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Corporates – Argentina

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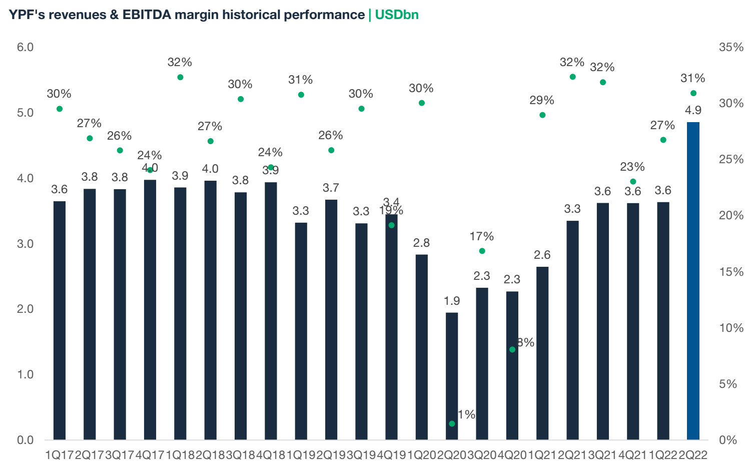
YPF's performance overshadowed by the macro environment

We reiterate our buying recommendation of YPFDAR 25s Old, 26s, 29s New, and 33s, supported by the company reporting a sustained increment in their revenues since the record low reached in 2Q20 and a robust cash generation that was translated in a rapid deleveraging to adequate levels. One of the main risks of Argentine corporates is that despite showing enough cash in Argentine Pesos to make principal payments, they are limited to access to the FX market. However, in our view, this risk was tackled in the structure of the YPFDAR 26s bond. Regarding the payment of the 24s, if the Central Bank extends the regulation on corporate maturities in hard currency, we believe YPF will manage to find the financing to avoid restructuring again the bond, as it did this year.

In 2Q22, YPF revenues and Adj. EBITDA reached a record high of USD4,855mn and USD1,500mn, respectively, considering the past 5 years. Revenues grew by +45% yoy / +34% qoq with all business segments showing a strong performance thanks to the favorable international price environment and higher volumes sold.

Figure 1: YPF 2Q22 revenues were the strongest in the past 5 years



Source: TPCG based on YPF reports.

Domestic diesel sales, which accounted for 37% of total revenues, grew by +60% yoy / +38% qoq to USD1,775mn. Diesel volumes sold were up by +18% yoy / +12% qoq to 2,284Km3, the highest level since 2017, mainly driven by the soybean, corn, and wheat harvest as well as the recovery in the mining and transportation activity. Despite the higher demand, YPF imported less diesel than the previous quarter, 255Km3 vs. 289Km3 in 1Q22. In our view, it is partly explained by the import price was at USD1,038/m3 while the domestic price at USD771/m3, which led the company to increase the refinery utilization by +2pp to 88%. What also influenced it was that the price difference from importing diesel to then exporting it was only USD39/m3.

Gasoline sales were up by +51% yoy / +8% qoq to USD880mn. However, growth was weaker than diesel due to domestic prices increasing at a lower rate. Gasoline prices were up by +15% yoy / +11% qoq to USD624/m3 while diesel' by +35% yoy / +23% qoq to USD771/m3. In our view, the decline in gasoline volumes sold by 3% qoq to 1,364Km3 was partly explained by the company increasing diesel production at the expense of gasoline production, as the export-import price difference was much higher at USD457/m3. For this reason, we believe there were gasoline shortages in some gas stations outside City of Buenos Aires.

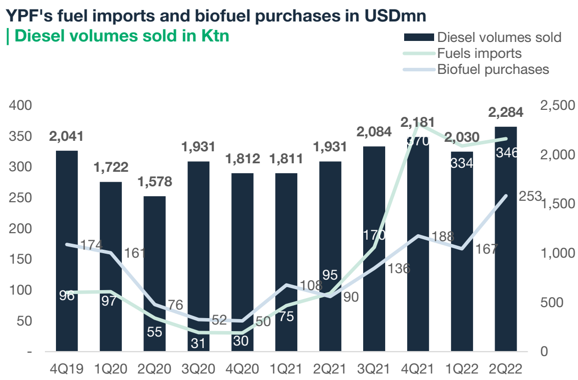
In 2Q22, exports increased by +55% yoy / +49% qoq to USD687mn, with jet fuel sales recovering to USD122mn from USD26mn in 2Q21, showing the most significant yoy improvement. Even so, grain and flours sales were the main revenue contributor from export markets, representing 44% of exports and 6% of total sales. Although exports only accounted for 14% of total revenues, they are key for the 2026 bond as the Exports Collection Account must hold at least 125% of the maturities for the next 6 months. Therefore, 2Q22 exports more than covered the 2026s requirement of c.USD100mn in August. In fact, they were more than enough to cover the first four principal amortization installments and interest payments, which total USD300.5mn, of the bond in 2023.

