

YPF SA

Potential privatization removed from Milei's Omnibus Bill

Maintain Rating: UNDERPERFORM | PO: 11.30 USD | Price: 15.71 USD

Privatization of YPF removed from Omnibus Bill

The privatization of YPF – one of the main proposals of Javier Milei's electoral agenda during the presidential elections held last year – was removed from the government's Omnibus bill. The Omnibus bill, which is currently up for debate in the lower house of Argentina, is a package of reforms which includes pension de-indexation, tax changes (export, wealth), a tax amnesty, authorization to privatize companies (not YPF anymore), and other political reforms.

The government took off the potential privatization of the state-owned oil company from the bill after negotiations with lawmakers. According to Bloomberg news, such news showcases that the president Mr. Milei, whose party has only a minority in congress, is willing to make concessions to push through the Omnibus bill.

Negative news amid market's optimism on the theme...

It has not been our base case that the government would be able to privatize YPF – at least in the short-term. However, we see the news as negative given that we have noted some optimism from the market regarding YPF stocks in the hope that a re-privatization could make the company more efficient and profitable. As we have been flagging, it has become important to monitor Milei's governability (given that La Libertad Avanza - Milei's political party - has only a few seats in both upper and lower houses) and popularity (as we expect the economic adjustments at the beginning to be followed by a recession and higher inflation before the economy starts to improve).

...but approval of the bill would be positive for the sector

If the bill is approved (without removing the items related to the oil and gas sector as a whole), we believe that it would improve the sentiment towards the sector in Argentina as it contemplates two important issues that have been affecting the oil and gas producers: 1) local oil prices aligned with international benchmarks, and 2) trade freedom – the ability to export without restrictions. In this regard, the approval of the bill could create better conditions to the oil and gas companies in Argentina, which would likely unlock higher investments in the sector.

Maintain Underperform rating

We maintain our cautious investment thesis and Underperform rating on YPF. We would like to have clearer visibility on the conditions in which the Omnibus bill and other measures will be implemented given their potential unpopular consequence (inflation). At least in the short term, we think that the development of Vaca Muerta, and therefore YPF, could continue to face: 1) challenging economics (high inflation, financing difficulties, FX devaluation); 2) capital controls; 3) government involvement in oil/gas/oil product pricing; and 4) restricted access to oil services/ equipment. For more detail, please see our recent resumption of coverage report on YPF entitled: [Above-ground concerns could keep Vaca Muerta's vast potential buried](#).

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Equity

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Stock Data

Price (ADR / Common)	15.71 USD / 20,175.20 ARS
Price Objective	11.30 USD / 7,920.17 ARS
Date Established	9-Jan-2024 / 9-Jan-2024
Investment Opinion	C-3-9 / C-3-9
52-Week Range	8.73 USD - 18.82 USD
Market Value (mn)	6,142 USD
Free Float	0%
Average Daily Value	42.70 USD
Shares Outstanding (mn)	391.0 / 391.0
BofA Ticker / Exchange	YPF / NYS
BofA Ticker / Exchange	YPFSF / BUE
Bloomberg / Reuters	YPF US / YPF.N
ROE (2023E)	13.1%
Net Dbt to Eqty (Dec-2022A)	59.9%

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Timestamp: 22 January 2024 02:59PM EST

Price objective basis & risk

YPF SA (YPF)

Our PO of US\$11.30/ADR (ARS 7,920.17/share) is based on a DCF methodology, using the BofA base case oil price scenario, which assumes Brent prices of US\$85/bbl in 2023, US\$90/bbl for 2024, and US\$70/bbl for 2025 and beyond. We use a 16.2% WACC and terminal growth rate of 3%.

Upside risks to our PO are: (1) new growth projects that are implemented in a way that allows for higher returns, (2) prices for refined products in Argentina, (3) energy policy in Argentina that could become more favorable for oil companies, (4) global energy price movements, (5) improvement in risk perceptions of Argentina.

Downside risks to achieving our price objective are: (1) worsening of Argentina's macroeconomic scenario and maintenance of capital controls, (2) increased government involvement in energy policy in Argentina, (3) execution risk in improving recovery factor in YPF's oil fields, (4) more restricted access to oil services and equipment.

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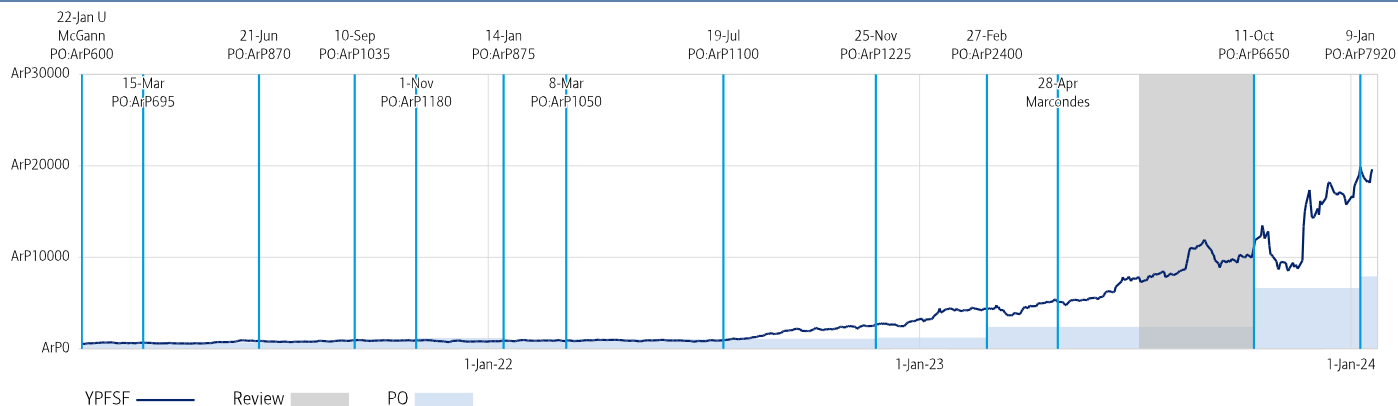
YPF SA (YPF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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YPF SA (YPFSF) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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