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Corporates – Argentina

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FY23E will not be as great as FY22

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YPF	Overweight
Price target	28.70
Price (15-Mar-23)	9.04
Potential Upside	218%

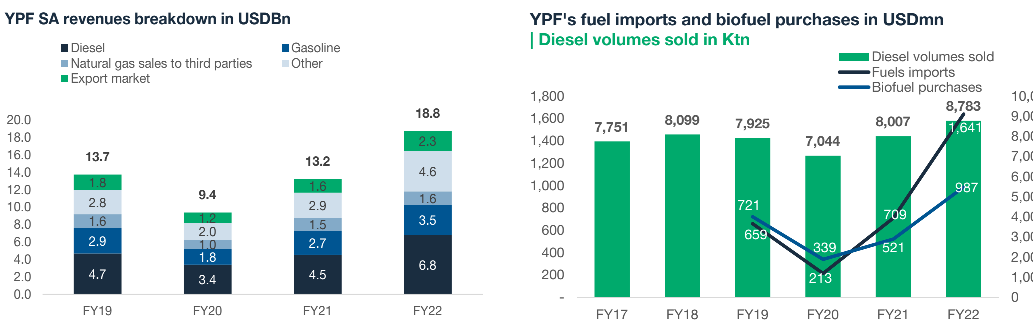
YPF ADRs | Price (USD)

We reiterate our buying recommendation of YPF ADR and YPFDAR 25s Old, 2026s Secured, 2029s New, and 2033s. In FY22, the company showed the strongest results in at least the past 6 years with revenues and EBITDA jumping by +37% and +40% yoy to USD18.8Bn and USD5.4Bn, respectively, positive FCF of USD1.2Bn and low net leverage of 1.2x. The 2Q and 3Q were the strongest quarters on the back of higher diesel and natural gas sales in the domestic market and grain and flour exports. The high price international environment was one of the main drivers. We expect their decline to be one of the factors that will make FY23 not as great as last year. Even so, we believe maturities are manageable in 2023. As we stated in our report: *O&G sector: Argentina's new engine,* YPF will be poised to ramp up crude oil exports significantly in 2H24-2025.

Within the domestic market, gasoline volumes sold increased sequentially in all quarters, partly due to prices lagging behind inflation. We expect the same dynamics for this year. We believe the company does not have room to stop adjusting prices monthly as it did in 2021 in the face of the legislative elections considering the investment projects and production growth targets. With the refinery utilization capacity reaching 89% in 4Q22 and gasoline prices declining in USD terms, we expect volumes sold to increase by 5% yoy in FY23, surpassing FY22 record high of 5,680Km3 (+14% yoy). Said this, we expect gasoline sales flat or slightly down in FY23, with the increase in volumes sold compensating in part the drop in prices in USD terms.

Regarding diesel, we expect a weakening in sales in 2023 on the back of the drought that is affecting the agribusiness sector and the lower demand from the power generation sector. In FY22, diesel sales peaked at USD6,780mn, up +49% yoy. The main drivers were the increase in prices by +37% yoy and in volumes dispatched by +10% yoy. The increase in LNG prices was the main driver of the increase in diesel volumes sold, as it was cheaper for Cammesa to provide thermal power plants with liquid fuels than with imported natural gas. With LNG prices coming down to 2021 levels, the fuel mix provided to thermal energy generators should shift again towards natural gas, even more, if we consider the construction of the Nestor Kirchner pipeline. On the positive side, YPF will import less diesel, which price was +USD207/m3 above the local, and thus, margins from this segment should improve. In FY22, YPF imported 1,251Km3 of diesel at an average price of USD971/m3, which meant an increase of +131% yoy in diesel purchases to USD1,641mn, while it sold 8,783Km3 in the local market at an average price of USD732/m3.

Figure 1: YPF's revenues reached a record high of USD18.8Bn



Source: TPCG Research based on the companies' reports

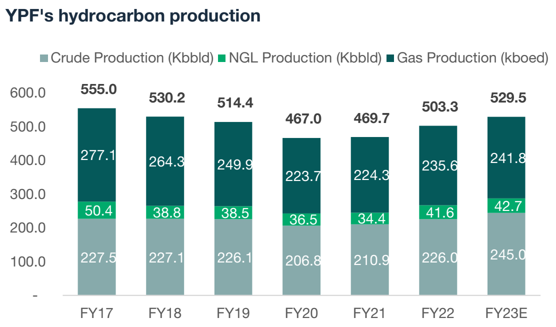
Other revenues from the domestic market, which includes sales of jet fuel, kerosene, fuel oil, LPG and other petrochemical products, showed a strong performance, increasing +57% yoy to USD4.6Bn, surpassing gasoline sales, mainly due to the increase in international prices. In terms of volumes sold, jet fuel and kerosene showed the highest growth, increasing by +76% yoy to 519Km3, still below pre-pandemic levels. We believe that jet fuel has room to continue growing, as Aeropuertos Argentina 2000 reported that passenger traffic, although increasing +154% yoy in FY22, remains 22% below FY19.

