Morgan Stanley | RESEARCH

LATIN AMERICA INSIGHT

March 21, 2024 04:01 AM GMT

Argentina

A Roadmap on Stabilization and Reforms — Implications for Assets

We are constructive on macro stabilization, yet there is a need for flexible policies given the myriad of challenges. We see a sizable improvement in fiscal and external accounts, but we are more cautious on the reform agenda for now. We are bullish credit on macro progress and we remain cautious equities.

Contributors

MORGAN STANLEY C.T.V.M. S.A.+
Fernando D Sedano
LatAm Economist
+55 11 3048-6605
Fernando.Sedano@morganstanley.com

MORGAN STANLEY & CO. LLC
Simon Waever
Strategist
+1 212 296-8101
Simon.Waever@morganstanley.com

MORGAN STANLEY C.T.V.M. S.A.+
Bruno Montanari
Equity Analyst
+55 11 3048-6225
Bruno.Montanari@morganstanley.com

MORGAN STANLEY C.T.V.M. S.A.+
Carlos F Moraes
Research Associate
+55 11 3048-9513
Carlos.Moraes@morganstanley.com

MORGAN STANLEY C.T.V.M. S.A.+
Thiago S Casqueiro
Research Associate
+55 11 3048-9507
Thiago.Casqueiro@morganstanley.com

MORGAN STANLEY MÉXICO, CASA DE BOLSA, S.A. DE C.V.+
Nikolaj Lippmann
Equity Analyst
+1 212 761-2463
Nikolaj.Lippmann@morganstanley.com

MORGAN STANLEY & CO. LLC
Juan P Ayala
Equity Strategist
+1 212 761-4797
Juan.Ayala@morganstanley.com

MORGAN STANLEY C.T.V.M. S.A.+
Julia M Leao Nogueira
Research Associate
+55 11 3048-6046
Julia.Nogueira@morganstanley.com

Contents

A Roadmap on Stabilization and Reforms — Implications for Assets

Argentina's macro stabilization is progressing rapidly. Authorities are delivering on unprecedented fiscal consolidation promises and are rebuilding FX reserves. Absent a sizable REER appreciation, a strong harvest will provide a cyclical improvement in external accounts. This is not just cyclical, however. If capital and import restrictions are gradually lifted from 2H24 onward, as we expect, then we forecast the hydrocarbons trade balance to deliver its first surplus already in 2024, followed by a fast expansion to ~US$18 billion by the end of the decade.

We are also more bullish than consensus on the fiscal adjustment… We expect a significant fiscal adjustment of 3.8pp of GDP in one year and 5pp over two years, putting it in the 90th percentile of fiscal adjustments historically. We assume Congress approves the fiscal bill — which contains a counter-reform of the personal income tax (PIT), a new pension formula, changes to the asset tax, and some elements of a tax amnesty. Such progress means Argentina does not need to restructure its debt in 2025, leaving USD sovereign bonds very attractive with another 33% upside from today, especially the front-end bonds. The key risk to the USD bonds is that the fiscal adjustment is not sustained, with all fiscal measures rejected by congress, leaving a primary deficit. If FX reserves growth also fails to the reach the US$12 billion expected in 2024, it increases the likelihood of a debt restructuring in 2025.

… but structural reforms are harder, and we expect progress there to be more limited near term. The omnibus bill and labor reforms are likely to be diluted. However, if political capital remains high and these reforms pass without changes, which in turn allows a faster opening of the capital account and a move to a floating FX, it opens up the bull case scenario for the economy and assets. Only this makes equities attractive, in our view, given the higher hurdle for equity capital to return to domestic stock. This scenario would also boost USD bond returns to 55%.

In this report, we offer our thoughts on the roadmap to stabilization and reforms. We also discuss five key topics in sovereign credit strategy. Our equity strategist looks at the Argentine equity landscape, and our LatAm energy analyst highlights Vista as a preferred play (VIST.N) on the Vaca Muerta and upgrades YPF (YPF.N) to Equal-weight on valuation.

Executive Summary

Argentina's macro stabilization is progressing rapidly. Authorities are delivering on unprecedented fiscal consolidation promises and are rebuilding FX reserves. Absent a sizable REER appreciation, a strong harvest will provide a cyclical improvement in external accounts. This is not just cyclical, however. If capital and import restrictions are gradually lifted from 2H24 onward, as we expect, then we forecast the hydrocarbons trade balance to deliver its first surplus already in 2024, followed by a fast expansion to ~US$18 billion by the end of the decade.

We are also more bullish than consensus on the fiscal adjustment, seeing a significant fiscal adjustment of 3.8pp of GDP in one year and 5pp over two years, putting it in the 90th percentile of fiscal adjustments historically. We assume Congress approves the fiscal bill — which contains a counter-reform of the personal income tax (PIT), a new pension formula, changes to the asset tax, and some elements of a tax amnesty. Such progress means Argentina does not need to restructure its debt in 2025, leaving USD sovereign bonds very attractive with another 33% upside from today, especially the front-end bonds. The key risk to the USD bonds is that the fiscal adjustment is not sustained, with all fiscal measures rejected by congress, leaving a primary deficit. If FX reserves growth also fails to the reach the US$12 billion expected in 2024, it increases the likelihood of a debt restructuring in 2025.

On the other hand, structural reforms are harder, and we expect progress on this front to be more limited near term. The omnibus bill and labor reforms are likely to be diluted. However, if political capital remains high and these reforms pass without changes, which in turn allows a faster opening of the capital account and a move to a floating FX, it opens up the bull case scenario for the economy and assets. Only this makes equities attractive, in our view, given the higher hurdle for equity capital to return to domestic stock. This scenario would also boost USD bond returns to 55%.

Economics | Thinking through the roadmap to stabilization and reforms: So far, so good in the authorities' efforts to stabilize macro conditions. Authorities are making sizable progress on fiscal consolidation, FX reserves buildup, rolling over local debt, eliminating deficit monetization and reducing other sources of monetary emission, rescuing the IMF program, dealing with an importers debt overhang and the excess ARS in the economy. Yet, the much needed progress on supply side reforms has shown limited progress for now. And there are questions about the sustainability of the macro adjustments.

We provide our thoughts on the roadmap to stabilization and reforms. We foresee a sizable fiscal consolidation ahead, the program's main anchor. We expect Congress to approve a fiscal package that raises revenues and makes the pension adjustments less pro-cyclical. We believe the current FX policy is likely appropriate to anchor inflation expectations, but subject to change as the authorities prepare the ground for a new monetary system where the USD would eventually compete with the ARS. We think this eventual monetary system will require a competitive USD/ARS conversion rate, and may require positive real rates for the ARS to compete. External accounts will improve drastically this year on the back of a solid harvest, but that is cyclical. We see energy developments providing a structural boost to external accounts over time, as long as the macro stabilization plan works. Although limited, we see progress on reforms as well: including approval of some version of the omnibus bill and the executive order on deregulation to stand.

Risks are still significant. Inflation may prove more persistent than anticipated and grain exports could be weaker if the REER for exporters is deemed too strong. Absent a solid buildup of FX reserves in 2Q24, FX volatility could resume, hurting inflation dynamics and deepening the recession, which would in turn erode support for the stabilization program and the reform agenda.

Sovereign Credit Strategy | A structural adjustment worth staying for: If our central scenario plays out, Argentina will not default and there is another 33% upside potential over the next year. The key drivers are continued very high yields, a strong political commitment to the adjustment, and supportive cyclical and structural improvements to the trade balance. The fiscal adjustment is key in the near term, with the signs so far positive, while the structural reforms are key to make the adjustment sustainable. The broad investor skepticism is certainly not unfounded. But as a result EM real money positioning is nowhere near extended. Plus, even a conservative scenario analysis suggests that risk/reward is still positive. We suggest staying long, with a preference for the front-end bonds. The key risk to watch is the political capital of the administration in the near term.

We also review five key topics: 1) The BOPREALs are interesting, but we do not see risk/reward as better than the external FX bonds. 2) The IMF could front load disbursements in a new deal this year, but the question is whether Argentina really wants this. 3) The debt path does not look good in the near term, peaking at around 150% of GDP, but should come back down quickly, especially as inflation catches up with the FX. Also, 48% of the debt is held by the intra-public sector. 4) Lawsuits are a real problem, even if they are unlikely to interfere with bond payments for now. 5) The key difference to 2015 is that prices are still much less demanding, even if the challenge today is bigger.

Energy | From deficit to major trade balance contributor: We have long argued that the Vaca Muerta oil & gas resource development would be instrumental for Argentina's energy security. It is an important piece of the complex puzzle for the country to reach fiscal equilibrium. With a fast and material production growth in the past three years, the country is now in a position to export crude oil and has almost completely eliminated the import requirements of expensive natural gas. We forecast the overall hydrocarbons trade to move from a deficit of US$3.3 billion in 2022 to a surplus of US$2.0 billion in 2024, and a fast expansion to ~US$18 billion by the end of the decade. An important condition for our estimates to materialize, however, is the success of economic reform, including the removal of capital controls, which we believe will drive a virtuous cycle, with material wave of new investments and foreign capital injection in the energy sector.

On the back of the progress in macro stabilization and the constructive outlook from our economics team, we have revised our discount rate assumptions lower, closing the existing premium attributed to Argentina vs. our other LatAm coverage by ~50%. That said, we are still ~250bps above the risk premium used for the rest of LatAm. The lower discount rate drove material upward revision to our price targets, especially for YPF (to US$22/ADR from US$10.5), which we upgrade to Equal-weight from Underweight. Our price targets for the remaining coverage increase by an average of ~25%: VIST (+28%, to US$51/ADR), PAM (+29%, to US$45/ADR), and TGS (+20%, to US$12/ADR).

Latin America Equity Strategy | Long way back, Argentina: We have no position in Argentine equities. We think there is a long way back for equities given multiple historical setbacks with continued low points at lower levels. This creates a higher hurdle for equity capital to return to domestic stocks. While we acknowledge that there can be multiple trading opportunities along the way, we think the key for Argentina is structural reform similar to the omnibus bill that aims at removing impediments to growth. This could potentially pave the way to an improvement of the longer-term policy framework embedded in the Constitution or the political consensus pertaining to monetary and fiscal policy. We struggle to see a LatAm equity story without a strong independent or autonomous central bank in the particular market (Argentina is the only major country in Latam without central bank independence), and we think investors should look for any such rule-based fiscal — and especially monetary — policy to be firmly disconnected from the political cycle. Equity investors and the MSCI are likely to wait across the political cycle to see how political progress gets anchored into the institutional framework of the market.

Looking across the Argentine equity landscape, playing the Vaca Muerta via Vista would be at the top our list of preferences (see Oil & Gas: From Deficit to Major Trade Balance Contributor). It fits our "energizing the world" theme for the region, would benefit from free floating FX in the mid-term, and is likely to be an essential part of rebuilding financial stability in Argentina. This would represent a lower risk or beta strategy for Argentina. However, investors using call option thinking could be using the banking system (all UW-rated by Jorge Kuri) to play the asymmetry of potential returns. We think there is a long way back for that space and it is closely linked to the future of structural reforms. All in, we are cautious the outlook for equities in Argentina.

Exhibit 1: Argentina: Projected Scenarios

	Base	Bear	Bull
Fiscal Policy	New Personal Income Tax (PIT) Bill approved but not complete reversal of recent changes	New PIT rejected	New PIT approved with complete reversal
	New Asset Tax (AT) rates approved	New AT rates rejected	New AT rates approved
	Tax Amnesty approved but limited participation	Tax Amnesty rejected	Tax Amnesty approved with strong participation
	New pension formula approved	New pension formula rejected	New pension formula approved
	Reduction in import tax rate in 2H24	Import taxes added to revenue sharing system	Elimination of import taxes in 2H24
FX Policy	Gradual FX unification	No FX unification	FX unification
	Small FX gap	FX gap remains in 30-50% range	Virtual elimination of FX gap
	Slow crawling, mid-year partial adjustment	No mid-year FX adjustment	Slow crawling, mid-year FX adjustment
	Managed floating FX system	Crawling FX system remains	Floating FX system
	Gradual opening of capital account in 2H24	No change in capital restrictions	Fast opening of capital account
Monetary Policy	Negative real rates in 1H24, positive in 2H24	Positive real rates to contain FX pressures	Negative real rates in absence of FX pressures
	Elimination of deficit financing	Some deficit financing needed	Elimination of deficit financing
	Gradual reduction of BCRA remunerated liabilities	Increase in BCRA remunerated liabilities	Sizable reduction in BCRA remunerated liabilities
	Gradual implementation of currency competition	No currency competition in sight	Currency competition
Balance of Payments	Solid harvest	Lower than expected grain output	Record harvest
	Some hoarding of grains	Sizable grain hoarding	No hoarding of grains
	Limited improvement in energy trade metrics	No improvement in energy trade metrics	Sizable improvement in energy trade metrics
Supply Side Reforms	DNU remains in place	DNU rejected	DNU remains in place
	Diluted Omnibus Bill approved	Omnibus Bill rejected	Omnibus Bill approved without changes
	Diluted Labor Reform Approved	No Labor Reform	Labor Reform Approved without changes

Source: Morgan Stanley Latam Economics

Exhibit 2: Argentina: Key Economic Forecasts

	2022	2023	2024E	2025E
Real GDP growth (%)	5.0	-1.6	-3.3	3.6
Private Consumption (%)	9.7	1.5	-7.0	1.8
Gross Fixed Investment (%)	11.1	-0.7	-6.7	16.2
Current Account (% GDP)	-0.7	-1.1	1.8	0.7
Inflation (year-end, %)	94.8	254.2	207.7	31.6
Policy rate (year-end)	75.00	100.00	60.00	30.00
International reserves (USD bn)	44.6	23.1	36.0	43.0
Primary balance (% GDP)	-2.7	-3.0	0.8	2.0
Nominal Balance (% GDP)	-4.5	-6.2	-0.9	0.0

Source: Morgan Stanley Latam Economics

Economics: Thinking Through the Roadmap to Stabilization and Reforms

Fernando Sedano

So far, so good on tackling macro imbalances, yet the situation remains fluid: The government has checked several boxes in its roadmap toward macro stability. Thus far, it has exceeded expectations on fiscal metrics and on the FX reserves build-up objective. The ARS overhang from the massive monetary emission of the past years is being absorbed with a set of multipurpose policies. The BCRA paper (BOPREA) being issued for importers is an example, a tool that absorbs ARS from the economy while providing a solution to the challenge of unpaid importers debt. Other boxes checked include staying current on FX debt payments, rescuing the IMF program, obtaining net funding from local debt auctions and using it to repurchase Treasury debt held by the BCRA (also a tool to absorb/shred ARS). On the reform agenda, progress is less apparent — the executive prder is being partially enforced (and risks being overturned) and a new omnibus bill is being discussed after the setback in Congress.

