

INTERNATIONAL BONDS									
Instrument	Currency	Coupon (%)	Maturity	Original amount (USD m)	Amount outstanding (USD m)	Price	Yield to worst (%)	Z-spread (bps)	Rating: M/S&P/F
2019 Sr. Unsecured	USD	11.5	15-Oct-2019	87	17				NR / B- / B
2023 Sr. Unsecured	USD	9.5	20-Jul-2023	300	300	82	14.57	1,161	NR / B- / B

Source: *Debtwire*, Thomson Reuters as of ... May 2018

**BONDS IN FREE FALL FOR A REASON**

**PPP ECONOMIC OFFERS LIKE GOING TO AN OUTLET: 20%/25%/40%-OFF, AND "BUY 1, GET 1 FREE"**

On 17 May, the Argentine government unveiled the economic offers for the six road corridors to be auctioned under the PPP program. Clisa not only did not present the cheapest offer in any of the five corridors it bid on, it was very far from winning. However, the offers are ridiculously low and it is very hard to imagine the projects will be built at the offer prices, regardless of the Director of Highway Infrastructure's remarks that the offered prices are final.

If our math is correct, the Helpport consortium will get corridors E and F, with offers of USD 1,010m and USD 722m, respectively, meaning a USD 1,732m total, when the government had indicated USD 3,198m. It's like when you go to the supermarket and see a label "buy 1, get 1 free," So thank you, Helpport consortium!

Then we have the case of the CCA Civil Panama (Chinese) consortium, which we think are going to get corridors B and C. The offer for corridor B makes sense, but corridor C has a ≈20% discount, so thanks for that! To complete the group of winners with a foreign presence, the Rovella consortium might get the SUR corridor, with an offer of USD 699m (total investment stipulated of USD 1,211m), for a ≈40% discount. Argentina truly appreciates your service.

Finally, we have Cartellone, the only Argentine consortium who might receive a corridor, probably winning corridor A, with an offer of USD 994m (total investment stipulated of USD 1,330m), for a ≈25% discount.

Overall, if this is not too good to be true, what the government of Argentina thought would cost USD 8,058m will cost USD 5,486m, for an overall savings of 32%. If this is not transparency and confidence, we don't know what is.

**FIGURE 1: ARGENTINA ROAD CORRIDOR ECONOMIC OFFERS**

**Apertura de Ofertas - Etapa I**

	A	B	C	E	F	SUR
Inversión Obras Principales [MMUSD]	984	989	631	1342	1114	975
Inversión Obras Complementarias [MMUSD]	346	244	455	370	372	236
<b>Inversión Total [MMUSD]</b>	<b>1330</b>	<b>1233</b>	<b>1086</b>	<b>1712</b>	<b>1486</b>	<b>1211</b>
<b>Ofertas<sup>1</sup>:</b>						
Helpport S.A. – Pandile SAICFe – SA Obras Y Servicios COPASA (España) ELEPRINT S.A.	1100	1603	799	1010	722	807
CI GRODCO Ingenieros Civiles SAS (Colombia) – CRZ Construcciones S.A. - Grupo Alberdi S.A.	1474	-	-	-	-	-
Rovella Carranza S.A. - JCR S.A. – MOTA-ENGIL Latin America B.V. (Portugal)	-	827	701	-	-	699
CCA Civil Panama S.A. (China) Green S.A.	1451	1175	886	-	1509	-
Jose Cartellone Construcciones Civiles S.A.	994	-	801	-	1684	-
Paolini Hnos. S.A. – Vial Agro S.A. – INCSpA (Italia)	1002	-	-	-	-	-
<b>Benito Roggio e Hijos S.A. – José J. Chediack S.A.I.C.A.</b>	<b>1740</b>	<b>1739</b>	<b>1641</b>	<b>-</b>	<b>2624</b>	<b>1652</b>
SACDE Sociedad Argentina de Construcción y Desarrollo Estratégico S.A. – ODS S.A. – Groundwork Development LLC (EEUU)	-	-	-	1573	1623	-
MSU Infraestructura S.A. – UCSA S.A. – Inversiones PPP S.A.U.	1799	1648	2141	-	-	1946
TECHINT Compañía Internacional SACI – ACCIONA Concesiones S.L. (España)	1576	1373	1292	-	-	-

