TGS - Short-term Headwinds, Long-term Rewards; BUY

We are initiating coverage of Transportadora de Gas del Sur (TGS) with a Buy Rating and a 12-month Target Price of USD 19 per ADR, which implies an upside of 25% from current prices. Our valuation is based on a Discounted Cash Flow analysis, with an 11.2% WACC and a terminal growth of 2.5%, and implies a 6.3x 2020 EBITDA multiple. TGS is currently trading at a 5.3x 2020E EV/EBITDA, which compares to the peer average of 7.1x.

We believe TGS offers an interesting way to gain exposure to the Vaca Muerta basin development with less regulatory risks than upstream companies, although free cash flow might be constrained in the next years as the company has considerable growth projects (USD 3bn+) which could reduce free cash flow in 2019-2023. That said, we believe the Company has ample capacity to lever its capital structure, given its 0.8x 2019E net leverage.

We expect a soft 2019 in terms of EBITDA generation (USD 423mn, down 27% YoY) due to a combination of factors that affect TGS' business segments:

i) In the Natural Gas transmission segment, the scheduled October tariff hike will be postponed to 2020 because of the coming Presidential elections. Given that the pipeline's capacity is fully contracted and tariffs are set in ARS, and unchanged until next year; EBITDA for the segment in USD terms will dependend on the FX. We forecast EBITDA of USD 294mn, down 27% YoY.

ii) The liquids segment will likely suffer from a combination of lower ethane quantities due to an incident in TGS only ethane customer, lower prevailing international liquids prices (~50% down YoY on average) and export taxes. We forecast EBITDA of USD 99mn, down 40% YoY.

iii)TGS' first tranche of the Southern Section at Vaca Muerta began operating in May 2019, and its EBITDA contribution for this year will be marginal (USD ~3mn). We expect EBITDA for the "Other Services" segment, which includes the Company's midstream services, to be flat YoY at USD 30mn. We believe this segment will drive TGS' growth in the coming years when the transported volumes at Vaca Muerta ramp up, as it could add USD 170mn annual EBITDA in 2024 assuming the Company expands its treatment capacity from 5MMm3/d initially to 40MMm3/d.

According to our estimates, after 2024 and not incorporating any expansions currently under evaluation (our base case), EBITDA for the entire company could reach USD ~690mn, up 63% from 2019E. However, our base case could prove conservative if the development expected for Vaca Muerta materializes after the political uncertainty is solved.

BUY

TGS US

Target Price: USD 19

Last Price: USD 15.20

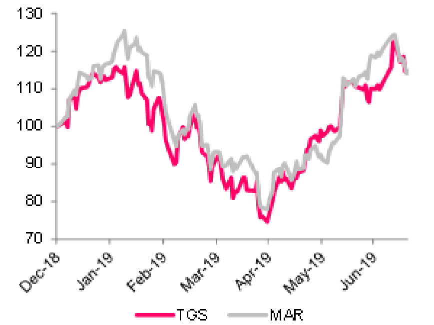
Market Data	
Shares Outstanding (mn)	156
Market Cap (USD bn)	2,4
YTD Return	11%

Earnings & Valuation Metrics

	2018A	2019E	2020E
EBITDA (USD mn)	576	423	515
EPADR (USD)	2,5	1,2	1,8
P/E	6,0x	12,9x	8,6x
EV/EBITDA	4,7x	6,4x	5,3x

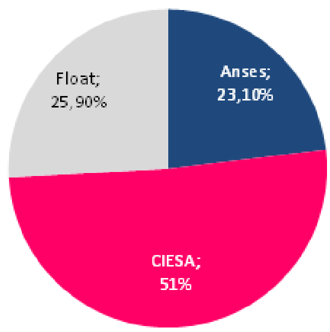
Source: Bloomberg, Cohen.

TGS YTD Price Return vs Benchmark (USD)



Source: Bloomberg, Cohen. Returns as of 07/19/19

Ownership Structure



Source: TGS, Cohen.

Juan Ignacio Alonso
Research Analyst
+54-11 5218 1100 int 152
jalonso@cohen.com.ar

Investment Thesis & Company Description

We are initiating coverage of Transportadora de Gas del Sur (TGS) with a Neutral Rating and a 12-month Target Price of USD 19 per ADR, which implies an upside of 25% from current prices. Our valuation is based on a Discounted Cash Flow analysis, with an 11.2% WACC and a terminal growth of 2.5%, and implies a 6.3x 2020 EBITDA multiple. TGS is currently trading at a 5.2x 2020E EV/EBITDA, which compares to the peer average of 7.1x.

We believe TGS offers an interesting way to gain exposure to the Vaca Muerta basin development with less regulatory risks than upstream companies, although free cash flow might be constrained in the next years as the company has considerable growth projects (USD 3bn+) which could reduce free cash flow in 2019-2023. That said, we believe the Company has ample capacity to lever its capital structure, given its 0.8x 2019E net leverage.

Transportadora de Gas del Sur began operating in December 1992 as a result of the privatization of Gas del Estado (GDE), the Argentine state-owned natural gas company, which was divided into ten companies: two transportation companies (TGS & Transportadora Gas del Norte, "TGNO4") and eight distribution companies.

