

Buenos Aires, Fertile Soil to Grow Wheat Bonds

The Province of Buenos Aires announced it has already reached the needed consents to exchange more than 90% of the bonds, already complying with the Minimum Participation Condition.

We recommend holding on the New PBA bonds as we see a 19% average short-term upside for the 2037A in USD. For the medium term, we estimate an additional 15% compounding to a 37% total return until March 2022 as we expect the New Buenos bonds to follow the normalization trend of the Provincial Curve joining the Big Provinces in the context of an agreement with the IMF.

After having formally presented the terms of its latest offer keeping the main terms of the agreement reached on July 20, the Province of Buenos Aires early announced it has reached the needed number of consents to exchange more than 90% of its international bonds.

With the Minimum Participation Condition satisfied, the Exchange will be executed and should settle on September 3rd or as soon as practicable thereafter.

Acceptance of at least 86%

Assuming CACs were going to be triggered on the bonds of the 2015 Indenture, we assume a 95% acceptance in line with Mendoza's exchange. In order to reach the 90% of bonds exchanged, the 2006 Indenture Bonds would need to exceed a 63% acceptance on average.

As a result, we expect the overall acceptance to exceed the 86% as detailed in the table below.

Indenture	Bond	Weight	Trigger CACs	Acceptance	Exchanged
2006	BUENOS 2020	0.1%	No	63.0%	63.0%
	BUENOS 2021 Old	3.5%	No	63.0%	63.0%
	BUENOS 2028	5.6%	No	63.0%	63.0%
	BUENOS 2035	6.7%	No	63.0%	63.0%
2015	BUENOS 2021 New	12.5%	Yes	95.0%	100.0%
	BUENOS 2023	10.4%	Yes	95.0%	100.0%
	BUENOS 2024	17.4%	Yes	95.0%	100.0%
	BUENOS 2027	24.4%	Yes	95.0%	100.0%
2006	BUENOS 2020 EUR	1.6%	No	63.0%	63.0%
	BUENOS 2035 EUR	9.5%	No	63.0%	63.0%
2015	BUENOS 2023 EUR	8.2%	Yes	95.0%	100.0%
Weighted Average		100.0%		86.4%	90.0%

Javier Casabal

Sr Fixed Income
Strategist

jcasabal@ad-cap.com

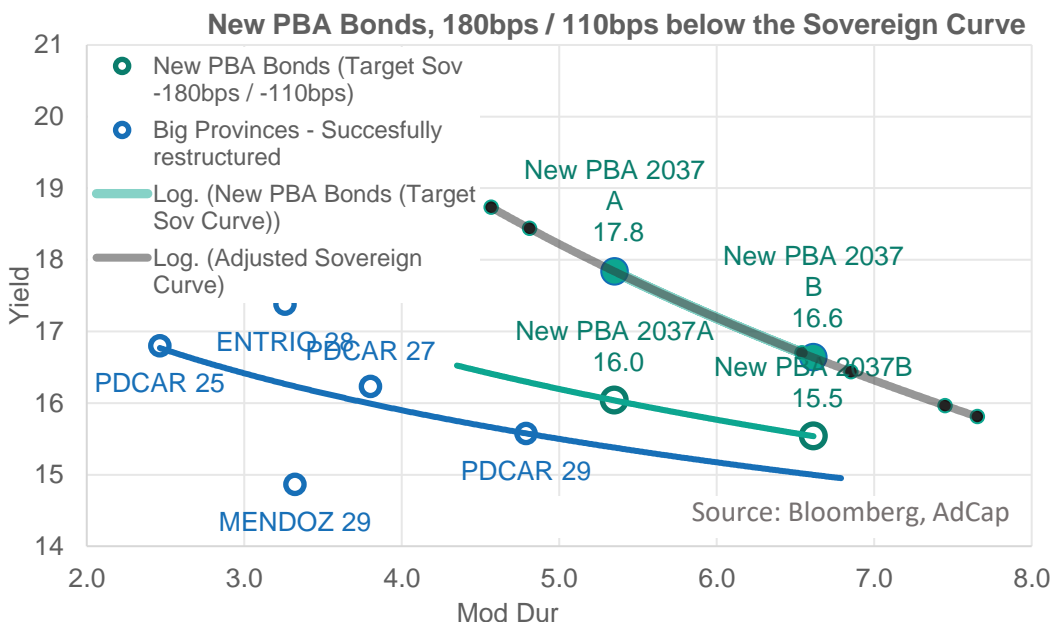
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Short Term Targets – Buenos Aires in line with the Big Provinces

Considering that Provincial Bonds are trading at more than 400bps below the Sovereign Curve on average, we believe it is conservative to assume an Exit Yield of 16.0% and 15.5% for the New PBA 2037A and 2037B respectively, or 180bps and 110bps below the Sovereign Curve.

