

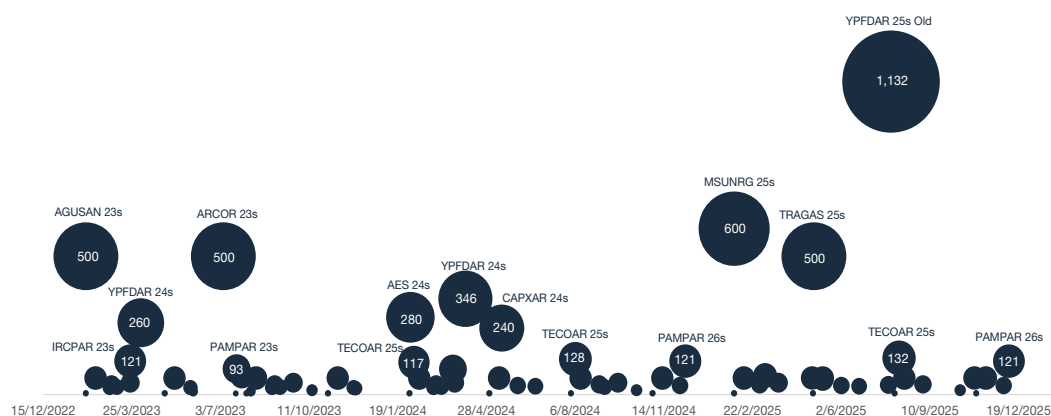
Fishing in troubled waters

If the Government manages to decompress the FX market and curb the international reserve drainage, then corporate maturities over the next three years should be manageable. As of today, Argentine corporate interest and principal global bonds payments total USD3,311mn in 2023, USD2,872mn in 2024, and USD4,049mn in 2025. What sets our view is that there are few bonds coming due with an amount outstanding above USD500mn. In addition, they mature in different months.

Regarding 2023, there are only 2 bullet bonds maturing: AGUSAN 6.625 1/2/2023 and ARCOR 6 6/7/2023 both of USD500mn. Albanesi, IRSA Inversiones y Representaciones (formerly IRSA Propiedades Comerciales) and Pampa Energia have already restructured their 2023 bonds this year. With Sergio Massa as the Minister of Economy, we see increasingly probable that AySA cancels USD500mn AGUSAN 6.625 1/2/2023. What is key to our view is that Corporación Andina de Fomento (“CAF”) gave AySA a 15-year loan of USD340mn in July 2022. Interestingly, the same multilateral institution led the USD300mn cross-border A/B loan given to YPF in January so that the O&G company could cancel the first amortization payment of the YPF DAR 8.75 4/4/2024. The announcement was “by coincidence” the same week the government confirmed the payment to the IMF and reached an understanding. Therefore, if the Central Bank regulation on corporates is extended to 2023, we do not rule out AySA getting access to the MULC for USD200mn (40% of the bond amount outstanding) and getting a loan from CAF of USD300mn. Similarly, we expect YPF to incur in another syndicated loan with CAF and other banks to pay the second amortization of the aforementioned bond. It is reinforced by Massa saying that CAF would disburse USD750mn as part of a new program.

Figure 1: The most significant maturities next year are AGUSAN and ARCOR.

Argentine Corporate Global bonds amortizations 2023-2025 timeline | in USDmn



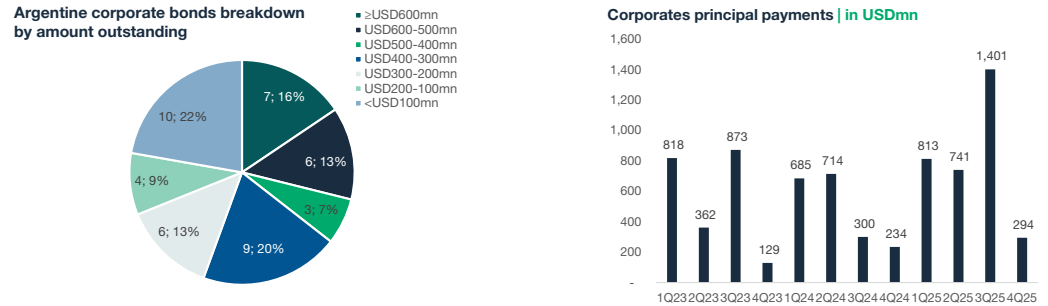
Source: TPCG based on Bloomberg.

Although the economic environment is not encouraging, we believe it is currently an entry point to corporate bonds, as most are at their lowest levels. In the end, it is always difficult to withstand temptation, with 25 of the 45 Argentine corporate bonds offering coupons above 8%. Next year YPF's 2026s, 2029s, and 2033s will add to the list. This contrasts with other Emerging Market bonds whose coupons mostly stand between 7-5%.

