

## Some trade ideas with YPFDAR, BUEAIR, CAPXAR & TRAGAS

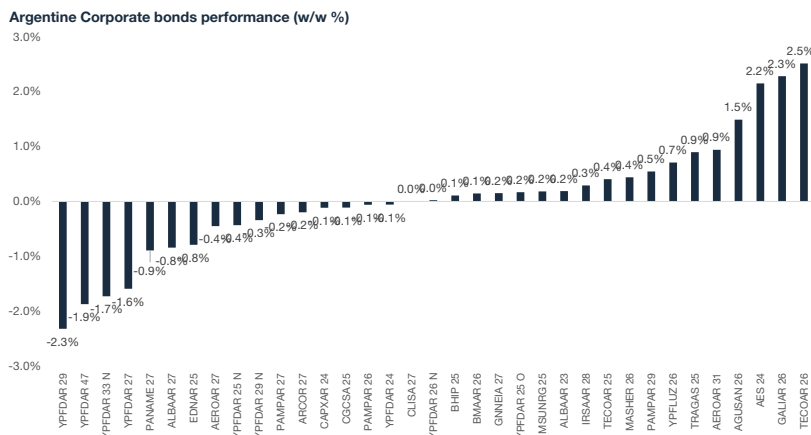
### Trade Book

#### New Trades

Trade	Trade	Rationale
<b>EXD</b>		
Buy YPFDAR 9 29 Sell BUEAIR 7.5 27	Open Spread: -188 Target Spread: -400	We believe BUEAIR 27s are rich. Among corporate bonds with similar duration, we believe the YPFDAR 29s are the most defensive.
Buy TRAGAS 6.75 25 Sell CAPXAR 6.875 24	Open Spread: -56 Target Spread: 150	Opening Date: 11/07/23 We found CAPXAR 24 rich. Considering that TGS is stronger fundamentally than Capex SA, we expect TRAGAS 25 yield to trade inside CAPXAR 24.
Buy YPFDAR 8.5 25 Sell CAPXAR 6.875 24	Open Spread: -341 Target Spread: -500	We expect the spread between YPFDAR 25 Old and CAPXAR 24 to widen. Capex SA was FCF negative in FY23 and cash + short-term investments of USD16mn as of April 31 <sup>st</sup> , 2023, which lead us to think that the company might offer an exchange offer of its bond in 2024. With this in mind, we believe it should be trading at similar levels to AES 24.

Last week, corporate bonds delivered total returns ranging from +2.5% (TECOAR 26s) to -2.3% (YPFDAR 29s). 16 out of 35 corporate bonds delivered negative total return w/w. The volume of corporate bonds traded daily decreased 28% w/w last week, in part due to the national holiday in the US. We believe, TECOAR 26s is now fair priced. The bond lagged TECOAR 25s in the second and third week of June. TECOAR 26s – TECOAR 25 spread is now -104bps vs. +82bps on June15th. Among YPF bonds, the long part of the curve showed the worst performance. Despite this, they are still among the top performers in the past month, with total returns ranging from 9.3 - 5.7%. In the past week, YPFDAR 25s was the only one with a positive total return of +0.2% w/w, while the past month total return was +7.4% and +15.3% YTD. Looking at the average daily volumes traded of Argentina corporate bonds, YPF was the only corporate to show an increase the past week, up +9.2% w/w, driven by the 33s and 25s Old.

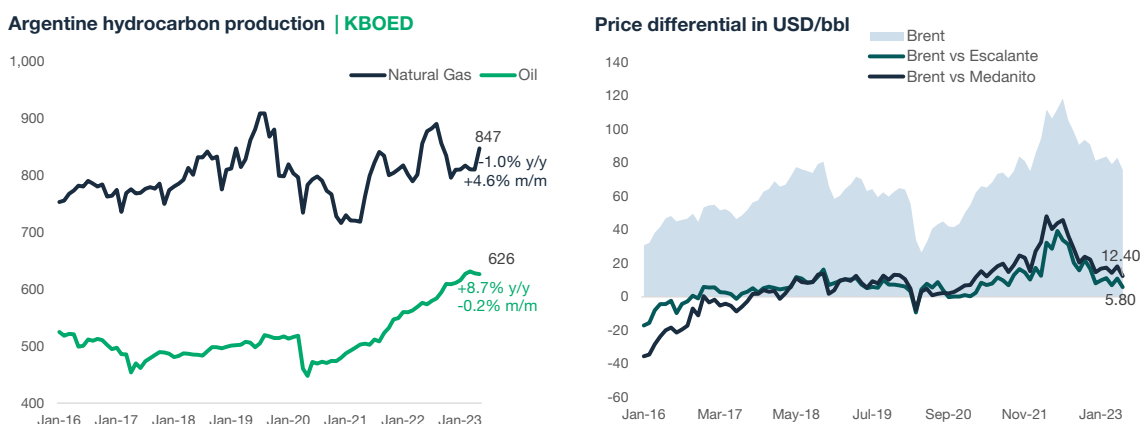
**Figure 1: TECOAR 26s showed the strongest performance, +2.5% w/w**



Source: TPCG Research based on Bloomberg

Among the different sectors, the O&G has been the most dynamic. The Secretariat of Energy recently published May's figures. Argentina's crude oil production increased steadily since 2020, while natural gas growth has fluctuated over the period analyzed. In May, natural gas production reached 135MMm3/d (847kboed), up +4.6% m/m from April, but still 4.8% below the peak reached in August 2022. 57.6% of total natural gas production was from unconventional sources. We expect companies to ramp up production in August, driven by the Nestor Kirchner pipeline that will be operative in the third week of July and also by Transportadora Gas del Norte (TGN) that finished two important works related to the reversion of the North pipeline and increased transportation capacity by 40%.