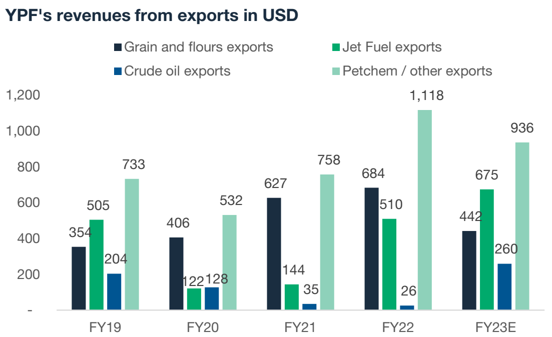
Natural gas sales to third parties grew by +5% yoy to USD1.6Bn, with the average domestic natural gas slightly above FY21. In FY23, volumes sold should increase at a low single digit, with 3Q23 reaching a peak, while the rest of the quarters remain flat yoy. It is because of the completion of the first stage of the Nestor Kirchner pipeline materializing by the end of June. Therefore, natural gas sales would increase in the last two months of the winter, July and August.

Due to the limitation of natural gas transportation capacity, management guided natural gas production growing by only 3% yoy to ~38.5Mm3d in FY23E from 37.5Mm3d in FY22 and 35.6Mm3d in FY21. In contrast, oil production growth target is +8% yoy to ~245kbbld in FY23E up from 226kbbld in FY22 and 210.9kbbld in FY21. The increase in production will be mainly destined to the export market. In FY22, the company's sales from crude oil exports were only USD26mn in FY22. With the trans-Andean oil pipeline, crude oil exports should jump to between USD200-300mn in FY23, considering an average export price of USD74. In this sense, YPF's exports of crude oil will become more relevant for revenues, as midstream projects finish.

In FY22, exports of jet fuel showed the highest increase. It was up to USD510mn from USD144mn in FY21, with volumes sold more than doubling and prices increasing by +75% yoy. While we see an improvement in jet fuel and crude oil export sales, we expect revenues from grain, flour and oils exports to drop with Argentina facing the worst drought in the last 60 years. Grain, flour and oils exports has been a key revenue contributor since 2020, accounting for 29% of exports in FY22. For FY23, we expect revenues from this segment to decrease by 35% yoy to ~USD442mn.

Figure 2: Jet fuel and crude oil exports will help to offset the decline in grain and flours sales due to the drought





Source: TPCG Research estimates based on the companies' reports

YPF's exports are key for the YPFDAR 26s collection account. Although we expect exports to be slightly down yoy in FY23, we believe there will be more than enough to cover coupon and amortizations. On May 12th, YPF will have to pay a total of USD75.8mn, comprised of USD59.7mn of amortizations and USD16.1mn of interests. With only jet fuel exports it would be more than covered. In 2Q22, they were USD122mn. On April 4th, YPF will have to pay the second amortization of the YPFDAR 2024s of USD259.7mn. Thanks to obtaining a loan with the CAF last year, the company complied with the Central Bank regulation to have access to the MULC. Because of these 2 bonds, 2Q23 is YPF's most critical quarter in terms of international bonds' coupon and amortization payments, then in 2H23, maturities drop significantly, coming down from USD318mn in 2Q23 to USD99mn in 3Q23 and USD56mn in 4Q23. However, due to a seasonality factor that makes 2Q one of the strongest quarters in terms of exports, we do not see YPF being tight to pay its debt.

As of December 31st, 2022, YPF cash was USD773mn (-7% qoq) and investments in financials assets were USD319mn (-36% qoq), totaling USD1,092mn. Cash + investments in financial assets covered short term debt (including leases) by 76%, down from 118% in 3Q22. The decrease in liquidity was mainly due to the increase in Capex by +23% qoq in 4Q22 to USD1,314mn and the payment of taxes. Even so, YPF's net leverage was flat qoq at 1.2x in FY22. In FY23E, we expect the company to easily reach a net leverage of 1.5x, considering that it will become FCF negative on the back of an estimated Capex of USD5.5Bn and a deterioration in collection days from the government.

Figure 3: YPF's FY22 and 4Q22 summary financials.

