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

Corporates – Argentina

May 15, 2023

YPF SA 1Q23: remain firm

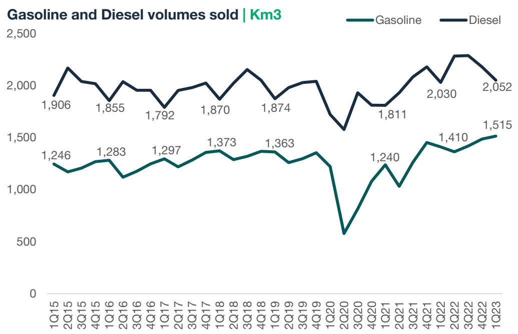
YPF reported strong 1Q23 results considering that 1Q has been historically the weakest during the year and the effect of the severe drought that impacted diesel sales and grain and flours exports. Although 1Q23 revenue fell -8.8% qoq, it increased by +12.7% yoy to USD4,238mn, reaching the highest level in 1Q in the past 6 years. YPF maturities are manageable for the rest of the year, as the most important ones have already been paid. Crude oil exports should start to weigh on the company's revenues as of 4Q23, with the completion of the Transandino and the Vaca Muerta North pipelines. We expect FX risk to decline with the boost of crude oil exports, thus, the new cash inflows in USD. For this reason, we are still Overweight on YPFDAR 25s Old, 26s Secured and 33s. We also recommend 2 swap ideas with Pampa Energia's bonds.

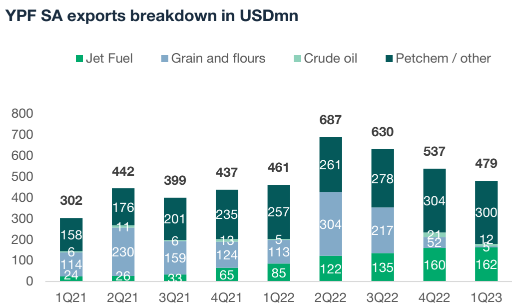
Analyzing YPF's revenue generation in 1Q23, gasoline sales were up by +9.4% yoy / +0.9% qoq to USD892mn, with volumes sold increasing by +7.4% yoy / + 1.9% qoq. Thanks to the revamping of La Plata Refinery and of the pump station Puesto Hernandez, the company increased gasoline and middle distillates production to the highest level since 2007. As a result, the refinery utilization stood at 94% up from 89% in 4Q22 and 86% in 1Q22. Gasoline prices in USD terms declined by -1.3% qoq, with inflation running above the increase in pump prices. However, they were still +1.6% above those of 1Q22. For the next quarter, we expect gasoline sales to decline qoq not only because for a seasonality factor 2Q show the lowest volumes sold but also because YPF agreed with the government to increase pump prices by 4% mom until July while inflation has accelerated abruptly as of April.

Diesel sales are the main revenue generator, accounting for 43% of domestic sales and 38% of total revenues. In 1Q23, despite they were down -8.7% qoq to USD1,620mn, they almost doubled gasoline sales. Like gasoline, the diesel price was down by -3% qoq, while it was 25% above 1Q22. In 1Q23, diesel volumes sold were 2,052Km3 (-5.9% yoy / +1.1% qoq). It is worth mentioning that the behavior of diesel volumes sold is to increase gradually over the quarters until reaching a peak in 3Q. From a historical perspective, 1Q23 volumes sold were not that bad, considering that soy harvest is expected to be the lowest in 15 years. In fact, they were +25% higher than in 1Q17 and +9-10% than in 1Q18-19.

Exports totaled USD479mn, still +2.2% higher than in 1Q22 despite grain and flours plummeting to USD5mn, down 95.7% yoy / 90.7% qoq. Jet fuel was the only segment that grew yoy and qoq. It was up by +87.4% yoy /+0.8% qoq to USD162mn.