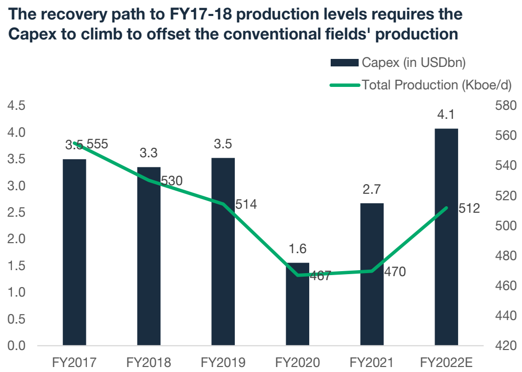
The Adj. EBITDA margin improved by +4pp qoq at 31%, while it was slightly down by -1pp yoy, mainly driven by the increase in wages, fuels imports, biofuel purchases, and the lower productivity of conventional fields reflected on the lower production and the increase in lifting costs. Opex was up by +34% yoy / +22% qoq to USD1,358mn. Refining & logistics costs were up by +35% / +19% qoq to USD344mn partly due to the increase of +8% yoy / +1.8% qoq in crude processed to 287.7Kbbl/d. On the Upstream side, lifting costs increased +33% yoy / +14% qoq to USD610mn, pushed by lifting costs from conventional activities which were up by +16% qoq to USD20.5/BOE. In contrast, lifting costs from unconventional activities came down by 1.1% qoq to USD3.8/BOE, with shale lifting costs decreasing 5% qoq to USD3.5/BOE.

Shale is YPF's workhorse, with production increasing by +62% yoy / +0.7% qoq to 194.7Kbbl/d. Within natural gas production, which was down by -1.2% qoq to 37.6Mm3/d, shale gas became the main output contributor, accounting for 41% of total vs. 25% in 2Q21. In 2Q22, shale gas production was up by +81% yoy / +1.2% qoq to 15.5Mm3/d. Although shale oil production increased by +48% yoy / +5% qoq to 73.9Kbbl/d, conventional oil production remain the main output contributor despite production dropping by 6% yoy / 0.3% qoq to 148.3/Kbbl, accounting for 66% of the total. However, it is worth mentioning that the decline would have been higher if it was not for the positive results of tertiary recovery in Manantiales Behr fields. As a result, the company plans to use the same methodology in Los Perales and El Trebol area, which should boost production in these fields by 15% in the next 12 months. Tight production showed the highest contraction since 1Q17, even more than conventional, as it decreased 48% to 48.3Kboe/d from 93.4Kboe/d in 1Q17 vs. a drop of 42% in conventional production.

One of the main limitations that face YPF in increasing its natural gas and oil production is transportation capacity, which it is already working on. In April 2022, the works on the Oldeval's oil pipeline finished, increasing its evacuation capacity to Puerto Rosales (located in the south of the Province of Buenos Aires) by +25%. However, more projects are in the pipeline to continue increasing its capacity. In addition, the company, together with Chevron and ENAP, will work on reactivating the Transandino pipeline (Otasa) to export crude oil to Chile as of 1Q23. The aim of the company is to double total production by 2026, with the help of the aforementioned projects and their ad-hoc ones and the Nestor Kirchner pipeline.

Figure 2: YPF's total production was flat qoq at 503.7Kboe/d, thanks to the +5% qoq increase in shale crude production to 73.9Kboe/d that help to offset lower NGL and natural gas production.





Source: TPCG based on YPF reports.

