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Corporates – Argentina

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YPF bounced back; YPF LUZ does not go unnoticed

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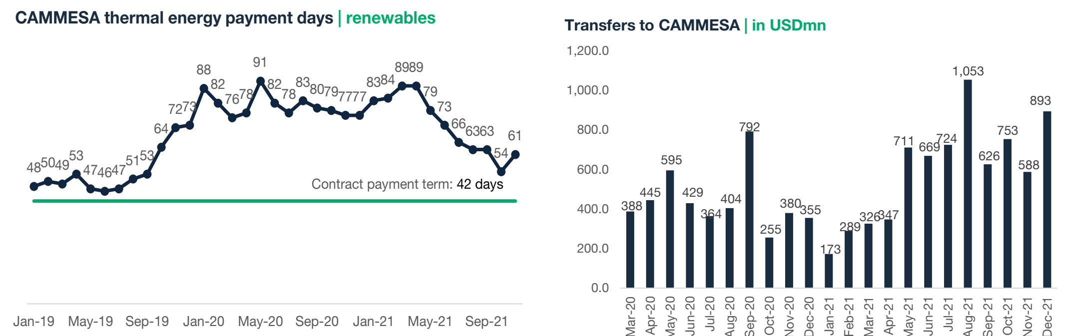
On March 4th, the day YPF held its earnings call, Argentina and the IMF reached a Staff-Level Agreement (SLA), which will impact the energy and power generation sector outlook. Thus, YPF and its subsidiary, YPF Luz.

What we like about YPF is that it has strengthened its liquidity position by being cautious with capex in the await for the recovery of sales. As a result, the company's net leverage position has decreased to adequate levels at 1.6x from 4.9x in FY20. For 2022, management aims to maintain it below 2.0x in 2022. We expect total debt to increase slightly as the company has incurred new financing with CAF and other banks to pay the first amortization of the 2024 bond and start the works on refineries to reduce the content of sulfur on fuels. With the current restriction to access the FX market, we do not expect YPF to tap the international market, despite the MoU saying that the government is already working on regulations to boost investment and exports.

Considering the back and forwards of the Plan Gas Ar and last year's Hydrocarbon Law draft, even if a new regulation comes out, its effects would be visible in 2023. For this reason, growth will depend on the company's ability to increase pump prices in line with inflation now that gasoline and diesel volumes sold have already reached pre-pandemic levels. On the export side, jet fuel sales still have room to recover. We also do not rule out YPF increasing the amount of oil purchased to third parties, which is currently at c.20%, to shift its production to the export market.

The MoU clarified the power generation sector perspectives, unlike that of oil & gas. Due to tariff adjustment timing, companies could face an increase in payment delays again by Cammesa as of 2Q22. The government targets to cut energy subsidies by 0.6% of GDP in 2022. However, even if it finds the support to pass the total increase to high-income households and the adjustments based on the average wage growth to the rest of the residential consumers, the measures will be implemented as of June. Up to date, only the tariffs paid by GUDIs reflect the total cost. Therefore, Cammesa will still have to cope with the beginning of the winter season in April-May. To make matters worse, the government will highly likely get delayed with the transfers to Cammesa due to the increasing cash outflows for purchasing LNG, in a context in which prices will probably be more than double those of last year. Said this, it should not be a surprise to see Cammesa payment days spike to 90 days as of March bills.

Figure 1: Transfers to Cammesa are on the rise, as well as power generators receivables in 2Q22



Source: TPCG Research based on the companies' reports, CAMMESA

YPF Luz is the second renewable energy generator after Genneia, so we expect the company to outperform its peers in 2Q22 when the sector conditions worsen. In addition, the company cash inflows should pick up as of 1Q22 due to the completion of the Cañadon Leon wind farm in December. Companies working capital cash outflows should improve by 3Q22, with Cammesa more comfortable managing its liquidity on the back of the tariff adjustments.