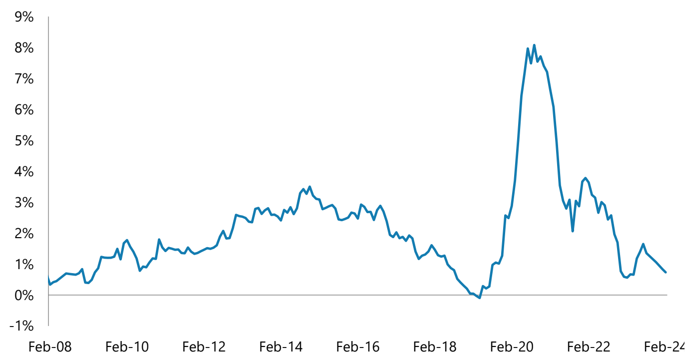
Despite the good start, there are questions on the sustainability of the ongoing macro policies: On fiscal policy, concerns are related with the sustainability of spending cuts amid tensions with provincial governments and on how much more can retirement and pension benefits be diluted. On the FX reserves accumulation front, concerns are centered on the rapid REER appreciation (a combination of high inflation and the slow crawl of the official FX) after the initial overshooting of the official FX in December last year. Questions about the sustainability of negative real rates amid efforts to reduce inflation are also common.

We recognize the challenging set of imbalances to be tackled concomitantly: So we understand that authorities are working under a sort of general equilibrium framework, oftentimes making apparently suboptimal decisions when policies are examined in isolation. Indeed, we believe that looking at specific policies without considering the broader context may not be, at this juncture, the best way to draw conclusions on the program.

We provide below our thoughts on what we believe is the most likely roadmap for economic policy: Our intention is to adjust this roadmap as we have more evidence on progress (or lack of) over the coming months. The situation remains fluid.

Fiscal Policy as Key Anchor

Exhibit 3: Argentina: Central Bank Transfers to the Treasury (12-month sum, % of GDP)



Source: Finance Ministry, Morgan Stanley Latam Economics

Eliminating the fiscal deficit remains the key anchor in the stabilization program: Having no market access, eliminating the fiscal deficit would finish with a key source of monetary emission and eventually reduce inflation (see Exhibit 3). In addition, it would provide the resources to face debt payments and reduce the country risk, paving the way to a potential future market access, even if limited. We think the authorities are totally committed to consolidate fiscal accounts and deliver a balanced budget this year.

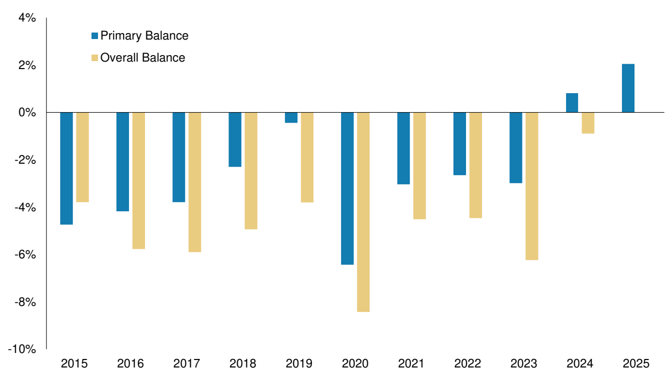
Exhibit 4: Argentina: Fiscal Metrics (YTD)

	ARS billions		% change y-o-y	
	Jan-Feb-24	Jan-Feb-23	Nominal	Real
Total Revenues	***11682.9***	***3293.6***	***254.7%***	***-5.7%***
Tax Revenues	***10687.1***	***3002.0***	***256.0%***	***-5.3%***
Net VAT	*2538.2*	*637.0*	*298.5%*	*6.0%*
Income Tax	*770.4*	*332.0*	*132.0%*	*-38.3%*
Contributions to Social Security	*3313.4*	*1194.1*	*177.5%*	*-26.2%*
Debit Tax	*1093.0*	*304.4*	*259.1%*	*-4.5%*
Export Taxes	*903.4*	*147.1*	*514.3%*	*63.3%*
Import Taxes	*451.1*	*93.2*	*384.1%*	*28.7%*
Others	*1419.8*	*209.1*	*578.9%*	*80.5%*
Profits on Assets	***554.5***	***134.6***	***311.9%***	***9.5%***
Other Current Revenues	***441.3***	***156.8***	***181.3%***	***-25.2%***
Primary Spending	***8439.6***	***3725.7***	***126.5%***	***-39.8%***
Social Spending	*5336.4*	*2079.7*	*156.6%*	*-31.8%*
Subsidies	*656.2*	*386.2*	*69.9%*	*-54.8%*
Opex	*1779.5*	*628.4*	*183.2%*	*-24.7%*
Transfers to Provinces	*81.7*	*98.6*	*-17.1%*	*-78.0%*
Transfers to Universities	*305.0*	*116.6*	*161.6%*	*-30.4%*
Capex	*157.7*	*331.6*	*-52.5%*	*-87.4%*
Others	*123.1*	*84.6*	*45.6%*	*-61.3%*
Primary Surplus	***3243.3***	***-432.1***		
Net Interest Payments	***2386.8***	***591.5***		
Nominal Budget Balance	***856.5***	***-1023.6***		

Source: Finance Ministry, Morgan Stanley Latam Economics

Yet that is easier said than done: Policymakers delivered on their promises in the first couple of months of 2024 by cutting spending aggressively and posting nominal budget surpluses (see Exhibit 4). Without a 2024 budget approved in Congress, the 2023 budget law applies this year, which means that the floor to spending is too low, as those are nominal ARS completely diluted by inflation running at a ~270% annual pace (while revenues rise almost with inflation). So the government has the space to cut spending significantly. But the problem is that this generates deep tensions with a broad group of stakeholders (including provincial governors) and also deepens the recession further. Without some version of the omnibus bill and the fiscal bill approved, the pain to be inflicted is even larger.

Exhibit 5: Argentina: Primary and Overall Balance (% of GDP)



Source: Ministerio de Hacienda, Morgan Stanley Latam Economics

We foresee significant progress, a primary surplus of 0.8% of GDP and a nominal deficit of 0.9% of GDP (see Exhibit 5). This compares with a ~3% primary deficit and a 6% nominal deficit in 2023. We assume Congress approves the fiscal bill — which contains a counter-reform of the personal income tax (PIT), a new pension formula, changes to the asset tax, and some elements of a tax amnesty. Export and import taxes provide the bulk of the surge in revenues this year versus 2023, with the resumption of the fuel tax a more modest, yet relevant contributor (see Exhibit 6). Expenditures are slashed across the board, including subsidies on energy and public transport, discretionary transfers to provinces, capex, opex, and pension and social spending.

Exhibit 6: 2024 Fiscal Consolidation (% of GDP)

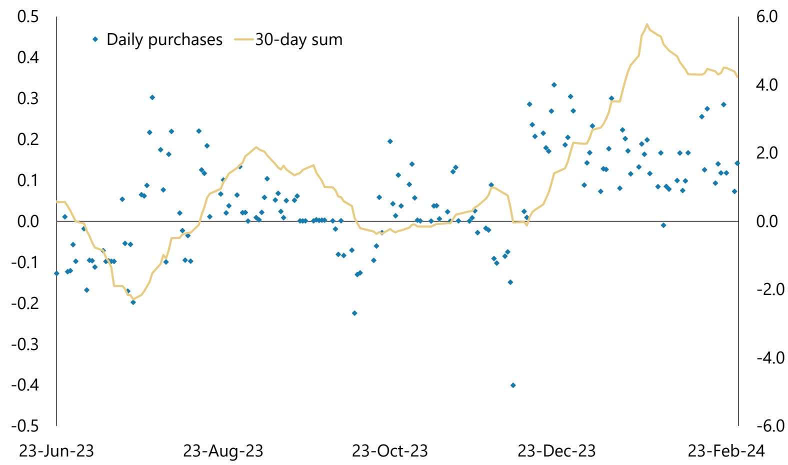
Change in Revenues	1.3%
Import Taxes	0.5%
New PIT Framework	0.2%
Tax on Fuels	0.4%
Delta on X Taxes (drought)	0.9%
Impact of recession	-0.7%
Change in Expenditures	2.5%
Reduction in subsidies	0.6%
Social programs	0.2%
Opex	0.3%
Capex	0.6%
Retirement Benefits	0.3%
Transfers to Provinces	0.5%
Total Fiscal Consolidation	**3.8%**

Source: Morgan Stanley Latam Economics

FX Policy — The Dilemma of the REER

We expect the authorities to keep the pace of FX crawling at 2% monthly for now: While we tend to argue in favor of a competitive REER to improve current account dynamics and shore up FX reserves, we acknowledge that at this stage in the stabilization program the 2% pace might help. In order to reduce inflation, providing an FX anchor in a "bi-monetary economy" with still sizable capital and import restrictions may be desired.

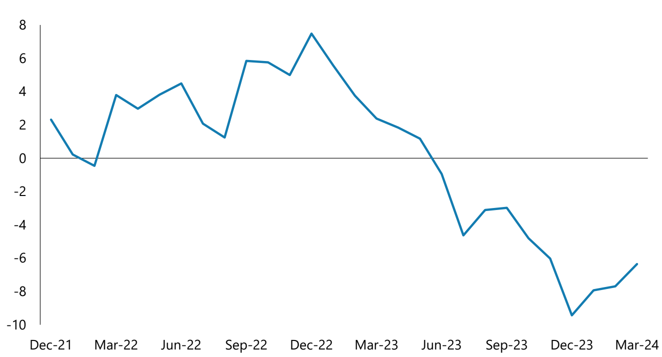
Exhibit 7: Argentina: BCRA Purchases (USD billions)



Source: BCRA, Morgan Stanley Latam Economics

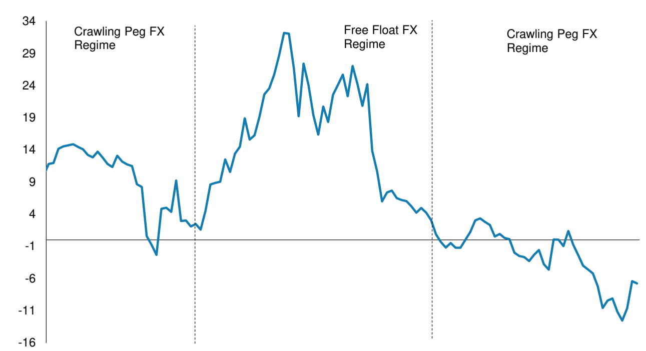
So far, it seems to work: BCRA has purchased more than US$10 billion in the official market since the new government took office (see Exhibit 7). As a result, there was a significant improvement in the (weak) FX reserves situation inherited from the previous administration (see Exhibit 8 and Exhibit 9). The FX gap — oftentimes a harbinger of currency devaluation — has narrowed to multiyear lows (see Exhibit 10). After the sizable FX adjustment in December 2023, and despite the ongoing adjustment of relative prices, inflation has been trending downward (see Exhibit 11). We think that the nominal FX anchor may be helping, but we also think that the deep recession is likely taming price pressures.