As a reference, it is worth mentioning that the PDCAR 2029s, the longest provincial bond is currently trading at 285bps below the Sovereign Curve.



As a result, we expect an average 19% upside for the USD bonds, as detailed in the table below:

Indenture	Eligible Bonds	Last Price	Total Exchange Value			Upside to TEV @Sov -180bp/-110bp
			-180/-110b	Sov Curve	EY = 11%	
2006	BUENOS 2020	\$ 48.0	\$ 56.8	\$ 51.5	\$ 76.4	18.3%
	BUENOS 2021 Old	\$ 52.1	\$ 61.9	\$ 56.2	\$ 83.0	18.7%
	BUENOS 2028	\$ 51.3	\$ 62.4	\$ 56.7	\$ 83.6	21.7%
	BUENOS 2035	\$ 41.6	\$ 49.0	\$ 45.6	\$ 67.7	17.8%
2015	BUENOS 2021 New	\$ 51.6	\$ 61.9	\$ 56.2	\$ 83.0	19.9%
	BUENOS 2023	\$ 49.4	\$ 58.1	\$ 52.7	\$ 78.1	17.7%
	BUENOS 2024	\$ 50.3	\$ 59.7	\$ 54.2	\$ 80.2	18.8%
	BUENOS 2027	\$ 50.1	\$ 59.9	\$ 54.4	\$ 80.5	19.6%
2006	BUENOS 2020 EUR	\$ 52.9	\$ 66.8	\$ 60.6	\$ 89.9	26.2%
	BUENOS 2035 EUR	\$ 45.4	\$ 57.7	\$ 53.6	\$ 79.7	27.0%
2015	BUENOS 2023 EUR	\$ 55.0	\$ 67.5	\$ 61.3	\$ 90.8	22.8%
Weighted Average			\$ 59.9	\$ 54.6	\$ 80.8	



Expected Main Terms of the 10-year Program with the IMF

We expect a deal with the IMF to take place after the mid term elections and before March 2022, when the \$5 billion maturity become due.

According to local media, the main terms of the 10-year program have already been agreed and we summarize them below:

- 4-year grace period,
- Elimination of penalties and surcharges. Interest rate: 1.05%
- Fiscal Consolidation to be achieved by 2025.

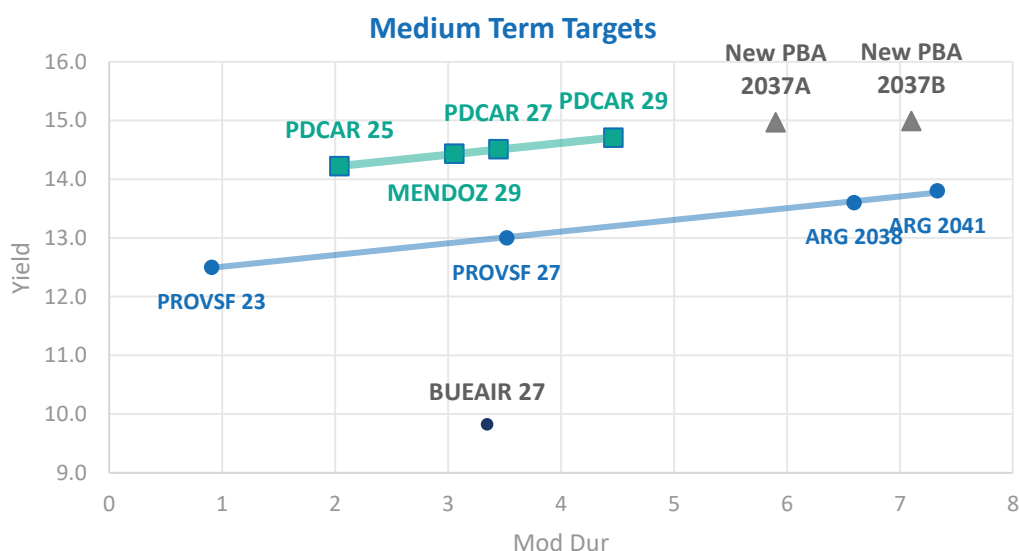
Medium Term Targets – Buenos Aires joining the Wheat Bonds

In the context of an expected deal with the IMF, for the medium term we expect the New Buenos Bonds to follow the normalization trend of the Provincial Curve we have described in [this report](#) and [this report](#).

On the one hand, we expect the bonds of Province of Santa Fe to work as the short-end of the Sovereign Curve at 300bps above the BUEAIR 2027s currently trading at 10.0%.

For the long end, we expect the 2038s and the 2041s to trade at 13.6% and 13.8% by March 2022, in line with the levels visited in November 2020 and consistent with the level reached by Ecuador’s 2035s after achieving its deal with the IMF but before Lasso’s victory in April 2021.