Figure 1: Gasoline volumes dispatched reached an all-time high in 1Q23





Source: TPCG Research based on the companies' reports

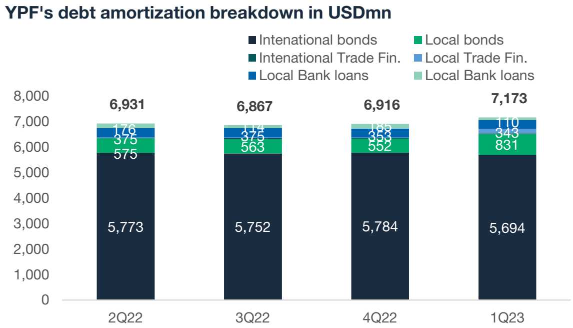
YPF succeeded in reducing costs and S&GA further qoq, which helped to increase the adjusted EBITDA by +11.9% yoy / +4.9% qoq to USD1,044mn. The EBITDA margin improved by +5pp qoq to 25%. On the downstream segment (now Industrialization), biofuel purchases to third parties decreased the most, being down by -15% qoq. On the upstream segment, royalties and exploration expenses decreased by -6% and -21% qoq, respectively. Lifting costs were flat qoq at USD14.6/boe, explained by conventional production still accounting for the highest share of total production, being 48% vs. 44% shale. With conventional production flat qoq at 245.7kboe, lifting costs increased by only +0.7% qoq to USD23.6/boe. In contrast, lifting costs in the core hub increased by +8.2% qoq to USD4.9/boe, driven by the increase in shale production by +5.8% qoq to 226.9kboe and the rise in energy costs.

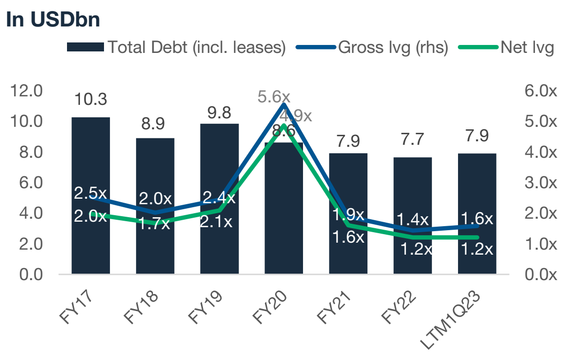
We estimated a FCF of USD105mn in 1Q23, down by -77% yoy, as a consequence of the increase in capex of +58% yoy to USD1,262mn. The change in working capital was positive thanks to the increase in trade payable days. Also, interest paid was down by -9% yoy to USD157mn, mainly explained by the payment of international bonds debt amortizations that reduced the hard currency debt outstanding. As of March 31st, 2023, cash & cash equ. + ST investments was USD1,296mn (+18.7% qoq / -2.5% yoy), covering ST debt by 92% vs. 76% in 4Q22. For the rest of the year, YPF's reported debt outstanding is USD789mn. However, YPF paid USD260mn for the 2nd amortization of YPFDAR 8.5 24s in April and USD59mn last Friday for the payment of the 2nd amortization of the YPFDAR 9% 26s. With this in mind, the risk of YPF facing difficulties to pay its debt should fade as the company will have to cancel international debt totaling USD212mn in 3Q23 and USD58mn in 4Q23. These amounts are considerably lower than the ones already paid by the company so far this year.

Regarding 2024, the company will have to face maturities of USD1,102mn, of which USD667mn or 61% of it correspond to the payment of international bonds debt, around +10% more than this year. The main differences will be that by next year YPF should have additional streams of cash in hard dollars thanks to the completion of the Transandino crude oil pipeline. Management expects to export 10% of the company's crude oil production. This led us to think that YPF, in case of need, could turn to export financing, which used to represent 8% of total debt in FY19 and shrank to 2% in 1Q23. In addition, it will increase USD-linked cash inflows from the Plan Gas contract related to the first stage of the Nestor Kirchner natural gas pipeline. Other key point is that if the El niño weather returns, the next harvest season will outperform the current one materially, and thus, YPF grain and flours sales should bounce back. Said this, in case of a worsening of the macroeconomic conditions, we believe YPF will be prepared to navigate the quarters smoothly.