Exhibit 8: Argentina: Net FX Reserves (IMF methodology, USD billions)



Source: IMF, Morgan Stanley Latam Economics

Exhibit 9: Argentina: Net FX Reserves (traditional methodology, USD billions)

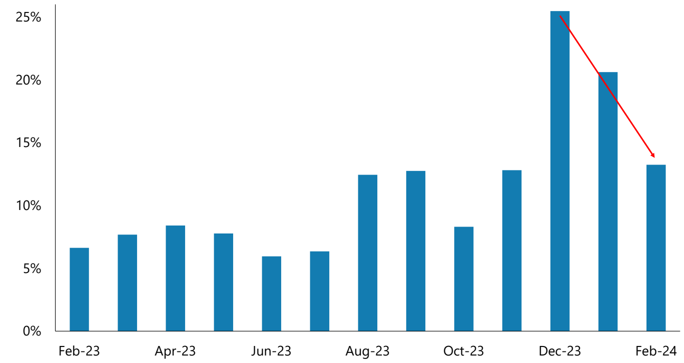


Source: BCRA, Morgan Stanley Latam Economics

Exhibit 10: Argentina: FX Gap (%)

Source: BCRA, Morgan Stanley Latam Economics

Exhibit 11: Argentina: CPI (% change m-o-m)



Source: INDEC, Morgan Stanley Latam Economics

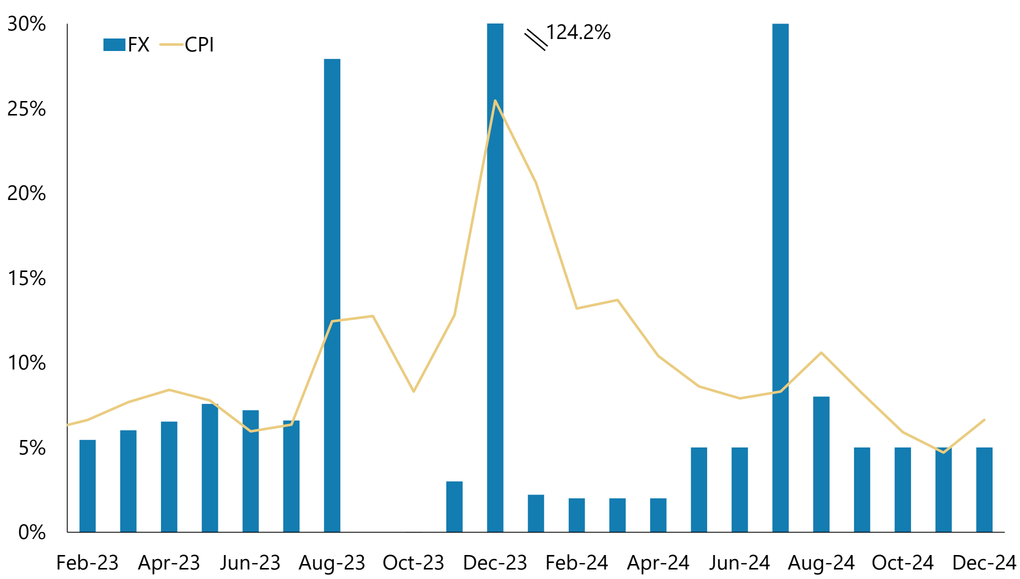
Once inflation recedes to more manageable levels, a faster crawling or another one-off correction is likely needed: That should help with a gradual unwinding of capital and import restrictions, which in turn should help think about some recovery of activity in 2H24. The stronger the REER, the more difficult to relax capital flow restrictions (see Exhibit 12).

Indeed, we expect authorities to unify the FX system early in 2H24, post-harvest: This would entail a one-off correction of the official FX, which may be preceded by a slightly faster crawling of the official FX in the May-June period, depending on the progress on disinflation and FX reserves accumulation (see Exhibit 13). We think authorities would only accelerate the pace of crawling once we see single-digit monthly inflation prints.

Exhibit 12: Argentina: Real Effective Exchange Rate (monthly average, Dec/23 = $/USD 800)

Source: BCRA, Morgan Stanley Latam Economics

Exhibit 13: Argentina: FX Crawl and CPI (% change m-o-m)



Source: INDEC, BCRA, Morgan Stanley Latam Economics

Is a competitive REER a necessary condition? It could be argued that Argentina needs a competitive REER to be able to shore up FX reserves, a key macro objective. Under the current system of capital and import controls, we understand there is room for REER appreciation, but eventually, as those restrictions are gradually lifted, a more competitive REER could help avoid current account imbalances as imports tend to surge fast during recoveries.

Yet if, eventually, fiscal metrics are sustainably in balance, then the economy could take a strong REER. While current account dynamics would deteriorate in this environment, inflows through the financial account — through FDI and portfolio flows — could arguably keep external accounts in decent shape. It could also be argued that in the event export taxes on grains are reduced or eliminated and as oil and gas (and lithium and other mining) exports surge over time, stronger FX inflows could help finance a higher demand for exports.

We think the more competitive REER could work better, at least until some conditions are met. This is specially true if this administration makes limited progress on the supply side reforms (including labor, pension, tax) that are needed to foster private sector investment and sustained growth. Once sustained growth is at reach and after a solid track record on fiscal metrics — which may also require some type of fiscal rule — the economy could likely take a stronger REER.

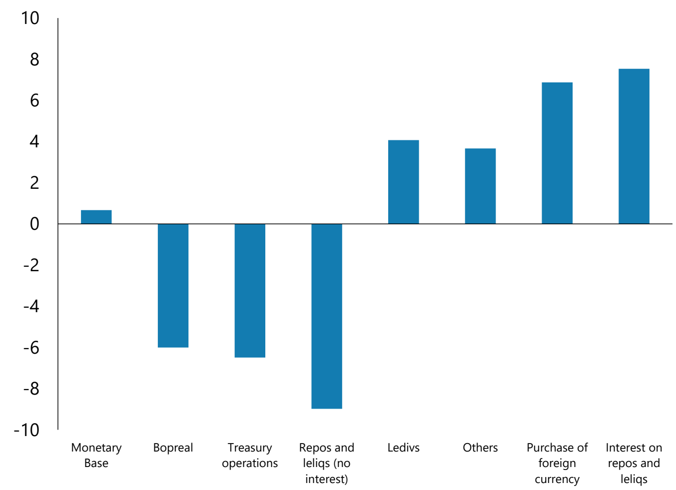
Monetary Policy: Preparing the Ground

Admittedly, here is where we have more doubts about the future path of policy: The authorities hint the goal is to have a competition of currencies (the USD and the ARS as legal currencies) so that citizens can eventually decide which one to use for transactions. This will require a law. Though outside the scope of this report, one case worth looking at is Peru, where after a period of hyperinflation in the early 1990s, the authorities allowed the USD to compete against the local currency (Sol). Against the odds, over time, the society ended up preferring the local currency on the back of strong macro fundamentals (likely a necessary condition).

There is a focus on monetary aggregates for now: The monetary base is up only 6% in nominal terms since the new administration took office, which translates into a ~40% decline in real terms. From this point of view, one can argue that monetary policy is very restrictive. Yet, the government has kept the benchmark rate (overnight repo rate paid by BCRA to financial institutions to manage liquidity) negative in real terms, which a priori suggest a loose monetary policy.

Negative real rates are instrumental to reduce BCRA remunerated liabilities and help Treasury obtained net funding in local debt auctions: Negative real rates entice local banks to participate in Treasury auctions at more attractive conditions, reducing banks' holdings of BCRA paper. This slashes BCRA remunerated liabilities, improving its balance sheet (along with the accumulation of FX reserves mentioned previously) and decreasing the largest source of monetary emission derived from the interest BCRA pays on repos (the quasi-fiscal deficit) (see Exhibit 14).

Exhibit 14: Argentina: Sources of Monetary Emission and Sterilization Instruments (ARS billions, sum since December 11, 2023)



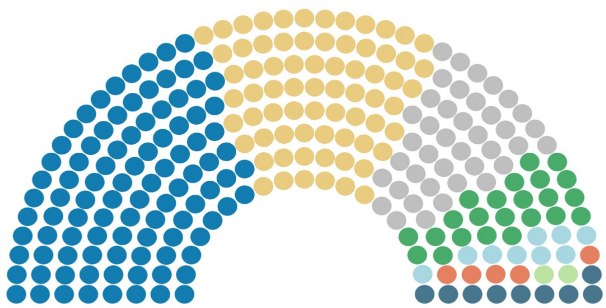
Source: BCRA, Morgan Stanley Latam Economics

Yet, real rates will eventually have to turn positive if the ARS is to compete with the USD. In other words, negative real rates work for now, achieving several goals at the same time (as mentioned above). However, once a new monetary regime is in place, real rates will likely have to turn positive. Otherwise, it will be an uphill battle for the ARS to compete against the USD. The timing to implement this eventual competition of currencies is unclear to us. A necessary condition is a significantly improved BCRA balance sheet. And while we are walking toward that goal, we think we are not yet there. Maybe after the harvest the situation is clearer. Can the IMF accelerate this process by providing new funds under a new program? (See Sovereign Credit Strategy: A Structural Adjustment Worth Staying For .) Perhaps, but we have our doubts that the right time is now, and even whether this is desired by the different stakeholders (Argentine authorities and the IMF).

Supply Side Reforms: Limited Progress

The government holds a weak position in Congress, limiting progress on supply side reforms (see Exhibit 15 and Exhibit 16): We already have evidence that approving legislation will require negotiations with opposition forces, something we favor. We believe that macro stabilization is a necessary but not a sufficient condition to restore sustainable growth; Argentina needs also supply side reforms to encourage foster private investment and job creation.

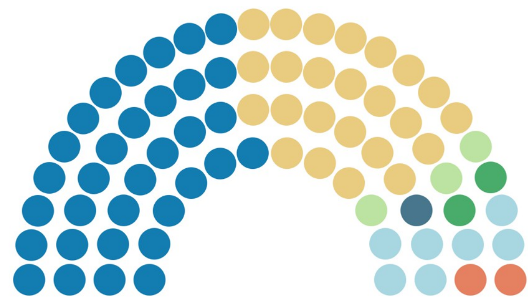
Exhibit 15: Argentina: Lower House Composition



	Seats
Unión por la Patria y aliados	99
Juntos por el Cambio	71
La Libertad Avanza	40
Haciemos Cambio Federal	23
Innovación Federal	9
Frente de Izquierda	5
Ser	2
Others	9

Source: Morgan Stanley Latam Economics

Exhibit 16: Argentina: Senate Composition



	Seats
Unión por la Patria y aliados	33
Juntos por el Cambio	24
La Libertad Avanza	7
Unidad Federal	3
Por Santa Cruz	2
Innovación Federal	2
Juntos Somos Río Negro	1

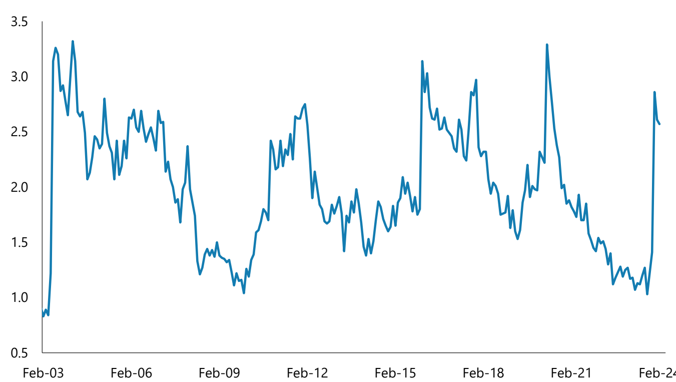
Source: Morgan Stanley Latam Economics

The efforts to deregulate the economy: As explained in detail in our note On the Sweeping Reforms, the government implemented late last year a far reaching executive order (DNU) with hundreds of articles deregulating most sectors of the economy. Yet the DNU has been suffering setbacks: Its labor chapter (a key component) has been suspended by a labor court, and more recently it was rejected by the Senate. The debate now moves to the Lower House as both chambers have to repeal it in order to overturn it. While used frequently in Argentina, a DNU is unlikely to be the tool to reform the economy; legislation approved in Congress gives reforms a sense of sustainability, which a DNU does not, hence the importance of the omnibus bill.

We foresee some version of the omnibus bill and the fiscal bill approved. We actually think that the DNU has some chances to survive as it is not clear the opposition has the votes to reject it in the Lower House. The omnibus bill will likely cement some of the deregulation initiatives in the DNU and will give the Executive the power to temporarily rule on a number of subjects without need for Congress approval. The fiscal bill is likely to include a new formula to adjust pension and retirement benefits and counter-reform of the PIT. Given weakened public finances at all government levels, governors, legislators, and the central government are encouraged to find common ground and support these changes.

Progress (or the lack of) on macro stabilization will impact the fate of reforms: And here we are paying particular attention to the progress on disinflation; the faster inflation goes back to single digits (on a monthly basis), the more support for the Executive — and the higher the chances of reform (see Exhibit 17). Lower inflation prints can help jump-start a recovery in real wages and likely a gradual rebound in activity that can keep popular support from falling too much, and that in turn can generate goodwill in Congress.

Exhibit 17: Argentina: Confidence in the Government Index (highest = 5)



Source: Universidad Torcuato di Tella, Morgan Stanley Latam Economics

Balance of Payments: The Cyclical and the Structural

After last year's drought, the harvest is expected to provide a sizable cyclical boost to exports: Soybean output is expected at roughly 50 million tons, more than doubling last year's yields (~20 million tons). Corn output is projected at 55 million tons, a 75% increase from 2023 (32 million tons). Assuming current grain prices, agri exports could rise by some US$15 billion this year.

Imports are falling fast: The FX correction combined with the deep recession is reducing import demand and will likely continue to do so for some time. In addition, with still sizable restrictions to import payments, USD demand from importers remain limited. In other words, imports look even more depressed on a cash basis. Last but not least, the issuance of BOPREA to deal with the stock of excess unpaid importers' debt as of mid-December last year (US$13.6 billion) is also helping contain import payments as this year.

The energy trade balance moving structurally into a surplus: As discussed below in Oil & Gas: From Deficit to Major Trade Balance Contributor , Argentina's oil output from Vaca Muerta is rising fast. As infrastructure investments are gradually finished, the energy trade balance — which was a sizable deficit over the past 15 years — is turning positive this year. Our expert expects a US$2 billion energy surplus this year, with the potential trial to reach US$10 billion by 2027 and US$18 billion by the end of the decade, assuming infrastructure projects are deplored. This could gradually translate into a significantly structural improvement in external accounts. The energy sector would become a second source of FX inflows after grains and oilseeds.

We assume no new IMF funding this year: As discussed in more detail below in Sovereign Credit Strategy: A Structural Adjustment Worth Staying For , Argentina's repayments to the IMF remain manageable throughout this year and next, so there seems to be no need to rush a new program. We keep thinking that a new arrangement could be negotiated once this program expires, despite recent comments from authorities that there are conversations around new IMF funding. We are not even sure if this is desired (by either party).