As YPF's FCF remains at one of its strongest levels historically, we believe the company is in a comfortable position to more than double Capex in 2H22 and end FY22E with a Capex of USD4.1bn, up from USD2.6bn in FY21 and USD3.5bn in FY19. In 2Q22, FCF remained on positive grounds at USD407mn. However, it was down -1% yoy / -16% qoq mainly due to the increase in inventories and trade receivables cash outflows of +143% yoy to -USD210mn and +42% yoy to -USD231mn, respectively. It was partly explained by the government getting delayed in paying Plan Gas Ar bills; collection days were around 90 days. Capex increased by +64% yoy / +3% qoq to USD820mn, of which 71% was allocated to drilling and workover activities in shale. Drilled unconventional horizontal wells increased by 16 wells yoy / 9 wells qoq to 38 wells, while fracking stages were up by +36% yoy / +23% qoq to 201.

As of June 30th, 2021, YPF cash & equiv. + ST investments decreased by 6% qoq to USD1,243mn. Even so, it more than covered short-term maturities of USD1,051mn, which includes the payment of the 2024, 2025 New, 2026 bonds amortizations. Total debt only dropped by -1.7% qoq to USD7,630mn. We expect the company's indebtedness levels to continue on the downward trend for the rest of the year, as management does not expect to tap the local market. Due to the substantial increase in the EBITDA, the net leverage was down to 1.3x in LTM2Q22 from 1.5x in LTM1Q22.

Figure 3: YPF's summary financials in 2Q22

Summary financials (in USDmn)	2Q21	2Q22	*Chg yoy*	1Q22	2Q22	*Chg qoq*
Income Statement Items						
Revenues	**3,349.5**	**4,854.8**	***44.9%***	**3,635.4**	**4,854.8**	***33.5%***
Opex	(3,038.8)	(3,993.3)	*31.4%*	(3,242.2)	(3,993.3)	*23.2%*
Adj. EBITDA	**1,084.1**	**1,500.4**	***38.4%***	**972.3**	**1,500.4**	***54.3%***
Net Income	**(491.8)**	**797.9**	***n.m.***	**248.2**	**797.9**	***221.5%***
Gross Margin	**21%**	**29%**		**22%**	**29%**	
Adj. EBITDA Margin	**32%**	**31%**		**27%**	**31%**	
Balance Sheet Items						
Short Term Debt	**1,508.4**	**1,051.5**	***-30.3%***	**801.7**	**1,051.5**	***31.2%***
Long Term Debt	**6,436.5**	**6,578.6**	***2.2%***	**6,959.7**	**6,578.6**	***-5.5%***
Total Debt	**7,944.9**	**7,630.1**	***-4.0%***	**7,761.3**	**7,630.1**	***-1.7%***
Cash & Cash Eq. + ST Investments	**934.9**	**1,242.8**	***32.9%***	**1,328.9**	**1,242.8**	***-6%***
Gross Leverage (LTM)	**3.3x**	**1.7x**		**1.9x**	**1.7x**	
Net Leverage (LTM)	**2.7x**	**1.3x**		**1.5x**	**1.3x**	
Cash / ST Debt	**62%**	**118%**		**166%**	**118%**	
ST Debt / Total Debt	**19%**	**14%**		**10%**	**14%**	
Debt / Capital	**35%**	**31%**		**33%**	**31%**	
Liquidity ratio	**104%**	**115%**		**125%**	**115%**	
Cash Flow Items						
Funds From Operations	**1,314.0**	**1,698.9**	***29.3%***	**1,589.7**	**1,698.9**	***6.9%***
Change in Working Capital	(311.8)	(360.6)	*15.7%*	(134.3)	(360.6)	*168.5%*
CFO after cash interest & taxes	**891.9**	**1,225.2**	***37.4%***	**1,280.3**	**1,225.2**	***-4.3%***
Capex	(499.9)	(819.8)	*64.0%*	(796.1)	(819.8)	*3.0%*
Disposals	-	-	*n.m.*	-	-	*n.m.*
Free Operating Cash Flow	**392.1**	**405.4**	***3.4%***	**484.2**	**405.4**	***-16.3%***
Acquisition (Disposals)	17.4	1.8	*-89.7%*	1.7	1.8	*6.8%*
Free Cash Flow	**409.5**	**407.2**	***-0.6%***	**485.9**	**407.2**	***-16.2%***
OCF/Total Debt	**45%**	**64%**		**66%**	**64%**	
FOCF/Total Debt	**20%**	**21%**		**25%**	**21%**	
FCF/Total Debt	**21%**	**21%**		**25%**	**21%**	
Capex/Sales	**15%**	**17%**		**22%**	**17%**	

Source: TPCG Research based on YPF's FFSS

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