NOTAS – (1) Valor Actual

Source: *Debtwire*, company filings.   Clisa,   Awarded projects, in our view

**LATIN AMERICA CREDIT RESEARCH**

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**RECENT DEBTWIRE COVERAGE**

- [Argentina postpones unveiling of road PPP bids to 17 May, as market turbulence casts doubts on potential funding costs \(10-May-2018\)](#)
- [Clisa 'B-' placed on watch negative - S&P \(10-May-2018\)](#)
- [Argentina receives 32 offers from 10 consortia in first auction under PPP program \(24-Apr-2018\)](#)
- [RESEARCH: Clisa 4Q17 - FX, Paraguay and inflation adjustment \(28-Mar-2018\)](#)

## HIGHLIGHTS FOR 1Q18

This quarter the catalysts for Clisa were the construction and waste management business. We have mentioned previously that the only segment that could really drive a boost for Clisa was this one.

During 1Q18, revenues for the construction business were ARS 2bn, up 18.1% (ARS 311m) quarter-over-quarter and 69.8% (ARS 834m) year-over-year. The QoQ dynamic was primarily driven by the fact that with the acquisition of an additional 60% stake in its Paraguayan subsidiary, Clisa now owns 80% and consolidates its revenues. Revenues for this subsidiary in this quarter were ARS 194m. The YoY dynamic was primarily driven by an increase in revenues from the Argentinian subsidiary, which recorded revenues of ARS 1.5bn in 1Q18, up ARS 651m from ARS 814m in 1Q17. Even though the backlog increased to ARS 13.7bn (USD 679m), the increased rate of consumption reduced Clisa's inventory to one year and nine months (See Table 1 and Figure 2) EBITDA, in ARS, reached a record high of ARS 248m (USD 13m), up 12.4% QoQ and 76.4% YoY.

Clisa presented the cheapest offer to dredge the Rio Salado river in the Province of Buenos Aires. However, the province has not yet awarded the project to Clisa, and hopefully it will not be cancelled in the wave to stop new infrastructure projects to improve the country's consolidated fiscal deficit. It would add ARS 2.1bn in backlog.

Revenues for the waste management division were ARS 2bn, flat QoQ. The drivers remain the inflation adjustments and the contract signed by mid-2017 to clean and eradicate the dump site in the Matanza-Riachuelo basin.

Argentina will never let you down in terms of entertainment. President Macri has increased the tariff for water supply, electricity and gas by 5x-10x in the last two years, but still faces difficulties to increase the tariff of subway transportation in the Buenos Aires metropolitan area. There was an increase in the minimum stipulated fare, to ARS 11 (USD 0.45) by May and to ARS 12.50 (USD 0.52) in June, but a judge from the City of Buenos Aires, Guillermo Scheibler, accepted a stay requested by some congressmen of the opposition and suspended the increase. Today, the cost of the minimum fare is ARS 7.50 (USD 0.31). Although Clisa's EBITDA will be mostly unaffected regardless of the price consumers pay, in 2Q17 the government was subsidizing 59% of the cost to operate the subway, and now in 1Q18 it has risen to 71% (See Figure 3). The ground rules are very clear for the bid for the operation of the concession starting next year, but it is hard to imagine many international companies are interested in operating such a politicized concession.

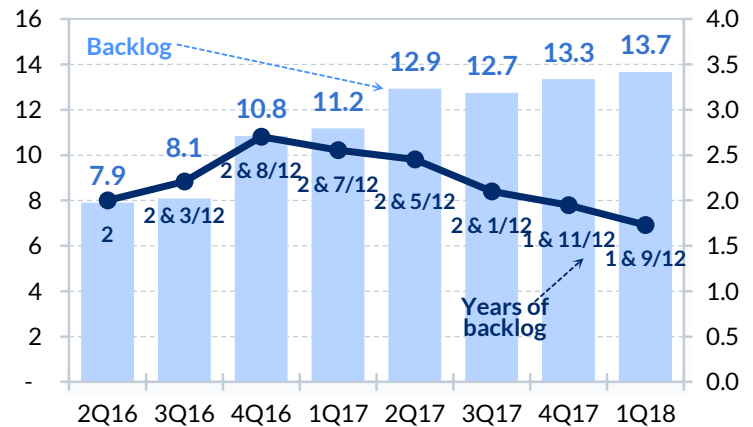
Clisa's water supply division in Cordoba is small, but not that small. It has been a very nice improvement since the cadastral survey of end-2016. Revenues and EBITDA were ARS 394m and ARS 100m, respectively. All were record numbers for this division. During 1Q18, this division was responsible for 12% of Clisa's EBITDA, the highest ever (previous high 9%).