**Figure 2: Crude oil is the driving force of Argentina's hydrocarbon production**



Source: TPCG Research based on Secretariat of Energy

On the crude oil side, production was flat m/m at 626kbbld. However, it was +8.7% above 2022 levels. We expect crude oil production to continue on the rise thanks to the advance of midstream projects. Last week, Oldeval issued a USD60mn USD-linked bond in the local market at a 0% coupon rate to finance the Duplicar project. It consists of the increase in transportation capacity, first, to 19,000m3/d, and then to 31,000m3/d. As a result, crude oil exports will rise to 180-250kboed. Behind the project are YPF, which is Oldeval's largest stakeholder with 37% of the shares, Exxon Mobile (21%), Chevron (14.5%) and other 4 companies. Then, the government called for a hearing to analyze the environmental impact of Vaca Muerta Sur project on August 17<sup>th</sup>, 2023. The project involves the construction of a new oil pipeline and a port terminal.

While the Upstream business shows a strong growth potential, the Downstream is struggling to path through rising costs. On Sunday, gas stations increased gasoline prices by 4.5%, the same rate as in June, which was way below inflation. However, with Brent decreasing at a higher pace than the local crude oils (Medanito and Escalante), the price differential shrank between the local and international prices. In May, the price differential between Brent and Medanito was USD12.40/bbl vs. USD45.70/bbl in October 2022, when it reached a record high. Similarly, the price differential between Brent and Escalante was down 83% to USD5.80/bbl from USD33.80/bbl in October 2022. The decrease in the price differential is a relief for YPF which buys around 10% of the crude oil processed from third parties. The higher the differential, the more reticent crude oil suppliers to sell to refineries, except for those who do not have another alternative.

With the Central Bank reserves tight (please do not miss reading *Rallying bonds, worsening fundamentals: Is it all about the election trade?*), we believe the government will not hamper the O&G sector. On the contrary, the government announced that the tender for the construction of the second stage of the Nestor Kirchner pipeline will be launched in a month and the reversion of the North pipeline in the last weeks of July. Because the energy sector continues growing smoothly and midstream projects advance despite the presidential elections, we are Overweight on YPF bonds.

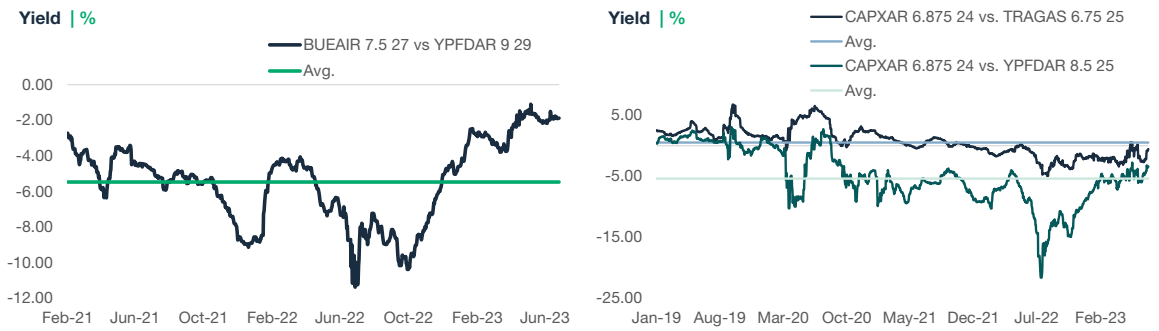
We find currently attractive to swap BUEAIR 7.5 27 for YPFDAR 9 29, which yield spread differential stands at -188bps vs. the historical average of -548bps. Despite Ciudad de Buenos Aires is the most solid credit among province bonds, we believe the bond is rich. YPF bond offer +1.5pp higher coupon and an increase in duration of +1 year. YPF bond starts amortizing on June 30<sup>th</sup>, 2026, paying semiannual installments of 14.2857%, while BUEAIR 7.5 27 is a bullet bond.

We also find CAPXAR 6.875 24 rich at a price of USD98.30 (yield: 9%). We recommend swapping the bond for TRAGAS 6.75 25 or YPFDAR 8.5 25. In the first case, Capex SA bond yield is currently trading inside TGS bond, at a spread differential of -56bps, while it has historically traded outside. We believe the spread differential should be 100-200bps. On the fundamental side, what supports our view is that TGS net leverage

is lower at 0.3x in LTM1Q23 vs Capex SA at 1.4x in LTM4Q23. In addition, we see positive that TGS awarded the Operations and Maintenance Service contract of Nestor Kirchner pipeline for a 5-year term. Next year, if the second stage of the project is finished, the government should award TGS another contract. Capex did not participate on the Plan Gas Ar rounds for 2025-2028. We find negative that YPF did not want to participate in the drilling of La Yesera area.

Other option is to swap CAPXAR 6.875 24 for YPFDAR 8.5 25, which are at a yield spread differential of -341bps vs. the historical avg of -540bps. YPF 25s, which yield is currently 15%, offer +1.625pp higher coupon and +1.2 years in duration than Capex SA bond. YPF net leverage is similar to Capex SA at 1.2x. YPF liquidity levels are also higher than Capex, with cash + ST investment covering ST debt by 92% while in the case of Capex it was 80%. In addition, YPF was FCF positive in 1Q23, USD105mn, while Capex 4Q23 (Feb-Apr 2023) FCF was negative at -USD20mn.

**Figure 3: Swap BUEAIR 7.5 27 for YPFDAR 9 29 and CAPXAR 6.875 24 for YPFDAR 8.5 25 or TRAGAS 6.75 25**



Source: TPCG Research based on Bloomberg

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