

## TGS - 4Q19 Results

TGS reported Net Income/EPS of AR\$4.4 billion /AR\$5.6 in 4Q19, versus the AR\$12 billion/AR\$16.5 posted in 4Q18. Operating Income in 4Q19 totaled AR\$4.8 billion, compared with AR\$4.7 billion in the same year-ago period, with an Operating margin of 37%, higher than the 33% reported in 4Q18.

Analysis: TGS posted shy bottom-line results during 4Q19, with operating income almost unchanged compared to the same year-ago period. We maintain our Neutral recommendation but will review our target price. On the positive side, we highlight during the quarter a yearly increase of 8.7% in dispatched volumes in the liquids business. However, we believe that current international trade conflicts will continue to put pressure on Oil & Gas related equities. Specifically, for TGS we see a challenging political scenario in Argentina coupled with lower investments on Vaca Muerta due to weak prices on oil and gas which make shale projects economically difficult.

Neutral

TGS US

Last Price: USD 5.0

### Overview of the quarter and business segments

NGL Production and Commercialization (54% of Revenues): Net Revenue declined 5% y/y to AR\$6.9 billion; from AR\$7.3 billion in 4Q18. This decline was mainly due to the nominal variation in international reference prices that led to a decrease in revenues of AR\$1 billion, and the decrease in the volumes of ethane sold by AR\$0.8 billion. These effects were partially offset by the increase in the nominal variation of the exchange rate on revenues denominates in USD. In spite of the decline in revenues, operating income in 4Q19 jumped 18% on the back of lower costs (mainly natural gas costs processed in the Cerri Complex). On the positive side, total volumes dispatched increased by 8.7% or 27,680 short tons in 4Q19, compared to 4Q18. The mix of local and foreign sales was 50% local, 50% foreign.

Gas Transportation (42% of Total Revenues): Net Revenues fell 12% y/y to AR\$5,2 billion during 4Q19, which was mainly due to the impact of the inflation restatement which was partially compensated by the tariff increases granted within the RTI framework, at a nominal rate increase of 26% granted as of April 1, 2019. Meanwhile, Operating Income during 4Q19 amounted to AR\$2 billion, from the AR\$2.4 billion registered in 4Q18. The deterioration in Operating Income was mainly due to the decline in revenues which was not fully offset by the decline in operating costs, which declined by only 12% y/y. Average firm contracted capacity in 4Q19 stood at 2,909.9 million of cf/d compared to 2,900.7 cf/d in 4Q18.

Financial Results/Cash Position: Net Financial results in 4Q19 stood at AR\$533 million compared to AR\$3.9 billion in 4Q18. The deterioration in financial expense in the quarter was mainly due to a higher FX impact, as the devaluation of the peso accelerated in 4Q19. Net debt stood at ~AR\$22.7 billion at the end of 4Q19, increasing from AR\$6 billion reported in 4Q18.

# Exhibit 1: 4Q19 Earnings Summary

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TGSU2	4Q19	3Q19	QoQ	4Q18	YoY
<b>Figures in AR\$ mn NR = NOT Relevant</b>					
Revenues	12.845,1	9.148,3	40,4%	13.912,2	-7,7%
Operating Costs	-5.985,9	-4.226,2	41,6%	-6.604,7	-9,4%
<b>Gross Profit</b>	<b>6.859,2</b>	<b>4.922,1</b>	<b>39,4%</b>	<b>7.307,5</b>	<b>-6,1%</b>
SG&A Expenses	-1.073,9	-806,9	33,1%	-1.400,7	-23,3%
Other Operating Results	-18,4	-28,2	-34,8%	-278,4	-93,4%
<b>Operating Profit</b>	<b>4.797,1</b>	<b>3.233,7</b>	<b>48,3%</b>	<b>4.668,5</b>	<b>2,8%</b>
<b>Net Financial Results</b>	<b>532,6</b>	<b>-3.703,8</b>	<b>-114,4%</b>	<b>3.859,5</b>	<b>-86,2%</b>
Share of (loss) / gain from associates	-14,7	18,4	-179,9%	42,7	-134,4%
<b>EBIT</b>	<b>5.315,0</b>	<b>-451,7</b>	<b>NR</b>	<b>8.570,7</b>	<b>-38,0%</b>
<b>Income Tax Expense</b>	<b>-959,0</b>	<b>492,7</b>	<b>-294,6%</b>	<b>3.456,2</b>	<b>-127,7%</b>
<b>Net Income</b>	<b>4.356,0</b>	<b>41,0</b>	<b>NR</b>	<b>12.026,9</b>	<b>-63,8%</b>
<b>EPS</b>	<b>5,606</b>	<b>0,053</b>	<b>NR</b>	<b>15,4</b>	<b>-63,5%</b>
<b>Operating Profit by Segment (AR\$ mn)</b>					
Natural Gas Transportation	2.031,8	2.869,3	-0,29188304	2.355,0	-13,7%
Liquids	2.568,6	191,6	12,4060543	2.179,3	17,9%
Other Service	186,1	151,2	0,23082011	113,4	64,1%
Telecommunications	10,6	21,6	-0,50925926	20,8	-49,0%
<b>Total</b>	<b>4.797,1</b>	<b>3.233,7</b>	<b>48,3%</b>	<b>4.668,5</b>	<b>2,8%</b>

Source: Company filings, Cohen

## Sales & Trading

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**Martín Durruty**  
Institutional Sales  
mdurruty@cohen.com.ar  
+5411 5218-1100, int 120

**Santiago Ruíz Guiñazú**  
Institutional Sales  
sruiz@cohen.com.ar  
+5411 5218-1100, int 119

**Ricardo Herrero**  
Head of Trading  
rherrero@cohen.com.ar  
+5411 5218-1100, int 123

**Hernán Maidana**  
Trader  
hmaidana@cohen.com.ar  
+5411 5218-1100, int 125

**Laureano Grane**  
Trader  
lgrane@cohen.com.ar  
+5411 5218-1100, int 121

**Leonardo Laconi**  
Trader  
llaconi@cohen.com.ar  
+5411 5218-1100, int 124

**Agustín Benítez**  
Trader  
abenitez@cohen.com.ar  
+5411 5218-1100, int 127

## Research

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**Juan José Vazquez**  
Head of Research  
jvazquez@cohen.com.ar  
+5411 5218 1100 int 134

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