Liquidity is also important. When Argentine corporate bonds rally are difficult to get. The bonds amount outstanding have become tiny as a consequence of the exchange offers, with 20 out of 45 bonds with an amount outstanding below USD200mn. The bonds with amounts outstanding equal or above USD500mn are 13. YPF issued 7 of them, ranging from USD1,132mn to USD748mn.

Pampa Energia 2027s follow it with USD636mn, MSU Energy with USD600mn, Tecpetrol, AySA, TGS and Arcor with USD500mn. What also makes them attractive is that except for Edenor 2025s, all the new bonds that resulted from exchange offers are amortizing. Some of them are guaranteed.

Figure 2: c.70% of Argentine corporate bonds show an am.out. <USD500mn



Source: TPCG based on Bloomberg.

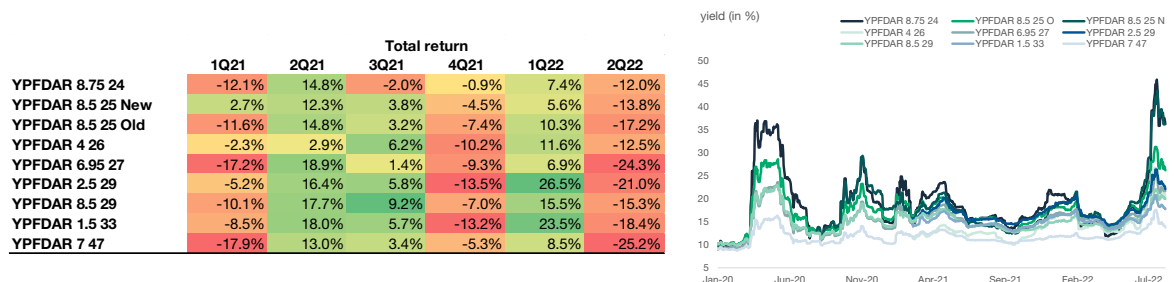
For the rest of this year, there is only one maturing bond: Tecpetrol 4.875 USD500mn on December 12, 2022. According to some rumors, the company would be exploring to take a syndicated loan. If so, we expect it to be of USD300mn, as the Central Bank would only give access to the FX market for the 40% (USD200mn). In this way, Tecpetrol would follow MSU Energy's steps. The company decided not to restructure its 2024 bond, which started to pay quarterly amortizations of 10% as of November 2021. Instead, it has issued local hard dollar bonds at a more advantageous coupon rate of 7%. Therefore, of the USD25mn amortizations that MSU Energy paid, 60% came from the local bonds' issuance proceeds, and the other 40% with FX bought from the Central Bank. In case Tecpetrol decided to offer an exchange offer, we believe the new bond would have a similar structure to the one of Pan American Energy 2027 and Pampa Energia 2026.

In 2023, YPF is the company with the highest principal payments: USD260mn from YPFDAR 8.75 4/4/2024, USD239mn from YPFDAR 4 12/2/2026 and USD85mn from YPFDAR 8.5 23/3/2025, totaling USD584mn. However, we do not see the company missing an interest or principal payment. As we stated before, we believe that YPF found a way to bypass the Central Bank regulation to access the FX market with support from the government with the CAF loan. The Central Bank does not restrict companies to access the FX market to pay multilateral loans.

The company would have to restructure the YPFDAR 8.75 4/4/2024 again or find the financing to cancel the amortizations, as the participation rate in the exchange offer was 43%, below the 60% threshold. In January 2022, YPF obtained a 3-year USD300mn cross-border A/B loan at a SOFR+705bps rate, composed of a Tranche A of USD37.5mn given by CAF (the lender of record) and Tranche B of a total of USD262.5mn, which included the contributions from Santander (USD90mn), Itau Unibanco (USD60mn), Industrial and Commercial Bank of China Limited, ICBC Dubai (DIFC) (USD60mn) and Cargill Financial Services International (USD52.5mn). The loan has a grace period of 18 months and is due on December 30th, 2024.

In the case of YPFDAR 2026s, coupons and amortizations depend entirely on the company's exports. The Central Bank allowed YPF to leave abroad the cash from exports equivalent to at least 125% of the maturities for the next 6 months. This amount of cash in hard dollar is not repatriated to Argentina, instead, it is deposited in an offshore account in Citibank, the collateral agent. In other words, YPF got released from asking the Central Bank for access to the FX market.

Figure 3: It's high time to catch the 3Q22 wave



Source: TPCG Research based on Bloomberg

In 2021, YPF bonds rallied from April until September. Then, the bonds' price declined bottoming in January 2022, as uncertainties towards the government paying the IMF increased and Emerging Market bonds performance weakened. Once fears about the payment to the IMF were cleared out, bonds' price liftoff until the Ukraine-Russia war broke out and the FED raised the interest rate.