TABLE 1: BACKLOG BY COUNTRY (ARS bn)

	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
Argentina	6.0	6.4	9.1	9.7	11.6	11.4	10.9	10.3
Chile	0.9	0.9	0.9	0.9	0.9	0.8	1.2	1.1
Paraguay	0.2	0.1	0.2	0.2	0.2	0.2	1.0	1.7
Peru + Panama + Brazil	0.8	0.6	0.6	0.4	0.3	0.3	0.3	0.5
<b>Total</b>	<b>7.9</b>	<b>8.1</b>	<b>10.8</b>	<b>11.2</b>	<b>12.9</b>	<b>12.7</b>	<b>13.3</b>	<b>13.6</b>

Source: Debtwire, company filings.

FIGURE 2: BACKLOG (ARS bn), YEARS OF BACKLOG BASED ON LTM CONSUMPTION

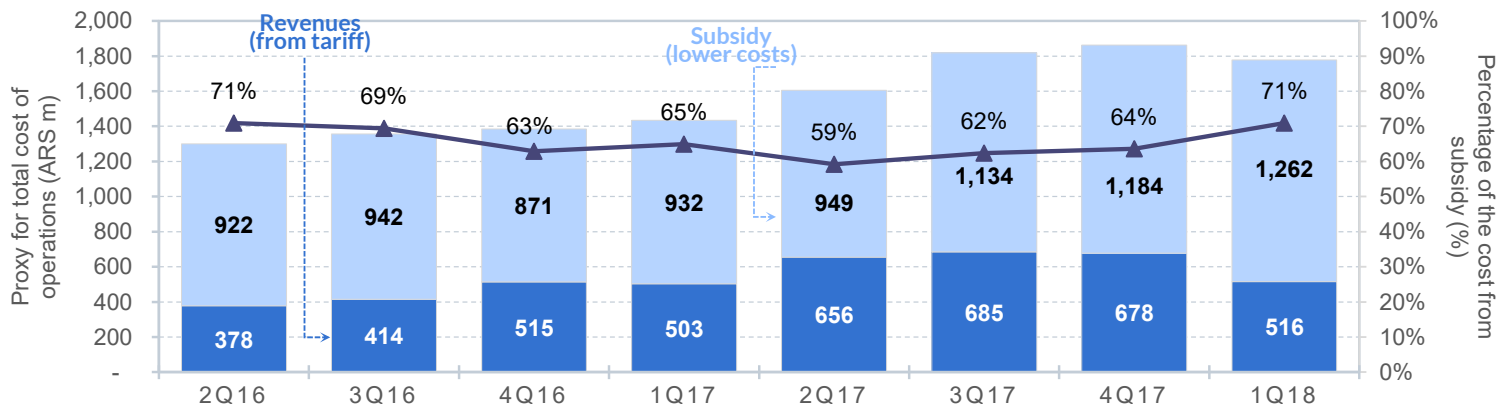


Source: Debtwire, company filings.

EBITDA overall was ARS 813m (USD 41m), up 21.1% QoQ from ARS 671m (USD 38m) and up 44.5% from ARS 563m (USD 36m) YoY (See Figure 4). EBITDA margin was 16%, driven by the improvement in the water supply division to 25%.

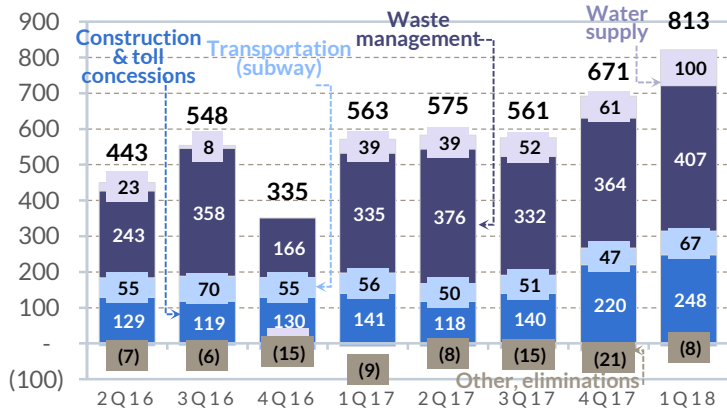
Thanks to the ARS 619m incremental delay in payment to suppliers, Clisa was able to record ARS 277m free cash flow, an improvement from ARS -135m in 4Q17 and ARS -450m in 1Q17. The combination of the depreciation of the ARS and the fact that the company pays coupons on its 2021s on 1Q and 3Q, drove interest expenses to ARS 512m, a 37.9% increase from 3Q17 (See Table 2).

