Paula A. La Greca
Corporate Research Analyst
+54 11 4898 6638
plagreca@tpcgco.com

Corporates – Argentina

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A positive outcome for YPF on Burford case

On March 31st, 2023, Loretta A. Preska denied in entirety Plaintiffs'* motion for summary judgment for damages against YPF. However, she decided that Argentina was liable to the Plaintiffs for failing to make a tender offer for their YPF shares in 2012, which would have provided them with a compensated exit. The cost of the damage was not determined because there are still doubts about when the notice date was. The Plaintiffs argue that the Republic of Argentina did not provide notice and acquired the shares via expropriation. For this reason, the Plaintiffs chose February 13, 2012, as a counterfactual notice date. While the Republic of Argentina states that it was on April 16, 2012, when the Argentine executive branch submitted a bill to the national Congress to begin the process of expropriating YPF. From our perspective, the trial will continue advancing slowly. This is reinforced by the fact that the case was initiated 8 years ago, in 2015.

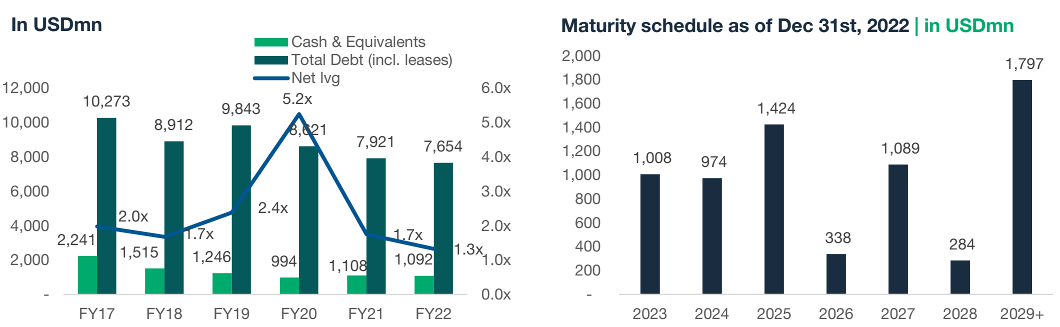
Said this, the sentence was a relief for YPF, with now only pending the Maxus case. The company is looking for reaching a settlement for USD130mn. If that were the case, we believe it is not a significant amount for YPF, considering that it could tap the local market. On January 10th, 2023, YPF issued a USD230mn USD-linked local bond at a 1% coupon rate maturing in January 2026. We believe the company has room to continue increasing its total debt.

First, YPF maturities are manageable. In 2023, YPF has to pay less than USD215mn on principal payments each quarter, except for 2Q23 in which it will have to cancel the second amortization of USD260mn of the 2024s bond. In 2024, maturities are 3% lower than in 2023, mainly on lower local bond payments. The company could increase its 2026 and 2028 debt.

Second, the company has succeeded in reducing the net leverage ratio to 1.2x (1.3x incl. leases), the lowest level since 2015. It was despite rising inflation and FX capital controls. Vaca Muerta hydrocarbon production was key with its low-cost base. The Upstream business Adj. EBITDA grew by +16% yoy to USD3.1Bn, accounting for almost 60% of YPF's Adj. EBITDA. Until now, the company has been financing the development of Vaca Muerta with internal cash generation and local bonds. However, the company will need financing for its midstream projects to boost crude oil production in 2024. In our view, by 2025, YPF should be generating enough cash to cancel its 2 maturing bonds, although we do not rule out that it will propose an exchange offer.

For a deeper analysis of YPF FY22 results, please do not miss reading: *FY23E will not be as great as FY22.*

Figure 1: YPF's total debt (incl. leases) was USD7.7Bn in FY22.



Source: TPCG Research based on the companies' reports

*PETERSEN ENERGÍA INVERSORA S.A.U. and PETERSEN ENERGÍA S.A.U., ETON PARK CAPITAL MANAGEMENT L.P., ETON PARK MASTER FUND, LTD., and ETON PARK FUND, L.P.

TPCG Analysts & Staff

Research			
Juan Manuel Pazos	**Chief Economist**	**jmpazos@tpcgco.com**	**+54 11 4898-6606**
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Federico Martin	Strategist	famartin@tpcgco.com	+54 11 4898-6633
Santiago Resico	LATAM Strategist	sresico@tpcgco.com	+54 11 4898-6615
Sales & Trading			
Juan Manuel Truppia	**Head of Sales & Trading**	**jmtruppia@tpcgco.com**	**+54 11 4898-6659**
Juan Martin Longhi	S&T Director	jlonghi@tpcgco.com	+54 11 4898-6656
Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruizdecastroviejo@tpcgco.com	+54 11 4898-6643
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635
Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693
Corporate Banking			
José Ramos	**Head of Corporate Banking**	**jramos@tpcgco.com**	**+54 11 4898-6645**
Camila Martinez	Corporate Sales	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641
Capital Markets			
Fernando Lanus	**Head of Capital Markets**	**flanus@tpcgco.com**	**+54 11 4898-6632**
Nicolás Alperín	Investment Banking Analyst	nalperin@tpcgco.com	+54 11 4898-6604
Asset Management			
Ileana Aiello	**Portfolio Manager**	**iaiello@tpcgco.com**	**+54 11 4898-6611**
Claudio Achaerandio	**Portfolio Manager**	**cachaerandio@tpcgco.com**	**+54 11 4898-6618**

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