TGS operates 5,706 miles of natural gas pipelines, of which it owns 4,745 miles and operate the remaining 961 miles (owned by a Gas Trust) for which it receives compensation based on a regulated tariff. TGS is also one of the largest processors of natural gas and one of the largest marketers of Natural Gas Liquids in Argentina at its Cerri Complex. Finally, it provides midstream integral solutions to natural gas producers and has a unique opportunity in Vaca Muerta, where it is developing a natural gas gathering pipeline system and a conditioning plant, which will provide the company with unregulated, USD-denominated revenues.

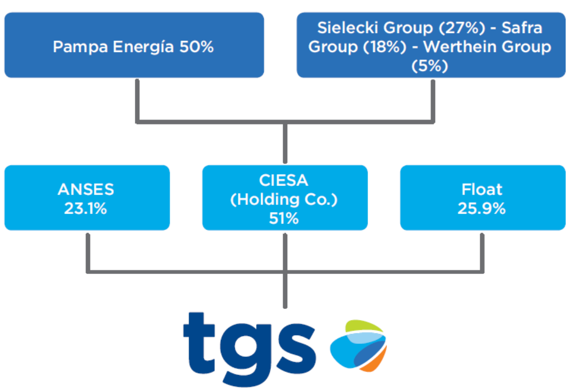
Ownership Structure & Management

As of March 31, 2019, TGS had 794.5mn outstanding shares of common stock, consisting of 405.2mn Class A shares (51% of total shares) and 389.3mn Class B shares (49% of total shares). The Class A shares are owned entirely by CIESA, an entity owned 50% by Pampa Energia and 50% by Sielecki Group (27%), Safra Group (18%) and Werthein Group (5%). The Argentine public pension system (ANSeS) owns 23.1% of total shares, while the remaining 25.9% floats in the NYSE and in the local exchange, BYMA.

Mr. Luis Alberto Fallo is TGS' Chairman of the Board. Mr. Fallo is an accountant graduated from the Universidad de la Plata and holds an MBA from Universidad del Cema.

Mr. Oscar José Sardi is TGS' CEO since April 2019, and has been associated with the Company since before the privatization of Gas del Estado in 1992.

Exhibit 1: Ownership Structure



Source: TGS; Cohen

Exhibit 2: Key Executives

Name	Position	Age	Appointment Year
Board of Directors			
Luis Alberto Fallo	Chairman	59	2019
Gustavo Mariani	Vice-Chairman	48	2019
Senior Management			
Oscar José Sardi	CEO	63	2019

Source: TGS; Cohen

Business units: Nat Gas transport; Liquids, Others

TGS has three main business segments: Natural Gas transportation, Natural Gas liquids (NGL) production and Other Services, which includes midstream and telecommunication services.

Natural Gas Transportation

The natural gas transportation business is subject to Government regulation. In accordance with current regulation and until the next Integral Tariff Review (RTI) in 2022, tariffs are set in ARS and adjust semiannually in April and October according to the 6-month accumulated wholesale price index ("IPIM"). Natural gas transportation customers with firm contracts pay for the contracted pipeline capacity regardless of actual usage. TGS actually has 82.4MMm3/d contracted capacity, with a remaining weighted average life of ~12 years, and in 2018, 79% of the Company's average daily natural gas deliveries were made under long-term firm transportation contracts. Substantially all of the remaining natural gas deliveries were made under natural gas interruptible transportation contracts, which provide transportation of natural gas subject to available pipeline capacity.

Tariffs

Initially, during the 90's and according to the privatization of GDE, tariffs were stated in USD, adjusted on a semiannual basis by reference to the U.S. Producer Price Index (PPI), and further adjusted every five years, based on the efficiency and capital expenditures in the business. After Argentina devalued its currency on December 2001, the Public Emergency Law, however, eliminated tariff indexation and public service tariffs were converted into ARS and fixed at an exchange rate of ARS 1.00 per USD 1.00.

In the following years, the Argentine currency experienced severe inflation (+2000% in 2001-2016) and depreciation (+1500%), while regulated tariffs were not raised until 2014, when they were increased by 20%. Following the Integral Renegotiation Agreement (RTI), TGS was granted an accumulated 345% increase on the tariff of the natural gas transportation service, which was granted in three stages on April 1, 2017 (64.2%), December 1, 2017 (80.8%) and April 1, 2018 (50%). Current regulation provided for a semiannual adjustment mechanism in April and October, based on accumulated WPI for the period August-February (applied on April) and February-August (applied on October).

While we consider the normalization of tariffs and the adjusting mechanism positively, the current regulatory environment still has issues that harm the full business normalization. When the first semi-annual adjustment was to be applied effective October 1, 2018, accumulated WPI was 30.6%, but the regulator granted only a 19.67% increase after applying an average of the WPI, the construction cost and salary evolution indices. In April 2019, TGS requested an increase of 35% that included the 10% difference of lower tariff and the 25% estimated WPI for the period, but ENARGAS approved only a 26% tariff increase that was in-line with the WPI for the period August 2018 - February 2019. Moreover, the National Government postponed tariff hikes on utilities until next year, given the coming Presidential elections, so the October hike will likely become effective in January 2020.