**FIGURE 3: REVENUES, SUBSIDY (ARS m) AND PERCENTAGE OF COSTS COVERED BY SUBSIDY**



Source: Debtwire, company filings.

**FIGURE 4: EBITDA BY BUSINESS (ARS m)**



Source: Debtwire, company filings.

**INDEBTEDNESS: WEAKER ARS AND HIGHER INTEREST RATES IS NOT A GOOD COMBINATION**

Clisa's 2019 and 2023 bonds accounted for 74% of its indebtedness as of 1Q18 (ARS 6.4bn or USD 317m). This was with an FX of ARS/USD ≈20. Now the FX is close to ARS25 per USD, which would imply gross debt to increase 17.5% to ARS 10.2bn from ARS 8.7bn (USD 432m) in 1Q18. Given that almost the entire cash position is denominated in ARS, the ratio of net debt/LTM EBITDA would increase to 3.3x from 2.8x as of the end of 1Q18 and the ratio, without considering the factoring operation, to 2.9x from 2.3x (See Figure 5). The 2023s have a net leverage ratio incurrence covenants of 3.5x.

With the recent turmoil, local interest rates for factoring operations were as high as 60%, compared to 30% before. Clisa's recent high was 36%.

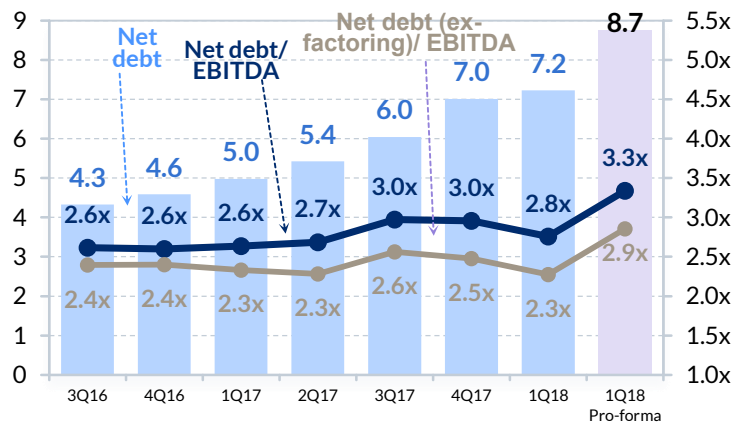
As a structural weakness, we continue to highlight the FX mismatch between currency denomination of its debt and the one for its operations that impact mostly the short-term. During

**TABLE 2: FREE CASH FLOW (ARS m)**

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
EBITDA	439	443	548	335	563	575	561	671
(Cash) CAPEX	(72)	(84)	(58)	(73)	(216)	(289)	(222)	(121)
Δ Working capital	438	205	(258)	172	(478)	128	(319)	(341)
Interests paid	(240)	(317)	(310)	(229)	(284)	(149)	(372)	(312)
Taxes paid	(16)	(40)	(27)	(87)	(35)	(32)	(58)	(33)
<b>Free cash flow</b>	<b>549</b>	<b>208</b>	<b>(105)</b>	<b>118</b>	<b>(450)</b>	<b>232</b>	<b>(411)</b>	<b>(135)</b>

Source: Debtwire, company filings.

**FIGURE 5: NET DEBT (ARS bn), NET LEVERAGE, NET LEVERAGE EXCLUDING FACTORING**



Source: Debtwire, company filings.

1Q18, the FX result was ARS -475m and the net loss for the company was ARS 415m (See Figure 6). However, as the company continues to revalue its assets (up ARS 637m during 1Q18), the company's shareholders' equity is not suffering that much (See Figure 7).

