

# Adcap

GRUPO FINANCIERO

CORPORATE  
CREDIT  
RESEARCH

Corporate Handbook

## LATIN AMERICAN REGION IN THE LAND OF THE BLIND, THE ONE-EYED MAN IS KING

The world is in an economically, geopolitically, and socially complex context. Against this backdrop, we will evaluate how Latin America is positioned compared to the rest of the emerging markets regions and where we see opportunities for the next two years.

In Latam's favor, we expect high commodity and raw material prices for the next two years, partially affected by the energy transition, which threatens the increase in fossil fuel prices.

Against the region, the contractionary monetary policy that the Fed could carry out to fight inflation would slow down the recovery of the main Latin American exporting economies.

### GEOPOLITICS AS THE MOST IMPORTANT ELEMENT

With increasingly complex geopolitics, Latam maintains its neutral position relative to other regions of the emerging world. In the USA-China and NATO-Russia conflict, Latam is not an active participant, which may favor the asset pricing action by reducing the geopolitical risk.

### LOOKING AHEAD TO 2022 AND 2023

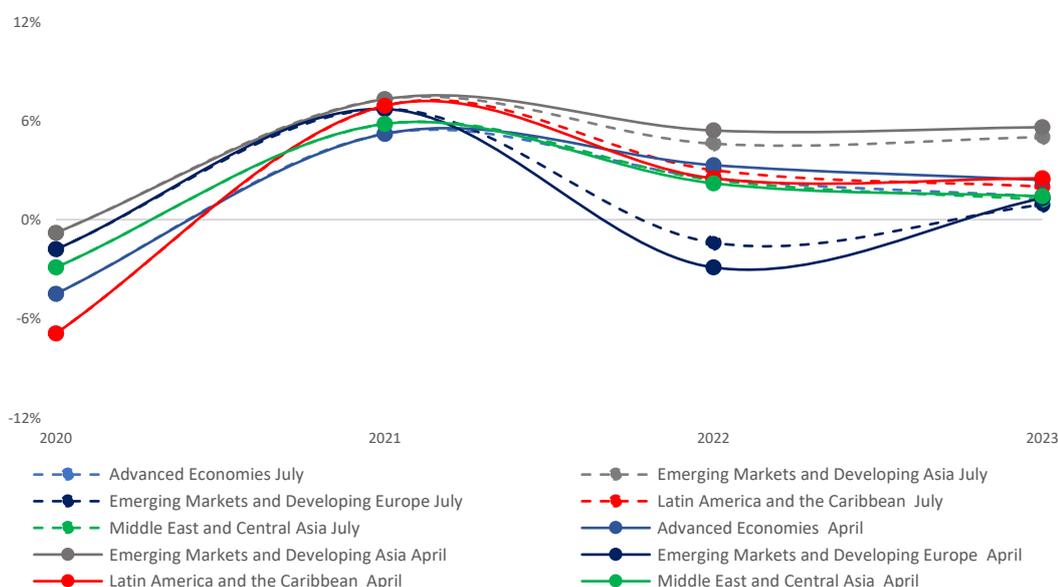
From economic growth point of view, 2022 and 2023 may be complicated years. 2021 had better growth than expected due to the post-COVID recovery combined with fiscal incentives that will be adjusted over the next few years, slowing down the region's growth. Regarding the social and political environment, Latin America is immersed in an electoral super-cycle where a rotation to the left is observed in most countries. According to Alejandro Werner, Former director of IMF's Western Hemisphere Department, the shift to the left is due to a dissatisfaction of social sectors with the status quo and not only with current economic policies.

### HOW EFFECTIVE CAN LATIN AMERICAN LEADERS OF THE LEFT AND CENTER-LEFT BE?

The new leaders who appear with anti-establishment speeches lack a plan with economic policies or a way of implementation that maintains fiscal balances in the long term. However, the uncertainty generated by the electoral super-cycle means Latam cannot fully take advantage of the bright sides of the external context.

### IMF GROWTH OUTLOOK REVISED DOWNWARD EXCEPT FOR RUSSIA AND LATAM

In the latest World Economic Outlook published by the IMF in July 2022, the institution revised growth projections downwards in all cases except for Latam and Developing Europe defined as Russia, which is suffering because the effects of the war are taking longer than expected.



