in which stand-alone steam and gas turbines, combined cycles and cogeneration are used, there is an ever-growing presence of renewable sources. At the moment, 2588 MW (61.2%) of CEPU’s installed capacity comes from thermal generation and 1646 MW (38.8%) are renewable sources. The company’s largest renewable asset is the Piedra del Aguila hydroelectric plant which boasts a staggering 1,440 MW of installed capacity and was responsible for 29% of last year’s power sales. This variety of technologies has given the company an edge when it comes to revenue streams as it has been able to benefit from new policy and the many remuneration schemes that coexist in the market.

FONINMEM credits: In 2001, a severe economic crisis erupted in Argentina, resulting in five different presidents in office within a 13-day period, endless riots and a local currency which jumped from AR\$ 1 to AR\$ 4 per U\$S Dollar. The power industry, much like the rest of the country, was unable to soar through the devastating damage that had been done without assuming collateral damage. Shortly after the crisis, power tariffs, which until this point had been fixed in U\$S Dollars, were then converted to AR\$ at an exchange rate of 1:1 in what was known as the “Tariff Pesification”. Eventually, the government, who was responsible for compensating generation costs through subsidies, began to default payments and thus the FONINMEM fund was conceived.

Generation fleet as of 11/11/19

Techonology	MW	%
Hydroelectric	1441	34,0%
Steam turbines	1069	25,2%
C. Cycles	1071	25,3%
Gas turbines	307	7,3%
Wind turbines	205	4,8%
Cogeneration	141	3,4%
Total	4234	100%

Figure Nº 4
Source: CEPU’s 2Q – 2019 10K



In an effort to avoid further problems with power companies and expand the country's installed capacity, the government set up the FONINVEMEM fund in order to repay then outstanding debt owed to generators by means of power sales from new plants that were to be constructed. As an additional benefit, generators receiving payments through this fund would also obtain equity in the new facilities that were co-financed by the FONINVEMEM program and the Argentine government. This mechanism has awarded CEPU the right to collect monthly US\$ Dollar denominated payments for outstanding power sales between 2004-2011 along with having a considerable stake in three power plants that were built through the FONINVEMEM program (Figure N° 5). However, it is worth mentioning that after 10 years of these plant's operations, CEPU's participation will be diluted as the Argentine government will obtain a stake directly proportional to their investment.

	San Martin	Manuel Belgrano	Vuelta de Obligado
Plant's overview	Combined cycle	Combined cycle	Combined cycle
	865 MW	873 MW	816 MW
	COD: 2010	COD: 2010	COD: 1Q18E
Ownership structure of the operating companies			

Figure N° 5
Source: CEPU's Form 20-F

Strategic locations are gold: Location, location, location... This has been one of CEPU's main concerns when investing in new generation units. The company considers that locating facilities near city centers (Figure N° 6), as is the case of Puerto Complex and the City of Buenos Aires, is a key factor in achieving optimal margins. Facilities that stray far away from the demand face stiff transmission costs as prices are determined by the distance between generation and demand. Furthermore, plants that are connected at heavily saturated nodes of Argentina's transmission network could face dispatch issues if one the main lines becomes unavailable for some reason.

Bold moves with sights set on the future: CEPU has positioned itself as the number one player in the industry by means of private sector power generation and has no plans of stepping off the gas as they have publicly announced their intentions of maintaining its market share in the years to come.

The company currently has five new power plants under construction and 1 existent plant (Brigadier López) under further development. Once completed, this mix of thermal and renewable plants will increase capacity by 650 MW (15%) as shown by Figure N° 7. New generation units will continue to diversify revenue streams as the renewable plant's energy will be sold through PPA agreements, in comparison to thermal generation sales that receive payments from state-owned CAMMESA according to Res. 1/19.

Furthermore, CEPU aims to expand its future presence and has therefore leveraged their stable cash flows and low levels of debt in order to purchase two SGT-800 gas turbines and equipment for the Luján de Cuyo thermal plant for US\$ 56 M financed with the proceeds of loans with convenient terms. Moreover, the company is also in possession of 3 gas turbines, with a total capacity of 969 MW, that have not yet been assigned to a location along with 130 hectares of land in the province of Buenos Aires for future combined cycle plants developments.

INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

The power industry is responsible for generating electricity for industrial, commercial and public services, transport and residential needs. Fuel and generation sources, environmental policy and fleet efficiency are just some of the key factors that define the industry and its margins. In 2018, global production of electricity increased 3.5%, catapulting total generation to 26.700 TWh. Growth was driven in 76% by the Asian markets' demand, with China accounting for 70% of those needs. On the other hand, Argentina generated 137 TWh (0.5% of Global Generation). Although the global generation mix still relies on coal as its main fuel source, more than 45% of new production was met with renewable sources. Considering that power generation and GDP growth rates have been strongly and positively correlated over the past 20 years (Figure N° 8), we estimate that the industry will maintain a sustained yearly growth of 2.89% during 2019-2024. Due to their deficient infrastructure, we expect emerging markets and developing economies, such as Argentina, to have a 3.34% CAGR in order to catch up to a rapidly growing electricity demand.

Argentina's power industry, privatized in 1992, is divided into three subsectors: generation, transmission and distribution. Due to their characteristics, transmission and distribution sub sectors are natural monopolies. At the moment, they are privately owned and thus regulated by government entities. However, generation is a competitive market with private and state-owned facilities. All sub sectors are coordinated by CAMMESA (Appendix 14) – a nonprofit corporation operated by state and private sector directors.

Drivers

Fuel: Fuel sources are determinant when defining costs and margins in the power industry. On a global scale, coal represents the main source (38%) of fuel in the industry – China, with its colossal coal reserves, accounts for over 50% of this demand. Nonetheless, it is rapidly shutting down its coal operation due to staggeringly high CO2 emissions. In comparison, coal powered plants produce 1.1Kg of CO2 per KWh while natural gas generates only 0.57Kg per KWh. Therefore, it is no surprise that natural gas has been slowly chipping away at coal's market share, creeping up from 12.3% in 1971 to 22.2% in 2017. Oil and its many derivatives, such as fuel oil and gasoil, are by far the most expensive



Assets In operation		
1	Puerto Complex	1714 MW
2	Piedra del Águila	1440 MW
3	Luján de Cuyo	595 MW
4	Brigadier López	280 MW
6	La Castellana 1 & 2	115 MW
7	Genoveva 2	42 MW
8	Achiras 1	47 MW

Assets under construction		
4	Brigadier López	140 MW
5	San Lorenzo	330 MW
7	Genoveva 1 & 2	88 MW
9	Manque	57 MW
10	Los Olivos	23 MW
11	El Puesto	12 MW

FONINVEMEM plants		
12	Manuel Belgrano	873 MW
13	San Martin	865 MW
14	Vuelta de Obligado	816 MW

Figure N° 6
Source: CEPU's 2Q – 2019 10K

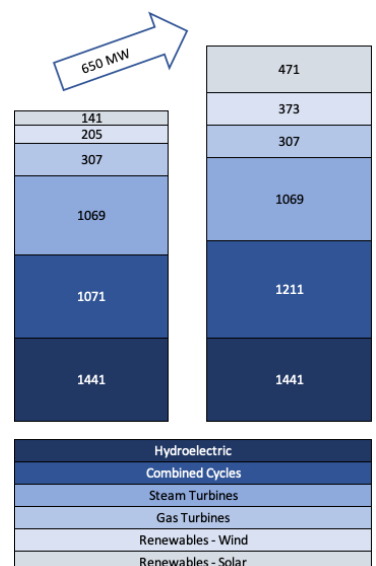


Figure N° 7
Source: CEPU's 2Q – 2019 10K

fuel source on the market, although they power only 3% of global generation and their use is usually limited to small engines or large plants with outdated machines whose access to natural gas has been temporarily cut-off. However, Argentina's fuel mix (Figure Nº 9) differs greatly from global figures, due to its abundant natural gas reserves, such as Loma de La Lata, which has given the country almost unlimited access to this fuel source over the past 35 years. Despite a brief period, between 2007-2015 in which Argentina was a net importer of natural gas, as local production could not meet local demand, newly discovered Vaca Muerta (in Neuquén Province) promises to solve this issue. Furthermore, Argentina's framework has assigned CAMMESA the task of supplying fuel provisions to generation companies free of charge in exchange for tariffs that do not consider this variable cost. According to CAMMESA's latest monthly report, 95.92% of power is fueled by natural gas; the remaining 4.08% is met by coal (1.01%), gas oil (2.07%) and fuel oil (1%).

Electrical Transmission Lines: In order to deliver power to a demand that is located hundreds of kilometers away, facilities rely on high voltage transmission lines. Joule's law states that in order to reduce the loss of power to resistance, which is heat generated by moving electric current through a resistor, voltage must be increased. Therefore, electricity is stepped up to 500 or 800 KVA for transmission over long distances. Over the years, the power industry has moved farther away from the demand in order to build large scale facilities that would not be possible in residential areas due to regulation and real estate costs. However, this has made power generation companies highly dependent on the sufficiency of the transmission lines and its operators. In countries such as Argentina, high voltage transmission lines, currently operated by Transener S.A., have become heavily saturated as they have not been able to expand as rapidly as the generation subsector and consequently certain connection nodes are now operating at almost 100% capacity. This poses an enormous risk for generators that are connected to such nodes as they could be cut-off from dispatching power if one of its lines had a problem.

Tariffs: Remunerations schemes vary from country to country. While developed economies tend to have frameworks that provide long-term and stable cashflows, developing countries are characterized by constantly changing policies depending on the political views of the governing administration. Argentina is no exception to this rule of thumb, as remuneration schemes have undergone a whirlwind of change ever since privatization in 1992. In an effort to maintain political approval after the crisis of 2001 which led to the "Tariff Pesification", the Kirchner/Fernández de Kirchner administration, which governed from 2003 to 2015, froze tariffs and opted to subsidize generation costs instead of having end users pay the real cost of the electricity they consumed. Ultimately, this scheme encouraged an irresponsible energy consumption.

In 2015, with Mauricio Macri as elected president, the government set out to normalize the power industry's remuneration scheme. By sanctioning Resolution 1/19, also referred to as Energía Base (represents 88% of CEPU's revenues – Figure Nº 9), which abrogated Resolution 19/17, generation units compete for the right to dispatch power based on their efficiency and availability. The system rewards efficient machines, which require less fuel per MWh, with dispatch priority over less efficient generation units. Dispatch priority enables generators to produce power and thus collect energy payments. Furthermore, Resolution 1/19 also establishes a capacity payment based on the unit's installed capacity and its availability. In other words, a 100 MW generation unit that is only available 50% of the month (due to maintenance, fuel shortage, etc.) will only receive half of the capacity payment that it would collect if it were available 100% of the month. Thermal energy currently receives capacity payments that vary from US\$ 3.050 to US\$ 7.000 per MW, depending on the month and generation unit's technology, while energy payments range from US\$ 4 to US\$ 12 per MWh according to unit's fuel source. Under this Resolution, hydroelectric generators have capacity payments that range from US\$ 3.000 to US\$ 9.000 per MW and energy payments of US\$ 3.5 per MWh. Generation that falls outside of this framework, such as renewable units from the RenovAR tenders or nuclear power plants, have payments specifically negotiated to each contract signed.

Based on Alberto Fernández's most recent statements, in which he has been clear about his intentions to further regulate the power industry, there is reason to believe that tariffs will be frozen and generation costs will be subsidized. Furthermore, there have also been talks of swapping US\$ Dollar based tariffs for AR\$ denominated tariffs adjusted by inflation, lower margins and new frameworks for the industry.

Decarbonization: With over 195 countries having signed the Paris Agreement as of March 2019, the world has acknowledged that global warming due to human intervention must be dealt with. Therefore, global leaders set out to reshape policy as we know it in a frenetic attempt to avoid catastrophic consequences. Tax cuts, subsidies and long-term power contracts for renewable sources are just some of the benefits that governments are using to stimulate an immediate shift in their generation mix. For instance, Argentina approved Law 27.191, which states that by 2025, 20% of energy demand must be met by renewable sources. To help achieve this objective, the government has held the RenovAR tenders with long term PPA contracts with US\$ dollar payments for power supplied by renewable facilities. This Law, along with other legislation at a national, provincial and municipal level is changing industry margins and forcing companies to adapt to a new framework in order to maintain competitiveness.

COMPETITIVE POSITIONING

CEPU's dominant position in Argentina's power industry is no mere coincidence. High entry barriers and a constantly changing regulatory framework have resulted in a market in which CEPU, alongside its three biggest competitors, AES, Pampa Energy and ENEL, have over 65% market share (Appendix 2). Nevertheless, competition is fierce as company's strive to improve generation unit's efficiencies and availability in order to obtain dispatch priority from CAMMESA.