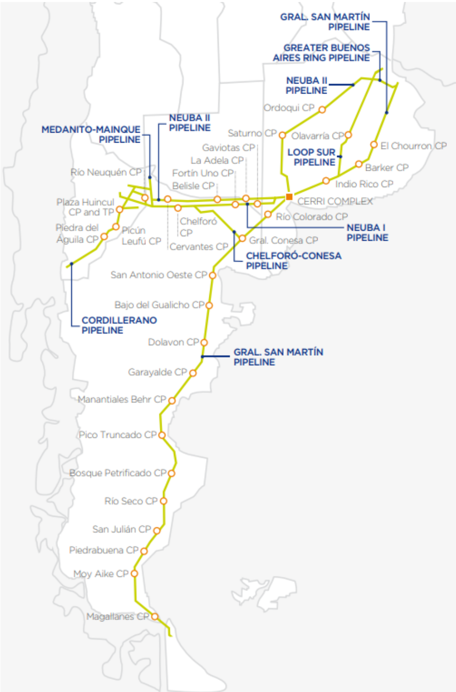
According to our estimates, the natural gas business segment had USD 381mn EBITDA in 2018, up 119% YoY. We note that the last RTI tariff hike took place in April 1, 2018 (+50%, with an impact for the final customer of 7%), thus EBITDA only had 9 months of "full tariff". However, the Government has announced it would delay tariff hikes in 2H19 until 2020 – probably due to the coming Presidential elections. We expect a 32% hike in January 2020, in-line with the accumulated WPI for February-November 2019; and a 4% hike in April 2020 consistent with the accrued WPI for December 2019 - February 2020.

We are forecasting annual EBITDA for this segment of USD 302/372/363mn in 2019/20/21, respectively. Profitability in USD terms will depend on the Argentine real FX rate, as revenues are in ARS and adjust with a lag. Our estimate is consistent with an FX of 50.33 ARS/USD by 2019 EoP, and a 2019 average FX of 44.38, in-line with the Latin Focus estimate. Furthermore, after 2021 the normalized EBITDA will be dependent on the new RTI to be held that year. Recall, in the 2018 RTI, TGS was granted a 9% inflation-adjusted return on capital, based on a RAB of USD 2.0bn and USD 85mn annual capex.

Major Pipelines

a) **General San Martin Pipeline.** Transports natural gas from the extreme southern portion of Argentina (Tierra del Fuego) to the greater Buenos Aires area. The pipeline receives natural gas from the Austral basin (located in Tierra del Fuego, Santa Cruz and Chubut) and from the San Jorge basin in northern Santa Cruz and southern Chubut provinces.This pipeline was expanded in 2005 by the Gas Trust in order to satisfy the growing natural gas demand in the Argentine economy. This expansion resulted in the construction of 458 miles of pipeline and the installation of new compressor units.

Exhibit 3: TGS Nat.Gas Transmission System



Source: TGS; Cohen.

b) **Neuba I** is one of TGS' two main pipelines serving the Neuquina Basin, the principal source of gas supply. The pipeline originates in Neuquén and terminates at the Cerri Complex. This pipeline transports the natural gas received from the Neuquina Basin, particularly from the Sierra Barrosa, Charco Bayo, El Medanito, Fernández Oro, Lindero Atravesado, Centenario, Río Neuquén and Loma de la Lata natural gas fields. The gas delivered from Neuba I is subsequently compressed and injected into the Loop Sur and the General San Martín pipelines for transportation north to the greater Buenos Aires area. As part of the works scheduled to be completed in the Five-Year Plan, TGS is executing the construction of a compressor plant in the town of Confluencia, Neuquén Province, which will allow the Neuba I gas pipeline to be interconnected with the Neuba II pipeline, thus granting more flexibility to the operation of the natural gas transport system.

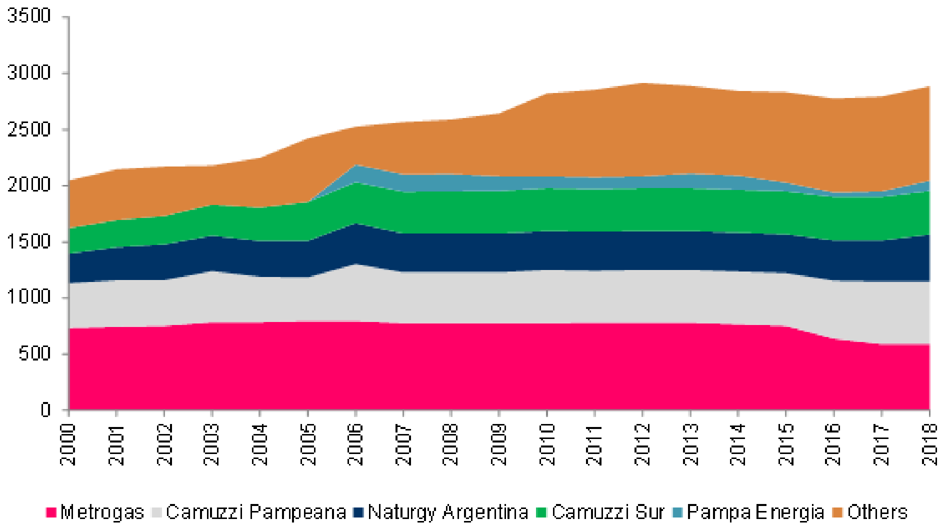
c) **Loop Sur.** This gas pipeline was built in 1972 as an extension of Neuba I and runs parallel to a portion of the General San Martín gas pipeline. Located in the province of Buenos Aires, it transports natural gas from the Neuba I at the Cerri Complex in Bahía Blanca and ends at the high pressure transmission ring around Buenos Aires. Loop Sur is also connected to the TGNO4 system and allows TGS to deliver natural gas to or receive natural gas from TGNO4.

d) **Neuba II** was built in 1988 (expanded several times since then) and is the second pipeline serving the Neuquina Basin. Neuba II begins at YPF's Loma de la Lata gas treatment plant and runs up to Buenos Aires. In 2008, this pipeline was expanded with the construction of 153 miles of natural gas pipeline.