### LATAM HANDBOOK

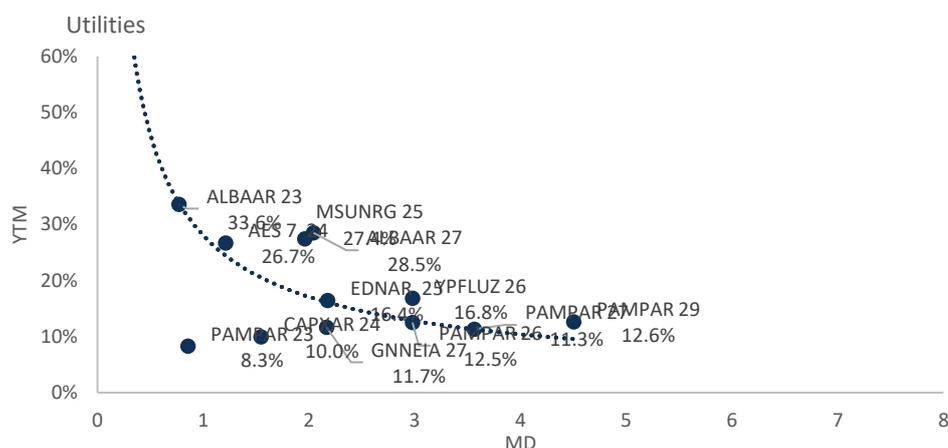
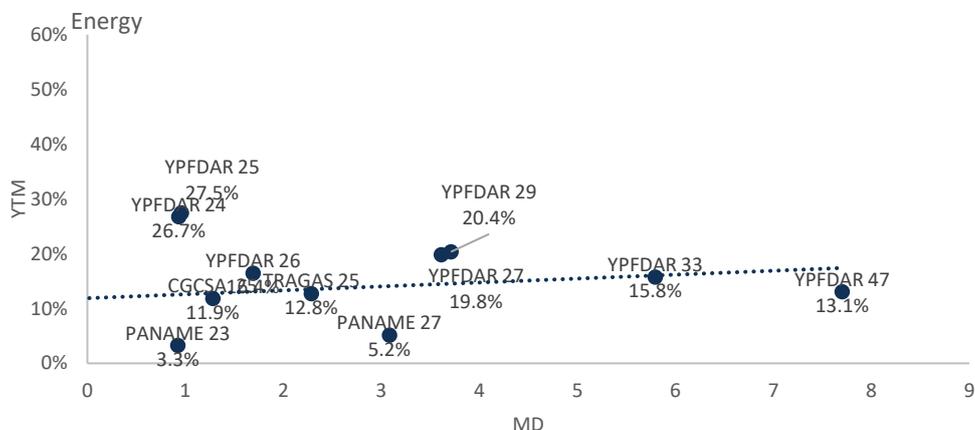
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Aligned with the upwardly corrected growth projections, we expect Latam to compress its risk premium more than the rest of the globe. Additionally, we expect Argentina to accompany the compression of sovereign bond yields dragging down corporate bonds.



RECOMMENDATIONS SUMMARY

ENERGY

- OVERWEIGHT: PAMPAR 23s at ~99.25 clean midprice
- PAMPAR 26s at ~99.25 clean midprice
- TRAGAS 25s at ~ 86 clean midprice
- YPFDAR 24s and ~ 83 clean midprice
- YPFDAR 25s New and Old ~ 81 and ~ 71 and clean midprice
- YPFDAR 26s ~ 86 clean midprice
- PEMEX 26s at ~94.7 clean midprice
- CGCSA 25s at ~ 97 clean midprice

NEUTRAL: -

UTILITIES

- OVERWEIGHT: MSUNRG 24s Float at ~92.25 clean midprice
- YPFLUZ 26s at ~81 clean midprice

- NEUTRAL: MSUNRG 25s at ~64.8 clean midprice
- GNNEIA 27s is trading at ~ 92.8 clean midprice
- ALBAAR 27s is trading at ~65.4 clean midprice

## YPF OIL AND GAS

VERY STRONG RESULTS ON THE GROUNDS OF RISING INTERNATIONAL PRICES.

ARGENTINA OIL &amp; GAS

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**PROFILE** YPF Sociedad Anonima (YPF) is an Argentina-based integrated energy company, with operations concentrated in the exploration, development, and production of crude oil, natural gas, and liquefied petroleum gas, as well as downstream operations engaged in the refining, chemical production, retail marketing, transportation and distribution of oil and petroleum products. It operates mainly through three business segments: upstream, downstream, and gas and power (G&E). The company is controlled by the Argentine state, which holds 51% of the company's shares.

**Q2 EARNINGS CALL 2022 HIGHLIGHTS YPF**

- EBITDA Increased qoq to USD 1.5 B (up 34.5%) – Significant gains in downstream thanks to consistent price increases at the pump.
- Gross Leverage Declined to 1.6x
- Revenues: 45.8% yoy
- EBITDA: 38.4% yoy
- Downstream EBITDA increased by USD 320 MM in 2Q22 to USD 745 MM
- Upstream EBITDA increases by USD 145 MM in 2Q22 to USD 807 MM
- LTM EBITDA: USD 4.47 MM; Cash balance: USD 1.24 B; Total debt: USD 7.08 B
- Capex of USD 932 MM in 2Q22; 1H22 USD 1.68 B
- FCF of USD 318 MM in 2Q22 leads to net debt reduction of USD 69 MM
- Credit Metrics: LTM Gross Leverage: 1.6x in 2Q22 vs. 1.8x in 1Q22

**IMPORTANT CAPEX ANNOUNCEMENTS**

Recently, Sergio Massa announced the regulation of [Decree 277](#), which gave more flexibility to the FX restrictions to promote oil production and exports from Vaca Muerta and the extension of Oldelval's (pipeline company) concession to expand the oil & gas transportation system to boost exports. The announcement was made during a press conference at the Expo AOG Patagonia 2022. The pipeline that will expand the transportation system will add 36,000 cubic meters (m3) more per day. The investment is budgeted at USD 750 MM to be disbursed (at least the first part ~USD 300 MM) now the 10-year concession has been signed (now it expires in 2038).