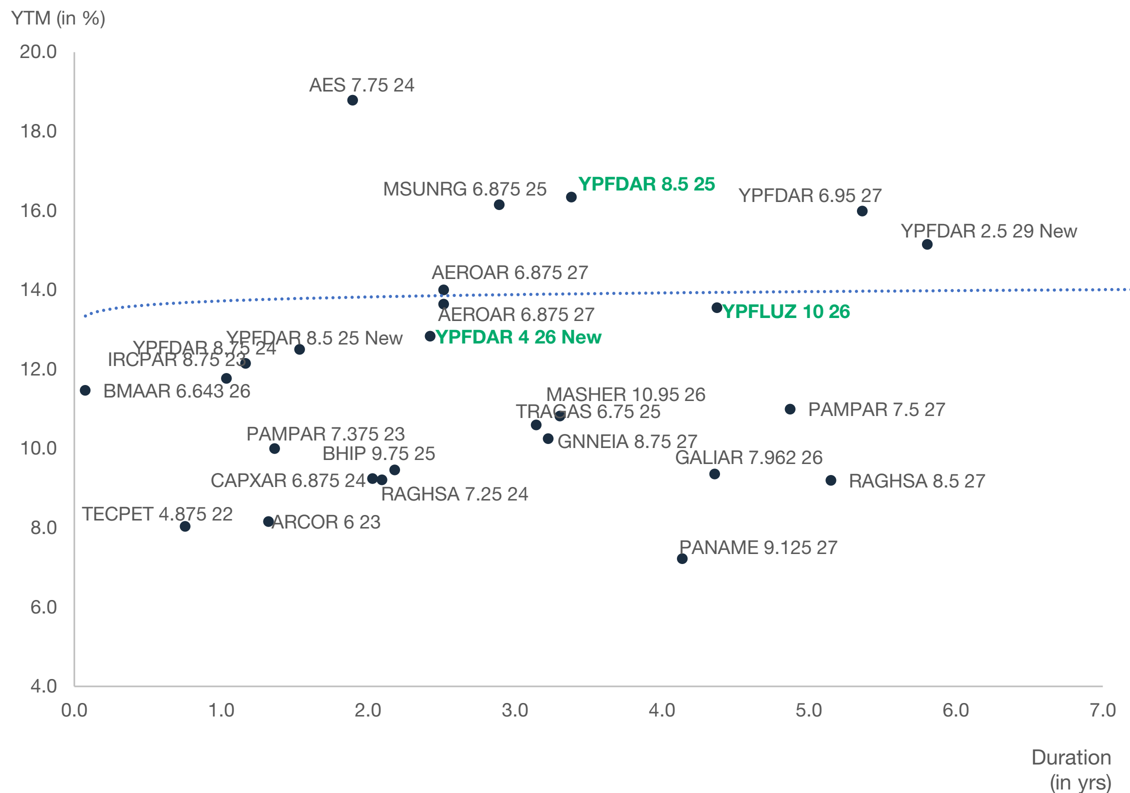
In addition, we believe that it will be easier for the government to launch policies to boost renewable projects in the short term, backed up by multilateral banks. For instance, YPF, to get the loan from CAF had to agree to destine part of the proceeds to projects related to ESG. Because of this, we also see growth potential on YPF Luz and Genneia.

YPF SA and YPF Luz FY21 robust results reinforce our buying recommendation of **YPFDAR 25s Old & 26s** and **YPFLUZ 10 26s**, which are at a price of USD80.50 (yield of 16.2%), USD85.00 (14.8%) and USD89.50 (13.2%), respectively. YPF Luz bonds offer a coupon of 10%, the highest among YPF and peers' bonds, while it is one of the companies in the sector with the most solid fundamentals.

Our preference remains for YPF SA short-dated bonds as they offer more attractive coupons than those issued after the restructuring. For those looking for a long-term move, our top pick is the 26s as the bond coupon will increase from 4% to 9% next year. In addition, it will pay four amortization installments totaling 31%.

In the pages below, we analyze YPF and YPF Luz FY21 results. For those interested in the macro perspective of the SLA, please do not miss reading Juan Manuel Pazos report: *Dissecting the Argy-IMF MoU*

