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Corporates Argentina - Equity

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Vista 2Q23: A stumble is not a fall

Trade Book

Vista ADRs | **Price (USD)**

Open Trades

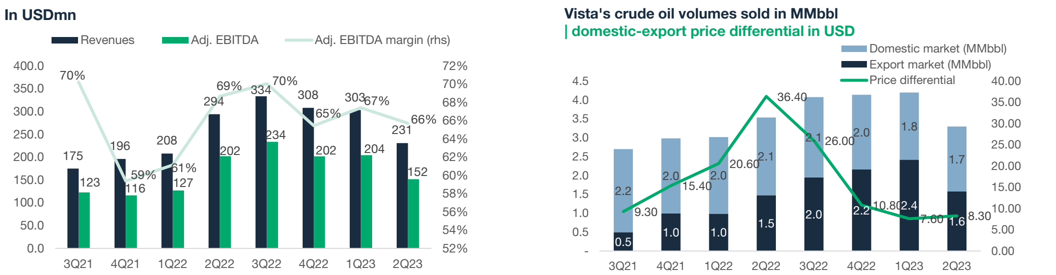
Trade	Trade		Rationale
EXD			
Buy **VIST**	Open Price: **USD18.23** Target Price: **USD35**	Opening Date: **15/02/23**	Vista has delivered a strong performance in the past years, with revenues growing rapidly by focusing on shale crude oil production. We believe Vista's revenues bottomed in 2Q23 and will resurge strongly in 3Q23. Even if prices continue sliding, revenue growth will be driven by higher volumes sold. Vista accounts for a low-cost structure and the lowest net leverage in the sector.

In 2Q23, Vista sold more crude oil to the domestic market than internationally, partly due to crude oil production decreasing 11% q/q and the delay in the loading of one oil cargo to export through the Atlantic. The company decided to lower production to focus on the Bajada del Palo Este and Aguila Mora pilot projects, in which it found that, on average, 71% of the hydrocarbon content of the wells was oil in the first case and 96% in the second case. As a result, the company added 300 wells to its inventory, totaling 1,150 wells. After finishing the pilots, the company moved its drilling and completion equipment back to its flagship development in Bajada del Palo Oeste, which should lead to ramp up production in 3Q23 to export crude oil to Chile through the OTASA-OTC pipeline, which started to be in operation in June. Said this, we expect 3Q23 results to outperform 2Q23, which were weak due to the lower volumes sold and international price environment.

In 2Q23, revenues were down by 22% y/y and 24% q/q to USD231mn, with exports sales decreasing 26% y/y and 36% q/q to USD108.6mn and sales to local refineries decreasing by 20% y/y and 6% q/q to USD104.0mn. On a y/y basis, export prices decreased at a higher pace than domestic prices. The average realized export price was down by 31% y/y to USD68.6/bbl while the average domestic price was down by 5% y/y to USD60.3/bbl. As a consequence, the price differential between the international and local price shrank to USD8.3/bbl in 2Q23 from USD36.4/bbl in 2Q22. Considering the decline in international prices, local refineries decreased crude oil prices sequentially. In 2Q23, the realized average domestic price was down 3%, falling +1pp more than the average crude oil export price. Revenues did not decrease further as export volumes sold remained higher than in 2Q22, despite significantly declining q/q.

We believe that the agreement with Aconcagua to focus only on shale was assertive as it not only helped to decrease lifting costs but also gave room to the company to increase Capex for development facilities. The Adj. EBITDA margin only deteriorated 1pp q/q to 66%, thanks to lifting costs reaching a record low of USD4.8/boe, down from USD6.4/boe in 1Q23. The decrease in operating expenses by 36% y/y / 33% q/q in 2Q23 helped to offset the increase in SG&A by 15% y/y / 4% q/q.

Figure 1: We expect 2Q to be the weakest quarter in 2023

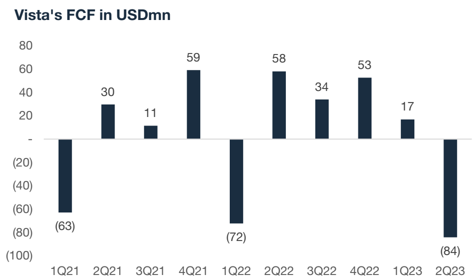


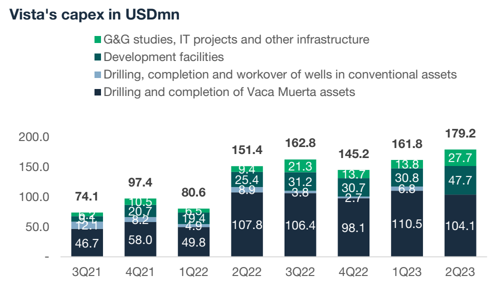
Source: TPCG Research based on Vista's FFSS

Vista’s FCF turned negative to -USD84mn in 2Q23 after 4 consecutive positive quarters, explained by the decrease in FFO (-33% y/y / -17% q/q), the recovery of crude oil inventory, advance payments for transport infrastructure, higher taxes paid, and the increase in Capex (+63% y/y / +22% q/q). The company reported Capex was USD179.2mn, with Capex for development facilities increasing by 55% / 88% to USD47.7mn due to the works in the Bajada del Palo Este and Aguila Mora pilot projects. In the first case, the company added 200 ready-to-drill wells to its inventory (including 50 in Coirón Amargo Norte), and in the second case, 100. Said this, the company will be ready to increase production when the midstream projects reach completion. The company expects exports to Chile to increase from 4.7kbbld to up to 5.7kbbld in the next months with the reversal of the La Escondida pipeline, and to 12.5kbbld when the Vaca Muerta Norte pipeline starts operation in 4Q23. For 2024, the company secured 12kbbld of capacity in the phase 1 of Oldeval’s duplicar project.