Oldelval's major shareholder is YPF with 37% of the shares, followed by ExxonMobil with 21%, Chevron with 14.5%, PAE and Pluspetrol with 11.9%, and Pampa Energía and Tecpetrol with 2.1%. The pipeline construction will expand Oldelval's transportation capacity, but it must be accompanied by investments in the Oiltanking Ebytem terminal in Puerto Rosales. The terminal is controlled by the German Oiltanking GmbH with 70% of the shares and the oil company YPF, which holds the remaining 30%.

Crude oil from Vaca Muerta also has an immediate possibility to be exported through the Oleoducto Trasandino (Otas) which extends from the Puesto Hernández oilfield, in Neuquén, to the city of Talcahuano in Chile. YPF and the Chilean state-owned oil company, Empresa Nacional del Petróleo (ENAP), have already signed an understanding memorandum to move forward with the pipeline recovery.

During Q2 YPF's earnings call it was announced that the trans Andean pipeline would be ready at the beginning of 2023. The pipeline would have the capacity to export 5000 cubic meters (m3) per day and could reach 15000 cubic meters (m3) per day.

On the grounds of these improvements, YPF could supply its refinery in Lujan de Cuyo (Mendoza) with oil extracted from Vaca Muerta and could also export to Chile, substantially improving the company's exportable balances.

**OUR RECOMMENDATION**

Our view is to be overweight the short end of YPF yield curve (YPFDAR 24s and YPF DAR 25s New and Old) together with the first lien collateralized YPF DAR 26s. Our take is that although there's a moderate risk of foreign currency shortage for the company, YPF has tools to mitigate it as we mentioned in [YPF Don't Miss the Boat Highlights](#). We consider that sovereign risk is over punishing the state-owned company

## COMPAÑÍA GENERAL DE COMBUSTIBLES STRONG GROWTH AFTER SINOPEC ACQUISITION

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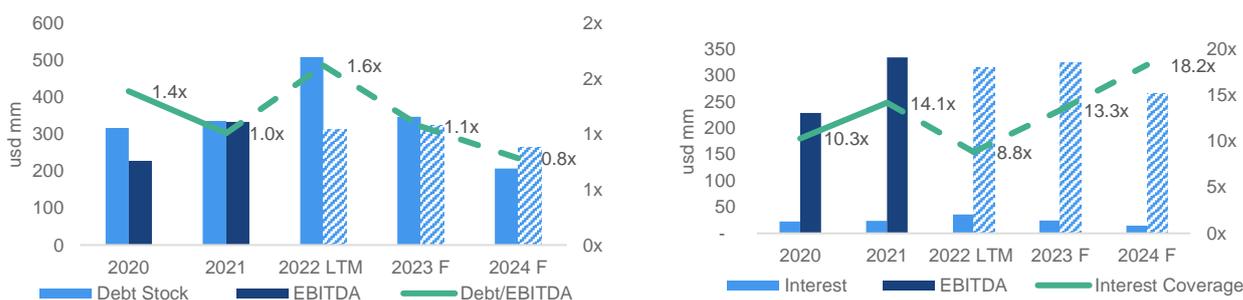
**PROFILE** CGC is a leading energy company with operations in Argentina, engaged primarily in the development, production and exploration of natural gas, crude oil, LPG (Upstream Business) and with a significant interest in one the major gas pipelines in northern and central Argentina, with direct and indirect co-controlling interests in Transportadora de Gas del Norte TGN, Gasoducto GasAndes, and a minority interest in Transportadora de Gas del Mercosur (Midstream Business)

**CORPORATE STRUCTURE** Corporación América, is a private holding company with investments in the airports, agribusiness, energy, infrastructure, services, and technology sectors in several countries. Corporación America acquired 70% of Compañía General de Combustibles through Latin Exploration S.L.U., a Spanish holding company.

**MAIN GROWTH DRIVER** On June 30, 2021, CGC acquired Sinopec Argentina, improving its oil & gas production. The acquisition increased the company's consolidated production to more than 50 thousand BoE per day and boosted 1P reserves by more than 100%. Sinopec Argentina's assets have significant potential in terms of conventional crude oil production.

**Q2 EARNINGS CALL 2022 HIGHLIGHTS** Average gas production amounted to 5,440.5 Mm<sup>3</sup> per day in Q2 2022, representing an increase of 15.6% compared to Q2 2021. Average oil production (crude + LPG) reached 3,249.2 Mm<sup>3</sup> per day in Q2 2022, representing an increase of 274.8% compared to Q1 2021.

**CREDIT METRICS** Historical and projected credits metrics<sup>1</sup>



### OUR RECOMMENDATION

We are overweight CGCSA 25s due to the company's track record, strong fundamentals, the recent acquisition of Sinopec that increased the company's production and lowered debt levels.

