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

Corporates – Argentina

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Nobody is watching YPFDAR 26s

Among YPF bonds, we continue advocating for the **YPFDAR 26s** and **25s Old**. What makes the 26s attractive is that the coupon will increase to 9% next year from 4% currently. In addition, it will start amortizing in installments of 7.7%. Plus, the payments of interest and capital are quarterly: every February 12th, May, August, and November. More importantly, YPF has to deposit the proceeds from exports in an offshore account in Citibank, which is the collateral agent. Therefore, the payment of interest and capital does not depend on the Central Bank giving YPF access to the MULC to exchange its Argentine Pesos for US dollars. This account must hold at least 125% of the maturities for the next 6 months. Therefore, the cash in the Exports Collection Account will rise incrementally. As of August-2022, it will have to increase towards USD100mn. Then, as of November-2022, it should accumulate cash to reach USD185mn by February-2023. Considering that YPF's exports were USD461mn in 1Q22, of which USD113mn were grain and flours, exports more than cover debt service needs. For those who do not want to wait until next year to receive a decent coupon payment, we recommend the YPFDAR 25s Old that pays a coupon of 8.5% and is bullet. The 26s and 25s Old are at a current ask price of USD86.50 (yield: 15.0%) and USD77.5 (yield: 18.1%).

On the fundamental side, we believe the management has proved its ability to make the company resurface, despite the difficulties of increasing pump prices in a high inflation environment and the FX controls. What we want to highlight about the 1Q22 results is that:

- revenues stood +8% above 1Q19 levels and 28% above those of 1Q20,
- production was up +16% yoy, the highest % of yoy increase in the past 6 years,
- the FCF is positive for the 11th consecutive quarter, standing at USD477mn (+28% yoy),
- the considerable strengthening of the liquidity position, with cash + ST investments covering short-term maturities by 166% vs. 69% in 1Q21 and 37% in 1Q20
- net leverage came down to 1.5x, the lowest level in the past 14 quarters

The main risks are:

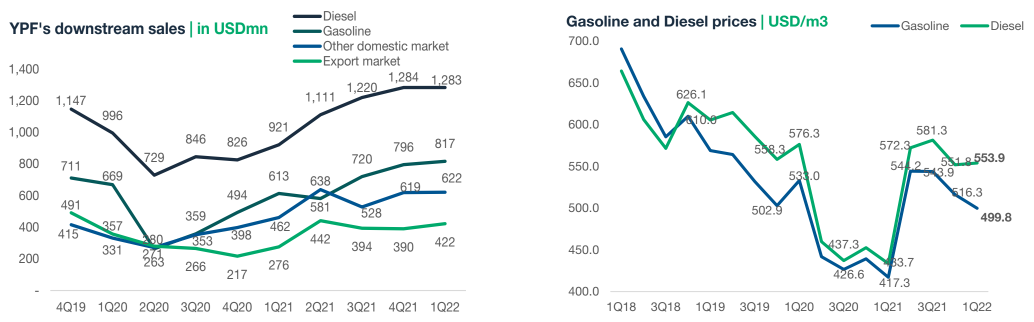
(i) the Central Bank tightening the FX restrictions. Given that next year is the presidential elections, we assign it a low probability. We do not rule out that the Central Bank will extend companies' current restrictions to pay their hard currency maturities to 2023. In any case, it will affect all Argentine companies equally.

(ii) the outcomes of the lawsuits against YPF, which were filed by:
  - Maxus Energy Corporation Liquidating Trust in the Delaware Bankruptcy Court. The claim is on the environmental liabilities for polluting the Passaic River in New Jersey before 1986 that should have been paid by a subsidiary that acquired YPF in 1996. The company is currently under the summary judgement process until June 8th, 2022. The hearing for the oral arguments on the motions for summary judgment will be held on June 13th, 2022.
  - Petersen Energía Inversora S.A.U., Petersen Energía S.A.U., Eton Park Capital Management, L.P., Eton Park Master Fund, LTD. and Eton Park Fun, L.P., former YPF Class D shareholders, in the Federal District Court for the Southern District of New York. The claim is on the Republic of Argentina and YPF for not conducting a tender offer when YPF was expropriated from Repsol. Currently, each part is preparing the motions for the summary judgment, which is due on May 26th, 2022. Motions for summary judgment will be fully briefed and submitted to the District Court before June 23rd, 2022.