In 2Q23, the company partly financed the increase in Capex by tapping the local market, with the issuance of Class XX USD13.5mn USD-linked local bond maturing in July 2025. To reduce interest payments, Vista refinanced Class VII local bond of USD40.8mn with a 4.5% coupon due in 2024 by issuing Class XVI with a 0% coupon due in 2026.

Figure 2: Vista’s FCF turning positive in 4Q23, with 2Q-3Q23 Capex focused on accelerating drilling and completion activity and in upgrading facilities.





Source: TPCG Research based on Vista’s FFSS

On July 20th, Vista will pay the last installment of a syndicated loan with Banco Galicia, Banco Itaú Unibanco, Banco Santander Rio, and Citibank for USD22.5mn, with no further maturities to pay in the remainder of this year. As a result, Vista will have more room to spend cash in Capex. As of June 30th, 2023, cash + short term investments were USD222.6mn, covering short term debt (including leases) by 326%. The LTM2Q23 net leverage remained low at 0.6x (incl. leases), although it was up from 0.4x in LTM1Q23.

We believe Vista’s revenues bottomed in 2Q23 and will resurge strongly in 3Q23. In principle, the company expects income from the JV with Trafigura of USD19mn in 3Q23, which was null in 2Q23. In addition, it expects export cargoes to increase to 5 in 3Q23 from 3 in 2Q23 (including exports to Chile). Even if prices continue on the downtrend, revenue growth will be driven by the rise of volumes sold. In addition, the company accounts for a low-cost structure to maintain profitability levels. One of the main differences between Vista and other O&G players is that the company has not tapped international markets yet. In fact, it has reduced the cross-border debt from accounting 54% in 2020 to 22% in 2Q23. As a result, Vista shows lower FX risk exposure than its peers. In view of the company’s ambitious growth perspectives, strong liquidity levels and low indebtedness levels, we continue recommending buying VIST.

Figure 3: Vista's 2Q23 summary financials.

Operating Data	2Q22	2Q23	*Chg yoy*	1Q23	2Q23	*Chg qoq*
Oil production (kbbld)	36.9	39.2	*6.3%*	44.0	39.2	*-11.0%*
Natural Gas (MMm3d)	1.2	1.1	*-9.2%*	1.2	1.1	*-12.2%*
NGL (kbbld)	0.4	0.6	*29.8%*	0.4	0.6	*35.9%*
Total (kboed)	**44.8**	**46.6**	*3.9%*	**52.2**	**46.6**	*-10.8%*
Summary financials (in USDmn)	**2Q22**	**2Q23**	***Chg yoy***	**1Q23**	**2Q23**	***Chg yoy***
Income Statement Items						
Revenues	**294.3**	**231.0**	*-21.5%*	**303.2**	**231.0**	*-23.8%*
Opex	299.7	237.2	*-20.8%*	317.4	237.2	*-25.3%*
Adj. EBITDA	**202.1**	**151.8**	*-24.9%*	**204.4**	**151.8**	*-25.7%*
Net Income	**101.8**	**52.2**	*-48.8%*	**128.7**	**52.2**	*-59.5%*
Adj. EBITDA Margin	**69%**	**66%**		**67%**	**66%**	
Balance Sheet Items						
Short Term Debt (incl. leases)	**172.2**	**68.3**	*-60.3%*	**128.3**	**68.3**	*-46.8%*
Long Term Debt (incl. leases)	**466.4**	**651.2**	*39.6%*	**594.4**	**651.2**	*9.5%*
Total Debt (incl. leases)	**638.6**	**719.5**	*12.7%*	**722.7**	**719.5**	*-0.4%*
Cash & Cash Eq. + ST Investments	**251.1**	**222.6**	*-11.3%*	**350.2**	**222.6**	*-36.5%*
Gross Leverage (LTM)	**1.1x**	**0.9x**		**0.9x**	**0.9x**	
Net Leverage (LTM)	**0.7x**	**0.6x**		**0.4x**	**0.6x**	
Cash / ST Debt	**146%**	**326%**		**273%**	**326%**	
ST Debt / Total Debt	**27%**	**9%**		**18%**	**9%**	
Debt / Capital	**35%**	**31%**		**31%**	**31%**	
Cash Flow Items						
Funds From Operations	**204.3**	**136.6**	*-33.1%*	**164.6**	**136.6**	*-17.0%*
Change in Working Capital	(6.0)	(11.0)	*84.2%*	(4.1)	(11.0)	*171.5%*
CFO after cash interest & taxes	**161.0**	**85.5**	*-46.9%*	**151.2**	**85.5**	*-43.5%*
Capex (Disposals)	(100.5)	(163.3)	*62.5%*	(133.8)	(163.3)	*22.1%*
Free Operating Cash Flow	**60.5**	**(77.9)**	*n.m.*	**17.4**	**(77.9)**	*n.m.*
Acquisition (Disposals)	(2.5)	(6.3)	*150.0%*	(0.5)	(6.3)	*n.m.*
Free Cash Flow	**58.0**	**(84.1)**	*n.m.*	**16.9**	**(84.1)**	*n.m.*

Source: TPCG Research based on Vista's FFSS

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