Efficiency and availability mean more revenues: CEPU's track record speaks for itself... By outsourcing maintenance contracts with GE & Siemens as well as keeping in-house teams equipped with inventories of necessary spare parts on-site, the company has achieved minimal downtime in case of unexpected damage to the units. Consequently, during 2Q 2019, CEPU's thermal units crushed the 80% availability market average by 13%, as their plants were available 93% of time (Figure Nº 11). During this period, CEPU's combined cycles and steam turbines also outperformed market average efficiency by 7% and 11% respectively (Figure Nº 12). By obtaining coveted dispatch priority, CEPU was able to generate at a 17% higher MWh/MW ratio than its nearest competitor, Pampa Energy. By continuing to invest in top of the line units and focusing on closing open cycles, CEPU's figures and dominance in the power market only stand to improve (see Appendix 3).

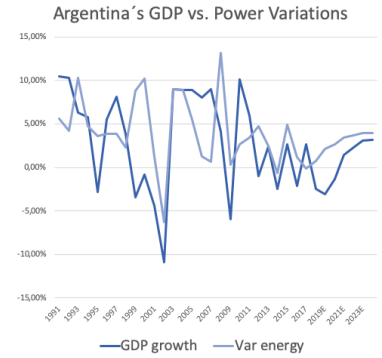


Figure Nº 8
Source: CEPU's 2Q – 2019 10K

CAMMESA FUEL PROVISIONS
OCTOBER 2018 - SEPTEMBER 2019

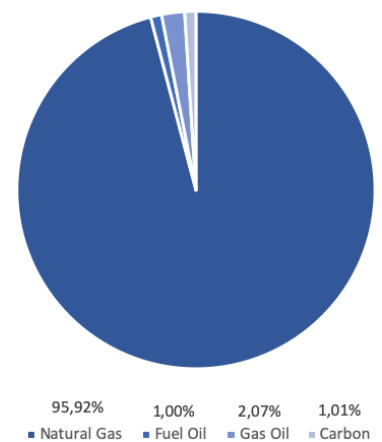


Figure Nº 9
Source: CAMMESA report and team analysis

CEPU'S REVENUES PER FRAMEWORK
2018

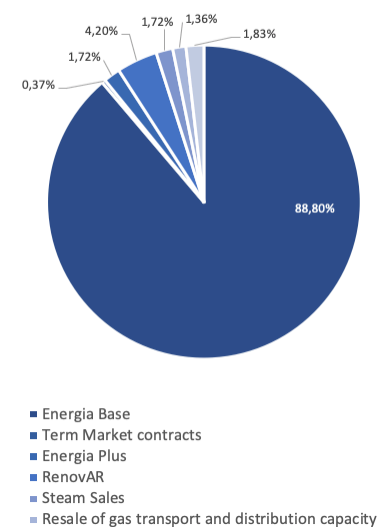


Figure Nº 10
Source: CEPU's Form 20-F

Size matters: The company's size, measured both in terms of installed capacity and power generation, as well as its shareholders' financial muscle has allowed CEPU to diversify revenue streams and take advantage of unique opportunities. A strong financial capacity allowed CEPU to keep operating at times when CAMMESA could not pay outstanding receivables. Eventually, this resulted in the company being able to enter the FONINVEMEM program in a better shape vis-à-vis many of its competitors and now owns equity stakes in three new power plants. Furthermore, the ability to maintain CAPEX expenditures on a large scale has given CEPU the benefit of entering the RenovAR tenders and obtaining lucrative long term PPA contracts (see Appendix 3).

Any fuel is good for CEPU: Despite Argentina's large natural gas reserves, mismanagement and lack of new reservoirs led to gas shortages between 2007-2015 and left generation units that depended exclusively on this fuel source at a complete stand still. In spite of the fact that 91% of CEPU's fleet is fueled by natural gas (Figure N° 13), mechanical adjustments to generation units have enabled up to 93% of them to potentially function on liquid fuels. Furthermore, the company fit large tanks with over 52.000 tons of storage capacity into power plants in order to stock up on more than 11 days' worth of fuel. When taking into consideration that over 27% of plants under construction are renewable assets, which would raise renewable capacity/total installed capacity from 4.8% to 7.9% and thus lower the fleet's dependency on fuel, it becomes clear that CEPU have positioned themselves to keep generating power, regardless of the fuel provision context, for years to come.

FINANCIAL ANALYSIS

Revenues – challenges ahead: Revenues are just the tip of the iceberg when it comes to understanding Central Puerto's finances. As we immerse ourselves into their financial statements, the first figure that catches our attention is the exponential growth in revenues that the company has experienced between 2014 and 2018, where reported sales grew from US\$ 160.1 M to US\$ 509 M. Before diving deeper into understanding the reasons behind this spike, we looked at some of the company's main competitors, such as Pampa Energy, AES and ENEL and therefore determined that industry growth was 167%, well below the 217% we observe in CEPU's case (Figure N° 14).

One of the main reasons behind CEPU's staggering growth rate is the abrupt increase in generation capacity due to the acquisition and development of generation units. Over the 2014-2017 period, the company had CAPEX expenditures of more than US\$ 624 M. Another culprit is the improved efficiency of existing units, which has favored CEPU amongst its competitors in terms of dispatch priority.

However, after Turkish crisis impacted Argentina's economy, revenues have taken a turn for the worst in 2018, with a drop of 13% when compared to the previous year. In 2019 the company is showing erratic interannual behavior, in line with the country's economy, as March showed 10% growth YoY while June had a 7.2% YoY loss of revenue. Although the future will remain unclear until recently elected president Alberto Fernández formally announces his plans for the power sector, recent public statements give reason to believe that the country will reenter a tariff scheme financed by government subsidies. Strong evidence also suggests that new policy will include swapping payment's currency from US\$ to AR\$ and adjusting tariffs by inflation, reducing capacity and energy payments or restructuring PPA contracts. If this were the case, CEPU's revenue could take a big hit since all of the company's assets are located in Argentina and more than 98% of revenue stems from power sales.

Resilient profitability: Central Puerto's operation has demonstrated solid performance over the past years with a 55.7% adjusted EBITDA margin in 2018 to show for it. Despite an adverse macroeconomic context in Argentina, the company is holding its head out of the water and projects 43% adjusted EBITDA margin for the present year. Although the 42.9% Q2 EBITDA margin represents a 2.2% interannual loss, the company is still way beyond the industry standard of 28.7%.

We believe that if tariffs remain dollar linked, the company should continue to see an increase in their operating margins, primarily due to the fulfillment of a CAPEX plan, which would improve overall efficiency of the generation fleet, in order to meet its publicly announced intentions of maintaining market share. Furthermore, by observing ROE for 2018, we see that CEPU achieved a whopping 65.3% which dwarfed industry standards of 12.8% for this metric; we consider this to be a promising signal that investments are being allocated in an efficient matter.

Cost structure: Due to the characteristics of the industry, the largest expense a power company would face are fuel cost. However, as CAMMESA is currently providing free fuel, in exchange for lower power tariffs, CEPU's fuel cost are marginal. Although recent regulatory change, pursuant to Resolution SEE 70/18 authorized generators to purchase their own fuel supply in an effort to pick up extra profit, CEPU has not incurred in this sort of activity. We estimate that if the company were to purchase all of their natural gas supply, CEPU would have to disburse an extra US\$ 2.3 B per year. In turn, this extra cost would be remunerated by means of a higher tariff.

Therefore, CEPU's cost structure is composed of other operating expenses such as salaries, equipment maintenance contracts and administrative expenses. Despite an uncertain future due to the everchanging policy, we predict that there will not be many surprises with regards to CEPU's cost structure. Furthermore, based on CEPU's ongoing development of renewable energy plants, which should generate 759 GWh in 2019 and more than 1.610 GWh in 2020, we expect operating costs will be reduced, mainly as a result of lower labor costs.

Improving efficiency: When compared to peers, CEPU's asset turnover of 0.08x is almost exactly the same. Although these figures seem considerably low when compared to other industries, huge investments in fixed assets with more than 20-year life expectancy are to blame. Nevertheless, when contrasted to the previous quarter, asset turnover is down by almost 20%. We consider this to be a seasonal drop that will be reverted in the near future once San Lorenzo and Genoveva I plants begin to generate power. It is also worth noting that the company has considerable assets, such as three cutting edge turbines and a 130-hectare plot of land, that are not being utilized at the moment and thus hinder this metric.

Leverage under control: room to grow. Expansion of the generation fleet will be the key to maintain or even grow market share. Considering that overnight capital costs to build gas fueled power plants range from US\$ 0.6 – 2.1 M per MW, companies frequently resort to loans or bonds in order to purchase equipment. CEPU shows a promising 1.8x (2018)

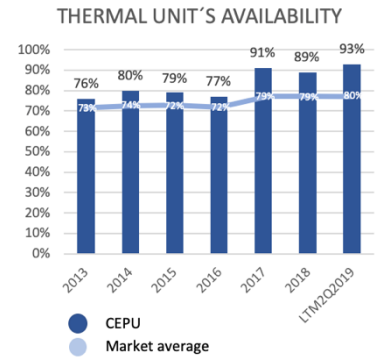


Figure N° 11
Source: CEPU's 2Q – 2019 10K

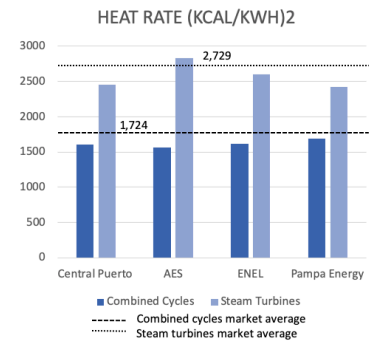


Figure N° 12
Source: CEPU's 2Q – 2019 10K

THERMAL GENERATION BY FUEL TYPE
3Q 2018 - 2Q 2019

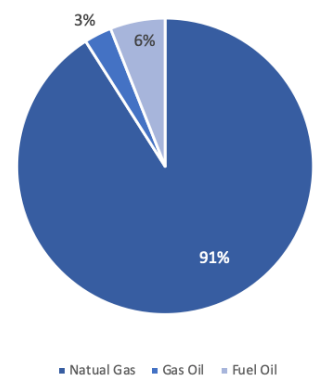


Figure N° 13
Source: CEPU's 2Q – 2019 10K

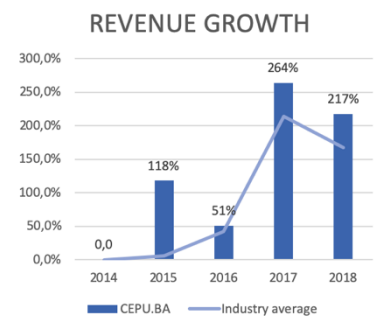


Figure N° 14
Source: CEPU's Form 20-F

DEBT/EBITDA which means that there is still room to take on new debt. Although CEPU's ratio is well below the 3.26x industry average, we observe consistent growth over the past years due primarily to the Brigadier Lopez power plant purchase. Nevertheless, new loans, such as the US\$ 56 M granted by KfW for the purchase of two, 89 MW, SGT-800 gas turbines and equipment from Siemens Industrial Turbomachinery, are being negotiated at very competitive terms – Libor + 1,15% with 47 equal and consecutive installments.

CEPU's 14.9% (2018) ratio of long-term debt/capital also implied a sound financial structure when compared to an industry average of 38.2%. However, the new debt pummeled this ratio as it jumped from 14.9% to 29.9% during the first semester of 2019. Nevertheless, CEPU's coverage ratio (I.E.: EBIT/Interest expense) of 3.69x is far superior to its peers Pampa Energy, ENEL and AES whom for the same period have 1.82x, 2.91x and 1.66x respectively. That's why far from causing alarm, we embrace these figures, along with the company's A+ rating from Fitch for long term debt and their access to the bank market, as they clearly show that CEPU is in a position to continue growing via debt.

Working capital: risk factor. Inventory, which consists mainly of stored fuel and spare parts, is very low since CAMMESA manages supply of fuel. Therefore, the main driver behind CEPU's cash cycle (Figure N° 15) is the evolution of accounts receivable. As of June 2019, there are US\$ 230.5 M in receivables outstanding in this segment. CEPU's cash cycle of 107 days, which unlike competitors depends exclusively on its business within the Argentine market, nearly doubles the industry mean due to late payments from the FONINMEM program.

On the other hand, the company has very promising liquidity ratios. As of June 2019, the quick ratio was 1.17x while the industry benchmark was 0.55x and the current ratio of 1.20x compared favorably to the industry mean of 0.79x.