	FY21	FY22	*Chg yoy*	4Q21	4Q22	*Chg yoy*	3Q22	4Q22	*Chg qoq*
Operating Data									
Crude oil production (Kbbl)	210.9	226.0	*7.2%*	209.4	224.8	*7.3%*	225.3	224.8	*-0.2%*
NGL production (Kbbl)	34.4	41.6	*20.8%*	41.7	38.0	*-8.8%*	41.7	38.0	*-8.9%*
Gas production (Mm3)	35.7	37.5	*5.0%*	38.9	38.4	*-1.2%*	37.6	38.4	*2.1%*
Total (Kboe)	**469.7**	**503.3**	***7.2%***	**495.6**	**504.4**	***1.8%***	**503.7**	**504.4**	***0.1%***
Summary financials (in USDmn)									
Income Statement Items									
Revenues	**13,682.0**	**18,757.0**	***37.1%***	**3,620.2**	**4,645.0**	***28.3%***	**5,357.0**	**4,645.0**	***-13.3%***
Opex	(12,636.0)	(16,302.0)	*29.0%*	(3,441.9)	(4,374.0)	*27.1%*	(4,484.0)	(4,374.0)	*-2.5%*
EBITDA	**3,896.0**	**4,947.0**	***27.0%***	**833.9**	**933.3**	***11.9%***	**1,506.2**	**933.3**	***-38.0%***
Net Income	**16.0**	**2,234.0**	***n.m.***	**246.8**	**464.3**	***88.2%***	**693.0**	**464.3**	***-33.0%***
EBITDA Margin	**28%**	**26%**		**23%**	**20%**		**28%**	**20%**	
Balance Sheet Items									
Short Term Debt	**1,110.6**	**1,434.0**	***29.1%***	**1,110.6**	**1,434.0**	***29.1%***	**1,131.4**	**1,434.0**	***26.7%***
ST Borrowings	844.7	1,140.0	*35.0%*	844.7	1,140.0	*35.0%*	856.6	1,140.0	*33.1%*
ST Leases	265.9	294.0	*10.6%*	265.9	294.0	*10.6%*	274.8	294.0	*7.0%*
Long Term Debt	**6,810.3**	**6,220.0**	***-8.7%***	**6,810.3**	**6,220.0**	***-8.7%***	**6,379.5**	**6,220.0**	***-2.5%***
LT Borrowings	6,534.2	5,948.0	*-9.0%*	6,534.2	5,948.0	*-9.0%*	6,132.9	5,948.0	*-3.0%*
LT Leases	276.1	272.0	*-1.5%*	276.1	272.0	*-1.5%*	246.7	272.0	*10.3%*
Total Debt	**7,920.8**	**7,654.0**	***-3.4%***	**7,920.8**	**7,654.0**	***-3.4%***	**7,510.9**	**7,654.0**	***1.9%***
Cash & Cash Eq. + ST Investments	**1,107.9**	**1,092.0**	***-1.4%***	**1,107.9**	**1,092.0**	***-1.4%***	**1,334.5**	**1,092.0**	***-18.2%***
Gross Leverage (LTM)	**1.9x**	**1.4x**		**2.1x**	**1.5x**		**1.5x**	**1.5x**	
Net Leverage (LTM)	**1.6x**	**1.2x**		**1.6x**	**1.2x**		**1.2x**	**1.2x**	
Cash / ST Debt	**100%**	**76%**		**100%**	**76%**		**118%**	**76%**	
ST Debt / Total Debt	**14%**	**19%**		**14%**	**19%**		**15%**	**19%**	
Debt / Capital	**34%**	**30%**		**34%**	**30%**		**30%**	**30%**	
Liquidity ratio	**119%**	**108%**		**119%**	**108%**		**104%**	**108%**	
Cash Flow Items									
Funds From Operations	**4,483.0**	**5,988.0**	***34%***	**857.5**	**1,558.8**	***82%***	**1,845.9**	**1,558.8**	***-16%***
Change in Working Capital	(277.0)	(29.0)	*-90%*	217.6	30.0	*-86%*	(262.0)	30.0	*n.m.*
CFO after cash interest & taxes	**3,627.0**	**5,249.0**	***45%***	**966.4**	**1,309.0**	***35%***	**1,435.0**	**1,309.0**	***-9%***
Capex	(2,448.0)	(4,006.0)	*64%*	(757.2)	(1,314.0)	*74%*	(1,067.0)	(1,314.0)	*23%*
Disposals	-	-	*n.m.*	-	-	*n.m.*	-	-	*n.m.*
Free Operating Cash Flow	**1,179.0**	**1,243.0**	***5%***	**209.2**	**(5.0)**	***n.m.***	**368.0**	**(5.0)**	***n.m.***
Acquisition (Disposals)	48.0	6.0	*-88%*	14.8	4.0	*-73%*	-	4.0	*n.m.*
Free Cash Flow	**1,227.0**	**1,249.0**	***2%***	**224.0**	**(1.0)**	***n.m.***	**368.0**	**(1.0)**	***n.m.***

Source: TPCG Research based on the companies' reports

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