

ARGENTINA CORPORATES

Issuance expected to pick up in 2H16—2017

What happened so far this year In Argentine corporates?

Year-to-date recap and expectation on new issuance

Positive year so far for corporates, but traded volume and price action continues significantly below that of the provincial and sovereign bonds: Last year and year to date, volume in Argentine corporates has been very limited. Volume has been mostly concentrated in sovereign bonds, and to a lesser extent in provincials. However, and despite the low volume, corporates have managed to experience an attractive spread compression of 130bps YTD on average (vs. –150bps for both sovereigns and provincials). Top performers included some YPF bonds, IRSA, and Capex, while the worst performers (no price change or a 10bps widening or tightening) included TGS, Paname, the long Bmaar, and Arcor.

We expect trading volume to pick up once the market absorbs the new sovereign issuance and start to look for yield in other assets classes, including potential new corporate issuances.

Corporate issuance to follow successful sovereign bond

As the sizable sovereign issuance is absorbed and the appetite for Argentina continues, we believe there will be an opportunity for corporate and provincial issuers to enter (or re-enter) the international bond market.

Corporate Debt amortization schedule

Almost US\$1bn due in 2016, over US\$2bn in 2017—potential issuance only for debt roll-overs

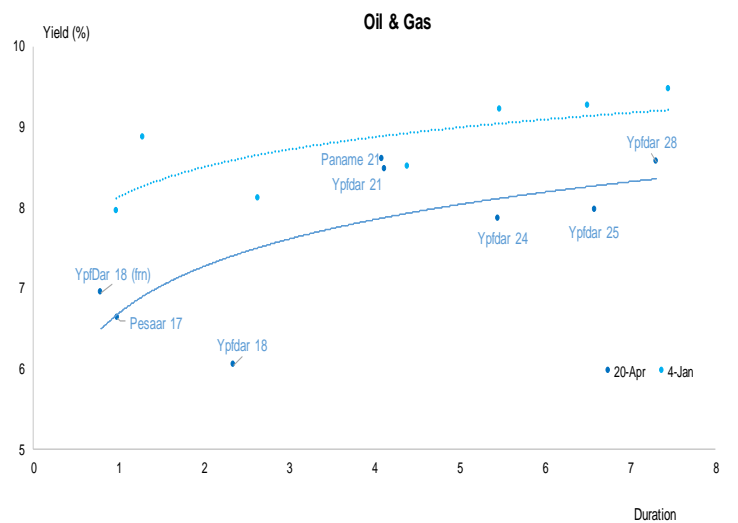
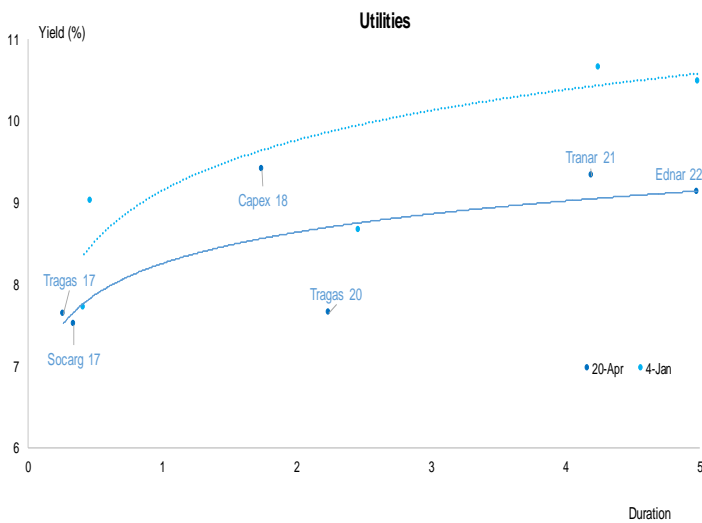
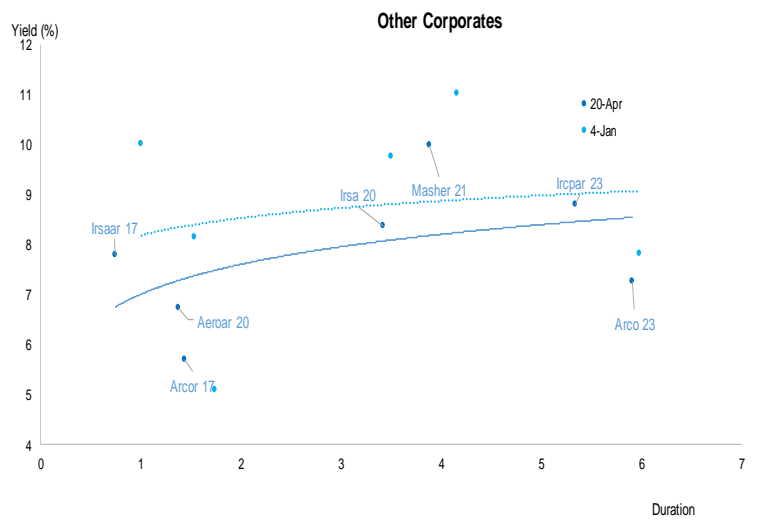
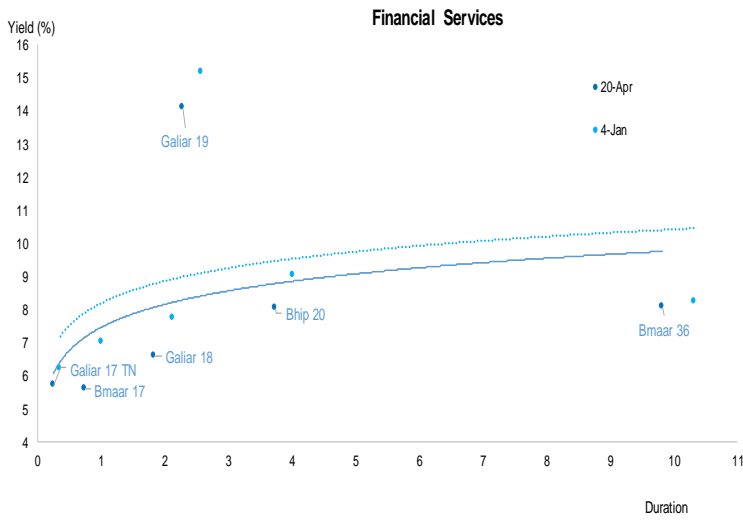
Given the lack of corporate issuance over the past few years, there is a significant amount of bonds maturing in the upcoming year—most notably in 2017.

