

Edenor

## 4Q23a: soft as expected; focus remain on regulation

Maintain Rating: BUY | PO: 30.00 USD | Price: 16.19 USD

### Mixed operational trends

Edenor (EDN) reported soft, but mostly expected 4Q23 results with adj. EBITDA at negative US\$36mn/AR\$29,181mn (vs negative US\$26mn/AR\$20,442mn BofAe). Weak results were mostly expected given pending tariff adjustment in 4Q23. Into operations, Edenor reported a 3.6% drop in volumes YoY (vs +2.0% vs BofAe) due to the soft economic activity and lower temperatures. However, soft volumes were partially offset by: 1) a 40bps QoQ decrease in energy losses, 2) lower manageable expenses (-3% vs BofAe) and, 3) bad debt provision reversal.

### Regulation improves, but final terms are still uncertain

In our view, the power distribution's regulation faced important improvements in the last 1M: 1) EDN received a 320% increase in its power distribution margin to compensate for pending inflation adjustment since 2020 and 2) the regulator agreed to adjust tariffs by inflation automatically on a monthly basis. However, despite positive developments, EDN shares are down 8% in the last 1M, underperforming LatAm and Argentina MSCI indexes (-1.7%). In our view, the underperformance is mostly driven by: 1) turbulent political scenario and 2) uncertainties on the final tariff review (Dec-24) related to the full ARS devaluation pass-through in the regulatory asset base and new regulatory returns. We stick to our constructive view about the Dec/2024 tariff review, which could provide a new valuation anchor and regulatory predictability for the next 5y cycle.

### We maintain our Buy rating with US\$30 PO

We see 4Q23's soft results as neutral for the stock as we think that focus should remain on expected 2024 full tariff review. In our view, Edenor's current valuation looks attractive as we estimate: 1) >50% upside in our base-case assuming the 2H24 Full Tariff Review and 2) limited downside assuming tariffs adjusted only by Argentine inflation. At current price, we see Edenor trading at 2.6x EV/EBITDA 25e (assuming the full tariff review in 4Q24), a 19% discount to 10y historical average and a 41% discount to 2015-18 average during Macri's government.

Estimates(Dec) (ArP)	2021A	2022A	2023E	2024E	2025E
EPS	(23.55)	(19.27)	(8.63)	(153.36)	603.46
EPS Change (YoY)	-20.6%	18.2%	55.2%	NM	NM
Consensus EPS (Bloomberg)			(8.60)	(153.40)	NA
DPS	0	0	0	0	0
Common EPS (ArP)	(1.18)	(0.96)	(0.43)	(7.67)	30.17
Common DPS (ArP)	0	0	0	0	0
<b>Valuation (Dec)</b>					
P/E	NM	NM	NM	NM	22.7x
EV / EBITDA*	NM	NM	106.6x	45.7x	7.4x
Free Cash Flow Yield*	0%	0%	-0.5%	-2.4%	2.0%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

11 March 2024

#### Equity

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#### Stock Data

Price (ADR / Common)	16.19 USD / 839.75 ARS
Price Objective	30.00 USD / 3,380.00 ARS
Date Established	7-Jan-2024 / 7-Jan-2024
Investment Opinion	C-1-9 / C-1-9
52-Week Range	6.52 USD - 21.80 USD
Market Value (mn)	14,676 USD
Free Float	0%
Average Daily Value	0.92 USD
Shares Outstanding (mn)	906.5 / 18,129.1
BofA Ticker / Exchange	EDN / NYS
BofA Ticker / Exchange	XEDTF / BUE
Bloomberg / Reuters	EDN US / EDN.N
ROE (2023E)	-4.3%
Net Dbt to Eqty (Dec-2022A)	10.4%

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**Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 11 March 2024 06:30AM EDT