Customers

TGS' main customers are four gas distribution companies, which account for 68% of total firm contracted capacity (82.4 MMm3/d). In 2018, TGS carried out two open seasons that allowed the allocation of 0.31 MMm3/d (10.8 MMcf/d) of remaining capacity in the Neuquen-Buenos Aires route, and the allocation of 0.27 MMm37d (9.6 MMcf/d) incremental capacity in the Tierra del Fuego-Buenos Aires route, effective January 1, 2019 and for a 35-year period.

Exhibit 4: Average firm contracted capacity (MMcf/d)



Source: TGS, Cohen

Natural Gas Liquids

TGS produces and sells ethane, LPG (propane and butane) and natural gasoline, which are extracted from natural gas at its Cerri Complex, which is located near the city of Bahía Blanca in the Province of Buenos Aires. The Cerri Complex consists of an ethane extraction cryogenic plant to recover ethane, LPG and natural gasoline, together with a lean oil absorption plant to recover LPG and natural gasoline; and has a 46 MMm3/d processing capacity. The facility also includes compression, power generation and storage facilities. TGS also provides storage and dispatch services to Mega S.A., PBB Polisur S.A. and YPF.

We estimate the Liquids segment will have a tough 2019, and forecast USD 93mn EBITDA for the segment, down 43% YoY (2018 EBITDA of USD 165mn included a non-recurring loss of USD 22mn related to a litigation) driven by: i) Lower ethane deliveries (~350k ton vs 400k ton in 2018) due to an incident in the customer's production facility, ii) Lower international prices (the average propane price in 2019 is 35% below the average 2018 price, 19% below for natural gasoline), and iii) USD ~12mn payable on export taxes, as there is a 'provisory' tax of ARS 4 per USD ongoing until December 31, 2020.

Ethane is sold exclusively to PPB Polisur (a subsidiary of Dow Chemical), at a fixed price in USD (~400-420 USD) adjustable by the natural gas price and the US PPI. The contract is based on a take-or-pay structure with increasing volumes until 2027, which increase from 310k ton per year (850 ton/d) in 2018 to 420k annual ton (1150 ton/d) in May 2023. PBB is assessing an expansion of its installed capacity. If it is done, it would amend the contract with TGS increasing minimum volumes by 25% to 1500 ton/d. TGS would need to spend USD 30mn to build a new pipeline to transport incremented volumes, with estimated incremental EBITDA of USD 20mn.

Earlier in June this year, PBB suffered an incident in one of its ethane crackers, and halted production. TGS expects a 50k metric ton reduction in ethane deliveries for 2019, with an estimated production of 350k metric tons, down 12% YoY. The lower volumes estimated as a consequence of this incident represent a USD ~10mn EBITDA loss for TGS, although the current take-or-pay commitment running at 340k ton/year provides insurance if PBB's production takes longer to recover.

Exhibit 5: Ethane production (k ton per year)

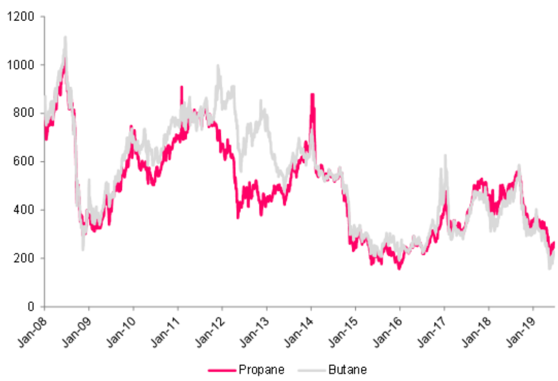
Source: TGS, Cohen

TGS also produces and sells propane and butane, both to the local market and abroad. Exports take place mostly during the summer season, when the liquids are sold at the international price plus a premium (~40-50 USD/ton). During winter production is sold mostly to the local market at regulated prices: propane is sold at the export parity price (ARS 14,593 or USD ~345 for July 2019) which is updated monthly; while butane is sold to the Households with Bottles Program at ARS 9,154 (USD ~215) per ton, below production costs. Under the Households with Bottles Program the Ministry of Energy regulates the price and the quantity of LPG sold in the domestic market by each LPG producer.

Exhibit 6: Propane and Butane production (k ton per year)

Source: TGS, Cohen

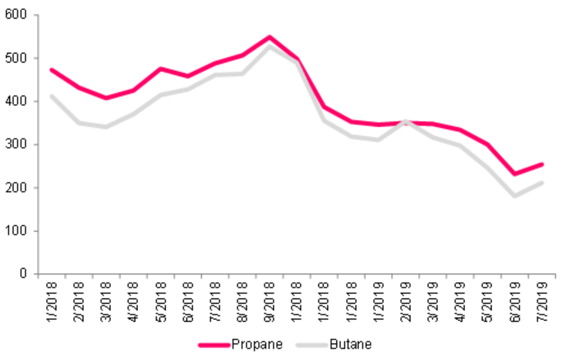
Exhibit 7: Propane & Butane Mont Belvieu Prices (USD/MT)



Source: Bloomberg, Cohen. Prices as of 07/19/19.

