YPF OIL & GAS

NOT AS BAD AS IT SOUNDS

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RECENT EVENTS:

YPF has managed to consolidate at high production levels of 520kboe/d. Shale oil and shale gas are the keys to growth, with a 46% market share of the total production. Capex investments will further allow YPF to increase efficiency in the upstream segment metrics. This segment contributes a 60% share of the company's EBITDA, while the downstream segment contributes 33% in second place.

The company has started executing its capex plan this quarter, investing $1546MM. Considering the aggressive capex plan, YPF will have FCF decreases and should be entirely under control.

THIRD QUARTER 2023 EARNINGS CALL HIGHLIGHTS:

YPF Oil & Gas's LTM EBITDA was -20% below the LTM 2022, reaching $3909 MM. In the third quarter, they presented slightly disappointing operating results, mainly driven by a declining local fuel price in dollars, partially offset by seasonally higher natural gas sales.

It is worth considering that recent results present an impairment of $506MM, which leads to a loss of $387MM.

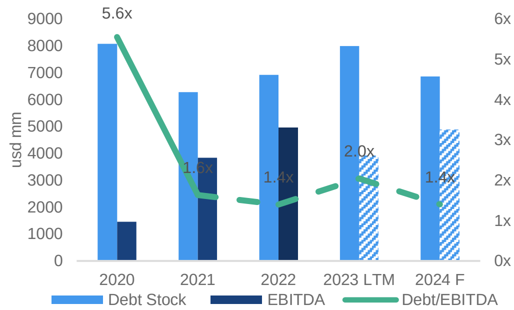
CREDIT METRICS Historical and projected credits metrics

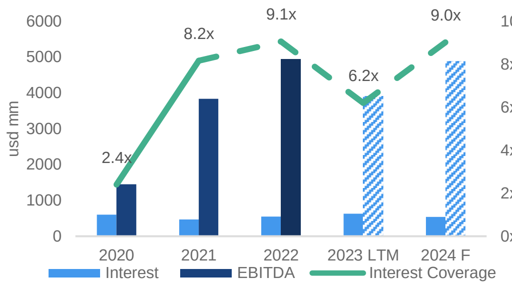
The company should have good repayment capacity considering that the debt-to-EBITDA (LTM) ratio is 2x, and the company generates annually ~USD 3909. Furthermore, the 6.2x interest coverage ratio should reduce the uncertainty of coupon payments.

Although macroeconomic conditions have been difficult considering the 2023 electoral period and lack of foreign reserves, the company has shown resilience and has managed to get multilateral entities financing to securitize payments (YPFDAR 24s) and has tapped the market several times, obtaining suitable sizes and attractive rates.

The company will succeed at managing its debt services in 2024, 2025, and 2026 thanks to its good operating metrics. However, the company's internal pricing problem is evident in all segments, including gas, oil, and petrochemicals, and it must be addressed sooner rather than later.

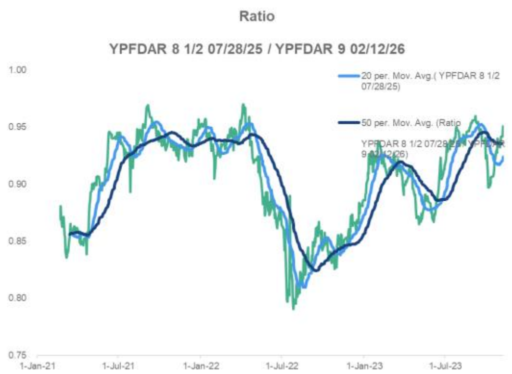
Despite this pricing, the company accumulated 10% year over year, obtaining $1478 MM with 98% dollarized or hedged and facing maturities in 2024 for $1130 MM.





OUR RECOMMENDATION

Given the recent outperformance of YPF 2025 over YPF 2026, we recommend selling YPF 2025 and moving the majority to YPF 2026. The YPF 26 bond ranks first lien with a guarantee that draws on YPF AGRO cashflows. The guarantee includes an offshore reserve account with 2.5x the upcoming debt service. The 9% quarterly coupon payment, the $600 MM outstanding, and the amortization schedule make it an attractive-short-duration bond for a defensive trade.



*All ratios are based on financial data published by the company while estimations are based on Adcap estimates