TPCG

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Corporates Argentina - Equity

March 21, 2024

YPF: prices on their way to recovery

Trade Book

Open Trades

Trade	Trade		Rationale
EXD			
Buy **YPF**	Open Price: **USD11.82** Target Price: **USD28.70**	Opening Date: **15/02/23**	We expect YPF to deliver a strong result in 2024 driven by the rise in local prices and the increase in exports. New regulations to increase FDI will be a determinant of YPF's growth perspective in 2025 onwards. Currently, the main revenue driver will be crude oil exports.

YPF ADRs | Price (USD)

YPF	Overweight
Price target	28.70
Price (21-Mar-24)	19.57
Potential Upside	47%

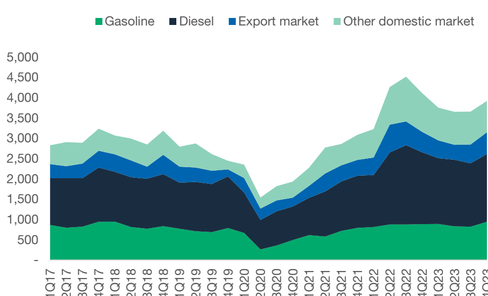
We reiterate our recommendation on **YPF** at a target price of USD28.70. As we stated in previous reports, 2024 will be a transitional year. Although the due date to take a decision on the LNG project was postpone for 1H25, if new regulatory investment incentives are approved, it will be a positive signaling. In addition, it will be evinced if the current management has support to continue increasing pump-prices. The outcome of the divestment or restitution of conventional fields will directly impact future Opex. We expect YPF to show a strong recovery in profitability levels in 2024, on the back of higher gasoline and diesel prices and crude oil and grain and flour exports. Despite Capex will decrease, the company's FCF will remain on negative grounds, which we expect to finance with local new issuances and trade financing.

Our analysis of YPF's downstream segment shows that the company's sales have increased significantly in the past years, surpassing pre-pandemic levels, mainly due to the increase in volumes sold. In Alberto Fernandez' administration, YPF revenue growth was driven by volumes sold. In 2024, volumes sold will normalize, as the recovery in pump prices in USD terms erased demand from retail and fuel trucks crossing borders from neighboring countries. The new pricing policy will be the main revenue differentiator this year.

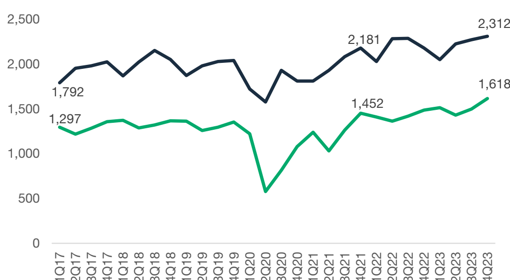
Diesel sales was one of the main growth drivers. We believe the diesel sales floor is 2,200Ktn, +11% higher than between 2017-2019. It is explained by the increase in diesel demand by the new close and combined cycle plants driven by the Macri administration's PPAs. Then, growth will depend mainly on weather conditions affecting the harvest and winter temperatures. In 2023, the agribusiness sector was negatively impacted by the drought. Also, thermal energy plants did not generate much energy due to mild-temperatures and the increase in hydro generation.

Figure 1: Diesel sales expanded in the past years, accounting for 38% of revenues in FY23 vs. 34% in FY19