We think FX reserves accumulation targets will be met: Indeed, we expect US$12.4 billion in FX reserves accumulation this year, exceeding the US$10 billion in the IMF program (see Exhibit 18).

Exhibit 18: Argentina: Balance of Payments (USD Billions)

	2022	2023	2024E
Current Account	4.8	-6.7	11.0
Goods Balance	21.8	10.5	28.3
Exports	90.5	63.4	82.3
Imports	-68.7	-53.0	-54.0
Services Balance	-10.1	-6.5	-5.7
Interests	-6.7	-10.2	-8.3
Repatriation of Profits	-0.2	-0.3	-3.2
Financial Account	2.1	-16.2	1.3
Foreign Investment	0.6	1.0	2.5
Portfolio	0.0	0.0	1.2
Net Loans	-5.2	-5.2	1.0
IMF	6.9	-3.4	0.0
Multilaterals	1.3	0.8	0.5
Dollar purchases by locals	-0.8	-1.5	-2.9
Others	-0.7	-7.9	-1.0
Change in FX Reserves	4.9	-22.9	12.4

Source: Morgan Stanley Latam Economics

Exhibit 19: Argentina: Key Economic Forecasts

	2022	2023	2024E	2025E
Real GDP growth (%)	5.0	-1.6	-3.3	3.6
Private Consumption (%)	9.7	1.5	-7.0	1.8
Gross Fixed Investment (%)	11.1	-0.7	-6.7	16.2
Current Account (% GDP)	-0.7	-1.1	1.8	0.7
Inflation (year-end, %)	94.8	254.2	207.7	31.6
Policy rate (year-end)	75.00	100.00	60.00	30.00
International reserves (USD bn)	44.6	23.1	36.0	43.0
Primary balance (% GDP)	-2.7	-3.0	0.8	2.0
Nominal Balance (% GDP)	-4.5	-6.2	-0.9	0.0

Source: Morgan Stanley Latam Economics

Risks to Our Baseline Scenario

Risks around the stabilization plan abound: There are numerous risks associated with macro policies and the stabilization plan. There are also risks associated with the legislative agenda and the government's capacity to pass some reforms. In the following Table, we provide a summary of alternative scenarios (see Exhibit 20).

Exhibit 20: Argentina: Projected Scenarios

	Base	Bear	Bull
Fiscal Policy	New Personal Income Tax (PIT) Bill approved but not complete reversal of recent changes	New PIT rejected	New PIT approved with complete reversal
	New Asset Tax (AT) rates approved	New AT rates rejected	New AT rates approved
	Tax Amnesty approved but limited participation	Tax Amnesty rejected	Tax Amnesty approved with strong participation
	New pension formula approved	New pension formula rejected	New pension formula approved
	Reduction in import tax rate in 2H24	Import taxes added to revenue sharing system	Elimination of import taxes in 2H24
FX Policy	Gradual FX unification	No FX unification	FX unification
	Small FX gap	FX gap remains in 30-50% range	Virtual elimination of FX gap
	Slow crawling, mid-year partial adjustment	No mid-year FX adjustment	Slow crawling, mid-year FX adjustment
	Managed floating FX system	Crawling FX system remains	Floating FX system
	Gradual opening of capital account in 2H24	No change in capital restrictions	Fast opening of capital account
Monetary Policy	Negative real rates in 1H24, positive in 2H24	Positive real rates to contain FX pressures	Negative real rates in absence of FX pressures
	Elimination of deficit financing	Some deficit financing needed	Elimination of deficit financing
	Gradual reduction of BCRA remunerated liabilities	Increase in BCRA remunerated liabilities	Sizable reduction in BCRA remunerated liabilities
	Gradual implementation of currency competition	No currency competition in sight	Currency competition
Balance of Payments	Solid harvest	Lower than expected grain output	Record harvest
	Some hoarding of grains	Sizable grain hoarding	No hoarding of grains
	Limited improvement in energy trade metrics	No improvement in energy trade metrics	Sizable improvement in energy trade metrics
Supply Side Reforms	DNU remains in place	DNU rejected	DNU remains in place
	Diluted Omnibus Bill approved	Omnibus Bill rejected	Omnibus Bill approved without changes
	Diluted Labor Reform Approved	No Labor Reform	Labor Reform Approved without changes

Source: Morgan Stanley Latam Economics

Weak grain exports, reform agenda stalled, and higher than anticipated inflation underpin our bear scenario: We could be underestimating farmers' willingness to hard grains and delay exports until they see a more competitive REER. Lower than expected grain exports would complicate FX reserves accumulation progress and the eventual gradual unwinding of capital and import restrictions. This in turn would delay the economic recovery and lead to lower sentiment. The FX gap widens on the back of uncertainty and disinflation goes off track. The government's reform agenda comes to a complete stop, with no omnibus bill, no fiscal package, and no labor reform. Progress on fiscal consolidation becomes an uphill battle. The recession lingers for longer and there is no recovery in sight.

A faster than anticipated disinflation and FX reserves accumulation are the pillars of our optimistic case: We might be underestimating the impact of the deep recession on CPI, so disinflation could progress faster than in our baseline scenario. In turn, a slower REER appreciation could encourage grain exports, which will help shore up FX reserves and drastically improve BCRA balance sheet. This in turn can help authorities implement the new monetary system earlier, significantly reducing inflation expectations and boosting sentiment. The reduction in capital and import restrictions could accelerate with a stronger FX reserves backdrop, helping activity recover faster. The reform agenda is approved almost with no changes and the government delivers on their fiscal objective of a balance overall budget and a 2% of GDP primary surplus.

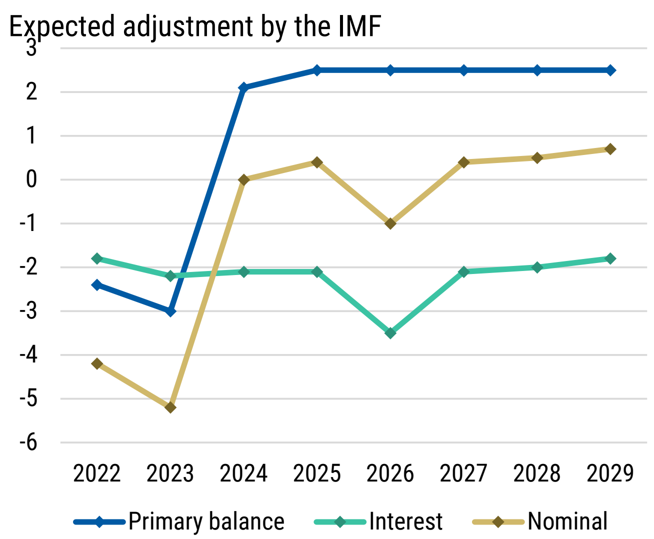
Sovereign Credit Strategy: A Structural Adjustment Worth Staying For

Simon Waever

Fiscal adjustment a must, but also in our base case: As emphasized in most of our Argentina notes in the recent years (see Argentina: The Delicate Dance Ahead; Risk/Reward Is Attractive, September 26, 2022), we see the fiscal deficit as the starting point of the many imbalances in Argentina. Fortunately, the new government agrees and has taken strong action to address it.

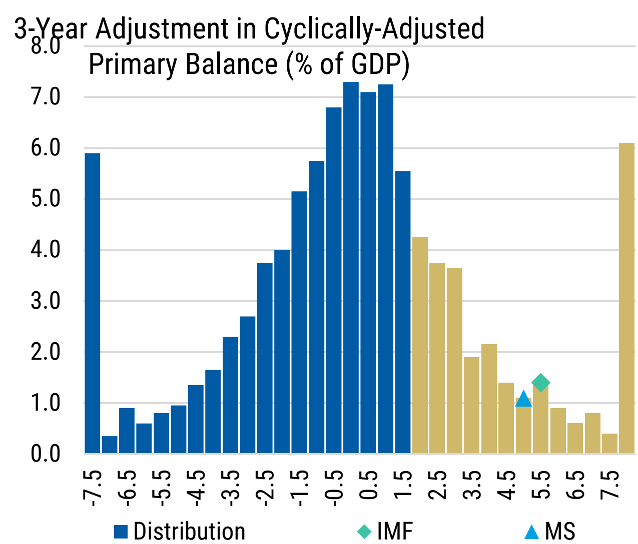
More important, our economist thinks that the adjustment can be very front-loaded, with Argentina ending with a 0.8% of GDP primary surplus already in 2024 (see above, Economics: Thinking Through the Roadmap to Stabilization). This would be a sizable 3.8pp fiscal adjustment over one year, even if less than the official and IMF target of a 2% primary surplus (Exhibit 21). If the authorities end up fully adjusting by 6pp over three years as projected by the IMF, it would be around the 90th percentile in all fiscal adjustments from 1990-2019 (Exhibit 22). Such a large and difficult adjustment would, unsurprisingly, be questioned by the market, yet so far the evidence is positive.

Exhibit 21: The key to the adjustment is the significant fiscal consolidation...



Source: IMF, Morgan Stanley Research forecasts

Exhibit 22: ...yet it will be difficult with the anticipated three-year adjustment in the 90th percentile



Source: IMF, Morgan Stanley Research forecasts

A lot of debt due, yet not all debt is made equal: Related to the fiscal adjustment is the focus on the significant amount of debt coming due. However, many parts of the debt stack also come with caveats that reduce the number to be concerned about. For a larger review of Argentina's debt, see Argentina: Diving into the Debt, August 15, 2023. Here is a quick summary of what matters in the near term:

- **BCRA debt:** While there is a lot of debt to the BCRA coming due, this is also easier to roll. So far, Argentina has been paying back some ARS debt and instead taken out new non-transferable FX debt in order to make payments on other FX debt, including the eurobonds given own FX availability has been low. We assume the BCRA debt reduces gradually and also shifts more to FX as long as the Argentine sovereign doesn't have external market access.
- **Domestic ARS bonds:** Much of this is held by the intra-public sector, which makes dealing with it easier (out of the total debt, 48% is held by the intra-public sector). Also, a large share of the domestic non-intra-public sector-held debt is likely captive due to the strict capital controls. So far, the authorities have been offering rates below inflation, helping to reduce the real stock of debt, and more recently conducted

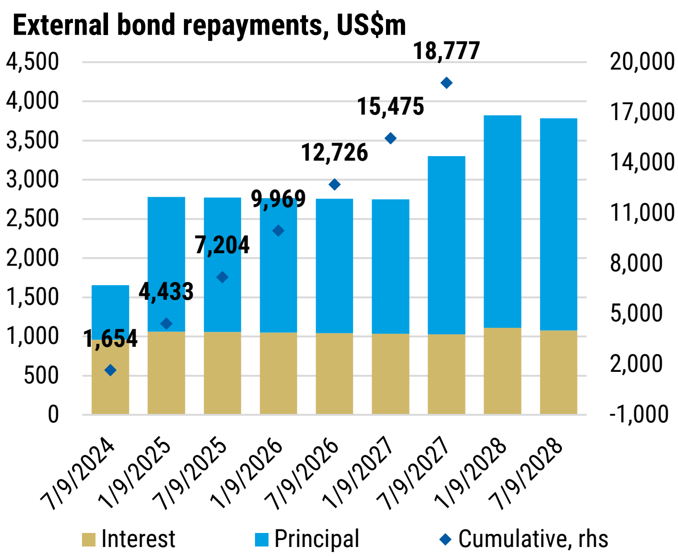
a large debt swap to extend maturities (see here). For now, the aim of the authorities is to make this more inflation linked before eventually coming back to fixed-rate bonds. While the numbers are large, we assume that rolling this debt over is manageable.

- **Domestic FX bonds:** A large part consists of the Bonars that have a similar structure to the external FX bonds. With payments being manageable, we assume that the authorities will keep paying them to the domestic holders. This totals US$1.7 billion in 2024, rising to US$3.9 billion in 2025. Our assumption would be that Argentina tries to treat these bonds similarly to the external FX bonds.
- **External FX bonds:** This is where the focus will likely be, given that the debt is mostly held externally and repayments rise from US$2.6 billion in 2024 to US$5.6 billion in 2025. We review how Argentina can pay this below.
- **FX loans:** These are mostly loans to multilaterals where our assumption is that, with the help of new disbursements, the amounts due will be fully rolled and even provide some net positive financing.
- **IMF:** While the outstanding debt to the IMF is large at US$40.6 billion or 950% of quota, the near-term principal repayments are actually quite low (Exhibit 33), with nothing in 2025 and only US$0.8 billion in 2026 (excluding interest charges of around US$3 billion in both years). This allows some flexibility for when Argentina enters into a new program. As detailed below, our base case is that Argentina delays entering a program until 2026, but there is certainly a chance that it decides to front-load it already this year in order to boost FX reserves.