Revenues +37% yoy, EBITDA +27% yoy, EBITDA margin +4pp to 27%

In 1Q22, YPF revenues were USD3,635mn (+37% yoy / +0.4% qoq). In fact, revenues were +USD281mn or 8% higher than in 1Q19. Gasoline and diesel sales are already at pre-pandemic levels while jet fuel sales, which remain the weakest segment, keep recovering at a fast pace over the last 2 quarters, in part due to a seasonality factor. Diesel and gasoline sales were up by +39% and +33% yoy to USD1,283mn and USD817mn, respectively. Diesel volumes sold increased by +12% yoy to 2,030Km3 while gasoline' increased by +14% yoy to 1,410Km3. Volumes sold have been growing sustainably since the record low of 2Q20, standing above 2015-2019 average, which was in the case of gasoline 1,275Km3 and diesel 1,986Km3. While gasoline and diesel volumes sold have improved in tandem, prices have taken different paths. The domestic average diesel price remained stable qoq at USD553.9/m3. In contrast, the domestic average gasoline price has been on a downward trend after reaching a peak of USD544.2/m3 in 2Q21. In 1Q22, the average gasoline price was down by -3.2% qoq to USD499.8/m3. So far this year, YPF increased pump prices by around 12% in early May and by 9% in early February, in line with the Jan-April 2022 accumulated inflation of 21.3%.

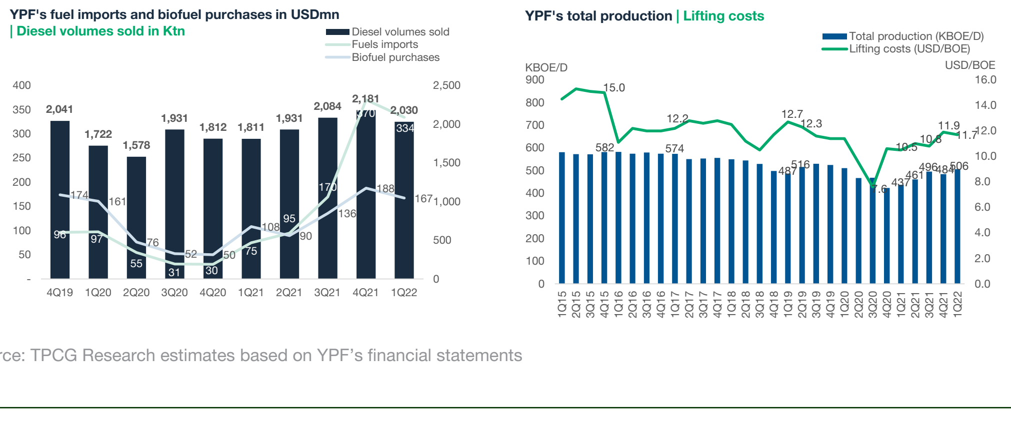
Figure 1: Gasoline prices dragging margins downhill



Source: TPCG Research estimates based on YPF's financial statements

Adj. EBITDA was up by +27% yoy / +17% qoq to USD972mn. The EBITDA margin improved to 27% in 1Q22 from 23% in 4Q21, although it decreased from 29% in 1Q21. The rise in diesel demand in the local market has been reflected in the higher COGS, mainly fuel imports and biofuel purchases, which increased by +346% and +54% yoy, respectively. The difficulties in increasing pump prices limited YPF from validating higher local crude oil prices from third parties, widening the price differential between the international and local crude oil prices. The share of crude processed from third parties at the refineries came down to 18% from 20% in 4Q21. Thus, the company refinery has not been able to operate at full capacity. For this reason, YPF decided to prioritize producing jet fuel and refined gasoline for export, which are sold at a higher price. Diesel imports also increased due to the shortage of biofuels in the local market, which has pushed the company to increase the share of fossil fuels in the blend. On the upstream side, lifting costs decreased USD11.7/BOE from USD11.9/BOE in 4Q21 due to the dilution of the salary increases by high inflation and the slower pace of FX depreciation.