In our view, the company's indebtedness levels are adequate with the net leverage standing at 1.2x since LTM3Q22. Like other Argentine companies, YPF has been reducing the risk of access to the FX market by paying international bonds amortization and tapping the local market mainly with USD-linked bonds at extremely attractive coupon rates. For instance, YPF issued 2 USD-linked bonds and a peso denominated bond on April 25th, 2023. Class XXIII with an amount outstanding of USD147mn and a 0% coupon maturing on April 25th, 2025, and Class XXIV with an amount outstanding of USD37mn a 1% coupon maturing on April 25th, 2027. Next year, YPF will have to cancel USD150mn of the A/B loan with CAF. The company will seek to extend its maturity and increase its size, which is more convenient given that there is no restriction for access to the FX market to cancel multilateral loans.

Figure 2: Total debt (incl. leases) was up by +3.3% qoq, explained by the issuance of USD300mn of domestic bonds and obtaining USD160mn of local trade facilities.

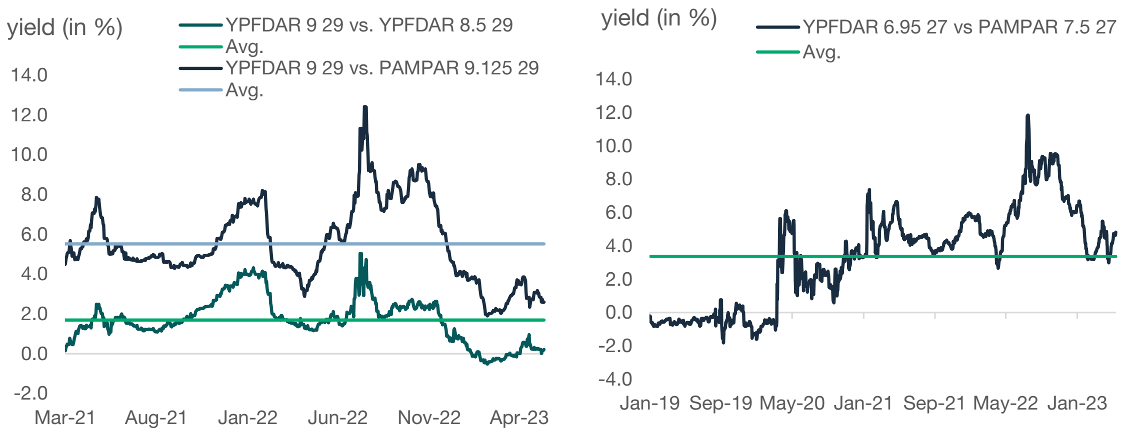




Source: TPCG Research based on the companies' reports

With these in mind, among YPF bonds, we prefer YPFDAR 25s Old, 26s Secured and 33s. We believe the bondholders of YPFDAR 29 new should consider swapping them for the PAMPAR 9.125 29s, as the spread differential is now 260bps while the historical average is 550bps. Conversely, bondholders of PAMPAR 7.5 27s should consider swapping them for YPFDAR 6.95 27s, as the spread differential is 483bps. We expect a contraction of 150bps reversing to the historical average.

Figure 3: Swap YPFDAR 29s New for PAMPAR 9.125 29s and PAMPAR 7.5 27s for YPFDAR 6.95 27s



Source: TPCG Research based on Bloomberg

Figure 3: YPF SA's 1Q23 summary financials.