Considering the company's main client is CAMMESA, with whom they have little negotiation power to shorten days of payment, working capital could spiral out of control due to high inflation, an unsteady local currency and a recent change of government administration. Nevertheless, we believe that CEPU's liquidity would act as a buffer to withstand a short-term beating on this front.

In CAPEX we trust: Over the past 5 years, CEPU has carried out an aggressive CAPEX expenditure plan consistent with their objective of expanding installed capacity in the power market. In fact, despite Argentina's economy setting off all sorts of red flags, the company has increased CAPEX spending from US\$ 247.8 M to US\$ 375.4 M over the past year in an effort to get plants up and running as soon as possible.

Some of CEPU's most recent investments include the San Lorenzo plant, equipped with a cutting-edge Siemens gas turbine that will increase capacity by 330 MW, and four renewable energy wind farms that will diversify the company's generation mix.

Although we estimate that a bearish economy would slow down investment plans as a result of weaker expected returns on investment along with lower and more expensive leverage availability, CEPU's desire to maintain market share and a modern fleet will undeniably force them to continue this trend of CAPEX expenditure.

Bottom Line: FCF. "Non semper ea sunt quae videntur" – Not everything is what it seems. It would be unfair to focus exclusively on Central Puerto's more recent free cash flow, without considering the wide variety of factors that have contributed to last year's US\$ -103.3 M figure and this year's US\$ -232 M bad start.

On one hand, CEPU's board determined that all its operating cash flow was to be spent in CAPEX in order to take advantage of the current framework and to position themselves for future growth opportunities. On the other hand, external factors such as delayed collections, also had a negative effect. Taking all this into account and considering that this year's FCF will be impacted positively by new loans, we forecast a comeback of this metric by the end of the present year (US\$ 430 M). Nevertheless, we believe these issues will continue to be relevant factors in the following year's FCF.

VALUATION

We issue a BUY recommendation on CEPU's ADR with a target price of US\$ 6.27, representing a 93% upside from the closing price of US\$ 3.25 per ADR as of November 11, 2019. Our target price calculation is based 80% on Discounted Free Cash Flow to the Firm model and 20% in an EV/EBITDA multiple valuation. We assigned more weight to the DFCF approach as we were able to simulate different scenarios (60% base, 30% bear and 10% bull – Figure N° 16) contemplating regulatory framework changes that would significantly affect the target price. Meanwhile, we relied on the EV/EBITDA multiple calculated for a set of comparable peers to mitigate valuation risks as this approach gathers implicit assumptions made by investors.

Revenues: CEPU's two main revenue sources, (i) energy dispatch and (ii) generation capacity, account for over 98% of total sales. Steam sales (1.72% - 2018), represent a third source of income and have been forecasted to remain constant given its low significance.

To project CEPU's future revenues, each and every existing plant, as well as those under construction and the frameworks in which they operate, were analyzed. As a result, we identified two different prices and volumes which needed to be taken into account. P1 and Q1 refer to the price and quantity for CEPU's revenues related to installed capacity and P2 and Q2 refer to the revenues generated by energy dispatched. For our base scenario we considered P1 and P2 payments will be disbursed in AR\$ instead of US\$ dollars and adjusted by local inflation.

Projecting Q1 consisted in combining the capacity of CEPU's ongoing developments to the current generation fleet. To this day, there is no official information as to how much CEPU's participation will be diluted in each of the three FONINMEM plants after the Argentine government is awarded its stake. However, according to the 20-F, CEPU expects dilution of the Central Vuelta de Obligado plant, set for 2028, to be at least 70%. Therefore, we adopted this dilution rate to the Manuel Belgrano and San Martin plants as well.

For our base scenario, we also assumed that CEPU will renew Piedra del Aguila's concession when it expires on 29/12/2023, due to its efficient management of the power plant over the course of the existing contract. This plant, which represents 34% of CEPU's installed capacity, was accountable for 29% of power generation in 2018.

Based on evidence that power generation is closely correlated to Argentina's GDP, forecasted market growth was determined by running a simple linear regression between these variables and applying the ratio to the IMF's projection of the country's GDP for 2019-2024. Considering CEPU's intention to maintain its market share, the company's future generation variations will tend to mimic the power market's fluctuation.

Cash Cycle

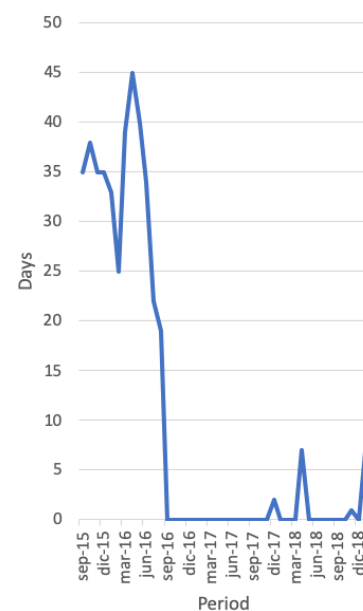


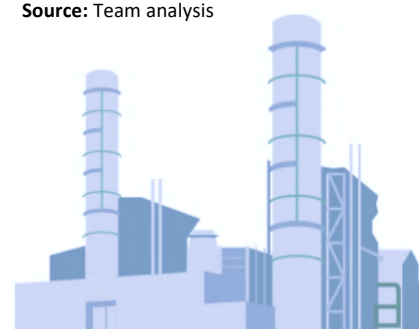
Figure N° 15
Source: CEPU's Form 20-F

Base case - 60%
Revenues: we assumed currency swap from US\$ to AR\$ for all payments, a reduction of thermal capacity payments to US\$ 5.500 per MW and adjustment of tariff based on inflation.
Costs: we assumed cost/mw remained constant but affected by the AR\$ depreciation and inflation of each period.
CAPEX: CEPU manages to complete all of its plants but does not start new projects.
Working Capital: Accounts receivable measured in terms of days/sales gets delayed in 30 days.
EMBI+: remains constant throughout 2019-2024.
Dividend Yield: we assumed a 5% dividend payment based on operational margins

Bull case - 10%
Revenues: we assumed current Frame-Work does not change.
Costs: we assumed cost/mw remains constant and US\$ denominated.
CAPEX: CEPU manages to complete all of its plants and complete new projects in 2023 for 969 MW.
Working Capital: Accounts receivable measured in terms of days/sales remains constant.
EMBI+: gradually reduces throughout the period.
Dividend Yield: we assumed a 5% dividend payment based on operational margins

Bear case - 30%
Revenues: we assumed currency swap from US\$ to AR\$ for all payments, a reduction of thermal capacity payments to US\$ 4.000 per MW and adjustment of tariff based on inflation.
Costs: cost/mw remains constant but affected by the AR\$ depreciation and inflation.
Working Capital: Accounts receivable measured in terms of days/sales get delayed in 60 days.
CAPEX: CEPU manages to complete all of its plants but does not renew Piedra del Aguila concession and shuts down two turbines from Puerto Complex plant in 2024.
Dividend Yield: we assumed the company will not pay dividends

Figure N° 16
Source: Team analysis



Due to its intermittent nature and inability to be stored, power generation from renewable sources have dispatch priority and therefore all of these plant's production will effectively be sold at the prices fixed in each PPA contract. However, these plants do not collect payments for their installed capacity. We estimated sales from CEPU's current and future renewable projects based on each plant's installed capacity and the industry efficiency for each technology. In the case of El Puesto solar plant, industry efficiency standard of 29% was adjusted to 31% to account for Catamarca's extreme irradiance levels (Figure N° 17).

Costs: Considering that CEPU's Cost of Goods Sold (COGS) is not affected by fuel purchases, the most relevant variables to be taken into account are salaries and maintenance. To forecast this variable, we calculated the average cost per MWh based on 2016-2018 results and then multiplied this figure by each year's projected installed capacity. Since costs are US\$ denominated and do not perceive considerable impact from inflation and currency devaluation we expect lower margins in the future.

Amortizations and Depreciations: To forecast the AA&DD, an AA&DD/Assets average ratio for 2014-2018 was first established. From this point, we were able to project figures into the following years accounting for the variations in assets according to the CAPEX plans until 2024.

Working Capital: Since CEPU has little to no inventory, variations in WC are mainly explained by accounts receivable and accounts payable. Therefore, we calculated days payables, days receivables and cash cycle based on 2014 – 2018 historical data and then applied these metrics to each scenario's assumptions.

	2014	2015	2016	2017	2018	AVG (BULL)	AVG (BASE)	AVG (BEAR)
Account receivables (days)	133,0	114,8	178,9	150,9	225,3	160,6	190,6	220,6
Inventory (days)	14,7	13,7	19,5	11,7	12,5	14,4	14,4	14,4
Account payables (days)	42,7	54,0	87,8	75,5	96,4	71,3	71,3	71,3
CASH CYCLE	104,9	74,6	110,6	87,2	141,3	103,7	133,7	163,7

Source: Reuters & Team Analysis

CAPEX: CAPEX projections were based on two criteria: (i) maintenance CAPEX and (ii) expansionary CAPEX. Maintenance CAPEX is defined as the amount of investment needed in order to maintain current power generation. Therefore, it has been set to match the annual depreciation. Expansionary CAPEX refers to money being destined to grow installed capacity. At the moment, there are 6 projects under construction, that will increase capacity by 650 MW. Despite a change in government, recent information has confirmed the company's intention to disburse the US\$ 375 M needed to finish these plants by 2020.

Base scenario CAPEX (Figure N° 18) stipulates that the expansion phase (2019-2020) will increase market share significantly due to a 19% increase in capacity once the mentioned plants become operative. For the following years, we believe the company will not increase its generation fleet but instead shift towards a maintenance-oriented scheme, where CAPEX will be equal to AA&DD.

Building the Weighted Average Cost of Capital. We used a Multi-WACC approach: To compensate for Argentina's economic volatility, as well as for recent policy changes affecting income tax rate, a multi-WACC approach was applied.

One of the main challenges was determining the country risk premium for the WACC considering that the JP Morgan Argentina EMBI+ Index, has skyrocketed (+515%) from 347 bps on January 1st, 2018, to 2,137 bps on October 28th, 2019 (Figure N° 19). We believe that there has been an overshooting based on extreme pessimism surrounding Albert Fernández's future policies and that this should tend to gradually reduce in the years to come. The multi-WACC also allowed us to vary income tax rates, originally set at 35% in 2017, to current 30% figures and 25% for 2020 onwards.

Cost of Equity: The Capital Asset Pricing Model adjusted by the Argentine Country Risk Premium was the tool of choice to build the Equity cost. Essentially, we focused on: (i) the yield of the 10-year US Treasury Bond for the risk-free rate, (ii) CEPU's levered beta and (iii) the current country risk premium of 2,137 bps. CEPU's levered beta was constructed by applying its D/E ratio to an unlevered industry average beta made up of peers. For the equity risk premium parameter, we used the recommendation posted by Damodaran (Jan 2019) of 5.96%.

Cost of Debt: In order to calculate the cost of debt after taking advantage of the tax shield, two factors were taken into account: (i) cost of debt and (ii) income tax rates. Given that CEPU has no bonds outstanding in the market, we selected the 2029 bond's yield of PAMPA, a comparable company with a similar credit rating, as a proxy. Current yield of 12.61% implies that CEPU's actual cost of debt after taxes is 8.83%. However, if yields remain constant, the cost of debt will rise to 9.46% after tax cuts take effect in 2020.

Debt to Equity ratio: CEPU's 108.08% stands higher than the 87.52% average ratio. However, the company still has enough room to park new debt and foster growth.

Terminal Value Growth: CEPU's terminal growth rate of 0.93% (commonly denominated "g" coefficient) was calculated using Argentina's GDP estimates, forecasted by the IMF, as a proxy. Our base scenario's terminal value represents 16% of the company's EV.