CGCSA 25s is trading at ~USD 97 clean midprice with a ~11.62% YTM. The notes have one of the highest coupons in argy corp bonds group and has a current yield of ~9.77%

<sup>1</sup> All ratios are based on financial data published by the company while estimations are based on Adcap estimates.

## PAMPA ENERGÍA

### STABLE RESULTS AND A THE MOST MARKET FRIENDLY FORCED EXCHANGE

ARGENTINA OIL & GAS

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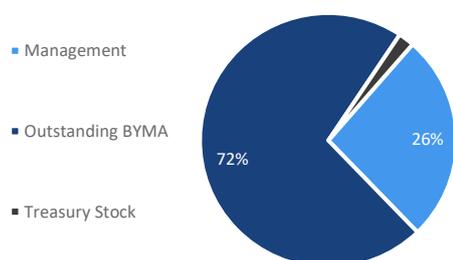
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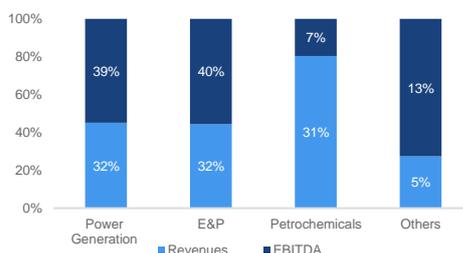
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**PROFILE** Pampa Energía S.A. is an integrated energy company in Argentina, engaged in the generation and transmission of electric power, as well as in E&P, and petrochemicals and hydrocarbon commercialization and transportation. Since 2018, when Pampa started divesting its oil business, its focus was reoriented to the expansion of its power generation, to the production of natural gas, mainly development and exploitation of unconventional gas reserves (mostly tight gas), as well as to continue investing for the development of its utility concessions. As of Q2 2022, more than 95% of its revenue and 87% of its EBITDA were related to E&P business.

**CORPORATE STRUCTURE** Up to December 2021, the company's capital distributed as follows:



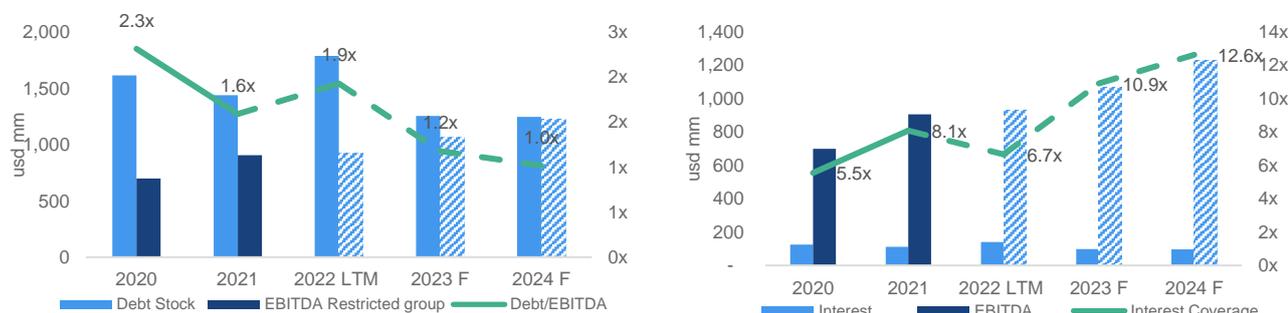
### REVENUES & EBITDA BREAKDOWN BY SEGMENT



### Q2 EARNINGS CALL 2022 HIGHLIGHTS

As of Q2 2022 EBITDA raised 6% yoy, explained by increases of 39% in oil and gas, 19% in petrochemicals and 20% in holding and others, offset by an 18% decrease in power generation because of thermal PPAs termination.

### CREDIT METRICS Historical and projected credits metrics <sup>1</sup>



### MOST MARKET FRIENDLY FORCED EXCHANGED BECAUSE OF CENTRAL BANK RESTRICTIONS

On June 16, 2022, Pampa announced an offer to exchange its 7.375% USD 500 MM notes due July 2023. The first exchange offer consisted of two options mixing cash plus new notes due in December 2026. The offer was amended on July 18, 2022, raising the 2026-notes coupon by 50 bps from 9% to 9.50%. The exchange offers expired on July 29, and USD 407.1 MM representing 81.4% of the 2023 Notes were tendered and accepted for exchange. Consequently, on August 8, 2022, USD 122.1 MM was paid in cash, and 2026 Notes were issued for a USD 292.8 million FV. 2026 notes start amortizing in 2024.

### OUR RECOMMENDATION

We recommend being overweight in PAMPAR 2023s as our take is that Pampa will be able to pay the remainder USD 92.9 MM that did not enter the exchange. We also recommend being PAMPAR 2026s as a conservative bet due to the bond yield is at ~9.5% so there no room for capital gains. However, 2026 notes maintain the seniority with respect to the 2027 notes while the former offers one of the highest coupons (9.5%) within the argy corporate notes.