Operating Data	1Q22	1Q23	Chg yoy	4Q22	1Q23	Chg qoq
Crude oil production (Kbbld)	222.1	238.5	*7.3%*	231.8	238.5	*2.9%*
NGL production (Kbbld)	44.2	42.9	*-3.0%*	42.6	42.9	*0.8%*
Gas production (Mm3d)	38.1	36.5	*-4.2%*	35.7	36.5	*2.0%*
Total (Kboed)	**505.8**	**510.6**	***1.0%***	**499.2**	**510.6**	***2.3%***
Summary financials (in USDmn)						
Income Statement Items						
Revenues	**3,760.0**	**4,238.0**	***12.7%***	**4,645.0**	**4,238.0**	***-8.8%***
Opex	(3,345.0)	(3,894.0)	*16.4%*	(4,374.0)	(3,894.0)	*-11.0%*
Adj.EBITDA	**995.2**	**1,044.0**	***4.9%***	**933.3**	**1,044.0**	***11.9%***
Net Income	**267.0**	**341.0**	***27.7%***	**464.3**	**341.0**	***-26.6%***
Adj.EBITDA Margin	**26%**	**25%**		**20%**	**25%**	
Balance Sheet Items						
Short Term Debt	**801.7**	**1,406.0**	***75.4%***	**1,434.0**	**1,406.0**	***-2.0%***
ST Borrowings	522.5	1,108.0	*112.1%*	1,140.0	1,108.0	*-2.8%*
ST Leases	279.1	298.0	*6.8%*	294.0	298.0	*1.4%*
Long Term Debt	**6,959.7**	**6,498.0**	***-6.6%***	**6,220.0**	**6,498.0**	***4.5%***
LT Borrowings	6,718.8	6,231.0	*-7.3%*	5,948.0	6,231.0	*4.8%*
LT Leases	240.8	267.0	*10.9%*	272.0	267.0	*-1.8%*
Total Debt	**7,761.3**	**7,904.0**	***1.8%***	**7,654.0**	**7,904.0**	***3.3%***
Cash & Cash Eq. + ST Investments	**1,328.9**	**1,296.0**	***-2.5%***	**1,092.0**	**1,296.0**	***18.7%***
Gross Leverage (LTM)	**1.9x**	**1.6x**		**1.5x**	**1.6x**	
Net Leverage (LTM)	**1.5x**	**1.2x**		**1.2x**	**1.2x**	
Cash / ST Debt	**166%**	**92%**		**76%**	**92%**	
ST Debt / Total Debt	**10%**	**18%**		**19%**	**18%**	
Debt / Capital	**33%**	**51%**		**30%**	**51%**	
Liquidity ratio	**125%**	**102%**		**108%**	**102%**	
Cash Flow Items						
Funds From Operations	**1,159.9**	**1,299.0**	***12.0%***	**1,558.8**	**1,299.0**	***-16.7%***
Change in Working Capital	272.0	198.0	*-27.2%*	30.0	198.0	*560.0%*
CFO after cash interest & taxes	**1,256.5**	**1,367.0**	***8.8%***	**1,309.0**	**1,367.0**	***4.4%***
Capex	(797.0)	(1,262.0)	*58.3%*	(1,314.0)	(1,262.0)	*-4.0%*
Disposals	-	-	*n.m.*	-	-	*n.m.*
Free Operating Cash Flow	**459.5**	**105.0**	***-77.1%***	**(5.0)**	**105.0**	***n.m.***
Acquisition (Disposals)	2.0	-	*-100.0%*	4.0	-	*-100.0%*
Free Cash Flow	**461.5**	**105.0**	***-77.2%***	**(1.0)**	**105.0**	***n.m.***

Source: TPCG Research based on the company's reports

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
Santiago Resico	LATAM Strategist	sresico@tpcgco.com	+54 11 4898-6615

Sales & Trading

Juan Manuel Truppia	**Head of Sales & Trading**	**jmtruppia@tpcgco.com**	**+54 11 4898-6659**
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
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
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635
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

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
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com	+54 11 4898-6612

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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