Relative Valuation: For the relative valuation we selected six comparable peers (Figure N° 20) with the following criteria: (i) must operate within the utilities industry; (ii) they need to be located in LATAM; (iii) market cap between US\$ 90-2,000 M. We considered that Argentina's political instability along with its everchanging power industry framework is more comparable to other developing countries in the region and that market cap filters discards companies with EV that are radically different from CEPU's. After determining an average EV/EBITDA of 4,97x based on our comps, we used forecasted EBITDA for 2020 to determine CEPU's EV of US\$ 2.45 B. By adjusting for Debt, minority interest and cash, we obtained a stock price of US\$ 14.84 (Figure N° 22). However, if we were to calculate the average EV/EBITDA exclusively

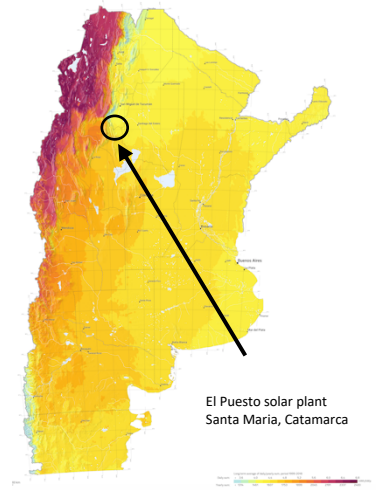


Figure N° 17
Source: SolarGIS & team analysis

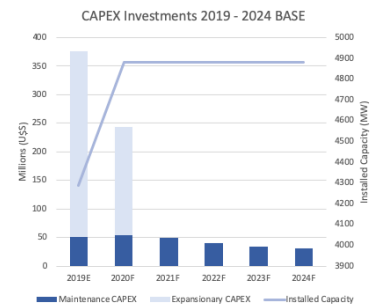


Figure N° 18
Source: CEPU's Form 20-F & team

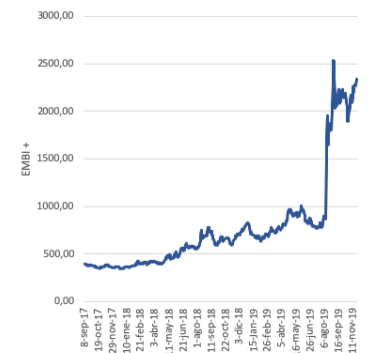


Figure N° 19
Source: JP Morgan EMBI + Index

Identif. (RIC)	Company name	Enterprise Value to EBITDA (X=Avg)
AESGENER.SN	AES Gener SA	5,39
PAMP.BA	Pampa Energia SA	3,55
ENGI.LM	ENGIE Energia Peru SA	7,29
CEBR3.SA	Companhia Energetica de Brasilia CEB	5,78
CECO2.BA	Enel Generacion Costanera SA	2,05
EDELMAG.SN	Empresa Electrica de Magallanes SA	5,76
Average		4,97
Standard Deviation		1,86

Figure N° 20
Source: Reuters & team analysis

for Argentine peers, the multiple drops to 3.67x, and stock price to U\$S 10.58, due to Argentina's macroeconomic uncertainty.

Risk to Target Price: Argentina's shaky political and economic context, mentioned extensively throughout this report, could significantly affect variables in our valuation model, such as the country risk and the perpetual growth rates, in the weeks to come. Therefore, we ran a Montecarlo analysis (Appendix 13), simulating EV/EBITDA ratios based of the average and standard deviation parameters of six peers, along with 3 sensitivity analysis (Figure N° 21) testing variations in (i) EMBI+ JPMorgan Index for Argentina; (ii) perpetual growth rate ("g"); (iii) Risk-free rate (rf) and (iv) WACC in order to determine how robust the target price really is.

EMBI/Perpetual Growth

EMBI/Perpetual Growth sensitivity	-0,07%	0,43%	0,93%	1,43%	1,93%
19,98%	6,36	6,38	6,41	6,43	6,46
21,18%	6,29	6,31	6,34	6,36	6,38
22,38%	6,23	6,25	6,27	6,29	6,31
23,58%	6,17	6,19	6,21	6,23	6,25
24,78%	6,11	6,13	6,15	6,17	6,18

EMBI/r(f)

EMBI/Risk free rate sensitivity	1,17%	1,47%	1,77%	2,07%	2,37%
19,98%	6,44	6,42	6,41	6,39	6,37
21,18%	6,37	6,35	6,34	6,32	6,30
22,38%	6,30	6,29	6,27	6,25	6,24
23,58%	6,24	6,22	6,21	6,19	6,18
24,78%	6,18	6,16	6,15	6,13	6,12

WACC/Perpetual Growth

WACC/Perpetual Growth sensitivity	-0,07%	0,43%	0,93%	1,43%	1,93%
17,04%	6,46	6,49	6,52	6,54	6,57
18,04%	6,34	6,36	6,39	6,41	6,44
19,04%	6,23	6,25	6,27	6,29	6,31
20,04%	6,13	6,15	6,16	6,18	6,20
21,04%	6,04	6,05	6,07	6,08	6,10

Figure N° 21

Source: Reuters & team analysis

INVESTMENT RISKS

Operational risks

Completion risk (OR1): Plants under construction, such as Lujan de Cuyo, San Lorenzo, La Genoveva I & II, Manque, Los Olivos and El Puesto, will have required CAPEX investments of over U\$S 513 M by 2020. Therefore, if CEPU can not continue to finance its CAPEX either by means of new debt or new equity, our forecasted installed capacity would be negatively affected thus altering our estimations.

Industry risks

Fuel provision (IR1): Due to a volatile industry framework, CAMMESA has been providing fuel for thermal power plants free of charge. However, if policy were to change yet again, forcing companies to pay for fuel, CEPU would have to fork up approximately U\$S 2.3 B per year to meet its natural gas demand. Considering that tariffs will likely be frozen, it is unclear how much of this cost CEPU would be able to pass through.

Competition (IR2): The Argentine power industry is a fierce market with four large players that control over 65% of energy generated by privately-owned companies. CEPU has led the field, with a 18% market share of power generation for the 3Q 2018 – 2Q 2019 period. However, Pampa Energy, its nearest competitor, has increased installed capacity by 977 MW over the past year in an attempt to dethrone CEPU. Likewise, AES and ENEL have launched ambitious investment plans to increase capacity by 1000 MW in renewable sources and spend U\$S 213 M in CAPEX during 2018 respectively in order to consolidate their positions in the market. New efficient machines have the upper hand when it comes to dispatch priority. Therefore, if CEPU is not able to keep up with its competitors' CAPEX expenditures, their generation fleet would become outdated and obsolete, dispatch ratios would be reduced, and their market share would start to crumble.

Economic and political risks

Elected administration policies (MR1): A change in governing party, with forefront presidential candidate Alberto Fernández beating former president Mauricio Macri, presents an uncertain future for the energy sector. When Macri took office, the Argentine government subsidized 94% of generation costs. After three years of heavily increasing tariffs,

(in US\$)

Average EV/EBITDA (LATAM)	4,97x
Average EV/EBITDA (ARG)	3,67x
Argentina factor vs LATAM	-26%
EBITDA CEPU 2020	\$ 493.584.570,64
EV CEPU (LATAM)	\$ 2.453.330.236,81
EV CEPU (ARG)	\$ 1.809.179.866,22
- Debt	\$ 258.321.000,00
- Minority interest	\$ 13.896.000,00
+ Cash	\$ 65.207.000,00
Quantity ADRs	151.402.225
STOCK PRICE (LATAM)	\$ 14,84
STOCK PRICE (ARG)	\$ 10,58

Figure N° 22

Source: Reuters & team analysis

The most optimistic scenario, computing an EMBI + score of 19.98% for 2019 and a perpetual growth rate of 1.93% results in an estimated stock price of U\$S 6.46. On the contrary, the worst-case scenario in this analysis, with an EMBI + score of 24.78% for 2019 and a perpetual growth rate of -0.07%, gives us a resulting price of U\$S 6.11.

The most optimistic scenario, computing an EMBI + score of 19.98% for 2019 and a risk-free rate of 1.17% results in an estimated stock price of U\$S 6.44. On the contrary, the worst-case scenario in this analysis, with an EMBI + score of 24.78% for 2019 and a risk-free rate of 2.37%, gives us a resulting price of U\$S 6.12.

The most optimistic scenario, computing a WACC of 17.04% for 2019 and a perpetual growth rate of 1.93% results in an estimated stock price of U\$S 6.57. On the contrary, the worst-case scenario in this analysis, with a WACC of 21.04% for 2019 and a perpetual growth rate of -0.07%, gives us a resulting price of U\$S 6.04.

Impact	Probability of Occurrence		
	Low	Medium	High
High	IR1		RR1
Medium			MR1
	ER1	IR2	FR2
Low		OR1	MR2

Figure N° 23

Source: Team analysis

subsidies represented only 36% of generation costs for small users and 0% for those consuming over 300 KWh per month. However, as of 2019, frozen tariffs and high inflation have crippled the government's efforts to normalize the power sector remuneration scheme. Although Fernández takes office on 10 December, our calculations could be severely altered if policy changes diverge from our estimations.

Economy in recession (MR2): This year's projected -1.2% downfall of Argentina's GDP has already lowered power sales due to less demand. If new government can not tame high inflation rates and reactivate the economy, a depleting demand would drag CEPU's sales to the ground.

Financial risks

FX volatility (FR1): Despite Argentina's best efforts to guarantee access to FX markets, new restrictions implemented in September 2019, similar to those in place between 2012-2015, undermined the government's ability to assure a stable framework for long term capital investments. It is yet to be seen if CEPU will have access to the US\$ dollars that will be needed in order to carry out their expansion plans.

Yield (FR2): Argentina's yield is constructed in part by the expected probability of default. Considering that this figure has been taken into account for the WACC analysis, CEPU's company value is directly linked to ARG risk. After a surprising victory by Alberto Fernández in August's primary elections, the EMBI+ skyrocketed to more than 2000 bps – and remained in similar levels after the October recent presidential elections – as investors doubt whether or not Argentina will be able to repay its debt. Therefore, due to the inverse relationship between CEPU's FCF and EMBI+, our valuation could be negatively affected if perceived country risk continued to spiral out of control.

Regulatory risks

Government intervention (RR1): Utilities have been an issue of political turmoil ever since the economic crisis of 2001. Due to the uncertainty of Alberto Fernández's future policy regarding the power industry, we cannot discard the possibility of aggressive political intervention getting to the point of the expropriation of power companies deeming them to be of public interest similarly to what occurred with YPF during the Fernández de Kirchner administration.

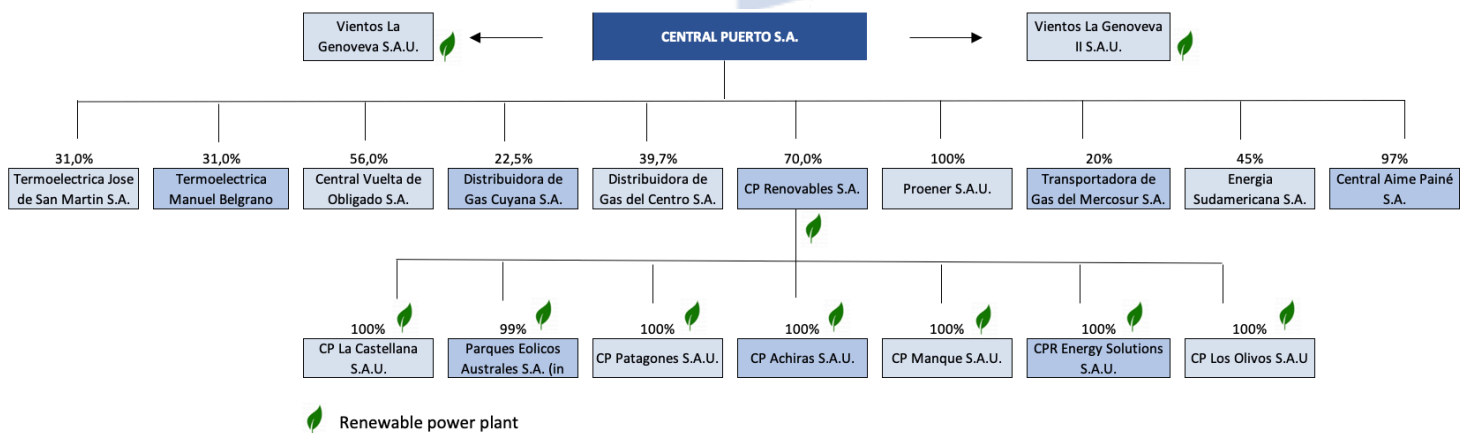
Environmental risks

Amendments to environmental regulations (ER1): Abrupt changes related with environmental regulations could force CEPU to alter existing CAPEX plans related to thermal generation. Although operating plants are unlikely to be affected, we believe that CEPU's plans to install a new power plant within its 130-hectare property in the province of Buenos Aires poses the biggest risk as the permits to generate power have not been obtained yet.