<sup>1</sup> All ratios are based on financial data published by the company while estimations are based on Adcap estimates.

TRANSPORTADORA DE GAS DEL SUR  
JUST-IN-TIME RATE HIKES

ARGENTINA OIL & GAS

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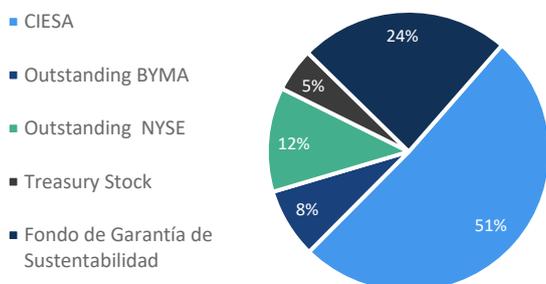
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**PROFILE** Transportadora de Gas del Sur S.A. is the leader in Argentina in the transportation of natural gas, transporting approximately 60% of the gas consumed in the country, through more than 9,000 km of pipelines, with a firm contracted capacity of 83.4 MMm3/d. It is one of the main natural gas processors. In addition, the investments in infrastructure that TGS is carrying out in Vaca Muerta will allow it to grow significantly in the provision of services to natural gas producers, positioning TGS as one of the main Midstreamers in Argentina.

Transportadora de Gas del Sur S.A. has strong credit metrics and low leverage as its main features. However, the company is overshadowing by the evolving regulatory framework for regulated companies and the sufficiency of tariff adjustments.

TGS has a comfortable debt maturity profile and a still strong internal cash generation in relation to its debt load, that is supported by revenue from outside its regulated based earnings.

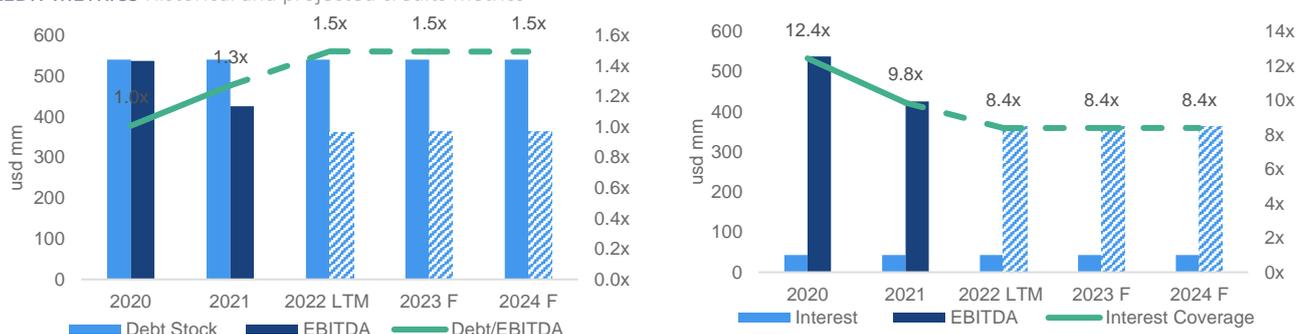
**CORPORATE STRUCTURE** TGS has Pampa Energia as the main shareholder of Compañía de Inversiones de Energia (CIESA) group.



Q2 EARNINGS CALL 2022 HIGHLIGHTS

The most important driver of TGS' revenues is the Production and Marketing of Liquids, which represented 58% in 2Q2022. The decrease in exported volumes to satisfy the domestic market was partially offset by the increase in international prices.

CREDIT METRICS Historical and projected credits metrics<sup>1</sup>



OUR RECOMMENDATION

We recommend being overweight TRAGAS 25s since its trading at ~USD 86 midprice with a yield of ~13%. Our take is the bond may go back to an average-yield of ~11%. TRAGAS 25s seems to be unfairly priced considering the company's stable cashflow and the fact that the company has no significant capital expenditures left. On the grounds that the transitory tariff improvement of 60% continues, TRAGAS 65s yield may compress by 200 bps up to 9%. TRAGAS 25s bullet bonds pay ~8% current yield with a 6.75% coupon.

<sup>1</sup> All ratios are based on financial data published by the company while estimations are based on Adcap estimates.

PETRÓLEOS MEXICANOS  
CRUDE OIL PRODUCTION AS A MAIN GROWTH DRIVER

MEXICO OIL & GAS

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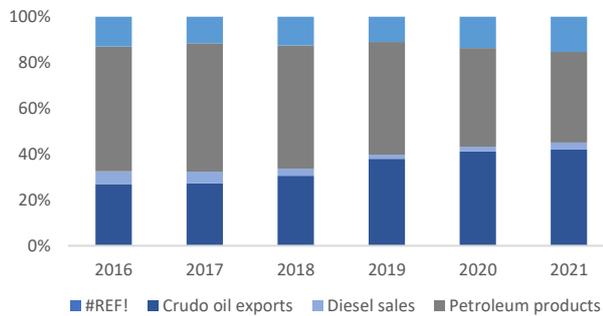
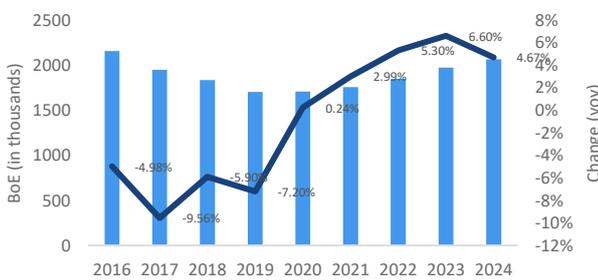
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**PROFILE** Petróleos Mexicanos operates as an oil and gas exploration and production services. The Company offers pipeline carriage, petrochemical distributor and shipping centers, logistics, and fuel commercialization services.