**LEGAL PROCEEDINGS: CAN CLISA'S OWNER GO TO JAIL? WE DON'T THINK SO**

An investigation that started with Aysa (Agua y Saneamientos SA), a state owned enterprise, ended up splashing several top tier individuals of Argentina's main construction companies. The issue was a project initially projected to cost ARS 1.2bn, but ended up costing ARS 6.6bn. Clisa, through its subsidiary Benuto Roggio e Hijos SA ("BRH"), had a 16.6% participation in the consortium. In the meantime, domestic inflation and the FX rate has moved dramatically, and the contract has clauses to trigger price adjustments.

The investigation consists of three main points: (a) the irregularities arising from the difference between the price offered and the price finally paid (the latter includes several additional projects that the board of Aysa awarded discretionally, within their capacity), (b) collusion between bidders, and (c) payment of bribes. A Federal judge ruled against 19 people. Three of them include the president of BRH as well as two engineers that signed the offer, and ordered the seizure of ARS 574m the president's and BRH assets. This seizure is not in effect at this time.

So far, Clisa has taken several steps. It is appealing the decision, but also is working on alternatives like putting up an asset as guarantee (so the order will not result in the freezing of bank accounts and impact the company's operations) or getting surety insurance.

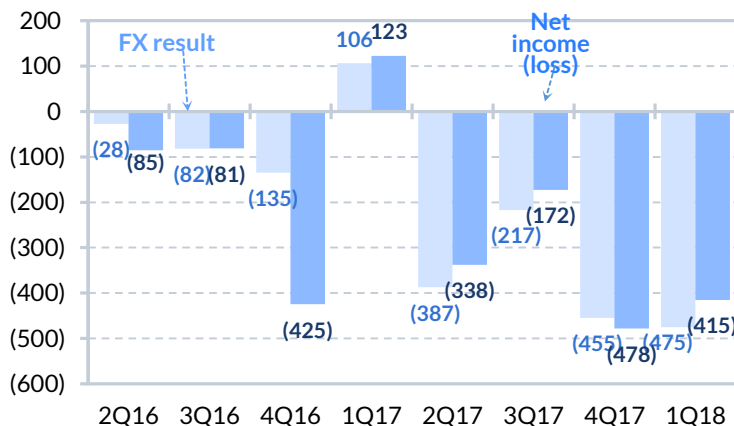
**WIDER LIKE EVERY ARGIE CORPORATE, BUT FAR WORSE**

Every other corporate bond in Argentina has widened more than 100bps since 7 May when President Macri announced an agreement to receive help from the IMF. However, there was a double (or triple) whammy for Clisa, as the FX went from ARS ≈20.20 per USD on 25 April to ARS 25 today. Furthermore, local interest rates continue to increase and Clisa has ≈15% of its funding through factoring.

The Z-spread on Clisa's 2023 bond doubled to 1,161bps from 598bps on 4 May (last trading day before the IMF announcement) (See Figure 8). The spread to sovereign (Argentina 2024) increased by almost the same amount, 540bps, to 853bps (See Figure 9).

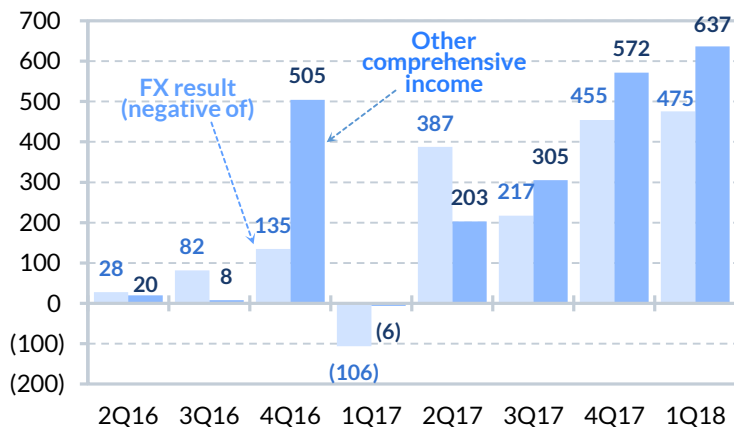
We have been highlighting that among all the Argentinian issuers, Clisa is the most vulnerable company to FX movements as it derives almost its entire revenues in ARS and, especially in the short-term, is not linked to the USD (in the medium term maybe). In the case of its transportation division, for example, EBITDA will not even increase in line with inflation, as Clisa receives a fee for operating the service.