CORPORATE GOVERNANCE

Group structure: Central Puerto S.A. is the end result of a series of mergers and acquisitions that began back in 1992 when the company took over SEGBA (Electrical Services of Greater Buenos Aires) and its two plants, Central Nuevo Puerto and Central Puerto Nuevo, during the privatization of the power sector under the Menem administration. Almost a decade later, in 2001, the French company TOTAL S.A. acquired CEPU. However, in 2006, SADESA (Sociedad Argentina de Energía S.A.) bought a controlling stake in Central Puerto. Further along, on October 2014, Central Puerto merged with three operating companies (Hidroeléctrica Piedra del Águila, Centrales Térmicas Mendoza S.A. and La Plata Cogeneración S.A.) under SADESA's control in which only the CEPU name remained. In an effort to venture into the natural gas distribution market, CEPU acquired a non-controlling stake in Distribuidora de Gas Cuyana S.A. (22.49%) and Distribuidora de Gas del Centro S.A. (39.69%) on January 2015. Finally, on January 2016, CEPU merged with three holding companies, SADESA, HNQ (Hidroneuquén S.A.) and OSA (Operating S.A.) to form the group structure it holds to this day.

The following figure illustrates CEPU's corporate chart:



CEPU'S risk mitigation

Risks	Mitigating factors
Operational risks	
Completion Risk	Low level of debt.
	Decent liquidity ratios.
Industry risks	
Fuel provision	Longstanding framework with CAMMESA.
	Prospect utilization of FX markets.
Competition	Further CAPEX investment plans.
	Long-term maintenance contracts.
Economic and political	
Elected Administration policies	Fixed prices due to contracts with private costumers.
	FONIMVEMEM cashflows.
Economy in recession	Utilities industry is one of the most recession proof.
	Financial hedging.
Financial risks	
FX volatility	US\$ denominated credits.
	Proper cash reserves.
Yield	Very good loan terms signed.
	Intrinsic valuation spurred by other factors.
Regulatory risks	
Government intervention	Legal precedents againts expropriation.
	Balanced forces within the Argentinian house of Representatives.
Environmental risks	
Amendments to environmental regulations	Socially Responsible Company.
	Shift towards renewable sources.

Source: Team analysis

Main shareholders: Central Puerto has 1,514,022,256 outstanding common shares (60.13% on free float), each of which confer the right to one vote - there are no preferred stocks. Guillermo Pablo Reca is currently the largest shareholder, with approximately 176.23M shares (11.63%), followed by Plusener S.A. which possess 158.07M shares (10.44 %) and the Argentine Government which owns 124.95M shares (8.25 %). The top 10 main shareholders together control 40.20% of the company's outstanding shares.

Shares outstanding	Top 10	Top 20	Top 50	Top 100
	40.20%	41.64%	42.01%	42.01%

Main shareholders as % of shares outstanding (Reuters)

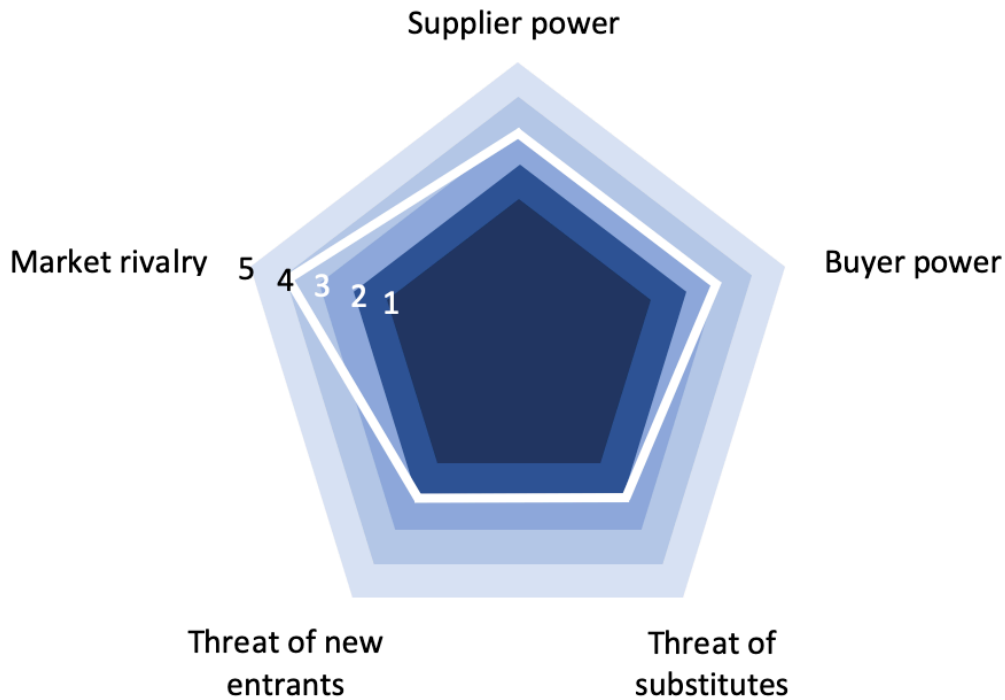
Board of directors: CEPU's board of directors currently has 11 members and is comprised of a chairman, a vice-chairman and 9 directors. However, CEPU's bylaws establish that shareholders can appoint up to an equal number of alternate directors. Positions are elected in the annual shareholders' meeting with up to 1/3 of the vacant seats being elected by cumulative voting (section 263 of the Argentine Corporate Law). Directors maintain their positions for one year, until the next annual ordinary meeting (section 257 of the Argentine Corporate Law). Furthermore, in accordance with sections 4 and 11 of the CNV rules, CEPU reports a director's status of independence, prior to their appointment, at each of the shareholders meetings.

Long and solid experience in the industry and as a team: The board of directors is composed of members with vast experience and a proven track record in the Energy and Financial sector. Many senior officers have been at their current positions for more than 5 years and have therefore formed an effective management team based on solid experience and the trust and confidence they have constructed over time within the financial community.

Relationship with the community and the shareholders: Due to CEPU's condition as a foreign private issuer, certain NYSE rules which regulate U.S. listed companies, do not apply. However, on March 9, 2017, CEPU's board of directors approved the Corporate Governance Code which defines the guidelines and standards by which business must be conducted in order to guarantee an adequate management and sustain a healthy relationship with subsidiaries and affiliates. This framework aims to create value for shareholders while simultaneously increasing trust of the latter in the management of the company. The document also emphasizes the transparency of corporate governance and is therefore aligned with the Argentine Companies Law Nº 19.550, the regulations and resolutions established by the CNV (Argentine Securities Commission) and Law Nº 26.831, which regulates the public offering regime. Furthermore, in an effort to nourish the company's relationship with the community, CEPU abides by a strict Code of Business Conduct which establishes the good practices that management and employees must respect. CEPU is focused on developing its business according to their integrated environmental management system which follows strict local and international standards, such as ISO 9.001/14.001/18.001 certification, while also upholding anti-bribery and anti-corruption policies. Central Puerto takes great pride in its relationship with shareholders and therefore vows to treat all of them equally. Amongst other actions, CEPU guarantees to publish all relevant information in such a manner that shareholders can voice their opinions and exercise their rights to vote at each of the annual shareholders meetings.



Term	Meaning
WEM	WHOLE SALE ENERGY MARKETS
FONINMEMEM	FUND FOR NECESSARY INVESTMENTS THAT ALLOW THE INCREASE OF ELECTRIC ENERGY OFFER IN THE WHOLESALE ENERGY MARKETS
ENERGÍA BASE	FRAMEWORK THAT ESTABLISHES HOW ELECTRIC POWER IS REMUNERATED IN THE SPOT MARKET
ENERGÍA PLUS	FRAMEWORK TO RESPOND TO SUSTAINED INCREASE IN ENERGY DEMAND AND FOSTER NEW PRIVATE SECTOR INTERESTED PARTIES TO INVEST
PPA	POWER PURCHASE AGREEMENT
RENOVAR	BIDDING PROCESS FOR RENEWABLE ENERGY GENERATION PROJECTS
MATER	FUTURES MARKET OF RENEWABLE ENERGIES
AR\$	ARGENTINE PESO (CURRENCY)
KWh	KILOWATTS PRODUCED PER HOUR - MEASURE OF POWER
MWh	MEGAWATTS PRODUCED PER HOUR (1000 KWh) - MEASURE OF POWER
GWk	GIGAWATTS PRODUCED PER HOUR (1000 MWh) - MEASURE OF POWER
TWh	TERAWATTS PRODUCED PER HOUR (1000 GWk) - MEASURE OF POWER
KW	KILOWATTS - MEASURE OF CAPACITY
MW	MEGAWATTS - MEASURE OF CAPACITY
GW	GIGAWATTS - MEASURE OF CAPACITY
TW	TERAWATTS - MEASURE OF CAPACITY
KVA	KILOVOLT AMPERES
CAMMESA	ADMINISTRATOR OF THE WHOLESALE ENERGY MARKET
KfW	KREDITANSTALT FUR WIEDERAUFBAU (GERMAN BANK)
ADR	AMERICAN DEPOSIT RECEIPT
EV	ENTERPRISE VALUE
EBITDA	EARNINGS BEFORE INTERESTS DEPRECIATIONS AND AMORTIZATIONS
CEPU	CENTRAL PUERTO'S TICKER
FX	FOREIGN EXCHANGE
NYSE	NEW YORK STOCK EXCHANGE
MERVAL	MERCADO DE VALORES STOCK EXCHANGE
CNV	COMISION NACIONAL DE VALORES
CAGR	COMPOUNDED ANNUAL GROWTH RATE
AES	AES ENERGY CORPORATION'S TICKER
ENEL	ENEL ENERGY CORPORATION'S TICKER
GE	GENERAL ELECTRIC'S TICKER
CAPEX	CAPITAL EXPENDITURE
ROE	RETURN ON EQUITY
B	BILLIONS
M	MILLIONS
K	THOUSANDS
LIBOR	LONDON INTER BANK OFFERED RATE
FCF	FREE CASH FLOW
FCFF	FREE CASH FLOW TO THE FIRM
FCFE	FREE CASH FLOW TO EQUITY
DCF	DISCOUNTED CASH FLOW
LATAM	LATIN AMERICA
IMF	INTERNATIONAL MONETARY FUND
GDP	GROSS DOMESTIC PRODUCT
COGS	COST OF GOODS SOLD
AA&DD	AMORTIZATIONS & DEPRECIATIONS
WC	WORKING CAPITAL
WACC	WEIGHTED AVERAGE COST OF CAPITAL
EMBI	EMERGING MARKETS BOND INDEX
D/E	DEBT/EQUITY
BPS	BASIS POINTS



Supplier power

CEPU'S main supply for power generation is (i) fuel. However, since CAMMESA is in charge of providing fuel to generation company's, CEPU has little to no risk derived from variations in natural gas and oil prices. Moreover, recent regulation allowing generators to purchase their own fuel, and receive reimbursement from CAMMESA at a fixed price, could turn into an opportunity if CEPU were to purchase cheap fuel and obtain a margin between CAMMESA's payment and the actual cost paid to suppliers. Therefore, suppliers for (ii) spare parts and maintenance of generation units are CEPU's most relevant risk. Despite long-term contracts with top of the line suppliers, such as GE and SIEMENS, CEPU's legacy units pose the biggest risk since they lack such contracts. Although the company keeps spare parts and a crew of highly qualified mechanics on staff, delays in obtaining essential parts could negatively impact power generation metrics if repairs are not carried out swiftly.

Buyer power

In spite of the fact that over 90% of CEPU's sales are to state-owned CAMMESA, which would represent a problem due to the buyer concentration, its generation unit's efficiency and availability metrics will continue to grant the company dispatch priority and thus maintain power sales. Furthermore, recent investments in renewable energy power plants with long-term PPA agreements diversify CEPU's revenue stream and dilute CAMMESA's buyer power.

Threat of substitutes

Considering that CEPU's main generation sources as thermal energy power plants, new technologies that employ renewable sources to generate power could conspire against the current generation fleet's ability to sell power into the WEM. In fact, the Argentine government passed Law N° 27.191 which states that by 2025 at least 20% of power demand must be met by renewable sources. However, CEPU has begun an aggressive CAPEX expansion plan which includes several renewable power plants to raise current renewable capacity/total installed capacity from 4.8% to 7.9% by 2020. Nevertheless, renewable power plant's intermittent nature and inability to store power at industrial levels mean that conventional power plants, such a CEPU's combined cycles, will remain a fundamental part of the generation mix for years to come.

