



Fitch Rates Pampa Energia's Proposed Senior Unsecured Notes at 'B'/RR4'

Fitch Ratings-New York-01 July 2019: Fitch Ratings has assigned a 'B'/RR4' rating to Pampa Energia S.A.'s proposed senior unsecured notes. Pampa Energia plans to use the proceeds for debt refinancing and general corporate purposes. Fitch currently rates Pampa Energia S.A.'s Long-Term Foreign Currency (LT FC) and Local Currency (LT LC) Issuer Default Rating (IDR) 'B'.

The Rating Outlooks for the LT FC and LC IDRs is Negative, similar to Argentina's sovereign Outlook. Pampa's 'B' LT FC IDR is constrained by Argentina's 'B' Country Ceiling, which limits the foreign currency rating of most Argentine corporates. Fitch's Country Ceilings are designed to reflect the risks associated with sovereigns placing restrictions upon private sector corporates, which may prevent them from converting local currency to any foreign currency under a stress scenario, and/or may not allow the transfer of foreign currency abroad to service foreign currency debt obligations.

Pampa's ratings also reflect the Argentine electricity industry's regulatory risk, as the system continues to require financial support from the Argentine government; thus, Fitch aligns Pampa's ratings with its counterparty risk, CAMMESA/Argentina sovereign (B/Negative). The ratings are constrained by the macro-economic environment, including high inflation and steep currency devaluation.

The Negative Outlook, which mirrors that of the Argentine sovereign, reflects sharply weaker economic activity and uncertain prospects for multi-year fiscal consolidation and market financing availability as IMF funds are used up, posing risks to sovereign debt sustainability. Fitch assumes that in 2019, the Argentine government will achieve the fiscal adjustment targeted in the budget and that the recently renegotiated IMF program will help it fully cover its financing needs, but sees downside risks amid a nascent economic recession and election cycle. After 2019, prospects for further fiscal consolidation, economic recovery and restoration of external market access are uncertain and are likely to be sensitive to the election outcome.

KEY RATING DRIVERS

Heightened Counterparty Exposure: Pampa's power segment, which represented nearly 45% of EBIT in 2018, receives payments from CAMMESA, which acts as an agent on behalf of an association representing agents of electricity generators, transmission, distribution and large consumers or the wholesale market participants (Mercado Mayorista Electrico; MEM). Although over the past 24 months CAMMESA's payment track record has been consistent and on time, historically, payments have been volatile, given that the agency depends partially on the Argentine government for funds to make payments. The notable exceptions were a delay in September and December 2018 in the FX portion of CAMMESA's payment to market participants due to Argentina's currency crisis.

Uncertain Regulatory Environment: Fitch believes Argentina's current economic and political environment increases the regulatory uncertainty. With the recent announcement that tariffs will rise and the presidential elections in October 2019, Fitch believes power companies are exposed to uncertain regulatory changes, which could negatively impact their bottom lines and is reflected in its ratings, aligned to the sovereign. The companies operate in a highly strategic sector where the government both has a role as the price/tariff regulator and also controls subsidies for industry players. Fitch believes the government may adjust prices paid to generation companies to offset the increased cost of

the system caused by the peso devaluation and continued high energy losses realized by distribution companies and higher expected delinquency payments due the challenging economic environment. Fitch believes the government may force generation companies to absorb some of the cost.

Diversified Business Profile: Fitch believes Pampa's business diversification is a credit positive as it adds to cash flow stability, as its power generation, transmission, distribution and transportation segments have predictable cash flow profile. Pampa is a leading company in the midstream, transmission and electricity distribution segments as its co-controls Transportadora de Gas del Sur S.A. (TGS), Transener and is a majority owner of Edenor. TGS transports 60% of gas consumed in Argentina and is the leading NGL processor and marketer in Argentina. While Transener is the largest high voltage power transmission company in Argentina, with 85% market share, complimented by Edenor, which is the largest electricity utility company of Argentina with 20% market share as of year-end 2018.

Strong Capital Structure Projected: Fitch's base case forecasts that total debt to EBITDA will be 2.0x in 2019 and deleverage to 1.4x by 2020. In December 2018, Pampa reported total debt adjusted for ownership debt of USD2.3 billion resulting in gross leverage defined as total debt to EBITDA of 2.4x in 2018. During this time, Pampa reported a total cash position adjusted by ownership of USD682 million.

Positive FCF Through The Cycle: Fitch anticipates positive FCF for Pampa through 2022 as the company has modest capex plans aimed at developing unconventional gas production and three power generation projects (Genelba and Pampa/De La Bahia). Fitch estimates Pampa's FCF can average 15% of revenues through 2022, absent any additional projects increasing capex, extraordinary acquisitions or dividends, which exceed 10% of net income. Fitch estimates the company will be able to finance capex plans with cash on hand and operating cash flow.

Small Production Profile and Adequate Hydrocarbon Reserve Life: Pampa has small but stable production profile in comparison with its international peers, but has a strong 1P reserve life of approximately 8.0 years. Pampa's production size of below 75,000-boed and reserve life below 10 years is consistent with a 'B' category. Fitch expects the company will continue to focus on unconventional gas production in the Neuquen basin and maintain its average production of 45,000 boed, with nearly all of it attributed to gas production.

DERIVATION SUMMARY

Pampa Energia S.A.'s LT FC IDR is constrained by Argentina's 'B' Country Ceiling. This is the same for Argentine utility peers AES Argentina Generacion S.A. (B/Negative), Capex S.A. (B/Negative) and Genneia S.A. (B/Negative). Fitch believes Pampa Energia's integrated business model integrating electricity distribution, midstream and upstream is a credit positive diversifying cash flow.