2025 in focus when it comes to external FX bond repayments: From a relatively small US$1.6 billion remaining in 2024, external bond repayments rise to a larger US$5.6 billion in 2025 (split between January and July; Exhibit 23). This increase is largely driven by three of the bonds seeing amortizations, with ARGENT 2030 a key driver due to its large size. Whether Argentina pays this, and how, is key to the performance of the bonds. We see a few paths ahead:

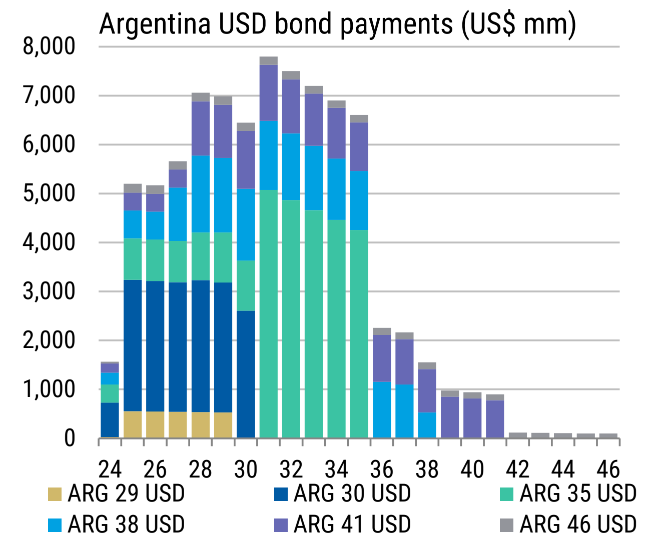
- **Paid from FX reserves:** The most realistic option would be to replicate what Argentina did in January this year. In short, with the federal government not having the FX itself to repay, it issued non-transferable USD notes to the BCRA in exchange for USD that was then used in part to repay bondholders. At the same time, the federal government also repaid ARS liabilities to the BCRA in order not to increase aggregate liabilities due to the BCRA. For this to work, it thus requires the BCRA to have the available FX. In our base case, the FX reserves increase by US$13 billion in 2024. This would leave the BCRA in a position to help with the US$2.7 billion payment in January 2025.
- **Market access:** The aim should clearly be for the federal government to be in a position to repay the bonds without the help of the BCRA, with the most likely source being new external bonds issued in the market. The IMF assumes a return to markets in 2025 with US$1.5 billion. This seems very optimistic today but not impossible. If 12 months out from here the adjustment is proceeding in line with our economist's assumptions, with growth rebounding, a primary surplus running at 1.0-1.5% and a large current account surplus, then sentiment should be very positive. Good progress on structural reforms would increase the likelihood of this scenario. However, bond yields would need to fall significantly. Kenya was able to issue at around 10% and we doubt that Argentina would be able to issue much above this. Ideally it would be a long 10-year bond so as not to add further to maturities up to 2035, yet if a 2030 bond is the only option then that is still better than nothing. In terms of size, if markets are indeed open to Argentina, then we suspect that it would do closer to US$3-5 billion rather than just US$1.5 billion.
- **Debt reprofiling:** In a more bearish outcome where either the fiscal or current account adjustment has gone off track and there is simply no FX to pay bonds, the government may suggest a debt reprofiling. We model this as a four-year maturity extension on all amortizations and principal repayments across all the bonds. We make no changes to the coupons given that they are already very low. While debt holders would push back on any restructuring, as long as the adjustment is seen as standing a good chance of getting back on track, then we suspect that bond holders would go along with it.
- **Extended default:** The true bear case would be if Argentina can't make the payment but no agreement can be found with creditors either, thereby leaving Argentina in an extended default similar to the early 2000s. We suspect that this scenario would be largely down to a lack of political capital that upends the adjustment.

Exhibit 23: External bond repayments rise of US$5.6 billion in 2025...



Source: Bloomberg, Morgan Stanley Research

Exhibit 24: ...as three of the bonds start amortizing



Source: Bloomberg, Morgan Stanley Research

Combinations of fiscal and reform outlooks drive our market scenarios: All of our scenarios build on the fiscal adjustment, with the different paths from there dependent on whether they are accompanied by lasting reforms and then how the debt repayments in 2025 are treated. This leaves the following scenarios, also shown in Exhibit 27 . Note that we assess where yields and returns would be a year out from today, which means that it includes the amortisations in July 2024 and January 2025. When modeling the curve, we work in par-equivalent CDS spread terms.

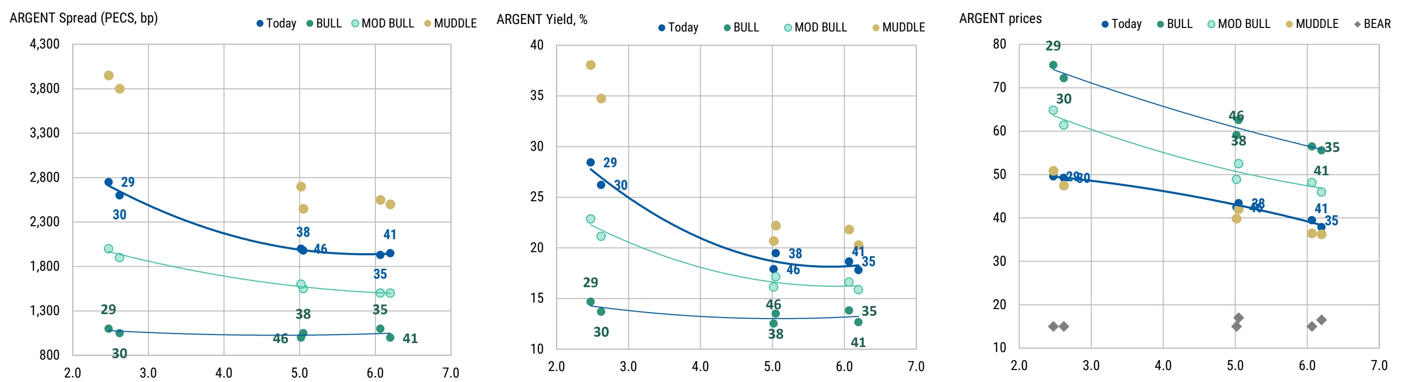
- **Bull case:** The primary balance ends up at a surplus. The government is also able to push through significant reforms, which suggests that the adjustment is sustainable. We see the average yield declining to around 13.5% in this scenario, which is still around 300bp wide to many other HY countries with large funding needs such as Egypt, Nigeria, and Angola. The curve ends up fairly flat. Note that these are still not levels where Argentina would issue new bonds. This would happen later in 2025 as yields close in on 10%.
- **Moderate bull case:** This can come via different combinations, but the most likely is one where the fiscal adjustment takes place but reforms are more difficult. While this scenario still includes staying current in 2025, it means that yields will remain much higher. We work with an average yield of around 18%. This is equivalent to where Egypt traded during the height of funding uncertainty in the middle of 2023, which we deem as a comparable situation, given the large front-loaded maturities. The curve remains inverted although steeper from current levels.
- **Muddle through:** There are no reforms but now the fiscal adjustment also struggles, with the end-2024 primary balance at a deficit of 0.0-1.5%. This would keep market concerns very high and see yields of around 26%, higher from current levels and in line with the more optimistic periods in 2023 ahead of the elections. The curve inverts further.
- **Restructuring:** As reviewed above, there is a scenario where Argentina is simply not able to pay and comes to the market with a proposal to reprofile bonds. The proposal that stands the highest chance of being accepted would be a four-year maturity extension with no principal haircut ("light restructuring"). The more punitive one would also involve a 40% principal haircut ("harsh restructuring"). However, for one, this harsher option is highly unlikely to be accepted by investors but, additionally, it is not required unless GDP in dollars really falls to leave debt/GDP higher in the longer term (see the section on debt levels below). We use relatively optimistic exit yields of 16% yet as usual this assumes that an agreement is found and bonds start trading again. Between the announcement of a restructuring and settlement, bonds are likely to trade much worse.
- **Default:** The worst-case outcome would leave bonds trading around 15-17 for an extended period on the assumption that macro and/or political factors leave a restructuring impossible with an extended recession.

Staying long as risk/reward still attractive: The three following exhibits summarize the scenarios above.

The easy conclusion is that there is significant further upside (33%) if even the moderate bull case scenario plays out, which is the one that most closely resembles what our economist sees as most likely.

The more difficult question is whether risk/reward is still as attractive once incorporating all scenarios. If we assign 50% chance to the bullish scenarios (30% moderate, 20% bull case), 15% to muddle through, 20% to default, 5% to harsh restructuring and 10% to light restructuring, then the weighted average return is 7% over the next year. These probabilities are on the more conservative side, in our view.

Exhibit 25: Argentina scenarios (by March 2025)



Source: Bloomberg, Morgan Stanley Research forecasts; Note: We do not show bear case spreads/yields in the first two as spreads/yields would be much wider given bond prices of 15-17.

Exhibit 26: Argentina scenarios (by March 2025)

Scenarios	Par Equivalent CDS Spread				Yield				Price					Returns - outright and weighted			
Bond	Today	Bull	Mod Bull	Muddle	Today	Bull	Mod Bull	Muddle	Today	Bull	Mod Bull	Muddle	Bear	Carry	Bull	Mod Bull	Muddle
ARG'29	2750	1100	2000	3950	28.44	14.7	22.9	38.1	49.6	75.2	64.8	50.9	15.0	2.0%	58.7%	39.8%	14.5%
ARG'30	2,600	1,050	1,900	3800	26.21	13.7	21.1	34.7	49.2	72.2	61.4	47.5	15.0	1.5%	54.8%	35.5%	10.7%
ARG'35	1,930	1,100	1,500	2550	18.66	13.8	16.6	21.8	39.5	56.5	48.2	36.5	15.0	10.1%	53.1%	32.0%	2.4%
ARG'38	1,980	1,050	1,550	2450	19.47	13.5	17.1	22.2	43.4	62.6	52.5	42.0	17.0	11.0%	55.2%	32.0%	7.9%
ARG'41	1,950	1,000	1,500	2500	17.81	12.7	15.9	20.3	37.9	55.6	46.0	36.3	16.5	9.2%	56.0%	30.7%	5.0%
ARG'46	2,000	1,000	1,600	2700	17.91	12.5	16.1	20.7	42.5	59.1	48.9	39.9	15.0	9.4%	50.7%	27.2%	6.4%
Average	2,149	1,058	1,635	2905	20.97	13.5	18.0	25.6	42.9	62.3	52.7	40.9	15.6	8%	55%	33%	7%

Source: Bloomberg, Morgan Stanley Research forecasts; Note: We do not show bear case spreads/yields in the first two as spreads/yields would be much wider given bond prices of 15-17.

Exhibit 27: Argentina scenarios (by March 2025)

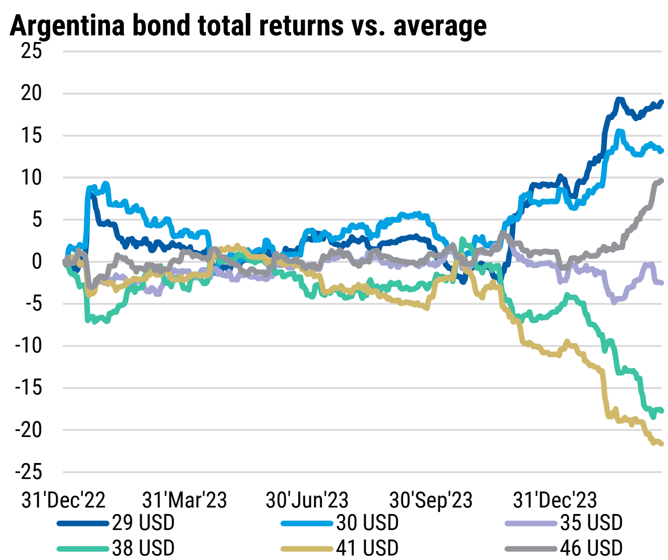
Scenario	Reforms	Primary balance	Debt treatment	Future Yield	Future Price	1Y total return	Probability
Bear case: Default	No reforms	<-2.5%	Default in 2025	-	15.0	-58%	20%
Harsh restructuring			4y Ext. + 40% haircut in 2H24	16.0%	23.5	-57%	5%
Light restructuring	No reforms	<-1.5%	4y Extension in 2024	16.0%	39.2	-5%	10%
Muddle through		-1.5% to 0%	Stay current	25.6%	40.9	7%	15%
Moderate bull case	No reforms	Surplus	Stay current	18.0%	52.7	33%	25%
Moderate bull case	Reforms	-1.5% to 0%	Stay current	18.0%	52.7	33%	5%
Bull case	Reforms	Surplus	Stay current	13.5%	62.3	55%	20%

Source: Bloomberg, Morgan Stanley Research forecasts

We see most value in the front-end bonds: The clear divergence across the curve since the elections has been the outperformance of the front-end bonds that amortize early on, namely ARGENT 2029 and 2030, and the underperformance of the 2005 prospectus bonds, namely ARGENT 2038 and 2041 (Exhibit 28). The issue in fading this move is that the front-end bonds still don't look rich relative to the rest of the curve. The very inverted curve, including when using par-equivalent CDS spreads, is one reason. Yet, also in our moderate bull case, the one-year total returns are still comparable or even still better for these bonds. Furthermore, adding the muddle through where Argentina stays current on bonds, the front-end bonds outperform due to the January amortizations being made. The bear case in the table above does go out one year, so it also includes the January amortizations. If a default comes before the January 2025 amortization, then there is more downside to the front-end bonds given their higher prices.

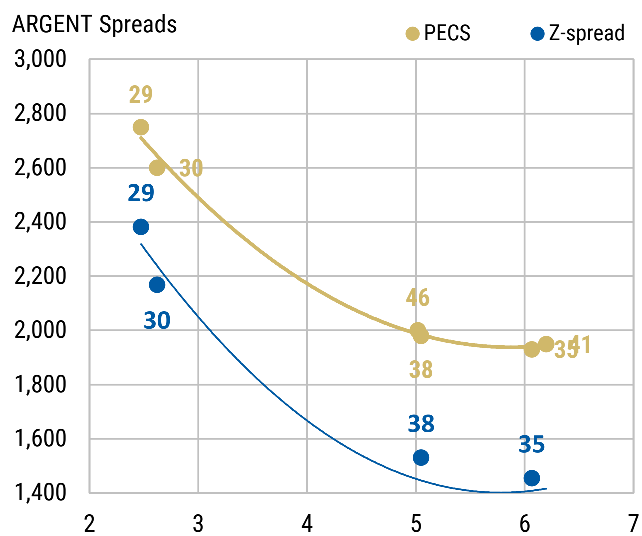
However, the same return analysis above does show less upside for ARGENT 2046, which had been our preferred bond so far. We thus fully switch preference to the front-end bonds instead.