Market rivalry

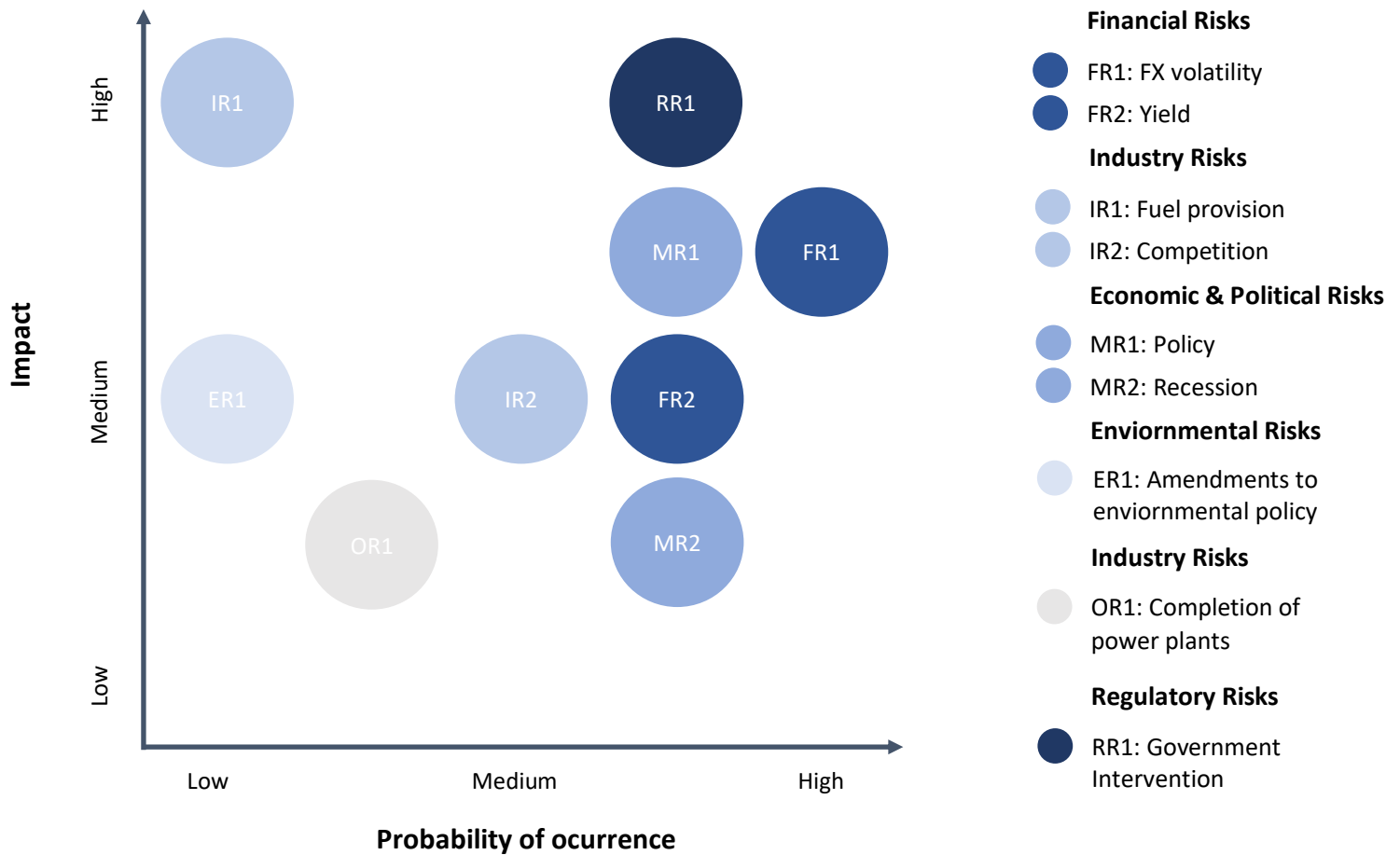
Central Puerto is the main private power producer in Argentina, with 18% market share during 3Q 2018 – 2Q 2019 to show for it. Along with fellow competitors AES, ENEL and Pampa Energy, they control over 65% of the market. However, CEPU's strategically located generation units combined with their stellar efficiency and availability give the company an upper hand. New state of the art generation units paired with a management team determined to maintain market share assure CEPU will hold off rivals from chipping away their skin in the game.

Threat of new entrants

High entry barriers due to regulation and large CAPEX expenditures constitute a significant hurdle that should ameliorate Central Puerto's position and competitive advantage. Although new players could eventually insert themselves into the power industry with small generation projects made possible through government tenders, CEPU's large scale generation assets and management expertise will continue to give them the upper hand.

Strengths	Weaknesses
<ul style="list-style-type: none"> ✿ Industry behemoth: 18% of the market share in the private sector power generation in Argentina for 3Q 2018 – 2Q 2019. ✿ Cutting edge technology: variety of high-quality power generation assets with better than market average efficiency and availability levels. ✿ Geographic diversity: power plants near city centers and private clients; presence in 6 provinces of Argentina. ✿ Renewable pioneer: high market share in renewable power plants subsector. ✿ Currency hedging: U\$S dollar denominated cashflows from FONINVEMEM payments. ✿ Experienced team: solid corporate structure with an average experience of more than 18 years in the industry. ✿ Operating margins: income in the operational level provides solid and trustworthy margins. 	<ul style="list-style-type: none"> ✿ Low bargaining power: the capability of reducing current cash cycle with CAMMESA is almost nonexistent. ✿ Argentina’s macro: exposure to economic and political swings within a country characterized for its instability. ✿ Working capital: delayed payments from CAMMESA could result in short-term liquidity issues. ✿ Interest risk: abrupt interest rate variations could affect floating interest rate loans and therefore conspire against CEPU’s ability to repay commitments.
Opportunities	Threats
<ul style="list-style-type: none"> ✿ Rising star: chance to consolidate its stake in the renewable sector. ✿ Room for debt: low levels of debt allow for growth via long-term loans and banking market. ✿ Efficiency gap: closing cycles could further improve efficiency metrics and increase revenues. ✿ RenovAr program: the company is in a position to take part of future biddings. ✿ PPA’s: CEPU could continue to secure stable cash flows through new power purchase agreements. 	<ul style="list-style-type: none"> ✿ Piedra del Aguila 2023: the renewal of CEPU’s largest power plant concession is yet to be seen. ✿ Tariff trouble: everchanging framework could radically change CEPU’s cashflows. ✿ Taxes: income tax rates, which have gone down during the Macri administration, could raise yet again. ✿ Capital controls: accessibility of U\$S dollars to finance new equipment could be limited due to capital controls imposed by the government. ✿ Fuel cost: if CAMMESA were to stop supplying fuel, CEPU would have to purchase U\$S 2.3 B of fuel per year to operate its power plants.

Position	Name	Information
Chairman of the Board	Oswaldo Arturo Reca	Engineer (UCA) and advanced degree (NCSU – USA) Member of the Board of Directors since 2011 and more than 35+ years of experience in energy industries
Vice-Chairman of the Board & CEO	Jorge Anibal Rauber	Electric engineer (UNLP) and postgraduate degrees in Electric Market (ITBA) and Business (UTDT) Experience in managerial positions in power generating companies and the electric market.
Director	Jose Luis Morea	Political science degree (UCA) and postgraduate degree in Management of SMEs (IAE) Holds position of President and CEO of North Bay Argentina and Director of Servifrio Ezeiza
Director	Juan Jose Salas	Engineer (UNLP) Member of the CEPU’s Board of Directors since 2015 and Transener’s Board since 2016
Director	Miguel Dodero	Business Administration major (UBA) Member of the Board of Director since 2015. He is also Director in IGCU, IGCE, DGCU and DGCE
Director	Tomas Peres	Business Administration major (UdeSA) Currently advisor of Ministry of Transport of Argentina and Director at Energía Sudamericana
Director	Tomas Jose White	Accountant (UCA) Extensive Board experience at many construction companies
Director	Jorge Eduardo Villegas	Lawyer (UBA) Currently Chairman of Agropecuaria Los Potros
Director	Cristian Lopez Saubidet	Industrial engineer (ITBA) with MBA (UCLA) Previous experience in HSBC and McKinsey & Co.
Director	Liliana Amelia Murisi	Accountant (UNC) with postgraduate degree in financial administration of public sector (UNCOMA) More than 20 years’ worth of experience in public sector jobs
Director	Diego Gustavo Petracchi	Economist (UCA) with Master’s degree in Science of Management (Stanford) Previous Director experience at 4 companies as well as 11 years of experience in the financial sector



Ticker	Company	Country	Market Cap.	EBITDA Margin %	P/E	PEG	DEBT/EBITDA
PAM	Pampa Energía	Argentina	1.31 B	64.9	1.92	0.01	1.69
CECO2.BA	Enel Generacion Costanera	Argentina	9.41 B	67.8	1.57	0.01	0.51
Local Mean				66.35	1.75	0.01	1.1
AESGENER.SN	The Aes Corp.	Chile	1.72 B	37.5	7.86	-0.21	3.76
ENGI.LM	Engie Energía Peru	Peru	4.69 B	51.2	12.29	0.29	2.50
CEBR3.SA	Compañia Energetica de Brasilia	Brasil	698.17 B	8.8	6.57	0.23	2.57
EDELMAG.SN	Empresa Electrica de Magallanes	Chile	70.64 B	37.1	13.06	0.19	0.62
Regional Mean				33.65	9.95	0.13	2.36
Overall Mean				44.45	7.21	0.09	1.94
Central Puerto S.A.				42.9	4.47	-0.08	1.84

Income statement - BASE

Annual standardized in US\$	2017A	2018A	2019E	2020F	2021F	2022F	2023F	2024F
Total Revenue	\$ 582.447.746,33	\$ 509.912.593,42	\$ 532.695.649,57	\$ 561.753.182,91	\$ 516.696.875,16	\$ 426.706.867,19	\$ 347.779.561,38	\$ 318.074.002,75
Cost of Revenue, Total	\$ 314.155.600,50	\$ 231.882.439,08	\$ 211.312.296,97	\$ 266.102.921,36	\$ 266.102.921,36	\$ 266.102.921,36	\$ 266.102.921,36	\$ 266.102.921,36
Purchased Power	\$ 7.613.696,03	\$ 1.572.811,36	\$ 3.996.510,70	\$ 5.032.755,72	\$ 5.032.755,72	\$ 5.032.755,72	\$ 5.032.755,72	\$ 5.032.755,72
as % of Cost of Revenue, Total	2,4%	0,7%	1,9%	1,9%	1,9%	1,9%	1,9%	1,9%
Cost of Revenue	\$ 306.541.904,47	\$ 230.309.627,72	\$ 207.315.786,27	\$ 261.070.165,64	\$ 261.070.165,64	\$ 261.070.165,64	\$ 261.070.165,64	\$ 261.070.165,64
as % of Cost of Revenue, Total	98%	99%	98%	98%	98%	98%	98%	98%
Fuel Expense	-	-	-	-	-	-	-	-
Gross Margin	46,06%	54,53%	60,33%	52,63%	48,50%	37,64%	23,49%	16,34%
Selling/General/Admin. Expenses, Total	\$ 63.810.023,87	\$ 49.650.795,11	\$ 64.482.918,65	\$ 68.000.339,07	\$ 62.546.263,69	\$ 51.652.954,60	\$ 42.098.787,89	\$ 38.502.923,87
as % of Total Revenue	10,96%	9,74%	12,11%	12,11%	12,11%	12,11%	12,11%	12,11%
FONI Receivables			\$ 21.460.000,00	\$ 21.460.000,00	\$ -	\$ -	\$ -	\$ -
CVOSA								
TJSM			\$ 10.730.000,00	\$ 10.730.000,00				
TMB			\$ 10.730.000,00	\$ 10.730.000,00				
Administrative and Operating Expenses	\$ 63.810.023,87	\$ 49.650.795,11	\$ 43.022.918,65	\$ 46.540.339,07	\$ 62.546.263,69	\$ 51.652.954,60	\$ 42.098.787,89	\$ 38.502.923,87
Depreciation/Amortization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest Exp.(Inc.),Net-Operating, Total	\$ (33.476.092,07)	\$ (465.659.400,95)	\$ (128.782.503,06)	\$ (135.807.343,37)	\$ (124.914.699,34)	\$ (103.159.052,40)	\$ (84.077.882,86)	\$ (76.896.378,38)
Interest Exp.(Inc.) as a % of revenues	-5,7%	-91,3%	-24,2%	-24,2%	-24,2%	-24,2%	-24,2%	-24,2%
Unusual Expense (Income)	\$ 8.278.383,78	\$ 4.539.705,53	\$ 6.809.654,65	\$ 7.181.108,34	\$ 6.605.136,12	\$ 5.454.759,02	\$ 4.445.800,73	\$ 4.066.063,07
Other Operating Expenses, Total	\$ (22.478.531,14)	\$ (400.602.203,61)	\$ (58.621.221,41)	\$ (61.818.897,41)	\$ (56.860.614,39)	\$ (46.957.540,87)	\$ (38.271.877,54)	\$ (35.002.888,71)
Other Operating Expenses as a % of revenues	-3,86%	-78,56%	-11,00%	-11,00%	-11,00%	-11,00%	-11,00%	-11,00%
Total Operating Expense	\$ 330.289.384,94	\$ (580.188.664,83)	\$ 73.741.145,80	\$ 122.198.127,99	\$ 153.479.007,45	\$ 173.094.041,71	\$ 190.297.749,58	\$ 196.772.641,22
Operating Income	\$ 252.158.361,39	\$ 1.090.101.258,25	\$ 458.954.503,78	\$ 439.555.054,91	\$ 363.217.867,71	\$ 253.612.825,48	\$ 157.481.811,80	\$ 121.301.361,53
Interest Expense	\$ (83.327.673,22)	\$ 249.576.566,93	\$ 62.001.506,17	\$ 62.001.506,17	\$ 62.001.506,17	\$ 62.001.506,17	\$ -	\$ -
Net Income Before Taxes	\$ 335.486.034,61	\$ 840.524.691,32	\$ 396.952.997,60	\$ 377.553.548,74	\$ 301.216.361,54	\$ 191.611.319,30	\$ 157.481.811,80	\$ 121.301.361,53
Provision for Income Taxes	\$ 65.320.677,85	\$ 236.100.433,20	\$ 119.085.899,28	\$ 94.388.387,19	\$ 75.304.090,39	\$ 47.902.829,83	\$ 39.370.452,95	\$ 30.325.340,38
Net Income	\$ 270.165.356,77	\$ 604.424.258,12	\$ 277.867.098,32	\$ 283.165.161,56	\$ 225.912.271,16	\$ 143.708.489,48	\$ 118.111.358,85	\$ 90.976.021,14

