MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns B2 rating to Pampa Energía's proposed notes; stable outlook

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New York, July 01, 2019 -- Moody's Investors Service ("Moody's") has assigned a B2 rating to Pampa Energía S.A.'s ("Pampa") proposed senior unsecured notes. The outlook is stable.

Net proceeds from the proposed issuance will be used for liability management, capital spending, working capital and/or make capital contributions to certain subsidiaries or affiliates.

The rating of the proposed notes assumes that the final transaction documents will not be materially different from draft legal documentation reviewed by Moody's to date and assume that these agreements are legally valid, binding and enforceable.

Rating assigned:

Issuer: Pampa Energía S.A.

- Senior unsecured notes: B2

RATINGS RATIONALE

Pampa's B2 ratings are supported by the company's diversified portfolio of operations, with upside potential in the power industry in Argentina, a benign pricing framework for natural gas and power sectors in Argentina and good credit metrics for its rating category pro-forma for the proposed notes. The ratings are mainly constrained by Pampa´s exposure to Argentina's volatile and highly-regulated environment in the power and gas industries. We expect Pampa's capital spending on natural gas projects and power capacity expansions to add significant growth to operations in 2019-20. Nevertheless, this could limit free cash flow growth in the period. Also, these factors are mitigated by the company's strategy to focus on power generation projects with positive pricing outlooks, where the company is an integrated electricity producer, as it procures natural gas from its own upstream operations. At the same time, the company has moderate exposure to foreign exchange risk.

Pampa plans to spend $700 million on its investment plans in 2019, including expanding its power generation capacity by 13% or 504 megawatts (MW) to 4,375 MW by 2020, mainly through 383 MW additional thermal capacity at Genelba in 2019-20 worth $350 million and 106 MW in two wind farms worth $137 million in 2019-20 (Pepe II inaugurated in March 2019). The company's 3,871 MW power generation capacity as of March 2019 (3,977 MW today) represented about 11% of Argentina's total. Around 75% natural gas from Pampa's upstream business is used to procure its own thermal power plants. Furthermore, the recent joint acquisition of Pampa and YPF S.A. of the Ensenada de Barragán Thermal Power Plant (CTEB) will further integrate Pampa's gas and electricity segments. During the next 30 months CTEB will be converted into a combined cycle with 847 MW capacity, up from 567 MW today, with higher efficiency, as CTEB will generate 50% more electricity with the same fuel consumption (natural gas).

Around 35% of Pampa's investments will support Exploration and Production operations. As of the first-quarter ended in March 2019, natural gas represented 89% of the company's oil and gas production at 7.0 million cubic meters per day (MMm3/d), while oil's was at 5.4 thousand barrels per day (Mbbl/d). Its main natural gas projects are El Mangrullo and Sierra Chata, operated by Pampa, and Rio Neuquén and Rincon Mangrullo, operated by YPF S.A., which together comprise 200,000 in net acreage in the Neuquina basin for Pampa. As of December 2018, the company had proved oil and gas reserves of 130 million barrels of oil equivalent (MMboe), equivalent to a reserve life of 7.9 years with a reserve replacement ratio of 131%.

Pampa's liquidity profile is good and will improve pro forma the new notes issuance, with no significant maturities until 2023. As of March 2019, Pampa's cash balance of $546 million was above $366 million in debt coming due in 2019-20 ($50 million in debt already redeemed since), mainly composed of bank debt. Around 89% of the company's costs and 75% of capital spending are denominated or linked to the US dollar and, pro forma for the proposed notes issuance, around 94% of the company's debt will be denominated in US dollars. However, close to 90% of Pampa's revenues are generated or linked to the US dollar, along with almost all of its cash holdings.

Since December 2017 Pampa has reduced its total reported debt by $1.3 billion, to $2.0 billion as of March 31, 2019, aided by its cash generation from operations but also by over $500 million in divestment of non-core assets. The company's debt burden will not be materially increased pro forma the notes' issuance and will lower as the company pays down debt maturities in the next 12-18 months. Accordingly, we estimate adjusted debt to EBITDA ratio will remain around 2.0x in fiscal year ending December 2019, up from 1.8x as of March 2019. Similarly, retained cash flow (cash from operations before working capital requirements but after dividends) to debt ratio was at 21% as of March 2019, and we expect it will remain around this levels in 2019-20. Moody's expects the company's adjusted EBITDA to interest expenses will remain above 3.0 times in 2019-20.

The stable outlook for Pampa's ratings reflects our expectation that the company will maintain stable cash generation based on solid electricity tariffs and adequate natural gas prices. We believe that Pampa's credit metrics relative to its debt burden and interest coverage will remain in line with its rating category within the next 12 to 18 months.

Pampa's ratings could be upgraded (1) if retained cash flow to total debt ratio is higher than 50%; (2) if EBITDA to interest expense ratio is above 5.0x on a sustained basis. If there is an upgrade on the government of Argentina's B2 rating this would not necessarily translate into an immediate upgrade of Pampa's ratings.

The ratings could be downgraded (1) if Pampa materially increases its leverage, with retained cash flow to total debt lower than 10%; (2) if its interest coverage as measured by EBITDA to interest expense ratio declines below 2.0x; (3) if there is a deterioration in the company's liquidity profile; (4) if the government of Argentina's B2 rating is downgraded.

Pampa is an energy company in Argentina, engaged in generation, distribution and transmission of electric power, as well as in oil and gas production, and petrochemicals and hydrocarbon commercialization and transportation. In the generation segment, the company has an installed capacity of 3,871 MW as of March 2019, and additional 504 MW under construction, which accounts for about 10% of Argentina's installed capacity. In the distribution segment, Pampa has a controlling interest in Edenor, the largest electricity distributor in Argentina, which has around three million customers and a concession area covering the northern and northwest part of Buenos Aires. In the O&G segment, Pampa is one of the leading oil and natural gas producers in Argentina, with operations in 11 production areas and seven exploratory areas. Its main natural gas production blocks are located in the provinces of Neuquen and Rio Negro. In the petrochemicals segment, Pampa owns three high-complexity plants producing a wide variety of petrochemical products, including styrenics and synthetic rubber. Finally, the company has a small participation through joint ventures in the electricity and gas transportation and distribution businesses

The principal methodology used in this rating was Independent Exploration and Production Industry published in May 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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