Propane and Butane prices have decreased significantly since 3Q18, with average prices down 48/54% YoY, respectively, averaging USD 254 and USD 211 per ton in July. We expect a recovery in the Propane price the coming years towards USD 390-400/ton, and a convergence of local Butane prices to the export parity. Still, the sharp decline in liquids international prices is a headwind for the segment in the near term.

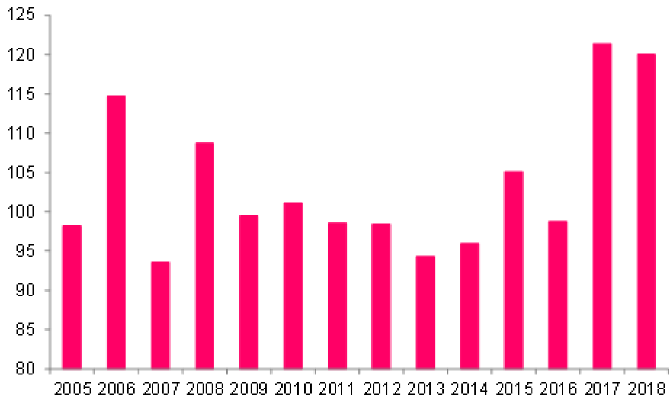
Exhibit 8: Propane & Butane Mont Belvieu average monthly prices (USD/metric ton)



Source: Bloomberg; Cohen

Finally, TGS produces and exports Natural Gasoline entirely to Petrobras Global Trading B.V., with annual contracts at the international price minus a spread (currently at ~20-25 USD/ton). The average international price decreased 22% YoY during 2Q19, to USD 462/ ton, and further to USD 437/ton in July.

Exhibit 9: Natural Gasoline Production (k ton per year)



Source: TGS; Cohen

Exhibit 10: Natural Gasoline Mont Belvieu Price (USD/metric ton)

Source: Bloomberg; Cohen

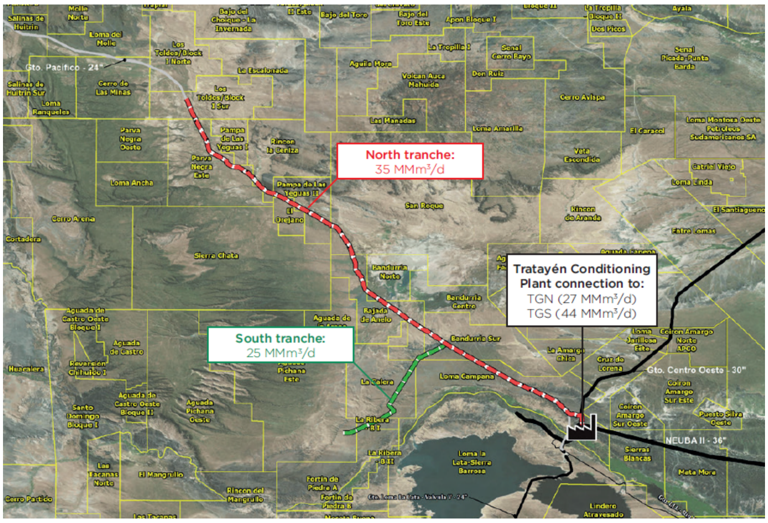
Other Services

TGS includes midstream and telecommunication services under its "Other Services" segment. Midstream services include midstream integral solutions related to natural gas production, from the wellhead up to the transportation systems. TGS provides gas conditioning and compression services, through 2 facilities (4.2 MMm3/d) located in Neuquén; it constructs, operates, and maintains pipelines and compression plants; it has a 13 MW steam generation for electricity production and it provides pipeline connections and installation other facilities for power plants. Telecom services consist of data transmission services through a network of digital terrestrial radio relay. EBITDA for the 'other services' segment amounted to USD 28mn in 2018.

The company's main current growth project is the Vaca Muerta project, a system of two natural gas gathering pipelines: the Northern Section will have an extension of 71 miles and 1.2 Bcf/d (35 MMm3/d) transportation capacity, while Southern Section will have a 20 mile extension and a 882.3 MMcf/d (25 MMm3/d) transportation capacity. The gas transported through this pipeline system will be treated at a new conditioning plant being built in Tratayén (Province of Neuquén) with an initial capacity of 176.6 MMcf/d (5 MMm3/ d), which is foreseen to be expanded as the volumes of gas transported in the Vaca Muerta system increase. The first tranche of the pipeline came online in May 2019, and it would add USD 3mn EBITDA in 2019. The estimated capital expenditure amounts to USD 260mn, and is expected in-service by 4Q19.

Contracts with producers have low minimum volume commitments (10% of the pipeline capacity) and USD-denominated non-regulated tariffs, so revenues will be more volume-sensitive than in the regulated business. With the expected increase in production in Vaca Muerta, the project could earn USD 90mn EBITDA in 2024, assuming transported volumes of 40 MMm3/d and no expansions in the Tratayén plant. Expansions to increase the conditioning plant's capacity towards 40 MMm3/d to match expected transported volumes would demand USD ~400mn capex, and would add USD 80mn annual EBITDA, taking total annual EBITDA to USD 170mn. We model USD 70mn capex in 2020 (adding 5 MMm3/d processing capacity) and USD 100mn annual capex (+10 MMm3/d per year) in 2021-2023 related to these expansions.