Additional issuance to fund new investments is expected; based on leverage for its rating category corporates would have room for an additional US\$7bn in new issuance

In addition, regulated companies will need to make significant investments following years of limited capex. The elimination of government subsidies will imply the need for other sources of funding for such investments. **We expect these companies to take advantage of the appetite for Argentine risk to issue in the market.** Other funding needs (and thus issuance) could come from the alternative energy, infrastructure and real estate sectors, while the consumer segment should probably lag behind.

Positive year so far for corporates, but traded volume and price action continues significantly below that of the provincial and sovereign bonds: Last year and year to date, volume in Argentine corporates has been very limited. Volume has been mostly concentrated in sovereign bonds, and to a lesser extent in provincials. However, and despite the low volume, corporates have managed to experience an attractive spread compression of 130bps YTD on average (vs. – 150bps for both sovereigns and provincials). Top performers included some YPF bonds, IRSA, and Capex, while the worst performers (no price change or a 10bps widening or tightening) included TGS, Paname, the long Bmaar, and Arcor.

Source: Bloomberg, AdCap



Issuance: still incipient but expected to grow strongly following successful sovereign jumbo bond sale

Issuance year to date

IRSA (IRSAAR, IRCPAR): Argentina's leading real estate company was the first Argentine corporate to come to market in 2016. It launched a combined transaction of a tender offer plus a new issuance. The goal was: (i) to extend maturities, (ii) to move the debt to the cash flow generating subsidiary (IRSA Propiedades Comerciales S.A.), and (iii) to modify the leverage covenants on the IRSA bonds given the increase in consolidated leverage which resulted from the purchase of a majority stake (and thus the need for consolidation) of the Israeli IDBD.

Result of the transaction:

- i) IRSAAR 2017: a total of 50.3% was tendered, leaving an amount outstanding of US\$74.55M
- ii) IRCPAR 2017: a total of 49.6% was tendered and then the company exercised the call option on the outstanding. The call will be made effective on May 5.
- iii) IRSAAR 2020: a total of 52.4% was tendered, leaving an outstanding of US\$71.4M

New bond: IRSA Propiedades Comerciales S.A. (IRCPAR) issued a new bond due 2023 with a coupon of 8.75% for a total of US\$360 million. The new 7NC4 bond is rated B-/B- by S&P and Fitch, respectively.