# iQprofile<sup>SM</sup> Edenor

## iQmethod<sup>SM</sup> – Bus Performance\*

(ArP Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-3.0%	-13.0%	5.9%	9.9%	56.4%
Return on Equity	-31.3%	-17.5%	-4.3%	-81.9%	146.4%
Operating Margin	-3.9%	-15.2%	14.3%	5.1%	21.6%
Free Cash Flow	(3,048)	(6,001)	(65,007)	(293,748)	245,892

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(ArP Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	1.8x
Asset Replacement Ratio	0x	1.9x	1.8x	1.9x	1.7x
Tax Rate	NM	NM	127.2%	35.0%	35.0%
Net Debt-to-Equity Ratio	9.6%	10.4%	32.7%	371.3%	19.5%
Interest Cover	-0.2x	-0.4x	0.3x	0.3x	2.5x

## Income Statement Data (Dec)

(ArP Millions)	2021A	2022A	2023E	2024E	2025E
Sales	113,500	205,835	433,488	1,724,260	5,405,249
% Change	24.3%	81.4%	110.6%	297.8%	213.5%
Gross Profit	14,588	7,690	18,536	376,230	1,917,609
% Change	7.9%	-47.3%	141.0%	NM	409.7%
EBITDA	5,162	(12,023)	111,329	259,486	1,598,483
% Change	NM	NM	NM	133.1%	516.0%
Net Interest & Other Income	(1,311)	28,615	(33,062)	(302,089)	(325,783)
<b>Net Income (Adjusted)</b>	<b>(21,344)</b>	<b>(17,468)</b>	<b>(7,819)</b>	<b>(139,012)</b>	<b>547,013</b>
<b>% Change</b>	<b>-20.6%</b>	<b>18.2%</b>	<b>55.2%</b>	<b>NM</b>	<b>NM</b>

## Free Cash Flow Data (Dec)

(ArP Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(21,344)	(17,468)	(7,819)	(139,012)	547,013
Depreciation & Amortization	9,559	19,226	49,471	171,261	431,142
Change in Working Capital	54,887	140,057	278,341	(2,265)	(5,631)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(46,150)	(111,458)	(296,168)	0	0
Capital Expenditure	0	(36,358)	(88,832)	(323,731)	(726,632)
<b>Free Cash Flow</b>	<b>-3,048</b>	<b>-6,001</b>	<b>-65,007</b>	<b>-293,748</b>	<b>245,892</b>
<b>% Change</b>	<b>NM</b>	<b>-96.9%</b>	<b>-983.3%</b>	<b>-351.9%</b>	<b>NM</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	1,858	4,459	96,719	329,263	469,100

## Balance Sheet Data (Dec)

(ArP Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	3,172	1,630	33,342	68,857	783,849
Trade Receivables	17,563	27,991	76,832	76,832	76,832
Other Current Assets	21,268	53,839	44,735	44,735	44,735
Property, Plant & Equipment	195,374	395,940	845,724	998,195	1,293,685
Other Non-Current Assets	446	731	1,415	1,415	1,415
<b>Total Assets</b>	<b>237,823</b>	<b>480,131</b>	<b>1,002,048</b>	<b>1,190,034</b>	<b>2,200,517</b>
Short-Term Debt	10,262	184	0	0	0
Other Current Liabilities	87,254	198,567	190,284	188,019	182,388
Long-Term Debt	0	14,537	111,440	440,703	909,803
Other Non-Current Liabilities	66,613	141,177	461,168	461,168	461,168
<b>Total Liabilities</b>	<b>164,129</b>	<b>354,465</b>	<b>762,892</b>	<b>1,089,890</b>	<b>1,553,359</b>
<b>Total Equity</b>	<b>73,694</b>	<b>125,666</b>	<b>239,156</b>	<b>100,144</b>	<b>647,158</b>
<b>Total Equity &amp; Liabilities</b>	<b>237,823</b>	<b>480,131</b>	<b>1,002,048</b>	<b>1,190,034</b>	<b>2,200,517</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Electric Utilities

## Company Description

Empresa Distribuidora y Comercializadora Norte (Edenor) is the largest power distribution company in Argentina, serving >3mn clients in the northwestern zone of the greater Buenos Aires. Edenor operates under a highly regulated environment with regulation (e.g. tariffs) subject to the Argentine National Electricity Regulator (ENRE).