Figure 2: Our top picks are: YPFDAR 25s Old & 26s, YPF Luz 26s



Source: TPCG Research based on Bloomberg

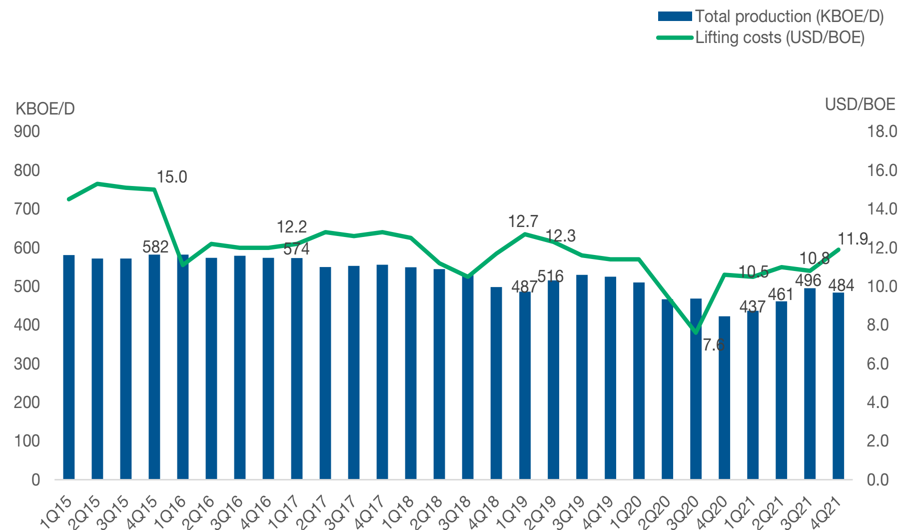
YPF SA: wrestling against inflation pressures to keep 2021 margins

YPF reported strong FY21 results: revenues were up by +41% yoy USD13,238mn and the Adj. EBITDA increased by +164% yoy to USD3,839mn. However, sales were still 4% below 2019 levels mainly because YPF did not increase pump prices from May 2020 until January 2021, slowing down gasoline sales recovery. For this reason, gasoline sales growth was +10% qoq in 4Q21 vs. +24% qoq in 3Q21, being volumes sold the main driver. In contrast, the decline in diesel sales growth to +5% qoq in 4Q21 vs +10% in 3Q21 was due to seasonality. Similarly, natural gas domestic sales, which were down by -33% qoq, due to winter season prices established by Plan Gas Ar being valid throughout the 2Q-3Q.

Exports increased by +32% yoy to USD1,564mn. Interestingly, grain and flours have become one of the largest revenue generators from export markets. In FY21, it was up by +77% yoy to USD627mn. Petrochemical sales increased +42% yoy to USD758mn driven by LPG volumes sold (+33% yoy) and the higher international price environment. Jet fuel performance remains the weakest segment, being 71% below 2019, even though sales increased by +18% yoy to USD144mn.

Given that 88% of YPF revenues derive from the local market, maintaining opex under control in the inflationary context will be vital in sustaining the high profitability margins reached this year. If exports accounted for a higher share, the depreciation of the Argentine Peso would have a positive impact as it would dilute opex in USD terms. In 4Q21, the Adj. EBITDA margin deteriorated to 23% from 32% in 3Q21. Opex was up by +22% yoy and +12% qoq due to salary increases, FX negative impact, and higher pulling and maintenance activity. Lifting costs have been upward since the historical low reached in 2Q20. During that quarter, the cost-cutting program gains seem to have started to fade away, as lifting costs reached USD11.9/BOE in 4Q21, up +10% q/q, above 3Q-4Q19 levels.

Figure 3: YPF's lifting cost were up by +10% qoq to USD11.9/boe in 4Q21, while production was down by -2% qoq to 484KBOE/D



Source: TPCG Research based on the company's reports

For 2022, YPF management guided an increase in total production of +8% yoy, with crude oil increasing by +6% yoy to 224kbbl/d and natural gas by +5% yoy to 37mm3/d. This means that YPF production would recover, but it will still stand below FY19 levels. Shale oil production would increase by +45% yoy vs. +34% yoy in FY21 while shale gas production by +40% yoy vs. +38% yoy in FY21. Even so, the company increased Capex destined for conventional production the most, +50% yoy to USD1.2bn, to lower the deterioration pace of production from those fields. In FY21, conventional output declined by -9% yoy vs. -12% yoy in FY20. This explains mostly why Capex guided is USD3.7bn, +USD1.0bn above FY21. Capex for unconventional production would increase by c.+20% yoy to USD1.6bn to sustain the number of DUCs wells near 50, which have come down from 75 in 2Q21 to 47 in 4Q21, and also to ramp up drilling activity.