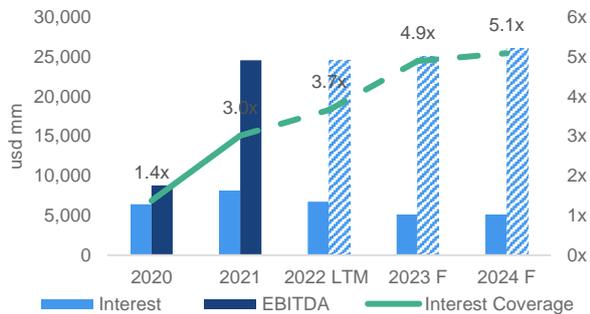
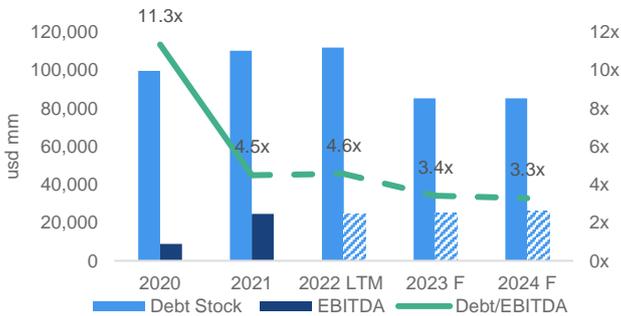
**CORPORATE STRUCTURE** Petróleos Mexicanos is Mexico's national oil company. As a state-owned company, it is the exclusive property of the federal government. It has its own legal personality an asset, as well as technical, operational and management autonomy.

OIL PRODUCTION AS THE MAIN GROWTH DRIVER

Crude oil production is the main strategy of Pemex management. Over the past three years, the company has increased its oil production in the share of its revenues. The improvement is due to a recovery in international prices and production volumes. For 2023 and 2024 we expect this trend to continue.



CREDIT METRICS Historical and projected credits metrics <sup>1</sup>



OUR RECOMMENDATION

We recommend being overweight Pemex 2026s at ~94.7 trading at ~8.5% since the company has turned around its production and profitability declining path. After having very weak results in 2020, the company has recovered its profitability margins.

Apart from that the Mexican government has committed to help the company by lending it short term/revolving credit lines to avoid cash constraints. We consider that if the company follows Latam growth trend, Pemex should recover dragging bonds prices at par.

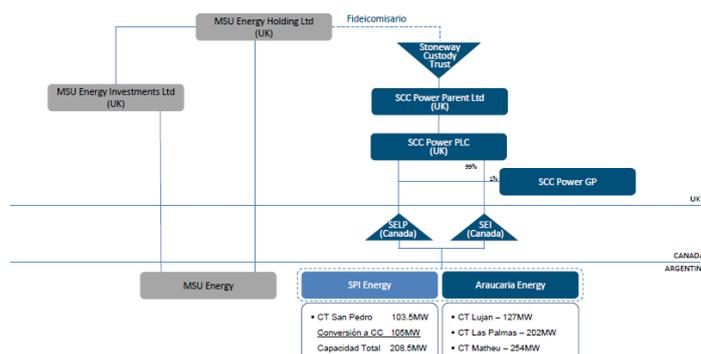
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## MSU ENERGY

### COMPLEX FINANCIAL ENGINEERING MAY BE A GREAT STEP FOR MSU ENERGY

**PROFILE** Headquartered in Buenos Aires, MSU Energy S.A. is an Argentine independent power producer that owns three thermal generation power plants, totaling 750 megawatts (MW) of installed capacity. The company started operations in 2018 and, in November 2020, it completed the conversion of its thermal plants to combined cycle. MSU is a privately held company whose main shareholders are members of the Uribelarrea family.