Targeting 150bps above them, we expect Buenos Bonds to join PDCAR and Mendoza and, which results in additional upside of 15.4% and 3.8% for the 2037A and 2037B respectively.





Annex A – Upside & Downside Capture for Sovereign Bonds

Although a priori a higher convexity would suggest that the 2035s should have the best behavior closely after the 2041s, price action indicates that the market has preferred the 2041 by far.

In the table below we summarize the upward and downward periods since the issuance of the Sovereign Bonds.

Ups & Downs	ARG 2029	ARG 2030	ARG 2035	ARG 2038	ARG 2041	ARG 2046	Avg
sep20 - oct20	-25.6%	-29.1%	-29.7%	-27.9%	-25.9%	-25.0%	-27.6%
oct20 - nov20	8.0%	10.9%	14.4%	11.9%	14.7%	15.4%	11.8%
nov20 - dic20	-5.8%	-6.6%	-9.1%	-8.6%	-9.5%	-9.7%	-7.8%
dic20 - dic20	4.2%	7.4%	8.2%	7.8%	8.6%	8.0%	7.1%
dic20 - mar21	-18.9%	-19.2%	-21.1%	-16.6%	-15.7%	-18.6%	-18.3%
mar21 - jun21	17.6%	17.9%	18.8%	18.0%	18.6%	16.2%	18.2%
jun21 - jun21	-9.0%	-7.5%	-8.1%	-7.0%	-6.3%	-8.1%	-7.6%
jun21 - ago21	6.2%	6.3%	6.9%	7.3%	7.5%	7.7%	6.8%

To account for that, we build a Capture Ratio for each bond showing that the 2041s have consistently behaved better, capturing 115% of the average upside while receiving only 95% of the downside.

We believe that this is explained by the higher coupons of the ARG 2041s, which makes them bonds more attractive for investors. For the same reason, we believe that the ARG 2038s will take its place as preferred Sovereign bond as we get closer to the next step-up coupon in July 2022.

	ARG 2029	ARG 2030	ARG 2035	ARG 2038	ARG 2041	ARG 2046
Upside Capture	79%	96%	112%	103%	115%	109%
Downside Capture	97%	102%	108%	98%	95%	99%
Capture Ratio	0.81	0.95	1.04	1.05	1.21	1.10

An alternative measure would explain 2035s' behavior as the result of having simply a higher Beta but a negative alpha. Although the expected underperformance of the 2035s could be overestimated, we continue to expect the 2038s to outperform the rest of the Sovereign bonds.

	ARG 2029	ARG 2030	ARG 2035	ARG 2038	ARG 2041	ARG 2046
Alpha	-0.03%	-0.01%	-0.01%	0.01%	0.04%	0.02%
Beta	0.89	0.99	1.09	1.02	1.03	1.04



Annex B - Current Yield to Measure Attractiveness of the Bonds

In the table below, we sort Provincial Bonds according to their Current Yields considering the 12-month-forward coupon and we compare them to the respective values for the Sovereign bonds and the Corporate Bonds of YPF.

We also estimate the Current Yield we expect for the new bonds of the Province of Buenos Aires 2037A and 2037B assuming they will trade at 180bps and 110bps below the Sovereign Curve.

Current Yield

Sovereign & Sub Sov	Current Yield (based on 12m fwd coupon)	Last Price	12m fwd Avg Coupon
YPFDAR 2029 old	11,2%	\$ 76,2	8,5%
FUEGO 27	11,1%	\$ 80,9	9,0%
JUUJUY 27	10,4%	\$ 65,7	6,9%
YPFDAR 2047	10,3%	\$ 68,1	7,0%
YPFDAR 2025 old	10,1%	\$ 84,1	8,5%
YPFDAR 2024	9,7%	\$ 90,4	8,8%
CHUBUT 30 Secured	9,6%	\$ 80,2	7,7%
YPFDAR 2027	9,3%	\$ 74,5	7,0%
YPFDAR 2025 new	9,2%	\$ 92,8	8,5%
PROVSF 27	9,1%	\$ 75,8	6,9%
NEUQUE 30 Secured	8,6%	\$ 91,7	7,9%
SALTA 27	8,3%	\$ 69,9	5,8%
BUEAIR 27	8,2%	\$ 91,2	7,5%
PDCAR 29	8,1%	\$ 63,1	5,1%
PDCAR 27	8,1%	\$ 67,6	5,5%
RIO NEGRO 28	7,6%	\$ 62,7	4,8%
New PBA 2037B	7,5%	\$ 46,3	3,5%
PROVSF 23	7,5%	\$ 93,4	7,0%
New PBA 2037A	7,3%	\$ 53,5	3,9%
ENTRIO 28	7,2%	\$ 70,0	5,0%
PDCAR 25	7,1%	\$ 76,0	5,4%
CHACO 2028	6,9%	\$ 60,0	4,2%
NEUQUE 30 Unsecured	6,9%	\$ 62,0	4,3%
ARGENT 41	6,8%	\$ 38,5	2,6%
MENDOZ 29	6,1%	\$ 69,5	4,2%
ARGENT 38	5,5%	\$ 40,6	2,2%
YPFDAR 2026 secured	4,5%	\$ 89,1	4,0%
YPFDAR 2029 new	3,6%	\$ 69,1	2,5%
ARGENT 35	3,4%	\$ 34,1	1,2%
ARGENT 46	3,4%	\$ 34,7	1,2%
YPFDAR 2033	2,7%	\$ 56,0	1,5%
ARGENT 29	2,5%	\$ 40,3	1,0%
ARGENT 30	1,3%	\$ 38,3	0,5%