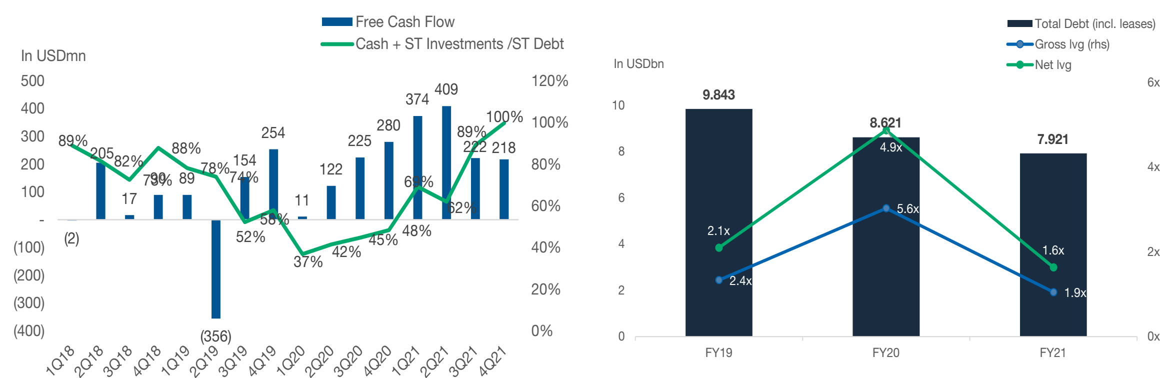
Among YPF's plans is the rebumping of the refineries to reduce the sulfur content of gasoline and diesel, the company expects to spend between USD150-200mn this year. However, the project's total cost is USD1bn and is expected to reach completion in 4Q24. It is worth mentioning that the proceeds of the USD300mn

multilateral loan with CAF that are not going to pay the 2024 bond amortization will be to finance this project. This explains why Capex for the downstream segment for 2022 is USD0.7bn, c.+15% higher than 2021.

With this in mind, FCF would slip near negative territory after a substantial increase of 92% yoy to USD1,223mn in FY21. For 2022, we expect FFO to increase at around 10% as it already reached pre-pandemic levels at USD4,393mn in FY21. Growth will depend on the local price environment and the recovery of jet fuel sales. Apart from the increase in Capex, we expect working capital cash outflows to increase by +25% to stand -USD223mn and taxes paid of -USD100mn up from -USD5mn in FY21.

We believe that YPF has managed its liquidity conservatively in the past two years, prioritizing to show a positive FCF at the expense of boosting production. We believe YPF will continue following the same strategy despite the strong international price environment without the ease of FX restrictions. Although Capex for 2022 was increased by +37% yoy, the impact in production will not be enough to reach FY19 levels, which in fact, it had been declining since FY17. In turn, YPF liquidity has improved sustainedly, with Cash + Investments covering short-term maturities by 100% in 4Q21 vs. 37% in 1Q20. As of Dec- 31st, 2021, YPF's total debt, including leases, was down by -8% yoy to USD7,921mn, leading to a decrease in the reported net leverage to 1.6x from 2.0x in LTM3Q21 and 4.9x in FY20. With the new multilateral loan granted in February, we expect net leverage to increase but remain below For FY22E, management expects to maintain the net leverage below 2.0x.

Figure 4: YPF net leverage has dropped to 1.6x in FY21, below FY19 levels.



Source: TPCG Research based on the company's reports

YPF LUZ has successfully established a strong foothold in renewables

In FY21, revenues and EBITDA grew by +46% and +42% yoy to USD441mn and USD321mn, respectively, with total energy sales increasing by +34% yoy to 9,989GWh. Manantiales Behr, Los Teros II, and Cañadon Leon projects reached COD, increasing installed capacity by +10% yoy to 2,483MW. As a result, revenues from PPAs with Cammesa were up by +83% yoy to USD210mn. However, the segment that increased the most was revenues from PPAs with other privates that were up by +137% yoy to USD38mn. The main clients of this group are Santander, Ford, Toyota, Coca-Cola FEMSA, Holcim, Nestle, Accenture, among others. In this way, YPF Luz increased its market share of energy sold in MATER to 35% from 26% in FY20, owning the highest market share in MATER market.