**FIGURE 6: FX AND NET INCOME RESULT (ARS m)**



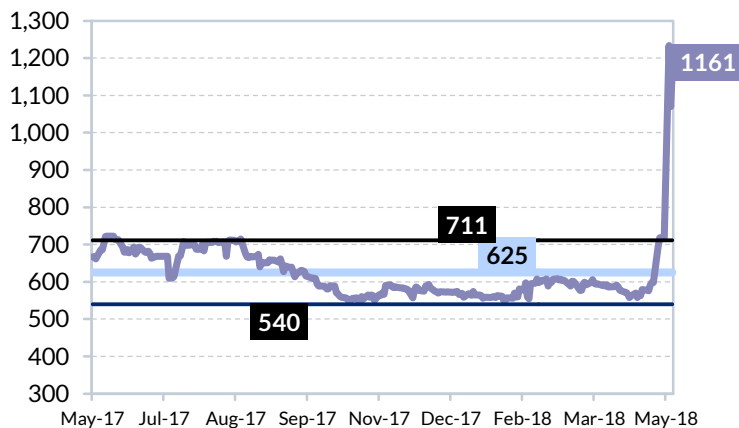
Source: Debtwire, company filings.

**FIGURE 7: FX RESULT AND REVALUATION OF ASSETS (ARS m)**



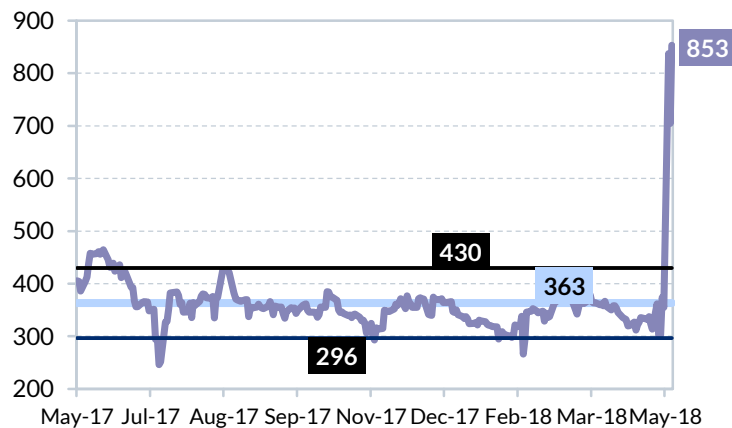
Source: Debtwire, company filings.

**FIGURE 8: 2023s Z-SPREAD (bps)**



Source: Debtwire, Thomson Reuters

**FIGURE 9: SPREAD TO SOVEREIGN (ARGENTINA 2024) (bps)**



Source: Debtwire, Thomson Reuters

**TABLE 3: INDEBTEDNESS COMPOSITION AS OF 1Q18**

	Currency	Interest rate (%)	Maturity	Amount (USD m)
2019 bonds	USD	11.5%	2019	17
2023 bonds	USD	9.5%	2023	300
Leasing			2021	9
Overdraft	ARS		2018	4
Factoring	ARS		2020	63
Other			2022	41
<b>Total</b>				<b>432</b>

Source: Debtwire, company filings.