YPF's downstream sales | in USDmn



Diesel volumes sold in Ktn
| Gasoline volumes sold in Ktn

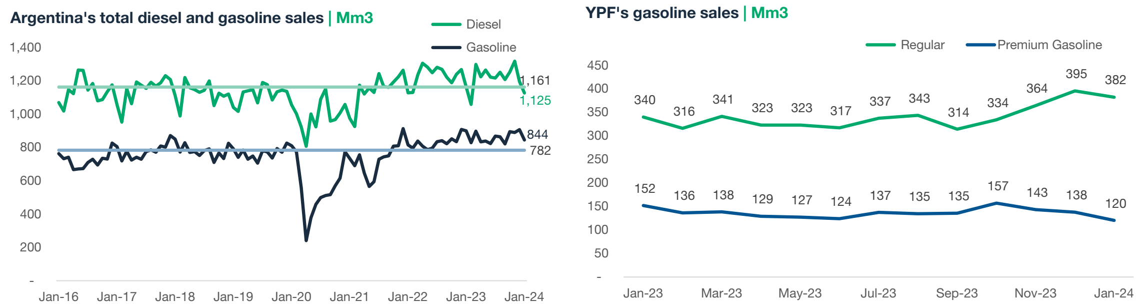


Source: TPCG Research based on YPF's FFSS

Even so, FY23 volumes sold increased 0.9% yoy, partly explained by cheapening in USD terms in the local market. In 2024, we expect diesel volumes sold to stay roughly flat yoy at 8,800Ktn down from 8,863mn in FY23. The strong performance in the agribusiness sector will help to offset the lower demand from the power generation sector, as this year is expected to be warmer and with higher rains.

YPF's gasoline volumes sold floor also increased vs pre pandemic levels, a 12% more. We believe it was due to a cheapening of gasoline prices. Since November 2023 when pump prices started to recover, there has been a migration from premium gasoline to the regular one. In January, regular gasoline sales increased +12% yoy to 382,175m3 while premium gasoline decreased 21% yoy to 120,164m3. Interestingly, while YPF showed an increase in regular gasoline sales, Shell, Pan American Energy (Axion) and Trafigura (Puma) showed a decline, leading us to think that customers of regular gasoline from these brands migrated to YPF. We believe it was due to YPF sells one of the cheapest gasolines in the local market.

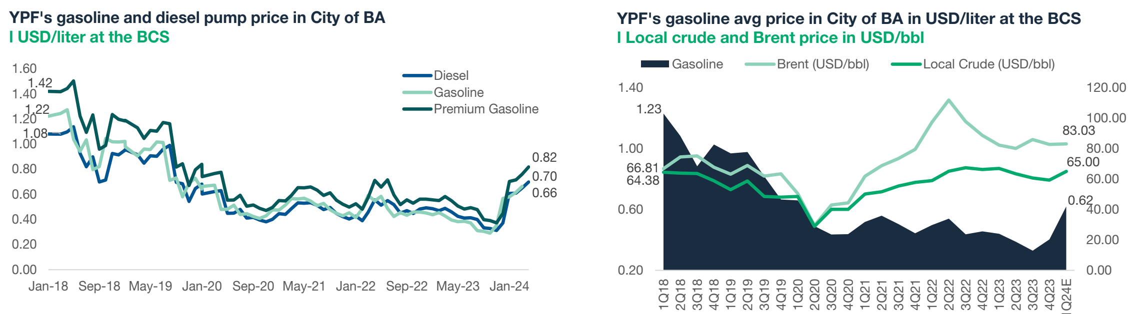
Figure 2: Diesel and gasoline volumes sold floor increased vs pre pandemic levels



Source: TPCG Research based on Secretariat of Energy

YPF's gasoline price increased to USD0.66/liter and the premium gasoline was USD0.82/liter at the BCS in March 2024, up from the record low of USD0.29/liter and USD37/liter, respectively, in October 2023. However, it is still below 2017-2019 levels. In 1Q18, gasoline price was USD1.23/liter when Brent was USD57.7/bbl. Considering that Brent averaged USD83/bbl in the past month, there is room for pump prices to continue rising. At the same time, the local crude oil price should also increase to reduce its gap with Brent.

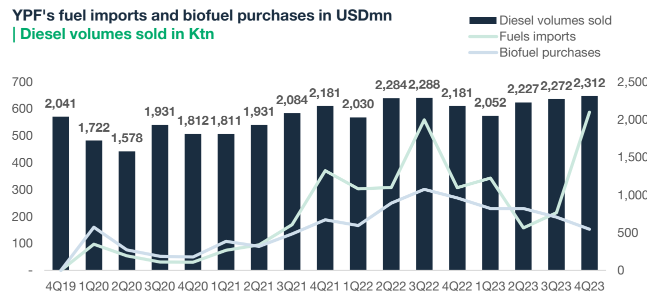
Figure 3: Price recovery in USD terms will be the main revenue driver this year.