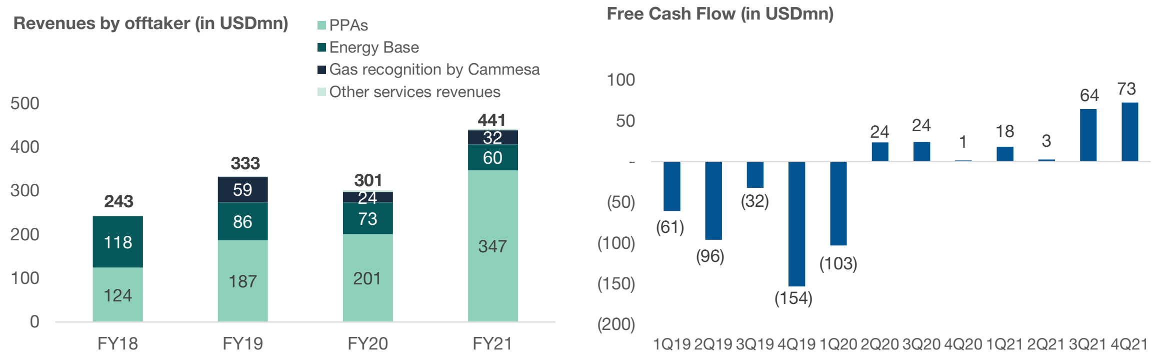
The start of operation of the wind farms and the new steam turbine in El Bracho thermal plant helped offset the lower cash inflows from Loma Campana I thermal plant, which was out of service for about nine months due to the failure in the super-core unit. Loma Campana I dispatch decreased by -68% yoy to 200GWh in FY21; consequently, the EBITDA came down by -76% yoy to USD4mn. Due to scheduled maintenance, the Tucuman Complex performance was also weak, with its EBITDA contracting by -31% yoy to USD36mn.

After completing Manantiales Behr Engines and Los Teros II wind farm projects in March and May 2021, YPF Luz FCF improved significantly. It turned positive to USD158mn from -USD65mn in FY20. The company's capex decreased from USD72mn in 1Q21 to USD31mn in 2Q21 to end at USD15mn in 4Q21. In addition, Cammesa's weighted average payment days downward trend has continued since the May 2021 bill. It paid the October 2021 bill in 54 days, the shortest time since the September 2019 bill. Given that 29% of YPF Luz total revenues derive from PPAs with privates, which have been paying on time, the company's weighted average collection days are a little bit lower than the ones from Cammesa's by three days. As a result, YPF Luz change in working capital turned positive in 2H21 to USD32mn from -USD62mn in 1H21.

In 2022, we expect the company's FCF to remain on positive grounds at USD115mn, 25% lower than in 2021, mainly due to Cammesa payment days deteriorating as of 2Q22. Even so, we believe YPF Luz will stand in a more comfortable position to manage its liquidity than its peers. What makes us think this is that, after Genneia, renewable energy contracts account for the largest share of its portfolio. Los Teros wind farm is the largest wind farm in Argentina, with a capacity of 175MW and an availability factor of 51%. Renewable energy bills are payable within 42 days per contract, while thermal energy bills have varied along the past years depending on Cammesa balance sheet health. In addition, management guided a Capex increase of +15% yoy to USD160mn, of which USD90mn will be for the construction of the Zonda solar park. The project would reach COD on 2Q23 and add 100MW capacity. To finance it, on February 3rd, the company issued a USD64mn dollar-linked amortizing green bond maturing in 2032 with a coupon rate of 5%.

As of December 31st, 2021, YPF Luz total debt (incl. leases) was down by -20% yoy to USD847mn. This was mainly explained by two syndicated loans being cancelled in December. Therefore, cash & eq. + ST investments decreased -56% yoy to USD100mn, covering short-term debt by 52%. YPF Luz FY21 consolidated net leverage improved to 2.3x from 3.6x in FY20. The indenture net leverage ratio stood at 2.1x in FY21, down from 3.4x in FY20. For 2022, management guided net leverage of 1.9x.

Figure 5: YPF Luz is one of the most profitable companies in the sector, with Adj. EBITDA margin at 72%, explained by almost 80% of revenues from PPAs.



Source: TPCG Research based on the company's reports

Figure 6: YPF SA's FY21 and 4Q21 summary financials.