Source: AdCap based on Bloomberg

Annex C: Updated Terms:

Rights Upon Future Offers: In this amendment, holders of the 2035s will have, for a period of 3 years, rights to receive the same treatment if the Province made a new offer improving these terms. The Holders of the rest of the bonds will not have any rights.

Minimum Participation Condition: There is a Minimum Participation Condition that cannot be modified or waived.

The exchange will be executed only if the acceptance is: (i) at least 90% of all the original bonds, or (ii) at least 80% of the total, and the acceptance for the 2035s (USD and EUR) and the 2028s is at least 50%.

New PBA Bonds

	USD 2037A	USD 2037B	EUR 2037A	EUR 2037B
Maturity	1-Sep-37			
Payment Date:	1-Mar & 1-Sep			
	30Jun-1Sep: 2.50%	30Jun-1Sep: 2.50%	30Jun-1Sep: 1.50%	30Jun-1Sep: 1.50%
Step-Up	2022: 3.900%	2022: 3.500%	2022: 2.850%	2022: 2.500%
Coupon	2023: 5.250%	2023: 4.500%	2023: 4.000%	2023: 3.500%
Schedule	2024: 6.375%	2024: 5.500%	2024: 4.500%	2024: 4.500%
	2025 onwards: 6.625%	2025 onwards: 5.875%	2025 onwards: 5.125%	2025 onwards: 5.125%
The New Bonds will accrue interest from (and including) 30-Jun-21 and the 1st coupon will become payable 5 business days after the settlement of the exchange.				
	28 semi-annual payments starting on 22-Mar-24	19 semi-annual payments starting on 22-Sep-28	28 semi-annual payments starting on 22-Mar-24	19 semi-annual payments starting on 22-Sep-28
Amortization	2x1.83% / 2x2.25% / 2x2.90% / 2x3.28% / 2x3.47% / 2x3.79% /		2x1.83% / 2x2.25% / 2x2.90% / 2x3.28% / 2x3.47% / 2x3.79% /	
Schedule	3x0.75% / 2x6.15% / 2x3.08% / 2x3.59% / 2x3.77% / 2x3.94% / 2x4.20% / 2x4.40% / 2x4.67% / 2x4.83	6x6.35% / 6x5.90% / 1x5.98% / 1x5.97%	3x0.75% / 2x6.15% / 2x3.08% / 2x3.59% / 2x3.77% / 2x3.94% / 2x4.20% / 2x4.40% / 2x4.67% / 2x4.83%	6x6.35% / 6x5.90% / 1x5.98% / 1x5.97%

Research

Javier Casabal

jcasabal@ad-cap.com

+54 11 48 19 12 36

Sebastián Suh

ssuh@ad-cap.com

+54 11 48 19 17 94

Sales & Trading

INTERNATIONAL INSTITUTIONAL SALES

Agustín Honig

ahonig@ad-cap.com

+54 11 48 19 17 61

Santiago Masia

smasia@ad-cap.com

+54 11 48 19 17 63

Brenda Mitidiero Soto

bmitidiero@ad-cap.com

+54 11 48 19 17 65

Javier Timerman

jtimerman@ad-cap.com

+54 11 48 19 02 10

Pablo Dalma

smasia@ad-cap.com

+54 11 48 19 17 62

María Ruiz de Castroviejo

mruiz@ad-cap.com

+54 11 48 19 17 68

Santiago Ruiz Guiñazú

sguinazu@ad-cap.com.ar

+54 11 48 19 02 19

Agustín Caticha

acaticha@ad-cap.com.uy

+54 11 48 19 17 80

LOCAL INSTITUTIONAL SALES

Fernando Ziade

fziade@ad-cap.com

+54 11 48 19 17 67

Marcos Tokatlian

mtokatlian@ad-cap.com

+54 11 48 19 17 67

María Agustina Fariña

mfarina@ad-cap.com.ar

+54 11 48 19 02 10

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