Exhibit 11: TGS' Vaca Muerta Project
The first phase of the South Tranche is already in-service since May



Source: TGS; Cohen

Main expansion projects under evaluation

TGS has many growth opportunities for the coming years, especially if production in Vaca Muerta continues to develop. With current transmission infrastructure running at almost full capacity, Argentina needs further natural gas transmission and processing infrastructure, especially related to exports.

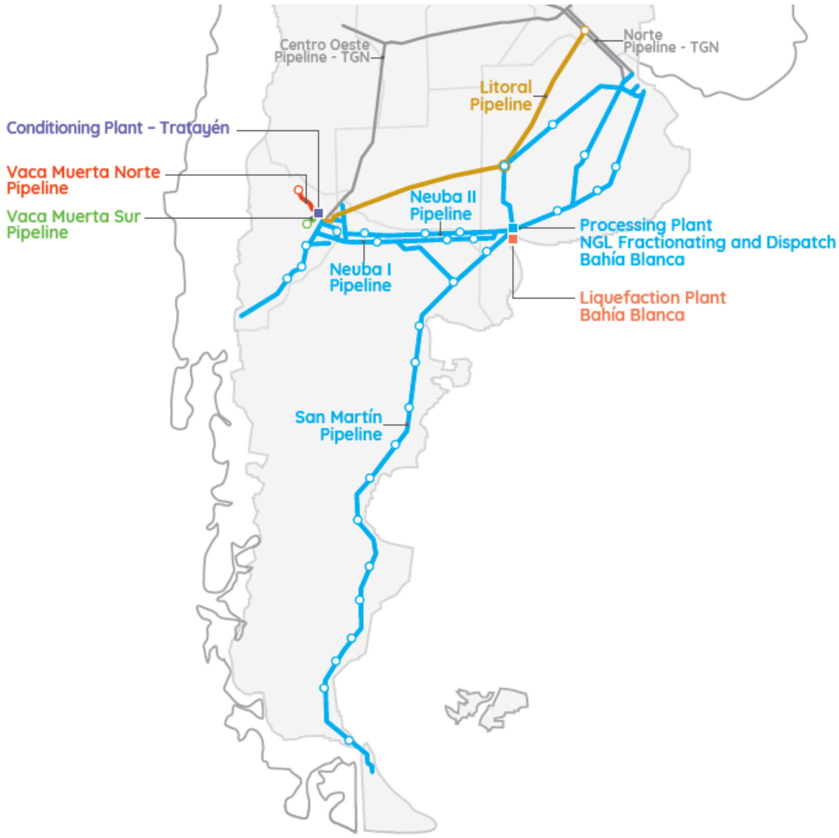
We believe that in a scenario of Macri's re-election, Vaca Muerta has real possibilities of unlocking its true potential, and TGS will likely be a key player of the infrastructure build-up that will be needed in the coming years.

Major expansion projects include:

1) **Long-haul natural gas pipeline**: On July 10th, the National Government announced a tender to construct and operate a new long-haul pipeline for the Vaca Muerta gas production at the Neuquina Basin, and reaching San Nicolás in the Province of Buenos Aires. It will be operational in the winter of 2022. It would be called 'Transportadora Gas del Centro' (TGC).

TGS' proposal (the Litoral Pipeline) consists of building a 40 MMm3/d pipeline to be built in two stages, the first one from Vaca Muerta to its Saturno Compressor Plant and then a second stage to the North of the Province of Buenos Aires. TGS would have a 40-50% stake in a new JV to be created, and the project would be financed with 30% equity and 70% debt. The first stage would demand a USD 800mn investment (USD 120-150mn equity attributable to TGS), and would bear long-term contracts with USD-denominated tariffs for the first 17 years (out of the License's 35 years duration, which will be extendable for 10 years). The second stage would demand a USD 1.2bn investment.

Exhibit 12: Projects under Evaluation



Source: TGS

2) **New Gas Liquefaction Plant**: TGS has signed a Memorandum of understanding with Excelerate Energy to jointly collaborate on the assessment of a liquefaction project in Bahia Blanca, Province of Buenos Aires. The plant would have an initial liquefaction capacity of 3.8 MMm3/d and would demand a USD 450mn investment, with the possibility of expanding capacity up to 15 MMm3/d. The construction of the first phase would demand 1.5 years.

Currently, given that pipelines are running at almost full capacity during the winter season, the plant could only export LNG during 8 months of the year. When the TGC pipeline is completed, TGS would have spare transmission capacity to supply natural gas to this LNG plant the whole year, thus enabling further capacity expansions.

3) **New Polyduct and Extraction Plant**: TGS is also evaluating building a 20 MMm3/d processing plant and a liquids pipeline, to be connected to the Cerri Complex in Bahia Blanca (46 MMm3/d). This project would require an USD 800mn investment, and TGS would have a stake in the new entity.

4) **Expansion of the Cerri Plant:** Dow Chemical is analyzing expanding its petrochemical complex in Bahia Blanca through a USD 5.0bn investment, depending on the Presidential election's outcome. If built, it would increase TGS' ethane contract to 3,000 ton/d. TGS would need to invest USD 300mn to transport increased ethane volumes, and it could generate USD 100mn incremental EBITDA.

Valuation

We valued TGS using a DCF model, and arrived to a 12-month target price of USD 19 per ADR, implying a 25% return from current prices. Our estimate is consistent with a 2020 EV/EBITDA of 6.3x and a 2020 P/E of 10.8x. Our valuation is based on a Discounted Cash Flow analysis, with a 11.2% WACC and a terminal growth of 2.5%.