Summary financials (in USDmn)	FY20	FY21	*Chg yoy*	3Q21	4Q21	*Chg qoq*
Income Statement Items						
Revenues	9,376.5	13,238.4	*41.2%*	3,620.9	3,620.2	*0.0%*
Opex	(10,332.6)	(12,274.7)	*18.8%*	(3,226.8)	(3,441.9)	*6.7%*
Adj. EBITDA	1,454.0	3,839.0	*164.0%*	1,154.5	833.9	*-27.8%*
Net Income	(1,098.4)	(33.7)	*-96.9%*	236.9	246.8	*4.2%*
Gross Margin	6%	19%		22%	17%	
Adj. EBITDA Margin	16%	29%		32%	23%	
Balance Sheet Items						
Short Term Debt	2,056.3	1,110.6	*-46.0%*	1,321.3	1,110.6	*-15.9%*
Long Term Debt	6,564.5	6,810.3	*3.7%*	6,657.4	6,810.3	*2.3%*
Total Debt	8,620.8	7,920.8	*-8.1%*	7,978.7	7,920.8	*-0.7%*
Cash & Cash Eq. + ST Investments	994.1	1,107.9	*11.4%*	1,177.5	1,107.9	*-5.9%*
Gross Leverage (LTM)	5.6x	1.9x		2.5x	1.9x	
Net Leverage (LTM)	4.9x	1.6x		2.0x	1.6x	
Cash / ST Debt	48%	100%		89%	100%	
ST Debt / Total Debt	24%	14%		17%	14%	
Debt / Capital	38%	34%		35%	34%	
Liquidity ratio	88%	119%		120%	119%	
Cash Flow Items						
Funds From Operations	2,670.3	4,392.9	*64.5%*	1,358.9	851.3	*-37.4%*
Change in Working Capital	342.3	(178.5)	*n.m.*	(270.2)	217.6	*n.m.*
CFO after cash interest & taxes	2,102.1	3,628.6	*72.6%*	909.7	960.2	*5.5%*
Capex	(1,678.4)	(2,452.2)	*46.1%*	(701.8)	(757.2)	*7.9%*
Disposals	-	-	*n.m.*	-	-	*n.m.*
Free Operating Cash Flow	423.7	1,176.5	*177.7%*	207.9	203.0	*-2.4%*
Acquisition (Disposals)	214.8	46.4	*-78.4%*	14.2	14.8	*4.8%*
Free Cash Flow	638.5	1,222.8	*91.5%*	222.1	217.8	*-1.9%*
OCF/Total Debt	24%	46%		46%	48%	
FOCF/Total Debt	5%	15%		10%	10%	
FCF/Total Debt	7%	15%		11%	11%	
Capex/Sales	18%	19%		19%	21%	

Source: TPCG Research based on the company's reports

Figure 7: YPF Luz's FY21 and 4Q21 summary financials.

Summary financials (in USDmn)	FY20	FY21	*Chg yoy*	3Q21	4Q21	*Chg qoq*
Income Statement Items						
Revenues	301.5	441.5	*46.4%*	120.4	110.5	*-8.3%*
Opex	(170.7)	(239.8)	*40.5%*	(61.6)	(63.4)	*3.0%*
Adj. EBITDA	230.3	318.1	*38.1%*	88.1	80.1	*-9.2%*
Net Income	83.5	65.0	*-22.1%*	(6.3)	51.3	*n.m.*
Gross Margin	53%	52%		54%	49%	
Adj. EBITDA Margin	76%	72%		73%	72%	
Balance Sheet Items						
Short Term Debt	346.3	192.3	*-44.5%*	185.9	192.3	*3.4%*
Long Term Debt	703.1	642.9	*-8.6%*	701.5	642.9	*-8.3%*
Total Debt	1,049.4	835.2	*-20.4%*	887.4	835.2	*-5.9%*
Cash & Cash Eq. + ST Investments	226.6	100.5	*-55.7%*	90.4	100.5	*11.1%*
Gross Leverage (LTM)	4.6x	2.6x		2.8x	2.6x	
Net Leverage (LTM)	3.6x	2.3x		2.5x	2.3x	
Cash / ST Debt	65%	52%		49%	52%	
ST Debt / Total Debt	33%	23%		21%	23%	
Debt / Capital	49%	41%		43%	41%	
Liquidity ratio	81%	75%		87%	75%	
Cash Flow Items						
Funds From Operations	288.8	401.2	*38.9%*	79.6	97.6	*22.5%*
Change in Working Capital	(44.6)	(29.8)	*-33.2%*	36.0	(4.0)	*n.m.*
CFO after cash interest & taxes	161.1	296.6	*84.1%*	84.8	87.7	*3.4%*
Capex	(226.2)	(138.6)	*-38.7%*	(20.5)	(15.1)	*-26.3%*
Disposals	-	-	*n.m.*	-	-	*n.m.*
Free Operating Cash Flow	(65.0)	158.0	*n.m.*	64.4	72.6	*12.8%*
Acquisition (Disposals)	-	-	*n.m.*	-	-	*n.m.*
Free Cash Flow	(65.0)	158.0	*n.m.*	64.4	72.6	*12.8%*
OCF/Total Debt	15%	35%		38%	41%	
FOCF/Total Debt	-6%	19%		29%	34%	
FCF/Total Debt	-6%	19%		29%	34%	
Capex/Sales	75%	31%		17%	14%	

Source: TPCG Research based on the company's reports

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