FINANCIAL SUMMARY (ARS m)													
	FY 2015	FY 2016	FY 2017	Δ % (2016 – 2017)	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	Δ % (4Q16 – 4Q17)
Net revenues	8,568	11,090	16,756	51.1%	2,184	2,494	3,024	3,388	3,378	3,931	4,668	4,779	41.0%
Production and operating costs	(5,817)	(7,156)	(11,272)	57.5%	(1,370)	(1,601)	(1,928)	(2,258)	(2,211)	(2,625)	(3,225)	(3,211)	42.2%
Administrative expenses	(1,120)	(1,588)	(2,203)	38.8%	(320)	(366)	(401)	(500)	(438)	(518)	(589)	(658)	31.6%
Selling expenses and other operating expenses	(684)	(878)	(1,466)	67.0%	(150)	(185)	(242)	(301)	(291)	(350)	(429)	(396)	31.5%
Other operating income (expense)	4	(70)	42		11	11	3	(95)	10	12	7	14	
Net financial result	(1,772)	(2,224)	(1,409)	(36.7%)	(573)	(468)	(543)	(640)	(254)	(720)	(564)	(823)	28.6%
Result in subsidiaries	(16)	24	27	14.6%	6	8	28	(18)	(6)	23	12	(1)	(91.8%)
Taxes	125	26	(384)		25	22	(21)	(0)	(63)	(90)	(51)	(180)	
<b>Net income</b>	<b>(716)</b>	<b>(780)</b>	<b>(865)</b>	<b>11.0%</b>	<b>(188)</b>	<b>(85)</b>	<b>(81)</b>	<b>(425)</b>	<b>126</b>	<b>(338)</b>	<b>(172)</b>	<b>(478)</b>	<b>12.5%</b>
<b>Total assets</b>	<b>11,625</b>	<b>13,503</b>	<b>18,661</b>	<b>38.2%</b>	<b>12,283</b>	<b>11,502</b>	<b>12,525</b>	<b>13,503</b>	<b>14,149</b>	<b>15,579</b>	<b>16,734</b>	<b>18,661</b>	
Current assets	6,518	7,997	11,106	38.9%	7,030	6,641	7,475	7,997	8,396	9,272	9,887	11,106	
<i>Cash and investments (cash eq.)</i>	532	930	1,178	26.8%	585	520	1,078	930	930	1,051	868	1,178	
<i>Trade receivables</i>	4,033	3,935	6,303	60.1%	4,098	3,798	4,017	3,935	4,204	4,788	5,244	6,303	
<i>Inventories</i>	350	443	686	54.9%	394	411	432	443	512	600	628	686	
<i>Other receivables</i>	1,355	2,328	2,578	10.8%	1,679	1,628	1,649	2,328	2,366	2,449	2,770	2,578	
Non-current assets	5,107	5,506	7,555	37.2%	5,253	4,860	5,050	5,506	5,753	6,307	6,847	7,555	
<i>Other receivables</i>	1,344	428	535	24.9%	1,216	732	914	428	510	559	527	535	
<i>Intangible assets</i>	350	472	642	36.1%	362	390	527	472	493	537	500	642	
<i>PP&amp;E</i>	2,692	3,706	5,582	50.6%	2,861	2,889	2,863	3,706	3,815	4,245	4,762	5,582	
<b>Total liabilities</b>	<b>10,830</b>	<b>12,959</b>	<b>17,987</b>	<b>38.8%</b>	<b>11,622</b>	<b>10,930</b>	<b>12,031</b>	<b>12,959</b>	<b>13,493</b>	<b>15,108</b>	<b>16,134</b>	<b>17,987</b>	
Current liabilities	5,766	6,309	9,238	46.4%	6,406	6,557	6,067	6,309	5,789	7,196	7,848	9,238	
<i>Trade payables</i>	1,482	1,866	2,796	49.8%	1,702	1,661	1,824	1,866	1,896	2,362	2,627	2,796	
<i>Other liabilities</i>	2,001	2,860	3,977	39.1%	2,379	2,657	2,535	2,860	2,864	3,400	3,621	3,977	
<i>Bank and financial debt</i>	2,259	1,545	2,410	55.9%	2,294	2,205	1,670	1,545	988	1,388	1,549	2,410	
Non-current liabilities	5,064	6,650	8,749	31.6%	5,215	4,373	5,964	6,650	7,703	7,912	8,286	8,749	
<i>Other liabilities</i>	2,187	1,746	1,825	4.5%	2,311	1,573	1,576	1,746	1,847	1,808	1,757	1,825	
<i>Bank and financial debt</i>	2,206	3,970	5,773	45.4%	2,241	2,162	3,736	3,970	4,922	5,087	5,363	5,773	
<b>Shareholders' equity</b>	<b>795</b>	<b>544</b>	<b>674</b>	<b>23.9%</b>	<b>661</b>	<b>571</b>	<b>494</b>	<b>544</b>	<b>656</b>	<b>471</b>	<b>600</b>	<b>674</b>	
EBITDA	1,183	1,765	2,369	34.2%	439	443	548	335	563	575	561	671	100.4%
Total debt	6,720	7,228	9,730	34.6%	6,771	6,830	7,122	7,228	6,794	7,590	8,245	9,730	
Net debt	3,932	4,585	7,004	52.7%	3,950	3,848	4,328	4,585	4,980	5,424	6,044	7,004	
Net debt/LTM EBITDA	3.3x	2.6x	2.5x		3.1x	2.7x	2.6x	2.6x	2.6x	2.7x	3.0x	3.0x	
Free cash flow	(806)	770	(764)		549	208	(105)	118	(450)	232	(411)	(135)	

Source: Debtwire, company filings

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