Exhibit 28: The front-end bonds have been the clear outperformers...



Source: Bloomberg, Morgan Stanley Research

Exhibit 29: ...yet the curve is still very inverted



Source: Bloomberg, Morgan Stanley Research

Exhibit 30: Argentina bond payment schedules

	Total payments (% initial notional)										Cumulative Annual Payments (% initial notional)									
Bond	**24**	**25**	**26**	**27**	**28**	**29**	**30**	**31**	**32**	**33**	**24**	**25**	**26**	**27**	**28**	**29**	**30**	**31**	**32**	**33**
ARG 29 USD	1.00%	20.95%	20.75%	20.55%	20.35%	20.15%	0.00%	0.00%	0.00%	0.00%	1.0%	22.0%	42.7%	63.3%	83.6%	103.8%	103.8%	103.8%	104%	104%
ARG 30 USD	4.38%	16.69%	16.57%	16.45%	16.77%	16.49%	16.21%	0.00%	0.00%	0.00%	4.4%	21.1%	37.6%	54.1%	70.9%	87.3%	103.6%	103.6%	103.6%	104%
ARG 35 USD	1.81%	4.13%	4.13%	4.13%	4.75%	5.00%	5.00%	24.75%	23.75%	22.75%	1.8%	5.9%	10.1%	14.2%	18.9%	23.9%	28.9%	53.7%	77.4%	100.2%
ARG 38 USD	2.13%	5.00%	5.00%	9.55%	13.75%	13.30%	12.84%	12.39%	11.93%	11.48%	2.1%	7.1%	12.1%	21.7%	35.4%	48.7%	61.6%	73.9%	85.9%	97.4%
ARG 41 USD	1.75%	3.50%	3.50%	3.50%	10.58%	10.33%	11.23%	10.89%	10.54%	10.19%	1.8%	5.3%	8.8%	12.3%	22.8%	33.2%	44.4%	55.3%	65.8%	76.0%
ARG 46 USD	1.81%	8.62%	8.44%	8.25%	8.27%	8.58%	8.35%	8.13%	7.90%	7.67%	1.8%	10.4%	18.9%	27.1%	35.4%	44.0%	52.3%	60.5%	68.3%	76.0%

	Interest payments (% initial notional)										Principal payments (% initial notional)									
Bond	**24**	**25**	**26**	**27**	**28**	**29**	**30**	**31**	**32**	**33**	**24**	**25**	**26**	**27**	**28**	**29**	**30**	**31**	**32**	**33**
ARG 29 USD	1.00%	0.95%	0.75%	0.55%	0.35%	0.15%	0.00%	0.00%	0.00%	0.00%	0.00%	20.00%	20.00%	20.00%	20.00%	20.00%	0.00%	0.00%	0.00%	0.00%
ARG 30 USD	0.38%	0.69%	0.57%	0.45%	0.77%	0.49%	0.21%	0.00%	0.00%	0.00%	4.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	0.00%	0.00%	0.00%
ARG 35 USD	1.81%	4.13%	4.13%	4.13%	4.75%	5.00%	5.00%	4.75%	3.75%	2.75%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	20.00%	20.00%	20.00%
ARG 38 USD	2.13%	5.00%	5.00%	5.00%	4.66%	4.20%	3.75%	3.30%	2.84%	2.39%	0.00%	0.00%	0.00%	4.55%	9.09%	9.09%	9.09%	9.09%	9.09%	9.09%
ARG 41 USD	1.75%	3.50%	3.50%	3.50%	3.44%	3.19%	4.09%	3.74%	3.40%	3.05%	0.00%	0.00%	0.00%	0.00%	7.14%	7.14%	7.14%	7.14%	7.14%	7.14%
ARG 46 USD	1.81%	4.08%	3.89%	3.70%	3.73%	4.03%	3.81%	3.58%	3.35%	3.13%	0.00%	4.55%	4.55%	4.55%	4.55%	4.55%	4.55%	4.55%	4.55%	4.55%

Source: Bloomberg, Morgan Stanley Research

Key Issues

1) A look at the BOPREALs

In short, these are USD-denominated local law bonds issued by the central bank. They are initially issued to importers with FX debt but can now also be traded on the secondary market once sold by the importers (including being euroclearable). For a complete FAQ and terms, see the BCRA website.

Currently three series exist, with series 1 (S1) now stripped into four bonds. A total amount of US$10 billion will be issued. S1 and S3 are fully issued, with S2 at US$892 million still having room to grow to its US$3 billion target via auctions.

When assessing relative valuations versus the sovereign's external USD bonds, we consider the following points:

- **BCRA as issuer:** This is a key difference compared to all the other sovereign bonds that are issued by the federal government. With an independent central bank, an argument can be made that the credit risk should be lower given that the FX appears at the central bank first, while the federal government is second in line in addition to being dependent on funding its broader fiscal deficit. However, we find it hard to view the BCRA as incrementally independent from the Argentine federal government. If something were to go wrong in line with the bear case scenarios above, we don't have high confidence that the BOPREA would be favored, especially given the local law. All in, we think it makes sense for the BOPREALs to trade flat to a bit tight relative to the federal bonds just based on the issuer, but not by much.
- **Local law:** The BOPREA are issued under local law and without any real prospectus, meaning that future changes can happen outside of bond holders' control.
- **Paid in USD, yet only at maturity:** If the put option is exercised, then the BOPREA pay in ARS, introducing convertibility risk.
- **Can be used for taxes:** Series 1 bonds A, B, and C can be used to pay taxes for certain periods (Exhibit 31). This could drive local demand from high net worth individuals as has indeed been the case with other domestic bonds in the past, yet it's worth noting that the first period begins on April 30, 2025.
- **Issuance risk:** Clearly, there is no market access for the external bonds, so the amount outstanding will stay the same. While the government has noted the US$10 billion limit for the BOPREALs, this can presumably change.

Exhibit 31: Argentina USD bond characteristics

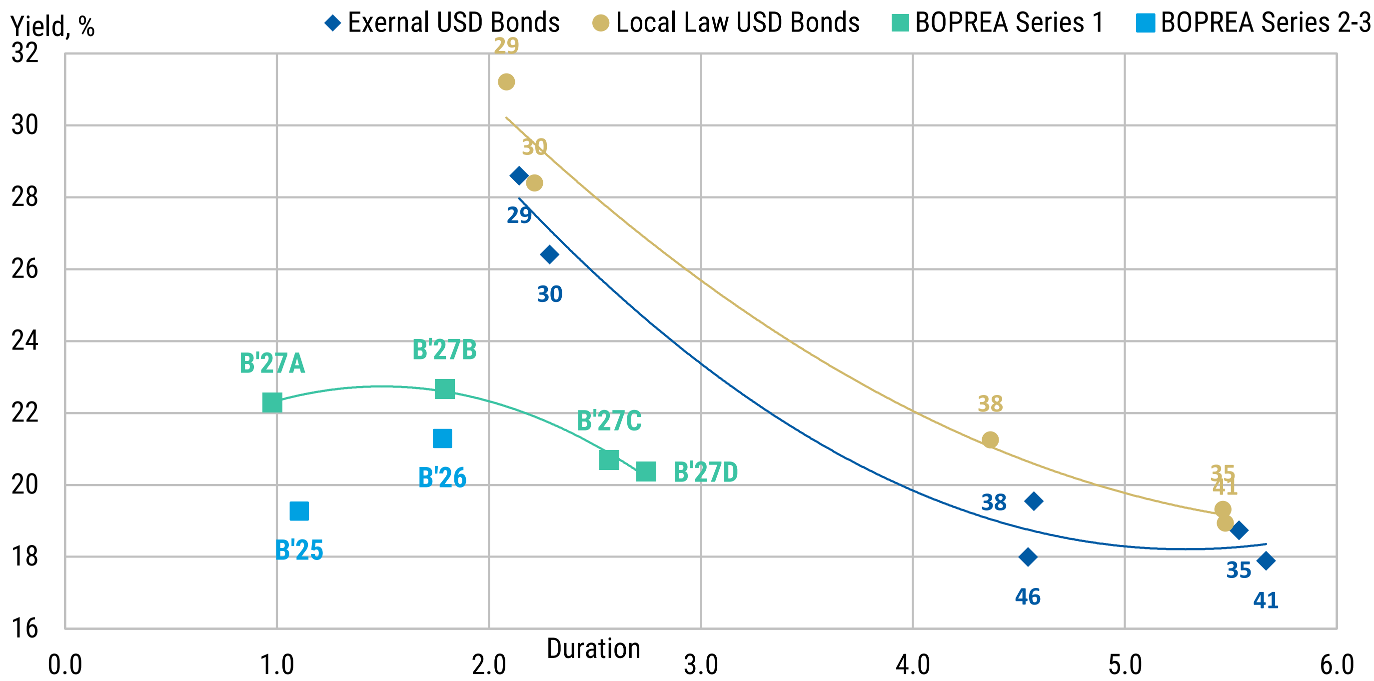
Argentina Sovereign Bonds

Bond	CCY	ISIN	Issue Date	Maturity	Notional	Notional USD	Mkt Cap USD	Price	Duration	Yield to Worst	Law	Indenture	Current cpn	Current yield	Nxt Cpn dt	Accrued	Nxt Step-up dt	Next Step-up Cpn
ARG 29 USD	USD	US040114HX11	9/4/2020	7/9/2029	2,635	2,635	1,301	49.4	2.1	28.6	NY	2016	1.000	2.0	7/9/2024	0.200	-	-
ARG 30 USD	USD	US040114HS26	9/4/2020	7/9/2030	16,091	16,091	7,882	49.0	2.3	26.4	NY	2016	0.750	1.5	7/9/2024	0.150	7/9/2027	1.750
ARG 35 USD	USD	US040114HT09	9/4/2020	7/9/2035	20,502	20,502	8,057	39.3	5.5	18.7	NY	2016	3.625	9.2	7/9/2024	0.725	7/9/2024	4.125
ARG 38 USD	USD	US040114HU71	9/4/2020	1/9/2038	11,405	11,405	4,931	43.2	4.6	19.5	NY	**2005**	4.250	9.8	7/9/2024	0.850	7/9/2024	5.000
ARG 41 USD	USD	US040114HV54	9/4/2020	7/9/2041	10,482	10,482	3,952	37.7	5.7	17.9	NY	**2005**	3.500	9.3	7/9/2024	0.700	7/9/2029	4.875
ARG 46 USD	USD	US040114HW38	9/4/2020	7/9/2046	2,092	2,092	884	42.3	4.5	18.0	NY	2016	3.625	8.6	7/9/2024	0.725	7/9/2024	4.125
Bond	**CCY**	**ISIN**	**Issue Date**	**Maturity**	**Notional**	**Notional USD**	**Mkt Cap USD**	**Price**	**Duration**	**Yield to Worst**	**Law**	**Indenture**	**Current cpn**	**Current yield**	**Nxt Cpn dt**	**Accrued**	**Nxt put dt**	**Tax elligible**
ARG Local 29 USD	USD	ARARGE3209Y4	9/4/2020	7/9/2029	2,195	2,195	1,029	46.9	2.1	31.2	AR		1.000	2.1	7/9/2024	0.200	-	
ARG Local 30 USD	USD	ARARGE3209S6	9/4/2020	7/9/2030	13,531	13,531	6,354	47.0	2.2	28.4	AR		0.750	1.6	7/9/2024	0.150	-	
ARG Local 35 USD	USD	ARARGE3209T4	9/4/2020	7/9/2035	19,072	19,072	7,381	38.7	5.5	19.3	AR		3.625	9.4	7/9/2024	0.725	-	
ARG Local 38 USD	USD	ARARGE3209U2	9/4/2020	1/9/2038	7,219	7,219	2,937	40.7	4.4	21.3	AR		4.250	10.4	7/9/2024	0.850	-	
ARG Local 41 USD	USD	ARARGE3209V0	9/4/2020	7/9/2041	1,513	1,513	547	36.2	5.5	18.9	AR		3.500	9.7	7/9/2024	0.700	-	
S2 - BOPREA 25	USD	AR0495070226	2/16/2024	6/30/2025	2,001	2,001	1,734	86.7	1.1	19.3	AR		0.000				-	
S3 - BOPREA 26	USD	AR0344318156	3/7/2024	5/31/2026	892	892	639	71.6	1.8	21.3	AR		3.000	4.2	8/31/2024	0.117	-	
S1 - BOPREA 27A	USD	AR0684877571	3/1/2024	10/31/2027	1,000	1,000	847	84.7	1.0	22.3	AR		5.000	5.9	10/31/2024	1.056	4/30/2025	April'25-April'26
S1 - BOPREA 27B	USD	AR0772251226	3/1/2024	10/31/2027	1,000	1,000	725	72.5	1.8	22.7	AR		5.000	6.9	10/31/2024	1.056	4/30/2026	April'26-April'27
S1 - BOPREA 27C	USD	AR0763285209	3/1/2024	10/31/2027	1,500	1,500	993	66.2	2.6	20.7	AR		5.000	7.6	10/31/2024	1.056	4/30/2027	April'27-Oct'27
S1 - BOPREA 27D	USD	AR0314171247	3/1/2024	10/31/2027	1,500	1,500	972	64.8	2.7	20.4	AR		5.000	7.7	10/31/2024	1.056	-	

Source: Bloomberg, BCRA, Morgan Stanley Research

All in, the BOPREALs do not look very compelling versus the external USD bonds, in our view: While there could be a technical bid for the BOPREALs due to the ability to pay taxes, the fact that they already trade much lower in yield versus the sovereign bonds makes them less attractive. Our preferred bonds across the sovereigns thus remain the front end of the external USD bonds.

