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Corporates Argentina – Fixed Income

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YPF is back!

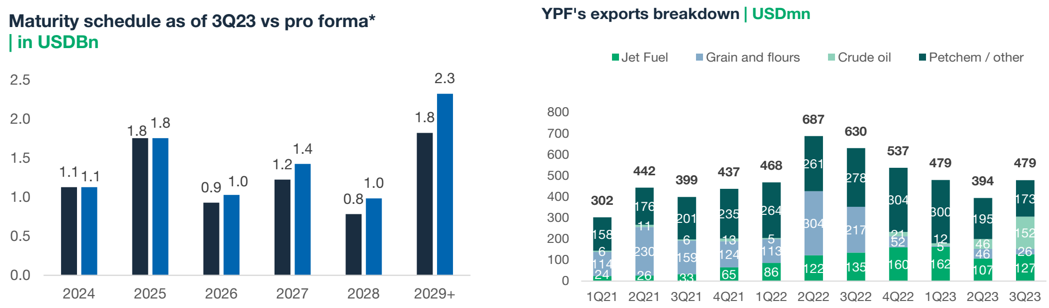
YPF is currently on roadshow. The company aims to issue a sinking bond maturing in 2031 of between USD500-1,000mn guaranteed by the proceeds of exports. The proceeds of the bond will be partly used for the cash tender offer to purchase YPFDAR 8.75% 2024, with an amount outstanding of USD346.3mn due on April 4th, 2024. The cash tender offer expires on February 5th, 2024. According to the local media, the new bond coupon could stand at 8.75%, like the 2024 bond, which makes sense considering that the YPFDAR 2029 New and 2033 bonds coupons are 9% and 7%, respectively.

After three years of YPF's announcement of the restructuring of all its global bonds, due to political interference, the company will tap international markets again. During this time, the company showed resilience to the lack of pump price adjustments, a decrease in its leverage partly thanks to the company tapping the attractive local market and hydrocarbon production sustained growth. In addition, the company resumed natural gas and crude oil exports to Chile. With the new government, pump prices have recovered in USD terms, although they remain 10% below the import parity. Medanito crude oil local price improved from USD56-57/bbl in 4Q23 to ~USD60/bbl in the first week of January. We are of the opinion that Horacio Marin, the new CEO and President of YPF, will continue with Alejandro Lew's growth plan and try to accelerate it. In fact, the LNG project with Petronas remains among top priorities, as the MoU expires this year.

YPF's main objective is to boost crude oil exports, which is mainly limited by transportation capacity. Oldeval, which is the company that operates the pipelines that connect Vaca Muerta with Bahia Blanca's port, Puerto Rosales, is expected to launch a third tender to expand even further transportation capacity. In the meantime, YPF exports to Chile would increase from 20kbbld to 30kbbld as of 2Q24, due to the ramp up of Bio Bio refinery. In 3Q23, YPF's exports reached USD479mn thanks to crude oil exports of USD152mn. Due to the draught, grain and flours exports lost weight on the export breakdown. However, we expect YPF exports to outperform in 2024, considering the better prospects for this year's harvest and the increase in crude oil exports partly thanks to the completion of certain stages of ongoing midstream projects (like the second stage of Oldeval Duplicar Project).

This is important because the new 2031 bond will be guaranteed by YPF's exports. The 2026 bond has payment priority over the 2031. Once the export guarantee fund covers the 2026 coupon and interest payments for the next 6 months by 125%, the excess of funds will go to guarantee the new 2031 coupon payments. The key point here is that the 2026 coupon and amortizations are paid on a quarterly basis while the 2031 on a semiannual basis, so it is easier to accumulate the excess funds. For example, YPF will have in the 2026 bond guarantee fund USD171mn in August 2024, of which it will only use USD69mn to pay August's coupon and amortization. If YPF succeeds in issuing a USD1,000mn bond with an 8.75% coupon, the first payment would be of USD43.8mn.

Figure 1: YPF's exports would more than cover the new bond coupon and amortization



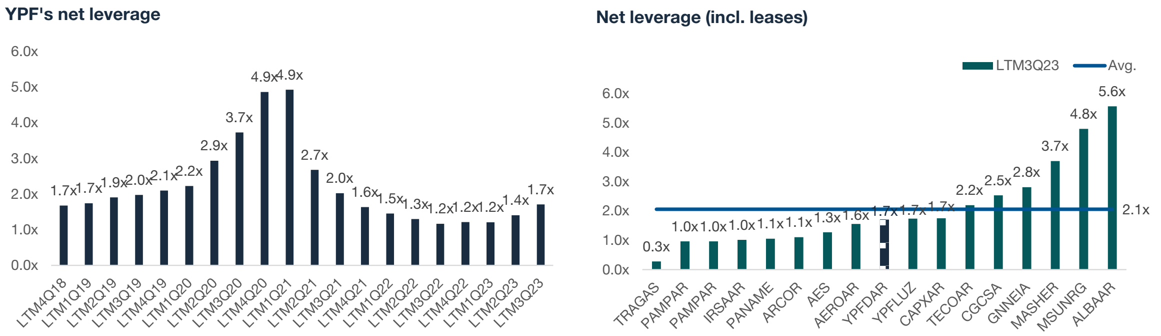
*Considering that YPF issues YPFDAR 2031 of USD1Bn. Source: TPCG Research based on YPF's FFSS

Once the 2026 bond matures, the 2031 bond starts paying amortizations of 10%. Since then, cash from exports will flow to the Collection Account, in which amortizations and coupons for the next 12 months must be covered by 120%. Then, YPF transfers cash from the Collection Account to the Reserve & Payment account, in which amortizations and coupons for the next 6 months must be covered by 125%. Thus, we believe YPF will comfortably pay 2031 bond maturities.

It is worth mentioning that the new bond will have a net leverage covenant of 3.0x until the maturity of the 2026 bond, then 3.5x until Dec-end 2027, and 4.0x until Dec-end 2028. However, YPF's net leverage is way below 3.0x. In LTM3Q23, it stood at 1.7x. The company net leverage was above 3.0x because of the pandemic in 2020. Since 2Q21, it improved materially. It went down from 4.9x in LTM1Q21 to 2.7x in LTM2Q21. In 3Q23, YPF's net leverage was below the average Argentine corporates. Considering YPF's 2027 target of crude oil exports representing 35-40% of crude oil production, which is expected to increase by 4x, we do not see YPF's net leverage climbing near 3.0x, even more, if we consider that pump prices will be at the import parity.

For more information please do not miss reading *YPF 3Q23: not too bad*.

Figure 2: Although YPF's net leverage has deteriorated in the past quarters to 1.7x due to the lack of adjustment in local fuel prices, it remains below Argentine corporates average. In the face of the past weeks' increases in pump prices, we expect YPF's net leverage to improve materially in 1Q24, standing way below 2031s notes debt covenant.



TPCG Research based on companies' FFSS

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