### CORPORATE STRUCTURE



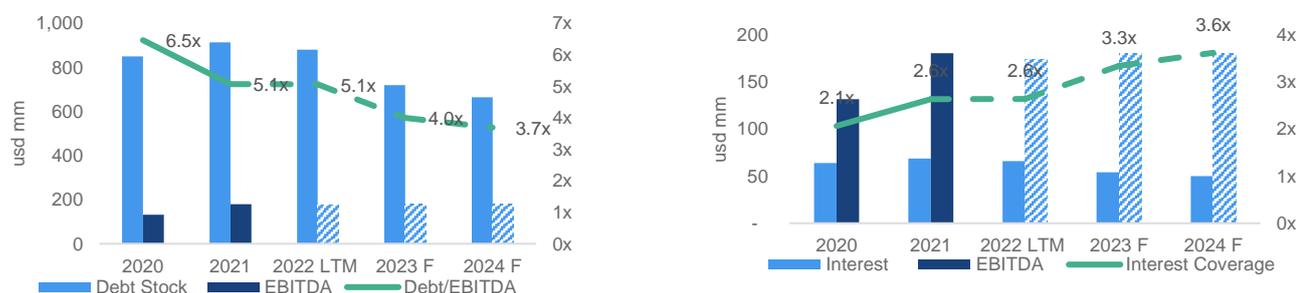
Recent developments: SCC POWER, whose ultimate beneficiary is MSU Energy Holding Ltd, acquired Stoneway Capital Corporation, consisting of four power generation facilities located in Argentina with an aggregate installed capacity of 737 MW (San Pedro, Lujan, Las Palmas and Matheu power plants). The acquisition and restructuring transactions were affected pursuant to the chapter 11 plan of Stoneway, which went effective on May 17, 2022. As consideration for the assets, SCC Power issued new secured notes maturing 2028 and 2032. The security package includes liens over equipment and a pledge of shares which are controlled by a custody trust until all debt is repaid.

Keynote: SCC POWER debt has no cross-collateral with MSU ENERGY. The companies are complete independent from one another.

**Q2 EARNINGS CALL 2022 HIGHLIGHTS** Revenues: USD 50.6 MM 2Q22 vs. USD 51.5 MM 2Q21 (-1.8% yoy) and USD 50.8 MM 1Q22 (-0.4% qoq)

- EBITDA: USD 40.9 MM 2Q22 vs. USD 44.1 MM 2Q21 (-7.2% yoy) and USD 43.1 MM 1Q22 (-5.1% qoq)
- LTM EBITDA: USD 173.8 MM; Cash balance: USD 48.7 MM; Total debt: USD 880.2 MM.

### CREDIT METRICS Historical and projected credits metrics<sup>1</sup>



### OUR RECOMMENDATION

We are overweight MSUNRG 24s Float at ~92.25 clean midprice as it is amortizing, and the company generates enough EBITDA to cover debt services. Regarding MSUNRG 25s at ~64.8 clean midprice, we are neutral as the company may look to refinance the notes when they due at the maturity date. However, we do not expect the company to have a high refinancing risk at that moment.

<sup>1</sup> All ratios are based on financial data published by the company while estimations are based on Adcap estimates.

### ARGENTINA UTILITIES

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## YPF LUZ

### THE COMPANY CONTINUES SHOWING EBITDA DELIVERY.

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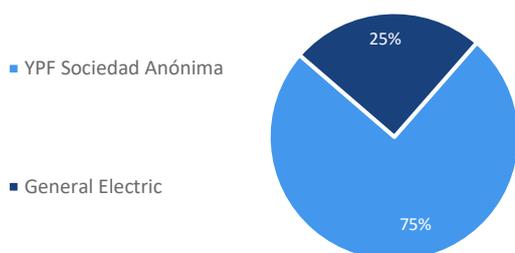
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**PROFILE** YPF Luz is an Argentine power generation company with 42.882 megawatts (MW) of installed capacity (thermal and renewable) and an additional 100 MW in El Zonda solar project estimated to start in Q2 2023 (located in San Juan province). YPF Luz was formed in August 2013 as a spin-off from YPF S.A, its main shareholder. YPF is Argentina's largest energy company, fully integrated into oil and gas, and majority owned by the Government of Argentina. In March 2018, an affiliate of General Electric subscribed 25% of the company's stock.

YPF Luz derives most of its cash flows from dollar denominated long term power purchase agreements (PPAs). For its thermal plants, YPF Luz benefits from PPAs with Argentina's wholesale energy market company (CAMMESA), that pay a fixed price per capacity available, plus an energy payment with a (low) margin for electricity generation. Under these contracts, the company is not exposed to fuel price fluctuations.

In the case of the wind projects the company owns, YPF Luz holds PPAs not only with CAMMESA but also with private counterparties. These USD long-term contracts offer a fixed price per MW of energy generation. On the other hand, contracts with private counterparties also have a fixed price US dollars and provide the company with some level of diversification from CAMMESA.