YPF (YPFDAR): The country's largest oil company issued US\$1bn in a new 8.5% bond due 2021. The company decided to go with a short duration bond in order not to validate a higher coupon in the expectation of a yield compression later in 2016/2017. Demand for the bond was strong and the company was able to issue a significant size with only a day's notice.

Corporate issuance to follow successful sovereign bond

As the sizable sovereign issuance is absorbed and the appetite for Argentina continues, we believe there will be an opportunity for corporate and provincial issuers to enter (or re-enter) the international bond market.

Finance Minister Prat Gay stated that the size of "only" US\$16.5bn of the sovereign issue (vs. offers for US\$67bn) is explained by the government's goal not to cannibalize the opportunity of provincial and corporate issuers to access the international bond market. In turn, corporates and provincials are expected to take advantage of the unsatisfied demand for Argentine risk, in the second half of the year and beyond.

Corporate Debt amortization schedule

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Given the lack of corporate issuance over the past few years, there is a significant amount of bonds maturing in the upcoming year—most notably in 2017. We noted this in our last Monthly AdCap Indices Report published on April 7, 2014 (Link to report: <http://ad-cap.com.ar/wp-content/uploads/2016/04/ADCAP-Indices-March2016.pdf>), in which we highlighted the high rotation in the composition of the index and the decline in the number of issues included in both the ADCA-C and the ADCA-P indices—the number of bonds included in the ADCA-C index dropped from 27 at the beginning of 2015 to the current 19 (a 30% decline). This is explained by the lack of issuance despite the upcoming maturities.

We believe there will be an opportunity for corporates to refinance this debt in the market and to expand the amounts. In particular, the lack of access mentioned above led to an underinvestment of many companies. The access to cheaper financing together with the better outlook for the country should lead to an increase in financing needs and thus, an exponential increase in bond issuance.

Moreover, in recent year many companies have relied on the local market for funding (both in pesos and dollar linked notes). In this new stage for the country, we expect the local market to develop further but also for additional corporates to access the international market.

Companies with debt maturing in 2016:

US\$ denominated: Banco Hipotecario, Clisa

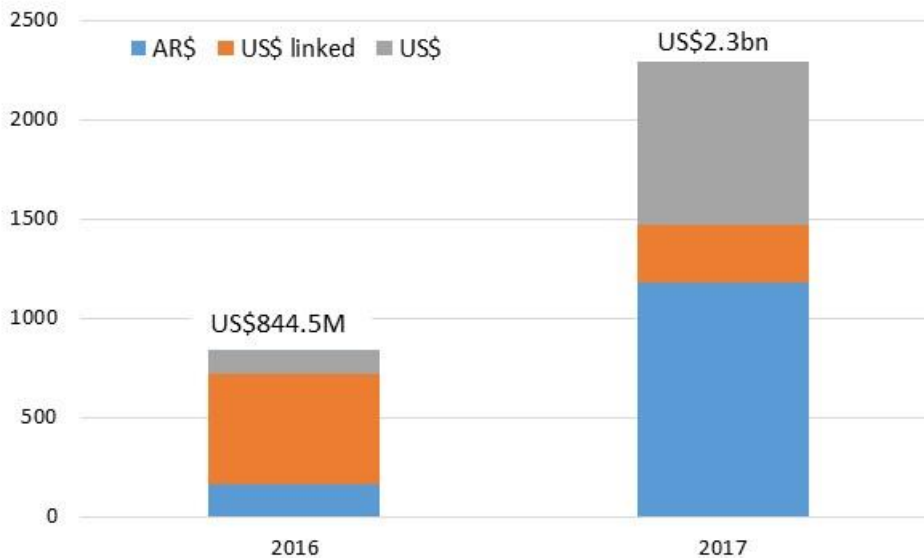
US\$ linked: Molinos Rio de la Plata, San Miguel, YPF

Companies with debt maturing in 2017:

US\$ denominated: TGS, Banco Macro, Petrobras Argentina, Raghsa, Banco Galicia, Arcor

US\$ linked: Banco Hipotecario, Compañía General de Combustibles (CGC), Molinos Rio de la Plata, YPF

Amount of bond debt due (per year and per type of bond) (in US\$ M)



Assumes FX of 17 at the end of 2016, 18.5 at the end of 2017
 Source: CNV, AdCap

Regulatory news

Electricity, natural gas and gas companies will benefit from tariff increases after years (in the case of electricity) or months (in the case of natural gas and gas) of no increases. More changes in the industry are expected in the short to medium term.