Exhibit 13: DCF Valuation

Transportadora Gas del Sur	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Figures in USD mn									
EBIT	352	443	487	524	560	604	608	613	613
+Var WK	-75	-35	-18	-24	-14	-13	-7	-6	-5
-Tax	-106	-111	-122	-131	-140	-151	-152	-153	-153
+D&A	69	71	72	73	77	82	82	81	80
-Capex	-320	-197	-220	-220	-220	-125	-125	-125	-125
FCFF	**-79**	**172**	**199**	**222**	**263**	**397**	**406**	**410**	**410**
PV of CF	-75	147	153	154	164	222	204	185	167
TV (PV)	1920								
EV	3239								
-Net Debt	338								
Market Cap	**2902**								
ADR Outstanding	156								
Target Price (USD)	**19**								

WACC	
Risk free	2,0%
Beta	0,9
Risk premium	5,0%
Country risk	6,0%
Cost of equity	**12,6%**
Cost of Debt	**7,8%**
E/(E+D)	80%
D/(E+D)	20%
Tax Rate	30%
WACC	**11,2%**
g	2,5%

Source: Cohen

Exhibit 14: Sensitivity Analysis

G (%) \ WACC (%)	9,7	10,2	10,7	11,2	11,7	12,2	12,7
1,5	22	20	19	17	16	15	14
2,0	23	21	19	18	17	16	15
2,5	24	22	20	19	17	16	15
3,0	25	23	21	19	18	17	16
3,5	26	24	22	20	19	17	16

Source: Cohen

On a relative basis, TGS is trading at a 6.4/5.3x 2019/2020 EV/EBITDA multiple, which compares to the Latam peer average of 7.8/7.1x, respectively.

Exhibit 15: Relative Valuation

Company Name	Ticker	Market Cap (USD mn)	EV/EBITDA 2019E	EV/EBITDA 2020E	P/E 2019E	P/E 2020E
Transportadora Gas del Sur	**TGS US**	**2484,4**	**6,4x**	**5,2x**	**12,9x**	**8,6x**
ALUPAR INVESTIMENTO SA-UNIT	ALUP11 BZ	2131,7	9,2x	8,7x	14,4x	14,3x
CENTRAL PUERTO-SPONSORED ADR	CEPU US	1389,9	6,0x	4,2x	7,5x	4,8x
CIA ENERGETICA MINAS GER-PRF	CMIG4 BZ	6047,4	8,3x	7,6x	10,3x	8,8x
CIA PARANAENSE DE ENERGI-PFB	CPLE6 BZ	3546,7	6,3x	5,8x	8,5x	7,8x
ELETROPAULO METROPOLITANA SP	ELPL3 BZ	2520,1	9,6x	N/A	26,3x	N/A
EDP - ENERGIAS DO BRASIL SA	ENBR3 BZ	3114,1	7,0x	6,2x	12,9x	11,4x
ENERGISA S.A.	ENGI3 BZ	5176,1	11,8x	9,6x	5,0x	N/A
GRUPO ENERGIA BOGOTA SA ESP	GEB CB	6139,6	9,4x	9,9x	12,3x	16,0x
INFRAESTRUCTURA ENERGETICA N	IENOVA MM	5873,5	9,9x	9,0x	13,9x	12,4x
TRANSPORTADORA GAS NORTE-B	TGNO2 AR	719,1	4,4x	N/A	N/A	N/A
TRANSENER S.A.-B	TRAN AR	458,2	2,7x	2,3x	4,5x	3,4x
ULTRAPAR PARTICIPACOES SA	UGPA3 BZ	6008,0	9,1x	8,1x	19,5x	16,1x
Average			**7,8x**	**7,1x**	**12,3x**	**10,6x**

Source: Bloomberg; Cohen
Note: Estimates reflect Bloomberg consensus estimates, except for TGS which reflects Cohen estimates.

2Q19 Outlook: Expect flat EBITDA although with different mix

We expect 2Q19 EBITDA of USD 116mn, -flat QoQ, although with a different segment results. Natural gas transportation will be fully impacted by the 26% tariff increase effective April 1. We expect EBITDA of USD 81mn, which compares to USD 69mn in 1Q19. For the liquids segment, we expect EBITDA of 28mn (vs USD 42mn in 1Q19) affected by lower international prices (-16% and -25% QoQ for Propane & Butane, respectively). Finally, for the Other Services segment we expect EBITDA of USD 8mn, which compares to USD 5mn in the previous quarter.

We expect net income of USD 70mn vs 61mn in 1Q19, fueled by USD 2mn financial gain (vs a USD 15mn loss in 1Q19) related to the Peso appreciation in the quarter and TGS' net short USD position.