Figure 2: Lifting costs improving and standing below pre-pandemic levels



Source: TPCG Research estimates based on YPF's financial statements

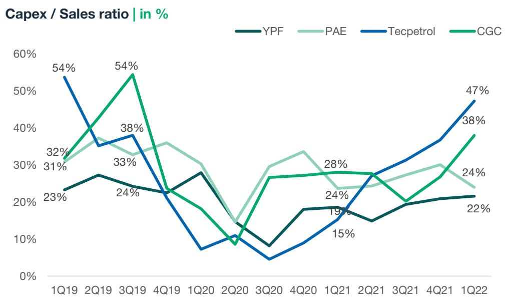
FCF strengthened, despite Capex increasing +59% yoy / +4% qoq

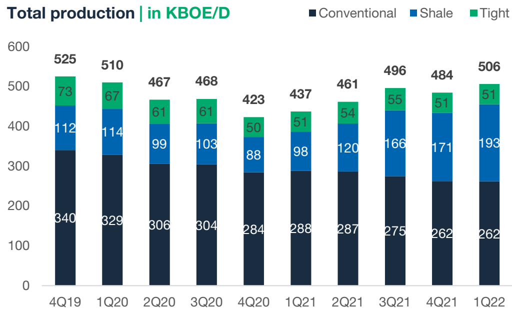
FCF grew by +28% yoy / +119% qoq to USD477mn, on the back of higher FFO (+81% yoy / +84% qoq), and lower interest expense (-13% yoy). Among the companies in the O&G sector with global bonds, YPF's was the only company to show positive FCF. Pan American Energy (PAE) FCF was -USD173mn, CGC's -USD57mn, and Tecpetrol's -USD20mn.

In 1Q22, YPF's Capex increased by +59% yoy / + 3.7% qoq to USD785mn, of which 81% was allocated in the Upstream segment. Among the Argentine companies with global bonds, YPF showed the lowest Capex / Sales ratio at 22% in 1Q22 vs. Pan American Energy at 24%, CGC at 38% and Tecpetrol at 47%. Although 2022 estimated Capex of USD3.7bn, implies a +50% yoy increase, we expect the 2022 Capex / Sales ratio to stand close to 30%, still below Tecpetrol and CGC's. In addition, we believe the increase in 2022 Capex is reasonable, even though Capex would stand above FY18-19 levels of USD3.1-3.4bn if we consider the acceleration in the decline of conventional and tight production along the past years. Conventional production, which accounted for 52% of the total output, was down by -9% yoy / -0.2% qoq in 1Q22, with crude oil production decreasing by -6% yoy / -0.8% qoq and gas production going down by -14% yoy / -3.8% qoq.

In 1Q22, total production grew by +16% yoy / +4.5% qoq to 505.8KBOE/D thanks to shale production. The company completed 38 new horizontal wells in its unconventional fields, +2 more than in 4Q21 and +4 than in 1Q21. As a result, shale production grew by +96% yoy / +13% qoq to 193.3KBOE/D, with natural gas production increasing by +140% yoy / +6% qoq to 15.3Mm3d and oil production growing by +52% yoy / +12% qoq to 70.4KBOE/D. In the past 3 years, the share of shale production in YPF's total production increased to 38% from 22% in 1Q20.

Figure 3: Production growth intensified as of 3Q21; management expects YPF to be self-sufficient by 2023-end.





Source: TPCG Research estimates based on the companies' financial statements

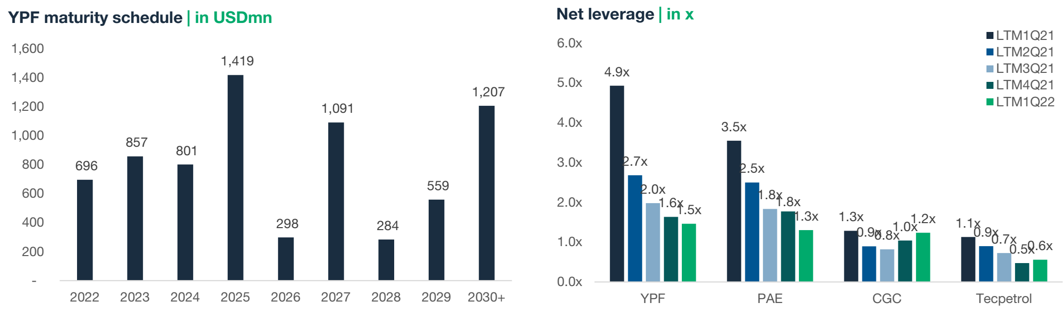
YPF's total debt has decreased by 23% since 1Q18

As of March- 31st, 2022, YPF's total debt, including leases, was down by -2% qoq to USD7,761mn, the lowest level in the past 4 years. YPF's total debt was USD10,058mn in 1Q18. Since then, it has decreased every quarter at an average rate of 2%. Short term debt was down -28% qoq to USD802mn, mainly due to the payment of the amortizations of the 2025s New and 2024s bonds and the decrease in FX loans by -56% qoq to USD52mn.