Exhibit 32: Argentina bonds relative value

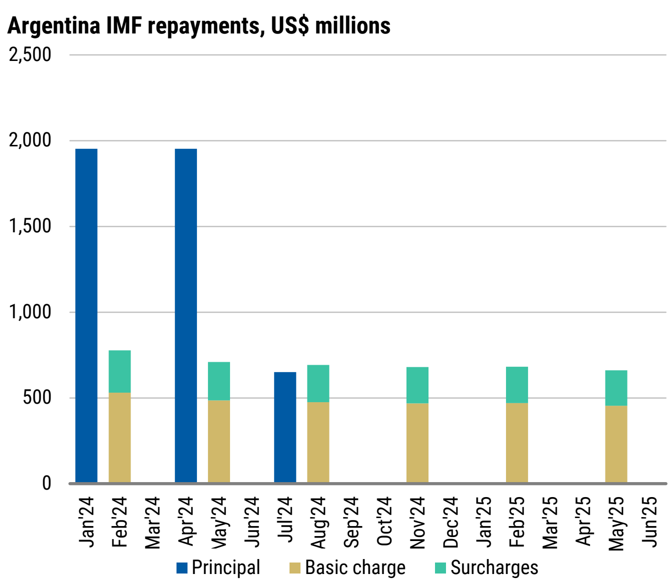


Source: Bloomberg, Morgan Stanley Research

2) The IMF could front-load disbursements in a new deal, but the question is whether Argentina really wants this

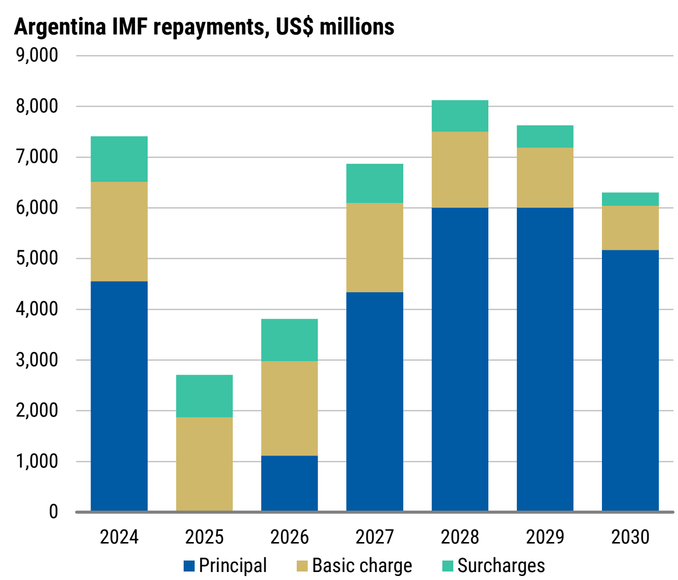
Following the successful seventh review, Argentina has another three tranches left in its program totalling only US$1.8 billion, with the last one due in November 2024. While this seems small, it actually lines up with the repayments that also fall materially. Post a US$650 million repayment in July 2024 (Exhibit 33), the next repayment is US$780 million in September 2026, with 2027 the next year with large payments (Exhibit 34).

Exhibit 33: July 2024 is the last principal repayment to the IMF for a while...



Source: IMF, Morgan Stanley Research

Exhibit 34: ...with 2027 the next big year of repayments



Source: IMF, Morgan Stanley Research

There are still charges/interest worth around US$3 billion annual, with nearly US$1 billion coming from the surcharges, so FX is still required. However, it does give Argentina some flexibility as to when it wants to apply for a new program. A lot will depend on balancing additional flows up front with the higher interest cost this brings, in addition to the desire and ability to actually reduce the stock of debt outstanding to the IMF.

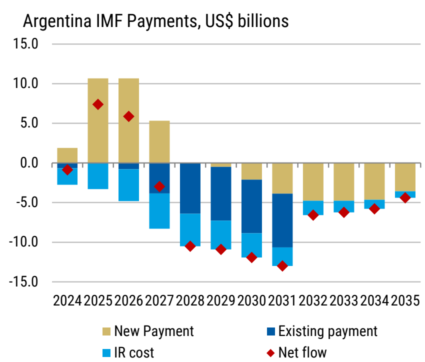
We set out two IMF scenarios from here, although any combination in between is also possible.

First, an early and smaller front-loaded program: With the current program expiring at end-2024, the authorities would discuss a new program with the IMF in 2H24 and finalize it by year-end in order for the first disbursement to come in February 2025. We assume that the program is of smaller size than the current outstanding. However, even with this assumption the lack of repayments means that the IMF is providing Argentina with net inflows in both 2025 and 2026. The advantage is that it helps Argentina to rebuild FX reserves, perhaps even in part to help to repay FX bonds. The disadvantage is that by borrowing more up front, the IMF's exposure increases further to Argentina, peaking at around 1,500% of quota (which may not be acceptable) and interest expenses would increase by around US$1 billion a year compared to the later program detailed below. Note that we set the total size of the new program at two-thirds of the existing outstanding, as otherwise it would grow the up front lending to Argentina too much.

Exhibit 35: A front-loaded new program helps to rebuild FX reserves but increases interest costs

Argentina: Example Schedule of Reviews and Purchases

Program	Available on or after	SDR millions	USD millions	% Quota	Review #
Current	10-May-24	600	801	19%	8
	10-Aug-24	400	534	13%	9
	10-Nov-24	414	553	13%	10
New	10-Feb-25	2,000	2,669	63%	1
	10-May-25	2,000	2,669	63%	2
	10-Aug-25	2,000	2,669	63%	3
	10-Nov-25	2,000	2,669	63%	4
	10-Feb-26	2,000	2,669	63%	5
	10-May-26	2,000	2,669	63%	6
	10-Aug-26	2,000	2,669	63%	7
	10-Nov-26	2,000	2,669	63%	8
	10-Feb-27	2,000	2,669	63%	9
	10-May-27	2,000	2,669	63%	10
	Current	**1,414**	**1,887**	**44%**	
	New	**20,000**	**26,693**	**627%**	



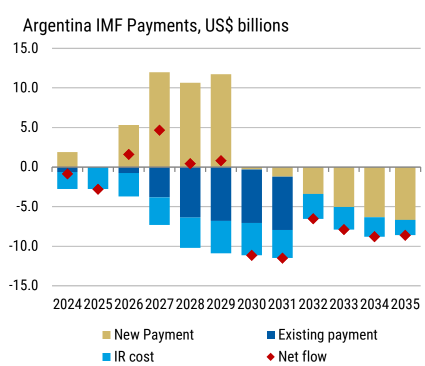
Source: IMF, Morgan Stanley Research

Second, a later and larger program that better matches repayments: In another scenario, Argentina waits all the way until 2H26 before agreeing to a new IMF program. This better matches repayments, and thus also prevents interest expenditures from rising too much. The downside would be that Argentina would not grow FX reserves by as much, while the market may also be more concerned that there is no IMF program during a very challenging adjustment. In this scenario, we match the size of the program to roughly the outstanding today.

Exhibit 36: A later program keeps interest expenditures lower

Argentina: Example Schedule of Reviews and Purchases

Program	Available on or after	SDR millions	USD millions	% Quota	Review #
Current	10-May-24	600	799	19%	8
	10-Aug-24	400	533	13%	9
	10-Nov-24	414	551	13%	10
New	10-Aug-26	2,000	2,663	63%	1
	10-Nov-26	2,000	2,663	63%	2
	10-Feb-27	2,000	2,663	63%	3
	10-May-27	2,000	2,663	63%	4
	10-Aug-27	2,500	3,329	78%	5
	10-Nov-27	2,500	3,329	78%	6
	10-May-28	4,000	5,326	125%	7
	10-Nov-28	4,000	5,326	125%	8
	10-May-29	4,500	5,992	141%	9
	10-Nov-29	4,500	5,992	141%	10
	Current	**1,414**	**1,883**	**44%**	
	New	**30,000**	**39,948**	**941%**	



Source: IMF, Morgan Stanley Research

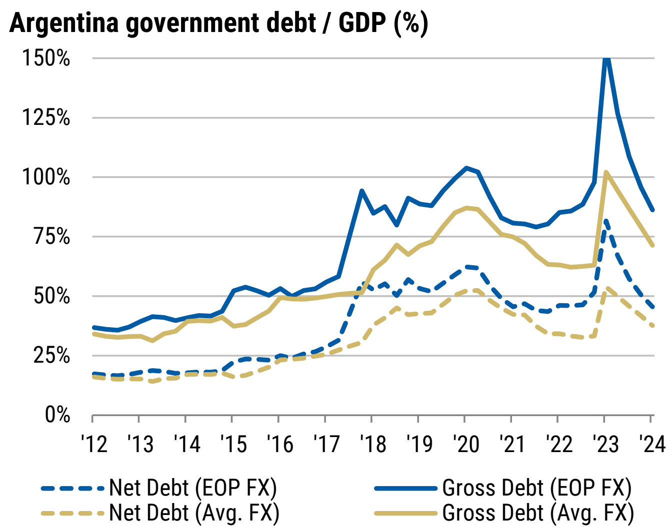
3) The debt path does not look good in the near term but should come back down

As we reviewed in detail in Argentina: Diving into the Debt, August 15, 2023, a key vulnerability of Argentina is its high share of FX debt. As a result of the FX depreciation at end-2023, the debt ratios will look much worse. Working with the gross debt and using the EOP FX rate, debt/GDP could peak at around 155% of GDP (Exhibit 37). Fortunately, there are a few caveats around this number.

First, this uses the EOP FX rate. Using the average FX rate throughout the year to better match the FX with inflation at the time would see debt/GDP peak at 102% of GDP instead. Assuming the FX and economy stabilize then this second measure is likely a better indicator. Indeed, projecting debt out to the end of 2024 with the help of IMF data suggests that debt/GDP will be closer to 80-90%.

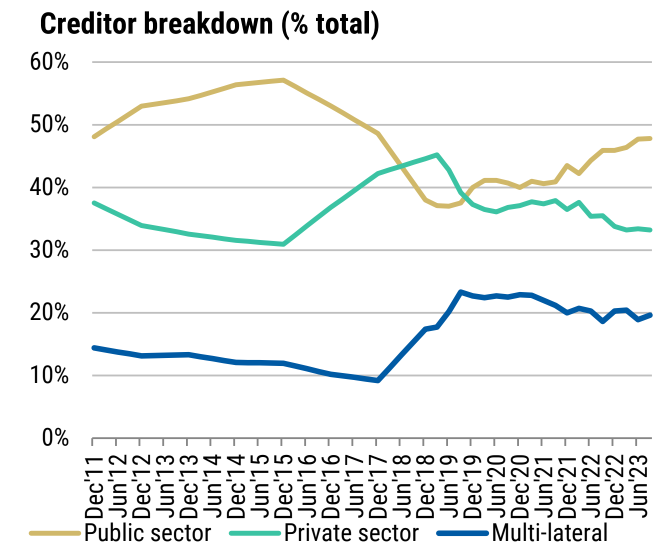
Second, the share of debt held by the intra-public sector has been increasing to stand at 48% of total debt (Exhibit 38). Removing this share, which includes holdings of the social security agency and the central bank, leaves you with the net debt number that the IMF also tends to use. This looks much more manageable and suggests that solvency concerns are not as high as at first sight.

Exhibit 37: Debt/GDP should rise materially in the near term but should then also come down fairly quickly...



Source: MinFin, IMF, Morgan Stanley Research

Exhibit 38: ...while 48% of the total debt is now held by the intra-public sector



Source: MinFin, IMF, Morgan Stanley Research

4) Lawsuits are a real problem, even if they are unlikely to interfere with bond payments for now

Argentina faces multiple lawsuits. Two key ones revolve around the nationalization of YPF and the GDP warrant, both involving significant amounts and well advanced.

On YPF, where the claim stands at a large US$16.1 billion, US courts have now allowed investors to start going after assets following the failure of Argentina to pledge assets as part of an appeal. Given the amount involved, it's clearly negative for the sovereign.

In the near term the question is how it impacts Argentina and its bonds. Importantly, there is no guarantee of equal treatment relative to bond holders, meaning that plaintiffs will not be able to go after debt payments. Second, it's also very hard to find any assets to attach, especially given that sovereign immunity was not waived and that the asset thus has to be related to the specific activity that gave rise to the claim (at least under US law; other jurisdictions may take a broader view).

That said, given the size of the claim, the plaintiffs should not go away anytime soon. Most likely, there will have to be a settlement at some point in the future, likely for a much smaller amount, yet the impact for now on Argentina credit is limited, in our view.