Source: TPCG Research based on surtidores.com.ar and Secretariat of Energy

On the other side of the coin, the decrease in volumes sold will decrease fuels imports. In 4Q23, fuels imports increased by +174% qoq to USD588mn. Diesel volumes imported increasing by +279% qoq to 454Ktn driven by sales reaching a record high of 2,312Ktn (+1.7% qoq). While gasoline volumes imported were null in 3Q23, they increased to 257Ktn in 4Q23, with sales reaching a record high of 1,618Ktn (+7.9% qoq). Biofuel purchases has been on the downturn. They went down 23% qoq / 43% yoy to USD153mn in 4Q23.

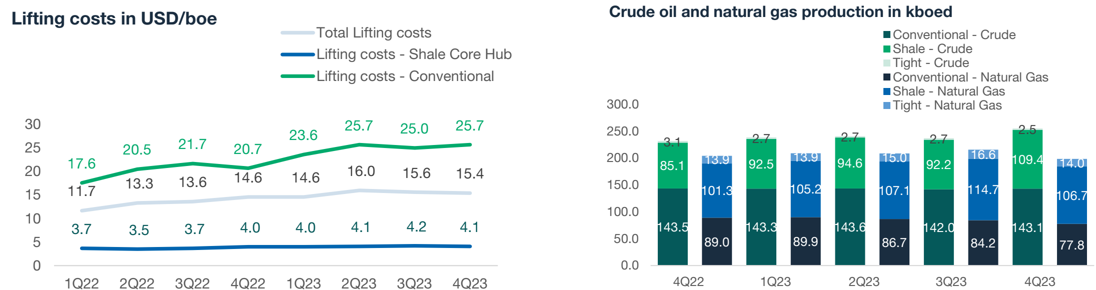
Figure 4: Fuels imports reached a peak of USD588mn, with diesel sales accounting for 20% of diesel volumes sold



Source: TPCG Research based on YPF's FFSS

Not also YPF's profitability will improve with the decrease in fuels imports but also for the divestment of conventional fields. The company plans to exit 50 conventional blocks, whose production is split into 60% crude oil and 40% natural gas. This fields contributes to EBITDA by less than 1% while annual capex is USD800mn (around 20% of Upstream capex). YPF is analyzing which cases have room to sell the blocks and which ones inevitably have to give back the fields to the provinces. We do not expect that they imply a material inflow of cash, just a relief in working capital and capex. Conventional blocks lifting costs averaged USD25.7/boe in 4Q23, up from USD25.0 in 3Q23, while shale lifting costs were down to USD4.1/boe vs USD4.2/boe. In the oil side, conventional blocks remain to be important for the total crude oil output, accounting for 56% of total or 143.1kbbld. The blocks that YPF would like to sell account for 63% of conventional crude oil production. As a consequence, YPF would have to increase shale production by 80% to offset the drop in conventional production, if the divestment is successful. With the ramp up in shale production, lifting costs will go down as we seen in Vista when it reached an agreement with Aconcagua Energia. Vista's lifting costs went down from USD7.5/boe in FY22 to USD5.1/boe in FY23. In contrast, conventional fields are not that significant for natural gas production, as they represent 36% of total.

Figure 5: Taming down mature fields natural decline rate became more costly. The divestment of conventional blocks will materially improve YPF's profitability levels.



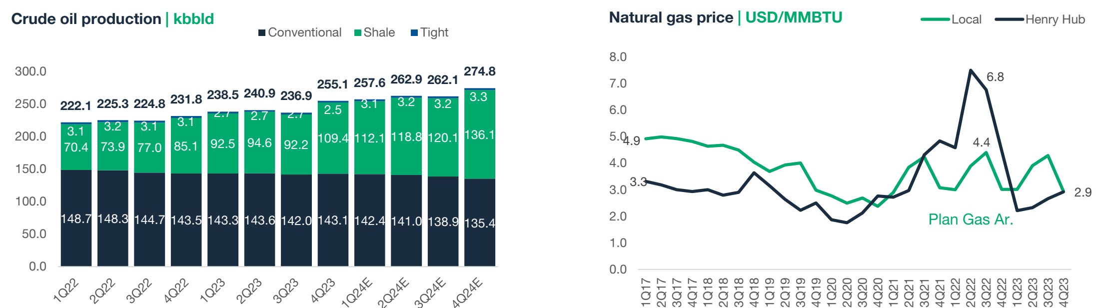
Source: TPCG Research based on YPF's FFSS