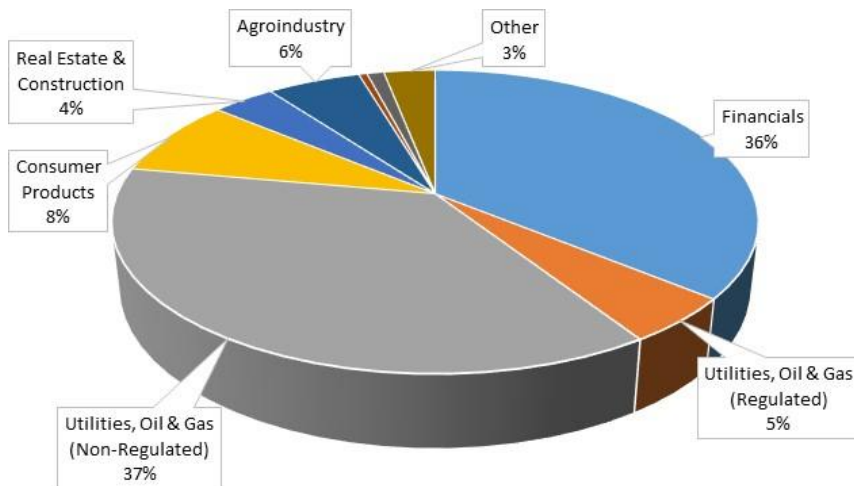
In the case of electricity and natural gas companies, the government committed to an Integral Tariff Revision by year end. However, it is unclear if there will be more tariff increases in 2016 and 2017, following the resulting escalating level of inflation and backlash from the public opinion.

Additional issuance to fund new investments is expected

In addition, regulated companies will need to make significant investments following years of limited capex. The elimination of government subsidies will imply the need for other sources of funding for such investments. **We expect these companies to take advantage of the appetite for Argentine risk to issue in the market.** Other funding needs (and thus issuance) could come from the alternative energy, infrastructure and real estate sectors, while the consumer segment should probably lag behind.

Argentine companies are strongly underleveraged for its rating category, even if assuming a potential upgrade (that would limit its leverage) that should result following the recent upgrade (and probably more to come) of the sovereign. In turn, we estimated the amount of additional debt that could be issued on average for Argentine companies as a group to be at the bottom of the leverage range of its current rating category and for one category (not notch) higher (e.g. if on average Argentine regulated utilities are rated in the Caa category by Moody's, we calculated its potential increase in leverage for that rating and for a B rating). To calculate this average we followed the industry composition of the debt outstanding today (although this could slightly change as more companies/industries decide to take advantage of this window of opportunity), which is the following:

Debt maturities (in 2017) distribution by industry (in US\$ M)



Source: Rating agency reports, CNV, AdCap

Argentine Corporates—ratings & leverage

Industry	Current			+1 rating category	
	Avg Rating Arg corp	Avg leverage for Arg	Leverage range for rating	Rating	Leverage range for rating
Utilities, Oil & Gas (Non-Regulated)	Caa	2,0x	5,5x-7x	B	4x-5,5x
Utilities, Oil & Gas (Regulated)	Caa	1,6x	5,5x-7x	B	4x-5,5x
Agroindustry	B	3,0x	4x-6x	Ba	3x-4x
Consumer Products	B	1,85x	4,5x-6,5x	Ba	3,5x-4,5x
Real Estate & Construction	B	2,2x	4x-6x	Ba	3x-4x
Financials*	Caa	N/A	N/A	B	
Other*	-			-	
TOTAL					

*leverage not applicable, so different ratio was used (capital adequacy ratio for financial institutions)

Source: Moody's, AdCap calculations

Making the assumptions described in the previous page, corporates could issue up to US\$7bn and still have the needed leverage for a rating category higher than its current one -again, as a conservative assumption given the belief that a sovereign rating could lead to corporate upgrades.

We do not expect issuance to be as large in 2017, but it evidences the potential room for new corporate issues that Argentine corporates currently have. Rather, we expect the amount to be somewhere in between the amount maturing in 2016 & 2017 of US\$0.8bn and US\$2bn, respectively (see pages 3 and 4 for more detail), and the potential of US\$7bn outlined above. Some of the issuance could be complemented with new capital contributed by foreign partners interested in investing in Argentina given the very positive growth outlook for the country in the upcoming years (and starting as soon as 2017).

Some companies already have authorized debt programs with room for further issuance. This include YPF, IRSA, TGS, Arcor and Molinos Rio de la Plata, among others.

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