Cash Flow Statement BASE

Annual Standardised in USD	2017A	2018A	2019E	2020F	2021F	2022F	2023F	2024F
	31-Dec-2017	31-Dec-2018	31-Dec-2019	31-Dec-2020	31-Dec-2021	31-Dec-2022	31-Dec-2023	31-Dec-2024
Cash at the beginning of the period	\$ 2,034,000.00	\$ 7,909,000.00	\$ 8,189,000.00	\$ 438,868,008.32	\$ 428,287,628.91	\$ 489,873,717.72	\$ 616,351,006.27	\$ 727,286,664.98
Cash Flow	\$ (6,762,000.00)	\$ (162,877,000.00)	\$ 430,679,008.32	\$ (10,580,379.41)	\$ 61,586,088.81	\$ 126,477,288.56	\$ 110,935,658.71	\$ 62,123,891.29
Cash Ending Period	\$ 7,909,000.00	\$ 8,189,000.00	\$ 438,868,008.32	\$ 428,287,628.91	\$ 489,873,717.72	\$ 616,351,006.27	\$ 727,286,664.98	\$ 789,410,556.27
EBIT	\$ 252,158,361.39	\$ 1,090,101,258.25	\$ 458,954,503.78	\$ 439,555,054.91	\$ 363,217,867.71	\$ 253,612,825.48	\$ 157,481,811.80	\$ 121,301,361.53
EMBI	3,51%	7,32%	22,38%	22,38%	22,38%	22,38%	22,38%	22,38%
AA&DD	\$ 97,618,000.00	\$ 53,142,000.00	\$ 51,234,757.27	\$ 54,029,515.72	\$ 49,695,992.46	\$ 41,040,738.34	\$ 33,449,496.77	\$ 30,592,411.14
WC	\$ 238,801,000.00	\$ 269,585,000.00	\$ 245,221,927.78	\$ 251,858,382.16	\$ 228,332,817.42	\$ 181,345,705.86	\$ 140,134,840.27	\$ 124,624,469.41
Var WC	\$ (72,633,000.00)	\$ 77,392,000.00	\$ (24,363,302.22)	\$ 6,636,684.38	\$ (23,525,564.74)	\$ (46,987,111.56)	\$ (41,210,865.59)	\$ (15,510,370.86)
Tax	\$ (75,647,508.42)	\$ (327,030,377.48)	\$ (137,686,351.13)	\$ (109,888,763.73)	\$ (90,804,466.93)	\$ (63,403,206.37)	\$ (39,370,452.95)	\$ (30,325,340.38)
Operating Cash Flow	\$ 183,729,000.00	\$ 144,494,000.00	\$ 348,139,607.70	\$ 390,332,491.29	\$ 298,583,828.50	\$ 184,263,245.89	\$ 110,349,990.03	\$ 106,058,061.43
CAPEX (reinvestment)	\$ (346,606,000.00)	\$ (247,822,000.00)	\$ (375,426,257.27)	\$ (243,671,015.72)	\$ (49,695,992.46)	\$ (41,040,738.34)	\$ (33,449,496.77)	\$ (30,592,411.14)
Net Cash Flow from Investing	\$ (346,606,000.00)	\$ (247,822,000.00)	\$ (375,426,257.27)	\$ (243,671,015.72)	\$ (49,695,992.46)	\$ (41,040,738.34)	\$ (33,449,496.77)	\$ (30,592,411.14)
Proceeds from Borrowing	\$ 61,863,000.00	\$ -	\$ 517,100,000.00					
Debt Ammortization	\$ (66,894,455.89)	\$ (305,945,064.23)	\$ (64,025,200.59)	\$ (93,521,930.03)	\$ (195,033,053.51)	\$ (86,243,579.82)	\$ (30,243,579.82)	\$ (30,243,579.82)
Interests paid	\$ (28,669,052.53)	\$ (131,119,313.24)	\$ (32,257,925.60)	\$ (40,119,719.38)	\$ (29,997,867.34)	\$ (16,973,988.64)	\$ (14,466,206.59)	\$ (11,334,915.45)
Tax Shield	\$ 75,647,508.42	\$ 327,030,377.48	\$ 9,677,377.68	\$ 10,029,929.84	\$ 7,499,466.84	\$ 4,243,497.16	\$ 3,616,551.65	\$ 2,833,728.86
Dividends Paid	\$ (114,168,000.00)	\$ (50,485,000.00)	\$ (21,255,198.04)	\$ (20,356,766.66)	\$ (16,821,422.70)	\$ (11,745,370.81)	\$ (7,293,330.97)	\$ (5,617,734.31)
Cash from Financing Activities	\$ 156,115,000.00	\$ (59,549,000.00)	\$ 409,239,053.46	\$ (143,968,486.22)	\$ (234,352,876.72)	\$ (110,719,442.11)	\$ (48,386,565.74)	\$ (44,362,500.72)
FCF	\$ (6,762,000.00)	\$ (162,877,000.00)	\$ 430,679,008.32	\$ (10,580,379.41)	\$ 61,586,088.81	\$ 126,477,288.56	\$ 110,935,658.71	\$ 62,123,891.29

Cash Flow Statement BEAR

Annual Standardised in USD	2017A	2018A	2019E	2020F	2021F	2022F	2023F	2024F
	31-Dec-2017	31-Dec-2018	31-Dec-2019	31-Dec-2020	31-Dec-2021	31-Dec-2022	31-Dec-2023	31-Dec-2024
Cash at the beginning of the period	\$ 2,034,000.00	\$ 7,909,000.00	\$ 8,189,000.00	\$ 292,059,538.16	\$ 231,822,624.34	\$ 142,440,347.61	\$ 61,933,730.22	\$ 88,773,473.08
Cash Flow	\$ (6,762,000.00)	\$ (162,877,000.00)	\$ 343,748,462.28	\$ (74,051,737.82)	\$ (21,245,087.16)	\$ 59,533,764.86	\$ 51,903,055.54	\$ 53,760,304.30
Cash Ending Period	\$ 7,909,000.00	\$ 8,189,000.00	\$ 351,937,462.28	\$ 218,007,800.34	\$ 210,577,537.18	\$ 201,974,112.47	\$ 113,836,785.77	\$ 142,533,777.38
EBIT	\$ 252,158,361.39	\$ 1,090,101,258.25	\$ 366,950,875.21	\$ 292,059,538.16	\$ 231,822,624.34	\$ 142,440,347.61	\$ 61,933,730.22	\$ 88,773,473.08
EMBI	3,51%	7,32%	22,38%	30,38%	28,38%	26,38%	24,38%	22,38%
AA&DD	\$ 97,618,000.00	\$ 53,142,000.00	\$ 51,234,757.27	\$ 49,385,171.66	\$ 45,817,078.19	\$ 37,592,485.58	\$ 30,184,594.95	\$ 23,625,996.00
WC	\$ 238,801,000.00	\$ 269,585,000.00	\$ 289,004,901.86	\$ 268,848,073.74	\$ 246,428,675.13	\$ 194,751,099.67	\$ 148,205,107.03	\$ 122,280,141.13
Var WC	\$ (72,633,000.00)	\$ 77,392,000.00	\$ 19,419,901.86	\$ (20,156,828.12)	\$ (22,419,398.60)	\$ (51,677,575.46)	\$ (46,545,992.64)	\$ (25,924,965.90)
Tax	\$ (75,647,508.42)	\$ (327,030,377.48)	\$ (110,085,262.56)	\$ (73,014,884.54)	\$ (57,955,656.08)	\$ (35,610,086.90)	\$ (15,483,432.56)	\$ (22,193,368.27)
Operating Cash Flow	\$ 183,729,000.00	\$ 144,494,000.00	\$ 327,520,271.77	\$ 248,272,997.16	\$ 197,264,647.83	\$ 92,745,170.82	\$ 30,088,899.98	\$ 64,281,134.91
CAPEX (reinvestment)	\$ (346,606,000.00)	\$ (247,822,000.00)	\$ (375,426,257.27)	\$ (239,026,671.66)	\$ (45,817,078.19)	\$ (37,592,485.58)	\$ (30,184,594.95)	\$ (23,625,996.00)
Net Cash Flow from Investing	\$ (346,606,000.00)	\$ (247,822,000.00)	\$ (375,426,257.27)	\$ (239,026,671.66)	\$ (45,817,078.19)	\$ (37,592,485.58)	\$ (30,184,594.95)	\$ (23,625,996.00)
Proceeds from Borrowing	\$ 61,863,000.00	\$ -	\$ 517,100,000.00					
Debt Ammortization	\$ (66,894,455.89)	\$ (305,945,064.23)	\$ (64,025,200.59)	\$ (93,521,930.03)	\$ (195,033,053.51)	\$ (86,243,579.82)	\$ (30,243,579.82)	\$ (30,243,579.82)
Interests paid	\$ (28,669,052.53)	\$ (131,119,313.24)	\$ (32,257,925.60)	\$ (40,119,719.38)	\$ (29,997,867.34)	\$ (16,973,988.64)	\$ (14,466,206.59)	\$ (11,334,915.45)
Tax Shield	\$ 75,647,508.42	\$ 327,030,377.48	\$ 9,677,377.68	\$ 10,029,929.84	\$ 7,499,466.84	\$ 4,243,497.16	\$ 3,616,551.65	\$ 2,833,728.86
Dividends Paid	\$ (114,168,000.00)	\$ (50,485,000.00)						
Cash from Financing Activities	\$ 156,115,000.00	\$ (59,549,000.00)	\$ 430,494,251.49	\$ (123,611,719.56)	\$ (217,531,454.02)	\$ (98,974,071.31)	\$ (41,093,234.77)	\$ (38,744,766.41)
FCF	\$ (6,762,000.00)	\$ (162,877,000.00)	\$ 343,748,462.28	\$ (74,051,737.82)	\$ (21,245,087.16)	\$ 59,533,764.86	\$ 51,903,055.54	\$ 53,760,304.30