## Investment Rationale

The tariff review for 2024-28 cycle, solid demand growth (4.4% 2020-25 CAGR) and operational turnaround (-400bps energy losses 2020-24e) should contribute to increasing earnings, with an estimated EBITDA CAGR of 24% in 2024-26. Greater regulatory transparency and improvements in the macro should add confidence and support our Buy rating.

## Stock Data

Average Daily Volume	56,569
Shares / Common	0.05

## Quarterly Earnings Estimates

	2022	2023
Q1	-3.11A	-10.99A
Q2	-7.22A	-5.32A
Q3	-6.71A	83.89E
Q4	-2.23A	-76.21E

# Edenor 4Q23 results

## Exhibit 1: Edenor reported a AR\$29,181mn negative EBITDA in 4Q23 (vs negative AR\$20,442mn BofAe)

Edenor consolidated 4Q23 results (AR\$mn)

Consolidated (AR\$mn)			4Q23A/		4Q23A/
	4Q23A	4Q23E	4Q23E	4Q22A	4Q22A
Net Revenues	120,423	133,382	-10%	144,991	-17%
Cost of Sales	-75,848	-77,967	-3%	-111,699	-32%
Gross Profit	44,575	55,416	-20%	33,292	34%
Selling expenses	-74,180	-60,526	23%	-60,069	23%
Administrative expenses	0	-15,332	-100%	0	0%
Impairment	0	0	0%	0	0%
Other	424	0	0%	14,170	-97%
Opex	-73,756	-75,858	-3%	-45,899	61%
One-offs	0	0	0%	56,479	-100%
EBITDA	-29,181	-20,442	43%	43,872	-167%
EBITDA, adj.	-29,181	-20,442	43%	-12,607	131%
EBITDA Mg.	-24%	-15%		30%	
(-) D&A	-27,556	-19,093	44%	-14,900	85%
EBIT	-56,737	-39,535	44%	28,972	-296%
Financial Result	-88,149	-66,737	32%	-88,066	0%
RECPAM	123,627	0		85,540	
EBT	-21,259	-106,272	-80%	26,446	-180%
			0%		0%
Taxes	-11,465	37,195		-14,669	
Tax Rate (%)	54%	-35%		-55%	
Equity Income	0	0	0%	0	0%
Net Income	-32,724	-69,077	-53%	11,777	-378%

Source: BofA Global Research estimates, company report

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## Exhibit 2: Edenor reported a US\$36mn negative EBITDA in 4Q23 (vs negative US\$26mn BofAe)

Edenor consolidated 4Q23 results (US\$mn)

Consolidated (US\$mn)			4Q23A/		4Q23A/
	4Q23A	4Q23E	4Q23E	4Q22A	4Q22A
Net Revenues	151	167	-10%	515	-71%
Cost of Sales	-95	-97	-3%	-342	-72%
Gross Profit	56	69	-20%	173	-68%
Selling expenses	-93	-76	23%	-204	-55%
Administrative expenses	0	-19	-100%	-48	-100%
Impairment	0	0	0%	0	0%
Other	1	0	0%	23	-98%
Opex	-92	-95	-3%	-229	-60%
One-offs	0	0	0%	0	0%
EBITDA	-36	-26	43%	-56	-35%
EBITDA, adj.	-36	-26	43%	-56	-35%
EBITDA Mg.	-24%	-15%		-11%	
(-) D&A	-34	-24	44%	-27	28%
EBIT	-71	-49	44%	-83	-15%
Financial Result	-110	-83	32%	-252	-56%
RECPAM	155	0		265	
EBT	-27	-133	-80%	-70	-62%
			0%		0%
Taxes	-14	46		-44	
Tax Rate (%)	54%	-35%		62%	
Equity Income	0	0	0%	0	0%
Net Income	-41	-86	-53%	-114	-64%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Edenor (EDN / XEDTF)