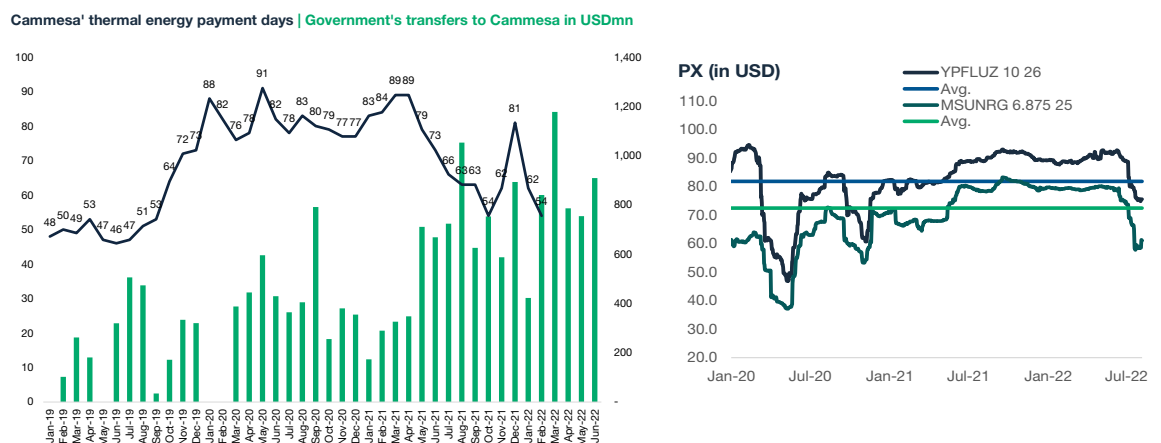
From our perspective, the upside potential of obtaining a total return of at least 10% for buying YPF DAR 25s Old, 26s, 29s and 33s, is higher than the bonds continue dropping to April-May 2020 lows, when took place Argentina bonds restructure. For instance, YPF DAR 8.5 28/7/2025 is at an ask price of USD65.75 (yield of 27.5%), while the average price was USD76.70 in 2021, USD73.50 in 2020 and USD90.80 in 2019. In fact, the bond price historical record low was USD47.05 on May 6th, 2020, and a month later was standing in USD76.80.

On the fundamental side, we expect the company to report sound 2Q22 results on August 11th, 2022, although revenue and EBITDA growth might have slowed down. The upstream segment had benefitted from a stronger price environment with the Plan Gas average gas price at USD4.1/MMBTU vs. USD3.5/MMBTU in 1Q22 and the industrial prices at USD4.5/MMBTU vs. USD2.7/MMBTU in 1Q22. In addition, the company exported natural gas to Chile at a point of entry to the transportation system (PIST) price of USD7.4/MMBTU. According to our estimates, Argentine diesel volumes sold increased by +12% yoy while gasoline's by +32% yoy in 2Q22, which indicates that YPF must have sold higher volumes. In May, the company increased gasoline prices by +10% and diesel by +14% in May, which helped to partly mitigate higher diesel imports and inflation pressures on Opex. Said this, we expect net leverage to stand at 1.6-1.7x, slightly up from 1.5x in LTM1Q22.

Among other corporate names, we prefer YPFLUZ 26s and MSUNRG 25s, which we find incredibly cheap, at a current ask price of USD76.00 (yield: 18.9%) and USD63.00 (28.8%), respectively. On the downside, we believe power generation companies' FCF deteriorated in 2Q22. What made us think that is April-May 2022 government transfers to CAMMESA stood at USD786-754mn. Considering that the government's transfers to CAMMESA stood at USD711mn in May-2021 and power generators were paid in 79 days, we expect the payment days of March-April 2022 bills to have peaked to above 80 days. This is reinforced by the fact that fuel was more expensive than last year. Due to the increase in LNG prices, CAMMESA increased the share of diesel given to power generators versus natural gas. According to CAMMESA, diesel consumption was up by +25% yoy to 567,242m3 while natural gas decreased by +29% yoy to 854,838Dam3 in June 2022. However, it is important to remember that companies have already faced this sort of delays. In 2020, CAMMESA paid the bills in 81 days on average, reaching a record high in May's bill at 91 days. In 2021, it paid March and April bills both in 89 days. As we saw in the past, we expect this increase in CAMMESA delays being transitory until the end of the winter season in September.

We find YPFLUZ 26s a more conservative move than MSUNRG 25s, as the first one shows a net leverage of 2.1x and cash/ST debt ratio of 99% as of LTM1Q22, while in the second one, they were at 4.8x and 32%, respectively. We see positive that MSU Energy decided not to make an exchange offer of the 2024s, which shows the company's willingness to maintain its commitment with bondholders. However, it is important to bear in mind that MSU Energy's deleveraging pace will decrease if the Central Bank extends the regulation on corporates for another year.

Figure 3: Power Generation companies have experience in managing liquidity when Cammesa payment days deteriorates



Source: TPCG Research based on the ASAP, companies' presentations, Bloomberg

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