Cash Flow Statement BULL

Annual Standardised in USD	2017A	2018A	2019E	2020F	2021F	2022F	2023F	2024F
	31-Dec-2017	31-Dec-2018	31-Dec-2019	31-Dec-2020	31-Dec-2021	31-Dec-2022	31-Dec-2023	31-Dec-2024
Cash at the beginning of the period	\$ 2,034,000.00	\$ 7,909,000.00	\$ 8,189,000.00	\$ 431,399,659.30	\$ 630,608,622.55	\$ 968,026,383.02	\$ 1,009,001,949.46	\$ 1,009,001,949.46
Cash Flow	\$ (6,762,000.00)	\$ (162,877,000.00)	\$ 423,210,659.30	\$ 199,208,963.25	\$ 337,417,760.47	\$ 40,975,566.44	\$ 228,079,104.18	\$ 162,260,105.93
Cash Ending Period	\$ 7,909,000.00	\$ 8,189,000.00	\$ 431,399,659.30	\$ 630,608,622.55	\$ 968,026,383.02	\$ 1,009,001,949.46	\$ 1,237,081,053.64	\$ 1,171,262,055.39
EBIT	\$ 252,158,361.39	\$ 1,090,101,258.25	\$ 366,189,277.23	\$ 437,565,620.28	\$ 479,879,892.19	\$ 452,758,306.97	\$ 363,952,337.90	\$ 275,010,454.77
EMBI	3,51%	7,32%	22,38%	20,88%	19,38%	17,88%	16,38%	14,88%
AA&DD	\$ 97,618,000.00	\$ 53,142,000.00	\$ 51,234,757.27	\$ 60,503,674.38	\$ 66,379,960.42	\$ 63,880,924.56	\$ 62,308,265.08	\$ 42,774,774.71
WC	\$ 238,801,000.00	\$ 269,585,000.00	\$ 201,438,493.71	\$ 239,284,637.33	\$ 266,163,815.37	\$ 254,732,780.63	\$ 236,363,723.73	\$ 235,848,300.91
Var WC	\$ (72,633,000.00)	\$ 77,392,000.00	\$ (68,146,506.29)	\$ 37,846,143.62	\$ 26,879,178.05	\$ (11,431,034.74)	\$ (18,369,056.90)	\$ (515,422.82)
Tax	\$ (75,647,508.42)	\$ (327,030,377.48)	\$ (109,856,783.17)	\$ (109,391,405.07)	\$ (119,969,973.05)	\$ (113,189,576.74)	\$ (90,988,084.48)	\$ (68,752,613.69)
Operating Cash Flow	\$ 183,729,000.00	\$ 144,494,000.00	\$ 239,420,745.04	\$ 426,524,033.21	\$ 453,169,057.61	\$ 392,018,620.05	\$ 316,903,461.61	\$ 248,517,192.97
CAPEX (reinvestment)	\$ (346,606,000.00)	\$ (247,822,000.00)	\$ (272,956,742.73)	\$ (129,137,825.62)	\$ (283,583,675.94)	\$ (286,082,711.81)	\$ (62,308,265.08)	\$ (42,774,774.71)
Net Cash Flow from Investing	\$ (346,606,000.00)	\$ (247,822,000.00)	\$ (272,956,742.73)	\$ (129,137,825.62)	\$ (283,583,675.94)	\$ (286,082,711.81)	\$ (62,308,265.08)	\$ (42,774,774.71)
Proceeds from Borrowing	\$ 61,863,000.00	\$ -	\$ 517,100,000.00		\$ 349,963,636.36			
Debt Ammortization	\$ (66,894,455.89)	\$ (305,945,064.23)	\$ (64,025,200.59)	\$ (93,521,930.03)	\$ (169,581,152.68)	\$ (60,791,679.00)	\$ (4,791,679.00)	\$ (4,791,679.00)
Interests paid	\$ (28,669,052.53)	\$ (131,119,313.24)	\$ (32,257,925.60)	\$ (40,119,719.38)	\$ (58,593,077.92)	\$ (43,431,239.55)	\$ (38,785,497.83)	\$ (33,516,247.02)
Tax Shield	\$ 75,647,508.42	\$ 327,030,377.48	\$ 109,856,783.17	\$ 109,391,405.07	\$ 119,969,973.05	\$ 113,189,576.74	\$ 90,988,084.48	\$ 68,752,613.69
Dividends Paid	\$ (114,168,000.00)	\$ (50,485,000.00)	\$ (16,959,035.25)	\$ (20,264,631.54)	\$ (22,224,299.05)	\$ (20,968,238.46)	\$ (16,855,437.64)	\$ (16,857,591.79)
Cash from Financing Activities	\$ 156,115,000.00	\$ (59,549,000.00)	\$ 456,746,656.99	\$ (98,177,244.33)	\$ 167,832,378.81	\$ (64,960,341.80)	\$ (26,516,092.35)	\$ (43,482,312.32)
FCF	\$ (6,762,000.00)	\$ (162,877,000.00)	\$ 616,471,636.64	\$ 177,179,044.47	\$ 335,362,105.33	\$ 116,796,397.46	\$ 321,888,780.33	\$ 220,360,359.78

Balance Sheet BASE

Annual Standardised in Millions of U.S. Dollars	2019 E	2020 F	2021 F	2022 F	2023 F	2024 F
Assets						
Cash and Short Term Investments	\$ 460.123.206,36	\$ 469.899.593,60	\$ 548.307.105,11	\$ 686.529.764,47	\$ 804.758.754,15	\$ 872.500.379,75
Accounts Receivable - Trade, Net	\$ 278.140.101,08	\$ 293.312.113,97	\$ 269.786.549,23	\$ 222.799.437,67	\$ 181.588.572,08	\$ 166.078.201,21
Total Inventory	\$ 8.348.283,07	\$ 10.512.888,02	\$ 10.512.888,02	\$ 10.512.888,02	\$ 10.512.888,02	\$ 10.512.888,02
Total Current Assets	\$ 746.611.590,52	\$ 773.724.595,59	\$ 828.606.542,35	\$ 919.842.090,16	\$ 996.860.214,24	\$ 1.049.091.468,98
Property/Plant/Equipment, Total	\$ 1.630.800.000,00	\$ 1.874.471.015,72	\$ 1.924.167.008,18	\$ 1.965.207.746,51	\$ 1.998.657.243,29	\$ 2.029.249.654,43
Accumulated Depreciation, Total	-\$ 595.634.757,27	-\$ 649.664.272,99	-\$ 699.360.265,45	-\$ 740.401.003,79	-\$ 773.850.500,56	-\$ 804.442.911,70
Long Term Investments	\$ 63.600.000,00	\$ 63.600.000,00	\$ 63.600.000,00	\$ 63.600.000,00	\$ 63.600.000,00	\$ 63.600.000,00
Note Receivable - Long Term	\$ 415.140.000,00	\$ 415.140.000,00	\$ 415.140.000,00	\$ 415.140.000,00	\$ 415.140.000,00	\$ 415.140.000,00
Total Assets	\$ 2.260.516.833,25	\$ 2.477.271.338,31	\$ 2.532.153.285,08	\$ 2.623.388.832,88	\$ 2.700.406.956,97	\$ 3.557.081.123,41
Liabilities (\$ Millions)						
Accounts Payable	\$ 41.266.686,38	\$ 51.966.619,82	\$ 51.966.619,82	\$ 51.966.619,82	\$ 51.966.619,82	\$ 51.966.619,82
Accrued Expenses	\$ 9.200.000,00	\$ 9.200.000,00	\$ 9.200.000,00	\$ 9.200.000,00	\$ 9.200.000,00	\$ 9.200.000,00
Other Current liabilities	\$ 180.986.351,13	\$ 153.188.763,73	\$ 134.104.466,93	\$ 106.703.206,37	\$ 82.670.452,95	\$ 73.625.340,38
Total Current Liabilities	\$ 231.453.037,51	\$ 214.355.383,55	\$ 195.271.086,75	\$ 167.869.826,19	\$ 143.837.072,77	\$ 134.791.960,20
Total Long Term Debt	\$ 637.574.799,41	\$ 544.052.869,38	\$ 349.019.815,88	\$ 262.776.236,05	\$ 232.532.656,23	\$ 202.289.076,40
Deferred Income Tax	\$ 128.800.000,00	\$ 135.825.794,74	\$ 124.931.670,78	\$ 103.173.068,03	\$ 84.089.306,04	\$ 76.906.825,85
Other Liabilities, Total	\$ 82.000.000,00	\$ 82.000.000,00	\$ 82.000.000,00	\$ 82.000.000,00	\$ 82.000.000,00	\$ 82.000.000,00
Total Liabilities	\$ 1.079.827.836,92	\$ 976.234.047,68	\$ 751.222.573,41	\$ 615.819.130,27	\$ 542.459.035,04	\$ 495.987.862,46
Total Equity	\$ 1.180.688.996,32	\$ 1.501.037.290,64	\$ 1.780.930.711,67	\$ 2.007.569.702,61	\$ 2.157.947.921,93	\$ 3.061.093.260,95
Total Liabilities & Shareholders' Equity	\$ 2.260.516.833,25	\$ 2.477.271.338,31	\$ 2.532.153.285,08	\$ 2.623.388.832,88	\$ 2.700.406.956,97	\$ 3.557.081.123,41

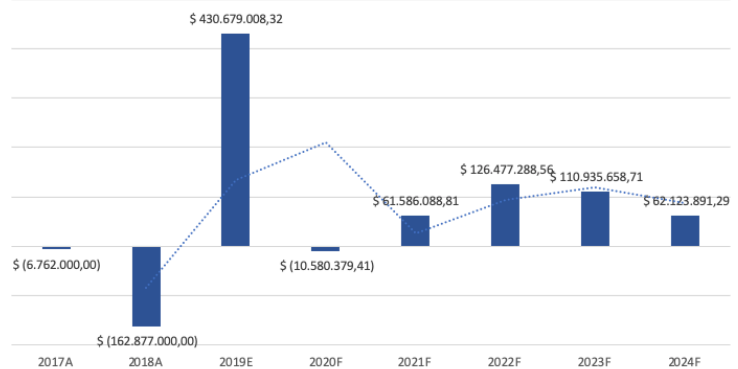
APPENDIX 10

DCF – BASE

DCF - BASE

Annual Standardised in USD	2019E	2020F	2021F	2022F	2023F	2024F	Terminal Value
FCF	\$ 430.679.008	\$ (10.580.379)	\$ 61.586.089	\$ 126.477.289	\$ 110.935.659	\$ 62.123.891	\$ 309.127.093
WACC	19,73%	21,22%	21,22%	21,22%	21,22%	21,22%	21,22%
g (perpetual growth rate)				0,93%			
Periods	1	2	3	4	5	6	6
Discounted CF	\$ 359.699.425	\$ (7.200.637)	\$ 34.576.987	\$ 58.580.342	\$ 42.388.238	\$ 19.582.480	\$ 97.441.982
Sum discounted CF	\$ 605.068.817,15						
Quantity ADRs	151.402.225						
Stock price	\$ 4,00						

Free Cash Flow



Terminal Value	
EBIT	\$ 121.301.362
Tax	\$ (30.325.340)
AA&DD	\$ 30.592.411
Var WC	\$ (15.510.371)
Operating Cash Flow	\$ 106.058.061
CAPEX (reinvestment)	\$ (30.592.411)
Net Cash Flow from Investing	\$ (30.592.411)
Debt Ammortization	\$ (30.243.580)
Interests paid	\$ (11.334.915)
Tax Shield	\$ 2.833.729
Cash from Financing Activities	\$ (38.744.766)
FCF	\$ 62.123.891
WACC	21,22%
g (perpetual growth rate)	0,93%
Terminal Value	\$ 309.127.093

Weighted Average Cost of Capital (WACC)	2019	2020	2021	2022	2023	2024
Interest rate	12,61%	12,61%	12,61%	12,61%	12,61%	12,61%
Tax Rate	30%	25%	25%	25%	25%	25%
Cost of debt (kd)	8,83%	9,46%	9,46%	9,46%	9,46%	9,46%
Risk-free rate (rf)	1,77%	1,77%	1,77%	1,77%	1,77%	1,77%
Leveraged Beta	0,74	0,74	0,74	0,74	0,74	0,74
Country Risk Premium (CRP)	22,38%	22,38%	22,38%	22,38%	22,38%	22,38%
Equity Risk Premium (ERP)	5,96%	5,96%	5,96%	5,96%	5,96%	5,96%
Historic S&P500 Standard deviation	13,95%	13,95%	13,95%	13,95%	13,95%	13,95%
Historic S&P Merval Standard deviation	39,02%	39,02%	39,02%	39,02%	39,02%	39,02%
Cost of Equity (ke)	31,52%	31,52%	31,52%	31,52%	31,52%	31,52%
Equity/Assets	48,06%	53,30%	53,30%	53,30%	53,30%	53,30%
Debt/Assets	51,94%	46,70%	46,70%	46,70%	46,70%	46,70%
WACC	19,73%	21,22%	21,22%	21,22%	21,22%	21,22%

Comments

- Interest Rate: yield of a bond with similar credit score. (PAM 2029 Bond).
- Risk-Free Rate: 10Y UST yield (28/10/2019).
- Leveraged Beta: unlevered industry peers beta, relevered with CEPU’s capital structure.
- Country Risk Premium: Argentina’s EMBI+ JPMorgan Index score (28/10/2019).
- Equity Risk Premium: 5,96%. Damodaran (April, 2019).
- Optimal capital structure: D/E average of industry peers.
- Historic S&P500 Standard deviation: Damodaran (April, 2019).
- Historic S&P Merval Standard deviation: Damodaran (April, 2019).
- Kd = Interest rate * (1-Tax Rate)

$$WACC = Kd * (Debt/Assets) + Ke * (Equity/Assets)$$