Divesting the blocks is not an easy task considering the involvement of unions and politicians. An example was the several attempts to damper offshore crude exploration and production on the Mar del Plata coast. Management expects to be successful in doing this before year end. According to a local newspaper, YPF reached an agreement with the president of a union in Chubut, in which staff will not go to work in the next 90-120 days to Campamento Central, El Trebol, and Restinga blocks in the San Jorge basin. During this period YPF expects to conclude the sale and divestment process. However, the presidents of other unions are more reluctant and against it. With the delay of the completion of the second stage of Oldeval's project to October-November 2024, YPF has time to negotiate the divestment process in 2Q-3Q24. To substantially ramp up shale crude oil production and compensate for the decline in conventional production, the company needs more evacuation capacity in Vaca Muerta.

Said this, we expect crude oil shale production to increase slowly in 1H24 and then accelerate in 2H24, outpacing conventional production by 4Q24. The main drivers are (i) to offset conventional crude oil production and (ii) increase crude oil exports. Crude oil exports to Chile which currently are 19-20kbbld will increase to 30kbbld in April. Then, Oldeval's stage 2 project will increase YPF's crude oil transportation capacity by 45kbbld in 4Q23. In contrast, we expect natural gas production to decline on the back of lower industrial demand and mild weather conditions in FY24. Natural gas growth potential relies mainly on YPF moving forward with the LNG project. The companies are evaluating whether to bring an existing float LNG facility from Petronas with a capacity of 1.2MTPA or build a new one of 2MPTA to be ready by 2027. Until

then, natural gas production growth prospects are low due to considering the decline in natural gas prices locally and internationally.

Figure 6: YPF's shale crude oil production increasing significantly by 4Q24E

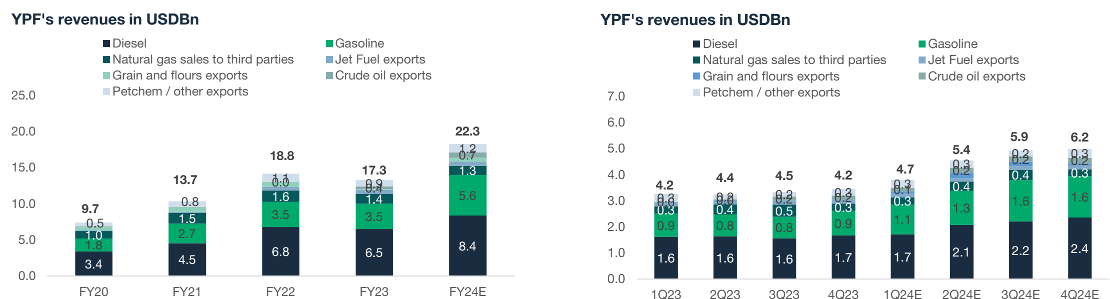


Source: TPCG Research estimates based on YPF's FFSS

An important news was that YPF already made the first tender offer for the engineering of the first LNG floating units. Without any major changes in hydrocarbon regulation that promote investment, these projects might end up in a drawer. The end of the YPF and Petronas MoU was postponed from 2H24 to mid-2025, aiming to attract other natural gas players to participate in the project. We believe it was also to gain time regarding regulation. The LNG Law obtained half approval last year. Now is the turn of the Senate to vote in favor or against it. However, the current government proposed the Large Investments Incentive Regime (aka RIGI in Spanish) within the Omnibus bill.

While the Plan Gas Ar. seemed a great deal in 2022 when LNG prices skyrocketed due to the Russia-Ukraine war, currently the Secretariat of Energy believes the prices agreed are high. During Macri's administration Argentina's average natural gas price was USD1.5/MMBTU higher than Henry Hub. This price difference motivated the development of Vaca Muerta. In the view of declining prices and natural gas production, the Fernandez's government launched the Plan Gas Ar. Then, it launched the construction of the Nestor Kirchner pipeline to diminish LNG imports. The current government had no incentives to launch the construction of Stage II of the Nestor Kirchner pipeline due to LNG prices in the range of USD10/MMBTU, low local prices, and oversupply of natural gas. The lack of pricing signaling will drive natural gas production downhill. It will be aggravated by the fact that shale natural gas, which is more capital-intensive than conventional, represents 65% of total production.