Although the company's liquidity has improved considerably since 3Q21, with cash + investments increasing by +20% qoq to USD1,329mn, it remains below 2018-2H19 levels at around USD1,550mn. Even so, the Cash + Investments / Short-term maturities ratio reached a record high at 166%. In 1Q18, it stood at 89%, while the past 4-year average was 68%.

The company's LTM1Q22 net leverage was down to 1.5x from 1.6x in LTM4Q21 and 4.9x in LTM1Q21. Including leases, YPF's LTM1Q22 net leverage was 1.6x vs. 1.8x in LTM4Q21 and 5.3x in LTM1Q21. In this way, YPF managed to reduce the gap with its peers. In LTM1Q22, PAE's net leverage was 1.3x, CGC's 1.2x, and Tecpetrol's 0.6x.

Figure 4: YPF's net leverage of 1.5x is at an adequate level, in line with peers



TPCG Research estimates based on the companies' financial statements

Figure 5: YPF's 1Q22 summary financials in USDmn

Summary financials (in USDmn)	1Q21	1Q22	*Chg yoy*	4Q21	1Q22	*Chg qoq*
Income Statement Items						
Revenues	2,647.9	3,635.4	*37.3%*	3,620.2	3,635.4	*0.4%*
Opex	(2,567.2)	(3,242.2)	*26.3%*	(3,441.9)	(3,242.2)	*-5.8%*
Adj. EBITDA	767.0	972.3	*26.8%*	833.9	972.3	*16.6%*
Net Income	(25.0)	248.2	*n.m.*	246.8	248.2	*0.6%*
Gross Margin	15%	22%		17%	22%	
Adj. EBITDA Margin	29%	27%		23%	27%	
Balance Sheet Items						
Short Term Debt	1,437.4	801.7	*-44.2%*	1,110.6	801.7	*-27.8%*
Long Term Debt	6,857.6	6,959.7	*1.5%*	6,810.3	6,959.7	*2.2%*
Total Debt	8,295.1	7,761.3	*-6.4%*	7,920.8	7,761.3	*-2.0%*
Cash & Cash Eq. + ST Investments	994.6	1,328.9	*33.6%*	1,107.9	1,328.9	*20.0%*
Gross Leverage (LTM)	6.1x	1.9x		2.1x	1.9x	
Net Leverage (LTM)	4.9x	1.5x		1.6x	1.5x	
Cash / ST Debt	69%	166%		100%	166%	
ST Debt / Total Debt	17%	10%		14%	10%	
Debt / Capital	37%	33%		34%	33%	
Liquidity ratio	102%	125%		119%	125%	
Cash Flow Items						
Funds From Operations	868.7	1,570.4	*80.8%*	851.3	1,570.4	*84.5%*
Change in Working Capital	185.9	(134.3)	*n.m.*	217.6	(134.3)	*n.m.*
CFO after cash interest & taxes	866.8	1,261.0	*45.5%*	960.2	1,261.0	*31.3%*
Capex	(493.3)	(785.4)	*59.2%*	(757.2)	(785.4)	*3.7%*
Disposals	-	-	*n.m.*	-	-	*n.m.*
Free Operating Cash Flow	373.5	475.7	*27.3%*	203.0	475.7	*134.3%*
Acquisition (Disposals)	-	1.7	*n.m.*	14.8	1.7	*-88.8%*
Free Cash Flow	373.5	477.3	*27.8%*	217.8	477.3	*119.1%*
OCF/Total Debt	42%	65%		48%	65%	
FOCF/Total Debt	18%	25%		10%	25%	
FCF/Total Debt	18%	25%		11%	25%	
Capex/Sales	19%	22%		21%	22%	

Source: TPCG Research estimates based on YPF financial statements

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
Victoria Faynbloch	LATAM Strategist	vfaynbloch@tpcgco.com	+54 11 4898-6635
Santiago Resico	LATAM Strategist	sresico@tpcgco.com	+54 11 4898-6615
Marcos Pereyra Iraola	Quantitative Analyst	mpereyrairaola@tpcgco.com	+54 11 4898-6602

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
Sebastian Salvay	Sales	ssalvay@tpcgco.com	+54 11 4898-6663
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
Santiago Barros Moss	Sales	sbarros@tpcgco.com	+54 11 4898-6629
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
Raúl Pasman	Trader	rpasman@tpcgco.com	+54 11 4898-6625

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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