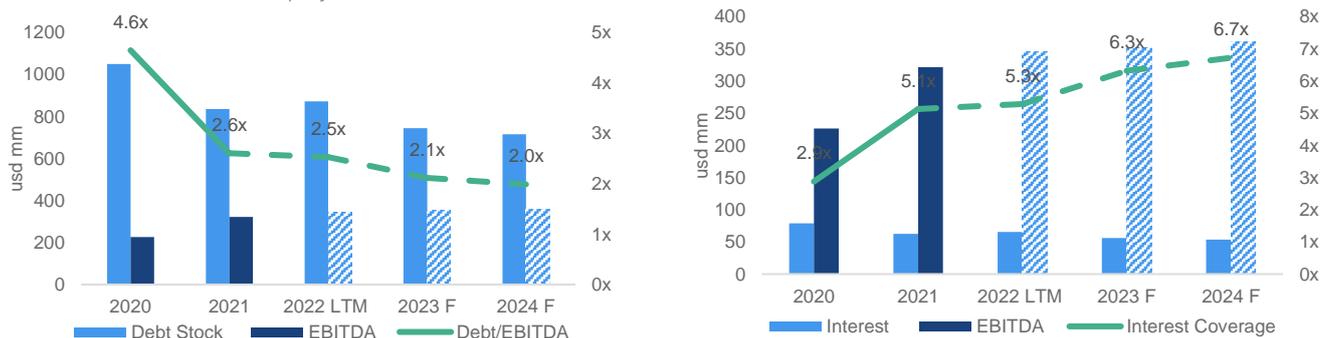
**CORPORATE STRUCTURE** Up to December 2021, the company's capital distributed as follows:



### Q2 EARNINGS CALL 2022 HIGHLIGHTS

The company obtains most of its revenue from its availability, not from its dispatch. Regarding the new solar plant, the company has on track, YPF Luz has already sold more than 80% of the while the construction is 57% advanced.

### CREDIT METRICS Historical and projected credits metrics <sup>1</sup>



### OUR RECOMMENDATION

We recommend being overweight YPFLUZ 26s since its trading at USD ~81 midprice with a yield of ~16.7%. Our take is the company may go back to an average-yield of ~14% since this was the yield the bond had while the company was in the middle of its three wind farms construction period. Despite not being an easy to find asset it is worth the pricing because of its high coupon of 10%, its ~12% current yield and stable generation cashflow.

<sup>1</sup> All ratios are based on financial data published by the company while estimations are based on Adcap estimates.

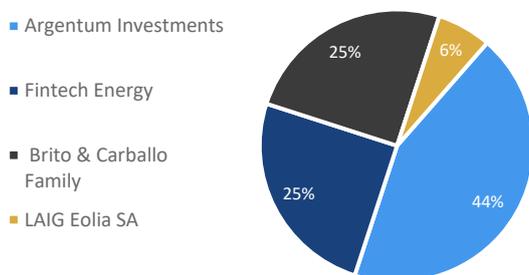
GENNEIA  
GREAT GROWTH STORY

ARGENTINA UTILITIES

**PROFILE** Genneia S.A. is privately held independent power producer company that owns and operates a portfolio of power projects with 1230 MW of installed capacity. Genneia was the first company to build and operate a wind farm in Argentina in 2012 and is currently the leading renewable power company in the country with 785 MW wind farms and 82 MW of solar plants, representing around 20% of the renewable capacity in the market. Genneia's current shareholders include Argentum Investments LLC, a limited liability company incorporated in Delaware and managed by PointState Master Fund LP; LAIG Eolia S.A. a limited liability company incorporated in Uruguay; Fintech Energy LLC, a New York-based limited liability company and the Brito Group that pertains to the Brito and Carballo families, main owners and directors at the board of Banco Macro S.A. one of the biggest local private banks in Argentina.

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INSTALLED CAPACITY

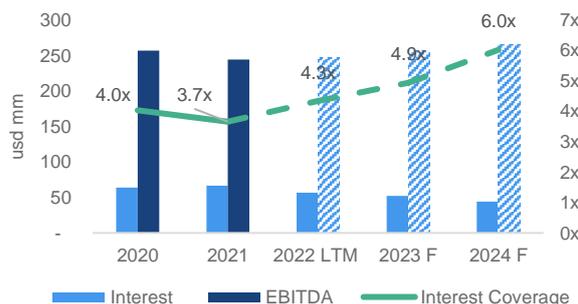


Q2 EARNINGS CALL 2022 HIGHLIGHTS

- Consolidation as the renewable generation leader in Argentina.
- +USD 1 B renewable energy expansion plan of 14 projects for 706 MW in 3.5 years.
- Long term visible cashflows back by PPAs and guarantees from RenovAr program
- 13 years of power generation track record
- 47% of Wind Load Factor (LTM Q2 2022)

- 93% of dollar denominated revenues
- 89% of EBITDA is generated by renewable energy (LTMQ2 2022)
- Solar Photovoltaic Project Sierras de Ullum Under construction +78 MW, COD: 2022, Financing 83% already taken
- Solar Photovoltaic Project Tocota III Under construction +62 MW, COD: Q1 2024, Estimated CAPEX USD 50 MM
- Wind Project La Elbita Under construction +103.5 MW, COD: Q1 2024, Estimated CAPEX USD 250 MM

CREDIT METRICS Historical and projected credits metrics<sup>1</sup>



OUR RECOMMENDATION

We are neutral on GNNEIA 27s as we consider that despite the company is a very well-managed-strong credit we see better opportunities within the utilities yield curve. GNNEIA 27s is trading at ~USD 92.8 clean midprice with a ~11.9% YTM. The notes have an 8.75% coupon and a current yield of ~9.4%

<sup>1</sup> All ratios are based on financial data published by the company while estimations are based on Adcap estimates.