Figure 7: We expect revenues to grow by around 30% to USD22.3Bn



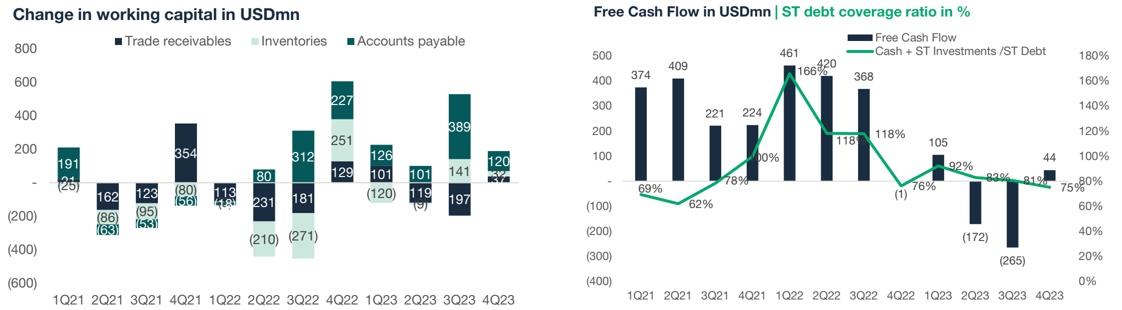
Source: TPCG Research estimates based on YPF's FFSS

In short, we expect YPF revenue to take off with the correction of diesel and gasoline prices to import parity and the increase in crude oil and grain and flour exports. Crude oil exports to Chile became significant in 3Q23, adding USD150mn of revenues each quarter. In FY24, we expect them to total USD745mn, up from USD362mn in FY23. In addition, grain and flour exports revenues will bounce back thanks to the better weather conditions for this year harvest. In FY23, grain and flour exports plummeted to USD77mn from USD684mn in FY22 due to the drought. This year it should totaled USD550mn on the back of higher volumes sold, standing between 2020 and 2021 levels.

Our analysis of the business shows that YPF profitability levels will stand at record highs in 1H24, explained by revenues increasing at a higher pace than costs, the positive impact of the FX devaluation on wages, and ARS-denominated contracts with vendors. However, this improvement will soften in 2H24, in line with a lower international price environment and the catch-up in Opex. Although FFO will increase, we expect change in WK to be negative. In 4Q23, change in WK was positive of USD30mn, explained by a strong improvement in

receivables from Cammesa and Aerolineas Argentina. However, payment days deteriorated in the past months which we believe it will be reflected in 1Q24.

Figure 8: 4Q23 improve in trade receivables did not last in 1Q24. For this reason, we expect YPF's FCF to remain on negative grounds.



Source: TPCG Research estimates based on YPF's FFSS

Management expects 2024 Capex of USD5Bn, 12% below 2023 levels. In our view, it will mostly focus on 2H24, when YPF will have to ramp up shale crude oil production. One of the reasons why Capex will decrease is due to the decline in natural gas production. Capex allocated to the conventional fields, which the company wants to sell, would be shifted to shale fields.

We believe YPF maturities are manageable despite liquidity remains tight, with cash + ST investments covering ST debt by 75%. 2024 maturities totaled USD1.2Bn, of which USD523mn correspond to international bonds. The rest we believe is easily rolled over. On July next year matures YPFDAR 8.5 2025 of USD1.1Bn. We expect YPF to repeat the recent liability management with the 2025 bond, considering the high acceptance and later strong performance of the YPFDAR 9.5 2031. YPF could resume its activity in international markets if the LNG project or other midstream projects related to increasing crude oil exports move forward. YPF has historically set the pace of the O&G sector growth. For this reason, these projects are key for other companies too.

Figure 9: YPF's 4Q23 and FY23 summary financials.