The company's small production size compares favorably to other 'B' rated oil and gas exploration and production producers. These peers include Frontera Energy Corporation (B+/Negative), Geopark Limited (B+/Stable), Gran Tierra Energy International Holdings Ltd. (B/Positive) and Compania General de Combustibles S.A. (CGC, B/Negative).

Over the rating horizon, Fitch expects Pampa will average 45,000 barrels of oil equivalent per day (boed) between 2019 through 2020. This is slightly lower than Geopark at 50,000boed, and higher than Gran Tierra and CGC at 40,000boed. Pampa's reported 130 million barrels of oil equivalent and proven reserves, at YE 2018, equating to a reserve life of 8.0 years.

This is higher than Frontera Energy's 4.3 years, Gran Tierra's 5.9 years, CGC's 5.3 years and slightly less than GeoPark's 8.7 years. Pampa has a strong reserve base, and Fitch estimates the company will be able to maintain its reserve life of greater than seven years as it continues to increase production size focusing on gas production.

Fitch estimates the company's gross leverage to be, on average, below 2.0x in 2019 and to decrease to nearly 1.0x in 2022, assuming the company repays maturing Pampa debt. Pampa's expected gross leverage, over the rating horizon, compares favorably to both Argentine utilities and 'B' category oil and gas peers. Fitch estimates the median gross leverage for oil and gas peers during this period was 1.7x and 4.4x for Argentina utility peers.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Its Rating Case for the Issuer

- Total hydrocarbon production of between 45,000 and 50,000 boe/d between 2019-2022;
- Average realized natural gas price of USD3.5mmbtu in 2019, USD3.80mmbtu in 2020, USD4.00mmbtu in 2021 and USD4.10mmbtu in 2022
- Electricity prices denominated in USD with an average monomic price of USD50.24 per MWh between 2019 through 2022 respectively, reflecting new tariff scheme;
- Average annual electricity production of nearly 36,591 GWh in 2019 and 2019 and 40,000GWh on average for 2020-2021;
- CAMMESA payments made within 42 days;
- Total capex of USD1.5 billion between 2019 through 2022, and an average annual capex of USD376 million;
- Dividends payments of 10% of net income between 2019 through Equity share repurchase of USD100 million executed in 2019 - 2022.

Key Recovery Rating (RR) Assumptions:

- The recovery analysis assumes that Pampa would be liquidated in bankruptcy, and Fitch has assumed a 10% administrative claim.

Liquidation Approach: The liquidation estimate reflects Fitch's view of the value of inventory and other assets excluding its oil and gas assets that can be realized in reorganization and distributed to creditors;

- The 50% advance rate is typical of inventory liquidations for the oil and gas industry;
 - The USD10 per barrel estimate reflects the typical valuation of recent reorganizations in the oil and gas industry.
- The waterfall results in a 100% recovery corresponding to an 'RR1' for the senior unsecured notes (USD1,250 million). The RR is limited, however, to 'B'/RR4' as Argentina is categorized as Group D, per Fitch's Country-Specific Treatment of Recovery Ratings Criteria, which caps the recovery ratings at 'RR4.'

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- An upgrade of the ratings of Argentina could result in a positive rating action;
- Given the issuer's high dependence on subsidies by CAMMESA and Energia Argentina S.A. (ENARSA) from the Treasury, any further regulatory developments leading to a more independent market less reliant on support from the Argentine government could positively affect the company's collections and cash flow.

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- A downgrade of the ratings of Argentina could result in a negative rating action.
- A reversal of government policies resulting in a significant increase in subsidies coupled with a delay in payments for electricity sales;
- Sustainable production size declines to below 35,000boed; or
- Reserve life declines to below seven years on a sustained basis;
- A significant deterioration of credit metrics to total debt/EBITDA of 4.5x or more.

LIQUIDITY

Adequate Liquidity: In December 2018, Pampa reported available cash of USD682 million, which covers interest expenses through 2020, after the company executes its announced USD200 million share repurchase plan. The company does not face any significant financing needs over the foreseeable future, and Fitch expects the company will finance its capex through operating cash flow and cash.

FULL LIST OF RATING ACTIONS

Fitch currently rates the following:
Pampa Energia S.A.

--Long-Term Foreign Currency IDR 'B'; Outlook Negative;
--Long-Term Local Currency IDR 'B'; Negative;
--International senior unsecured notes due 2027 'B'/RR4'.

Fitch has assigned the following rating to the proposed issuance:
-- International senior unsecured notes 'B'/RR4'.

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Date of Relevant Rating Committee: Nov. 7, 2018.

Summary of Financial Statement Adjustments - Financial statement adjustments that depart materially from those contained in the published financial statements of the relevant rated entity or obligor must be disclosed (in bullet points). Analysts should refer to the relevant section of the Data Control Form and discuss and agree the proposed disclosure at the rating committee. This disclosure should appear after the analyst contact information.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Corporate Rating Criteria - Effective from 23 March 2018 to 19 February 2019 (pub. 23 Mar 2018)

Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)

Country-Specific Treatment of Recovery Ratings Criteria - Effective from 16 April 2018 to 18 January 2019 (pub. 16 Apr 2018)

Government-Related Entities Rating Criteria (pub. 25 Oct 2018)

Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria - Effective from 23 January 2018 to 16 January 2019 (pub. 23 Jan 2018)

Parent and Subsidiary Rating Linkage (pub. 16 Jul 2018)

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