Our PO of US\$30 / AR\$3380 for Edenor is based on a DCF model, discounting estimated free cash flow to equity at a 18% nominal cost of equity in USD. Our key assumptions are: 1) Full Tariff Review in mid-2024 considering: 10% regulatory WACC, 30% capex to RAB haircut, no regulatory opex haircut vs current levels, 2) 2% Volumes growth in 2023-24 and 1.5% from 2025 onwards, 3) -100bps energy loss until 2025, reaching 15% vs 10% regulatory levels, 4) new debt as 50% of capex, 5) Edenor investing 1x of regulatory depreciation. We assume a 2,280 ARS/USD in FY24.

Upside risks: 1) higher-than-expected regulatory returns (reg. WACC), 2) lower capex-to-RAB haircut vs 15% base-case, 3) lower regulatory opex haircut vs 10% base-case, 4) higher energy demand growth, 5) energy losses improvement above 15% BofA base-case (vs 10% regulatory levels), 6) Compensation for improper tariffs readjustments in 2019-22 period.

Downside risks: 1) worse than expected full tariff review results, 2) lower energy demand growth, 3) peso devaluation (100% revenues linked to ARS Pesos), 4) tariffs readjustment deferral with no compensation.

## Analyst Certification

We, Gustavo Faria and Arthur Pereira, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### Latin America - Utilities Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alupar	XDFCF	ALUP11 BZ	Arthur Pereira, CFA
	Ambipar	XAPEF	AMBP3 BZ	Arthur Pereira, CFA
	COPEL	ELP	ELP US	Arthur Pereira, CFA
	COPEL PN	XLPUF	CPLE6 BZ	Arthur Pereira, CFA
	Edenor	XEDTF	EDN AR	Gustavo Faria
	Edenor	EDN	EDN US	Gustavo Faria
	Eletrobras	CAIFF	ELET3 BZ	Arthur Pereira, CFA
	Eletrobras	EBR	EBR US	Arthur Pereira, CFA
	Eletrobras-Pref	EBRB	EBR/B US	Arthur Pereira, CFA
	Eletrobras-Pref	CAIGF	ELET6 BZ	Arthur Pereira, CFA
	Energisa S/A	XLXGF	ENGI11 BZ	Arthur Pereira, CFA
	Eneva	XZUMF	ENEV3 BZ	Arthur Pereira, CFA
	Equatorial	XKERF	EQTL3 BZ	Arthur Pereira, CFA
	Neoenergia	XGXGF	NEOE3 BZ	Arthur Pereira, CFA
	Pampa Energia	PPENF	PAMP AR	Gustavo Faria
	Pampa Energia	PAM	PAM US	Gustavo Faria
	SABESP	CSBJF	SBSP3 BZ	Arthur Pereira, CFA
	SABESP	SBS	SBS US	Arthur Pereira, CFA
	Serena Energia	XZQAF	SRNA3 BZ	Arthur Pereira, CFA
<b>NEUTRAL</b>				
	Auren Energia	XZMXF	AURE3 BZ	Arthur Pereira, CFA
	Cemig	CIG	CIG US	Arthur Pereira, CFA
	Cemig	CEMCF	CMIG4 BZ	Arthur Pereira, CFA
	Central Puerto	CEPU	CEPU US	Gustavo Faria
	Central Puerto	CEPUF	CEPU AR	Gustavo Faria
	COPASA	CSAOF	CSMG3 BZ	Arthur Pereira, CFA
	TAESA	XTAEF	TAE11 BZ	Arthur Pereira, CFA

## Latin America - Utilities Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	AES Brasil	XDFDF	AESB3 BZ	Arthur Pereira, CFA
	CPFL Energia	XPFGF	CPFE3 BZ	Arthur Pereira, CFA
	CTEEP	XOOTF	TRPL4 BZ	Arthur Pereira, CFA
	Engie Brasil	XZDDF	EGIE3 BZ	Arthur Pereira, CFA
	Sanepar	XJALF	SAPR11 BZ	Arthur Pereira, CFA