Exhibit 16: TGS Estimates (USD mn)

Income Statement (USD mn)	2016	2017	2018*	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Nat. Gas Transportation	141	274	464	427	505	505	495	491	493	493	493	493
Liquids	321	414	500	407	445	482	496	502	510	510	519	519
Other services	37	49	59	44	66	95	137	183	228	237	238	239
Net revenues	**499**	**737**	**1013**	**878**	**1016**	**1082**	**1127**	**1175**	**1232**	**1240**	**1251**	**1251**
Operation & Maintenance Expenses	-299	-392	-451	-451	-493	-524	-531	-541	-553	-556	-561	-562
Gross Margin	**200**	**345**	**555**	**427**	**523**	**558**	**596**	**634**	**679**	**684**	**689**	**689**
G&A Expenses	-45	-54	-77	-71	-75	-67	-68	-70	-71	-72	-72	-72
Other operating results	-4	-6	-28	-4	-4	-4	-4	-4	-4	-4	-4	-4
EBITDA	**173**	**307**	**531**	**423**	**515**	**559**	**597**	**638**	**686**	**690**	**694**	**693**
Operating Income	**151**	**285**	**467**	**352**	**443**	**487**	**524**	**560**	**604**	**608**	**613**	**613**
Fin. Results	-55	-34	-90	-92	-76	-30	-5	-5	-4	-4	-4	-4
EBT	**95**	**251**	**377**	**260**	**368**	**457**	**519**	**556**	**599**	**604**	**609**	**609**
Income Tax	-33	-82	-11	-77	-92	-114	-130	-139	-150	-151	-152	-152
Net Income	**62**	**168**	**365**	**184**	**276**	**343**	**389**	**417**	**449**	**453**	**457**	**457**

Note: 2018 results are in nominal terms and not inflation-adjusted

EBITDA by Segment (USD mn)	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Nat Gas. Transp.	61	146	381	294	364	358	349	345	344	344	343	343
Liquids	92	137	165	99	106	137	144	144	148	149	153	153
Midstream + Others	19	23	28	28	42	62	102	147	192	195	195	195
Telecom	1	1	1	2	2	2	2	2	2	2	2	2
Total	173	307	576	423	515	559	597	638	686	690	694	693
YoY	*23%*	*77%*	*88%*	*-27%*	*22%*	*9%*	*7%*	*7%*	*8%*	*1%*	*1%*	*0%*

Note: 2018 results are inflation-adjusted

Operational Figures	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Nat Gas Contracted Capacity (MM m3/d)	**78,6**	**78,9**	**81,7**	**82,4**	**82,4**	**82,4**	**82,4**	**82,4**	**82,4**	**82,4**	**82,4**	**82,4**
Ethane production (k MT)	278	283	397	352	400	400	400	415	420	420	420	420
Propane + Butane production (k MT)	551	557	540	583	583	583	585	585	595	595	610	610
Natural Gasoline production (k MT)	99	121	120	116	124	128	130	130	135	135	140	140
Total Liquids Production (k MT)	**927**	**961**	**1057**	**1051**	**1107**	**1111**	**1115**	**1130**	**1150**	**1150**	**1170**	**1170**
VM Conditioning capacity (MMm3/d) - EOP	**0**	**0**	**0**	**5**	**10**	**20**	**30**	**40**	**40**	**40**	**40**	**40**

Source: Company Filings, Cohen

Cohen™

Sales & Trading

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 Grané
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

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

Erik Schachter
Research Analyst
eschachter@cohen.com.ar
+5411 5128 1100 int 184

Juan Ignacio Alonso
Research Analyst
jalonso@cohen.com.ar
+5411 5218 1100 int 152

25 de mayo 195 P7
C1002ABC - Buenos Aires, Argentina
Main: +5411 5218 1100

IMPORTANT INFORMATION

This document is not directed to, or intended for distribution to, or use by, any person or entity that is a citizen, or resident of, or located in a place or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

This research is not an offer to sale or the solicitation of an offer to buy any type of financial instrument, nor to adopt, or to undertake or disvest any hedging, trading or investment strategy in any jurisdiction, and it does not constitute a prediction of the future performance of the securities or instruments referred in this publication.

This research has been prepared by Cohen's analysts to provide its clients with general information regarding the date of issue of the report and may be subject to changes at any time without prior notice. Cohen is under no obligation to update, modify or amend this publication, nor does this document intend to be a complete statement or summary of the investment strategies, markets or developments referred to herein.

This report is based upon information obtained from public or publicly accesible sources which are considered, as of the date hereof, to be reliable. Therefore no warranty is given regarding its accuracy and/or integrity.

The financial instruments discussed in this report may not be suitable for all investors. This report does not take into account the investments objectives, financial situation, particular needs or risk profile of any particular investor, and it must not be regarded by recipients as a substitute for the exercise of their own judgment and appropiate due diligence. Prior to making any investment decision based on the information contained herein, clients should contact their own investment, legal and tax advisers to seek advice regarding appropriatness of investing.

Any loss or or other consequence arising from the use of the material contained in this publication shall be the sole and exclusive responsibility of the investor and Cohen accepts no liability for any such loss or consequence.

The analysis, projections, forecasts and estimates expressed in this report are in no way affected or influenced by the issuer.

Cohen and or any of its affiliates, directors, executives and employees may have a position in any of the financial instruments referred to, directly or indirectly, in this document. They may trade for their own account or for third party account in those instruments or may provide consulting or other services to the issuer or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those instruments or related investments before or after the publication of this report to the extent permitted by the applicable law.

This document contains proprietary information and it must be kept confidential. This report may be not reproduced or redistributed to any other person, in whole or in part, for any purpose, without the prior written consent of Cohen.
Cohen is a registered Clearing and Settlement Agent and a registered Broker-Dealer in Argentina and, thus, regulated by the Comisión Nacional de Valores. Cohen is a member of the Buenos Aires Stock Exchange (BYMA). Analysts employed by Cohen are not required to take the FINRA analyst exam.