Operating Data	FY22	FY23	*Chg yoy*	4Q22	4Q23	*Chg yoy*	3Q23	4Q23	*Chg qoq*
Crude oil production (Kbbld)	226.0	242.9	*7.4%*	231.8	255.1	*10.0%*	236.9	255.1	*7.7%*
NGL production (Kbbld)	41.6	42.9	*3.2%*	42.6	39.6	*-7.0%*	46.6	39.6	*-15.1%*
Gas production (Mm3d)	37.5	36.2	*-3.3%*	35.7	34.4	*-3.9%*	37.5	34.4	*-8.5%*
Total (Kboed)	**503.3**	**513.6**	***2.0%***	**499.2**	**510.7**	***2.3%***	**519.7**	**510.7**	***-1.7%***
Summary financials (in USDmn)									
Income Statement Items									
Revenues	**18,757.0**	**17,311.0**	***-7.7%***	**4,645.0**	**4,194.0**	***-9.7%***	**4,504.0**	**4,194.0**	***-6.9%***
Opex	(16,302.0)	(16,423.0)	*0.7%*	(4,374.0)	(3,981.0)	*-9.0%*	(4,382.0)	(3,981.0)	*-9.2%*
Adj.EBITDA	**4,947.0**	**4,058.4**	***-18.0%***	**933.3**	**1,081.7**	***15.9%***	**926.0**	**1,081.7**	***16.8%***
Net Income	**2,234.0**	**(1,277.0)**	***n.m.***	**464.3**	**(1,861.0)**	***n.m.***	**(137.0)**	**(1,861.0)**	***n.m.***
Gross Margin	**27%**	**20%**		**20%**	**20%**		**18%**	**20%**	
Adj.EBITDA Margin	**26%**	**23%**		**20%**	**26%**		**21%**	**26%**	
Balance Sheet Items									
Short Term Debt	**1,434.0**	**1,849.0**	***28.9%***	**1,434.0**	**1,849.0**	***28.9%***	**1,836.0**	**1,849.0**	***0.7%***
Long Term Debt	**6,220.0**	**7,007.0**	***12.7%***	**6,220.0**	**7,007.0**	***12.7%***	**6,853.0**	**7,007.0**	***2.2%***
Total Debt	**7,654.0**	**8,856.0**	***15.7%***	**7,654.0**	**8,856.0**	***15.7%***	**8,689.0**	**8,856.0**	***1.9%***
Cash & Cash Eq. + ST Investments	**1,092.0**	**1,387.0**	***27.0%***	**1,092.0**	**1,387.0**	***27.0%***	**1,478.0**	**1,387.0**	***-6.2%***
Gross Leverage (LTM)	**1.4x**	**2.0x**		**2.1x**	**1.5x**		**1.5x**	**1.5x**	
Net Leverage (LTM)	**1.2x**	**1.7x**		**1.6x**	**1.2x**		**1.2x**	**1.2x**	
Cash / ST Debt	**76%**	**75%**		**76%**	**75%**		**81%**	**75%**	
ST Debt / Total Debt	**19%**	**21%**		**19%**	**21%**		**21%**	**21%**	
Debt / Capital	**30%**	**35%**		**30%**	**35%**		**32%**	**35%**	
Liquidity ratio	**108%**	**90%**		**108%**	**90%**		**95%**	**90%**	
Cash Flow Items									
Funds From Operations	**5,988.0**	**5,321.0**	***-11%***	**1,558.8**	**1,677.5**	***7.6%***	**1,413.6**	**1,677.5**	***18.7%***
Change in Working Capital	(29.0)	602.0	*n.m.*	30.0	30.0	*0.0%*	(12.0)	30.0	*n.m.*
CFO after cash interest & taxes	**5,249.0**	**5,375.0**	***2%***	**1,309.0**	**1,589.0**	***21.4%***	**1,233.0**	**1,589.0**	***28.9%***
Capex	(4,006.0)	(5,673.0)	*42%*	(1,314.0)	(1,545.0)	*17.6%*	(1,500.0)	(1,545.0)	*3.0%*
Disposals	-	-	*n.m.*	-	-	*n.m.*	-	-	*n.m.*
Free Operating Cash Flow	**1,243.0**	**(298.0)**	***n.m.***	**(5.0)**	**44.0**	***n.m.***	**(267.0)**	**44.0**	***n.m.***
Acquisition (Disposals)	6.0	10.0	*67%*	4.0	-	*-100.0%*	2.0	-	*-100.0%*
Free Cash Flow	**1,249.0**	**(288.0)**	***n.m.***	**(1.0)**	**44.0**	***n.m.***	**(265.0)**	**44.0**	***n.m.***

Source: TPCG Research based on YPF's FFSS

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