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales  
Basic EBIT + Depreciation + Amortization

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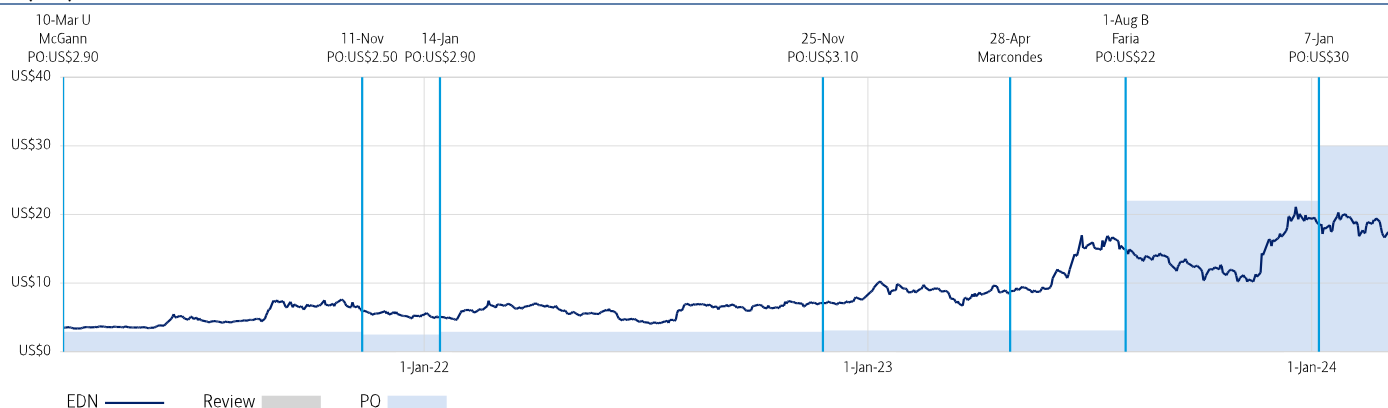
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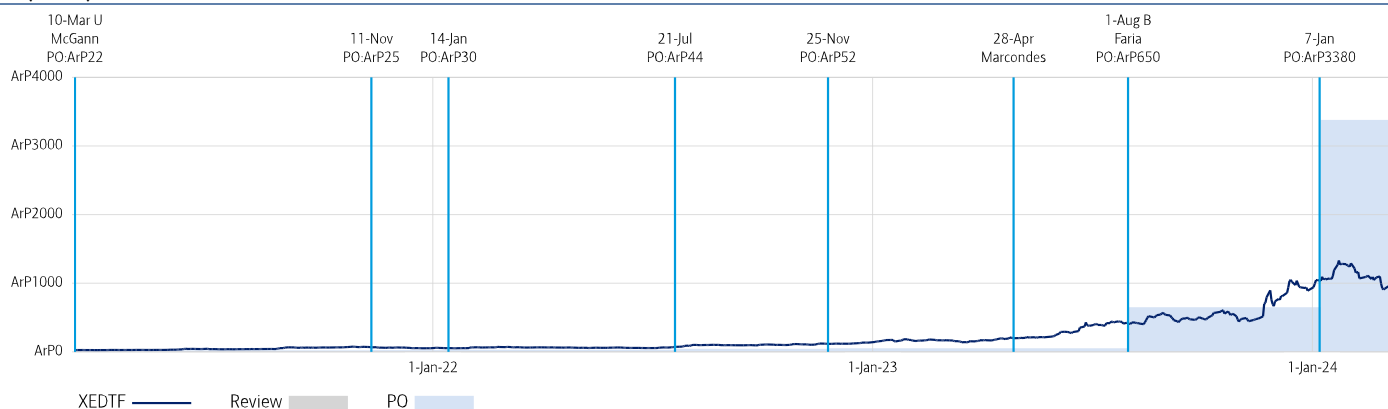
### Edenor (EDN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Edenor (XEDTF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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