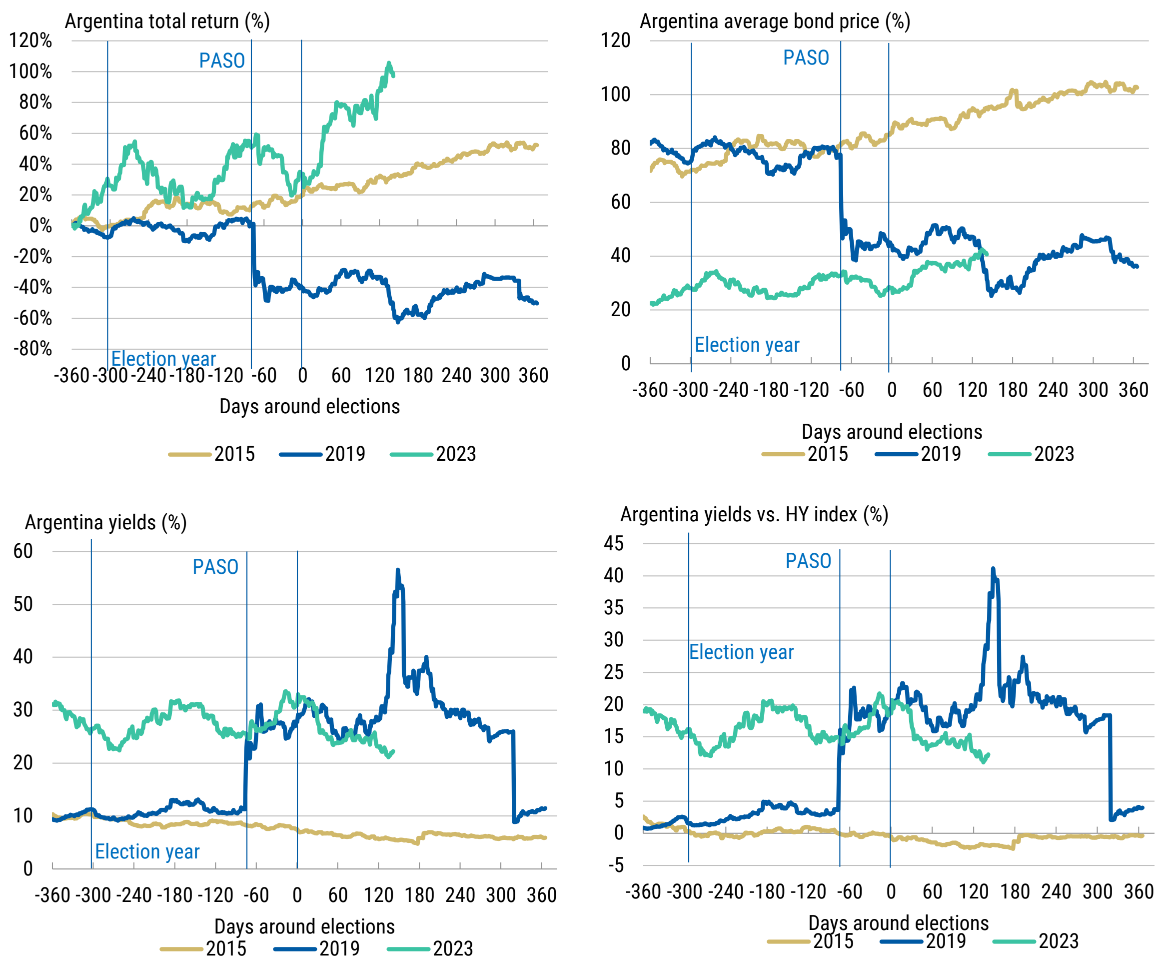
On the GDP warrant, Argentina faces lawsuits in both US and UK courts. In the UK, the amount is around US$1.5 billion plus interest since December 2014.

5) The key difference to 2015 is that prices are still much less demanding

Given recurring questions, we've made the fundamental comparison to 2015 before and found that the imbalances are harder this time around (see here). However, from a markets standpoint, the key difference is that markets are priced much more conservatively, even after the significant rally, with total returns now having outperformed 2015 materially (Exhibit 39). In particular, the average bond price is much lower (41 today versus 91 at the same time post-2015 elections). Of course, coupons are also lower, but yields tell the same story of bonds being cheaper today, including as a spread to EM HY (12% wide today versus 2% tight in 2015).

We're not suggesting that levels today should already be at 2015 levels. In addition to larger imbalances, the external backdrop is more challenging and Argentina is far from having market access. In other words, we are not calling for Argentina becoming IG within five years as we did before (see Argentina: A Virtuous Cycle of Rising Growth and Returns, January 6, 2017). However, it does leave risk/reward attractive today despite the run-up in bond prices.

Exhibit 39: Argentina assets through the election cycles



Source: Bloomberg, Morgan Stanley Research

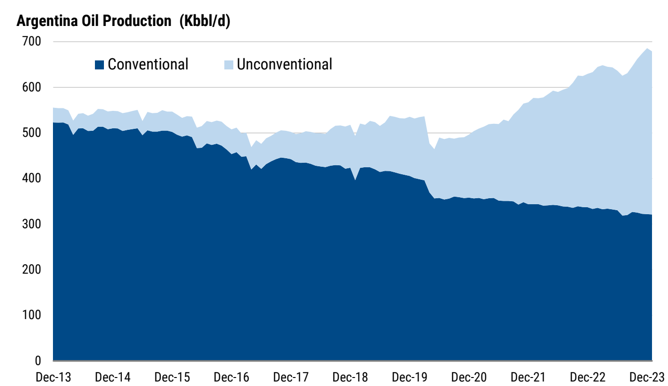
The authors of this material are not acting in the capacity of attorneys, nor do they hold themselves out as such. This material is not intended as either a legal opinion or legal advice. The information provided herein does not provide all possible outcomes or the probabilities of any outcomes. The result of any legal dispute or controversy is dependent on a variety of factors, including but not limited to, the parties' historical relationship, laws pertaining to the case, relative litigation talent, trial location, jury composition, and judge composition. Investors should contact their legal advisor about any issue of law relating to the subject matter of this material.

Oil & Gas: From Deficit to Major Trade Balance Contributor

Bruno Montanari, Carlos Moraes, Thiago Casqueiro

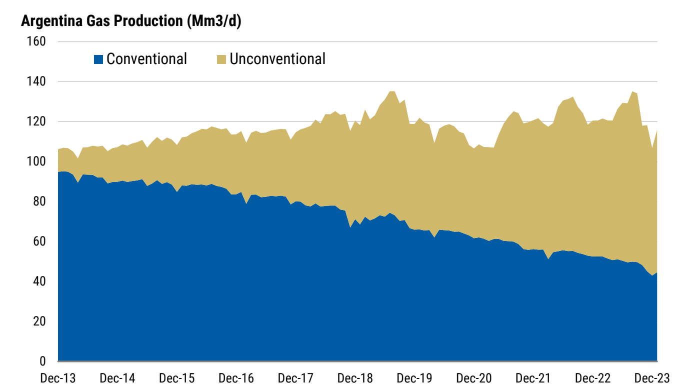
The Vaca Muerta shale has been transformational to the Argentina energy industry, for both oil and gas. Oil production in the Vaca Muerta play has nearly tripled in the past three years, more than offsetting the decline in conventional reservoirs of the country, and leading to a consolidated oil production growth of 35% in the period. In natural gas, Argentina's production in the peak winter months now reaches ~135Mm3/d, a marked change from the past peaks of 110–115Mm3/d.

Exhibit 40: Shale Oil Now Over 50% of Argentina's Oil Output



Source: RystadEnergy, Morgan Stanley Research

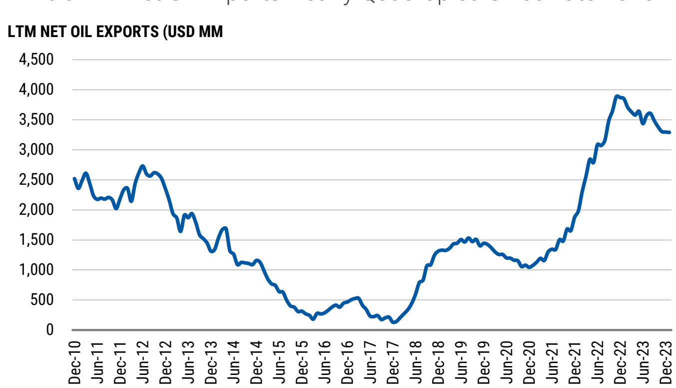
Exhibit 41: Unconventional Gas Now Over 60% of Total Output



Source: RystadEnergy, Morgan Stanley Research

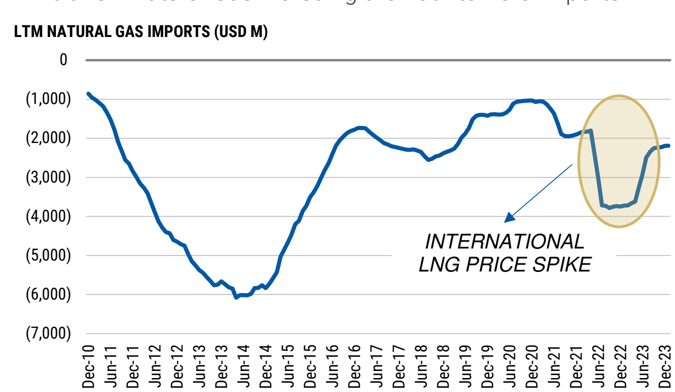
Shale production growth was instrumental for Argentina to become an oil exporter again, and materially reduce its dependency from imports of LNG in the winter season. Argentina has come a long way in the past decade, when its trade balance of oil and gas reached a critical point of net imports were US$5.0 billion, producing material challenges to the country's external accounts and fiscal equilibrium. The combined result of higher gas production and the initial ramp of oil exports, the country had a rather balanced oil and gas external trade environment from late 2019 through mid-2023. In the second half of 2023, however, exports started to contribute more actively to the trade balance, finishing 2023 with a net import position of just US$756 million a level last seen in 2011 (excluding the worst pandemic months of 2021, when consumption was materially lower).

Exhibit 42: Net Oil Exports Nearly Quadrupled Since Late 2020



Source: Secretaría de Energía, Morgan Stanley Research

Exhibit 43: Natural Gas: Pursuing the Path to Zero Imports

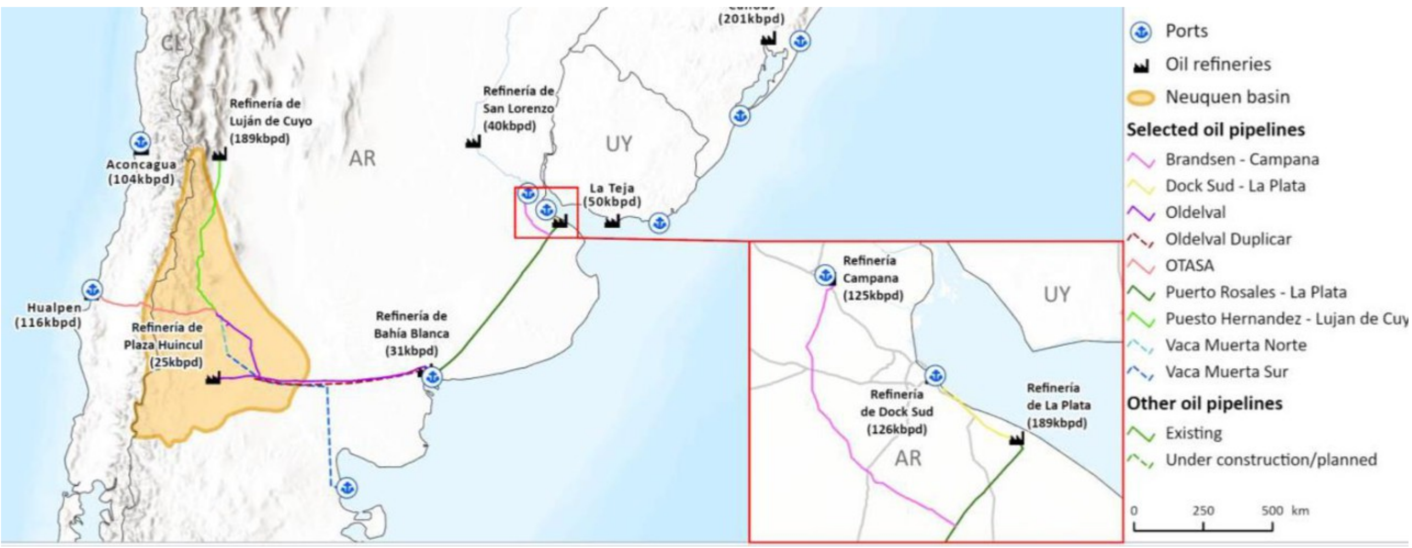


Source: Secretaría de Energía, Morgan Stanley Research

Infrastructure availability will be the key step to allow further exports growth out of Vaca Muerta in the coming years. The pronounced hydrocarbon growth observed in the past years made Argentina face a few roadblocks for further expansion, as midstream capacity has become virtually fully utilized. The first segment to reach pipeline limitations was natural gas, but in line with our expectations, the Néstor Kirchner pipeline project, delivered in 2023, allowed the initial hurdle to be overcome (see Argentina: The Delicate Dance Ahead; Risk/Reward Is Attractive).

Oil production from Vaca Muerta is bottlenecked, as the Oldelval pipeline is approaching full utilization at ~300Kbbl/d. An expansion project is ongoing, which should increase capacity by 45–50Kbbl/d in 4Q24 and an additional 200Kbbl/d in 2025. This project will address producers expansion plans through 2026–27, after which new oil evacuation capacity will be necessary. YPF has plans to build a new oil pipeline (Vaca Muerta Sur), along with associated port capacity, adding up to 300Kbbl/d incremental capacity, likely in the 2027–29 period. The project is initially budgeted at US$2.2–2.5 billion, and likely count on equity participation of different oil producers in Argentina.

Exhibit 44: Delivery of the Oldelval Pipeline Expansion, and Construction of Vaca Muerta Sur Pipeline Will be Instrumental to Support Further Exports Growth

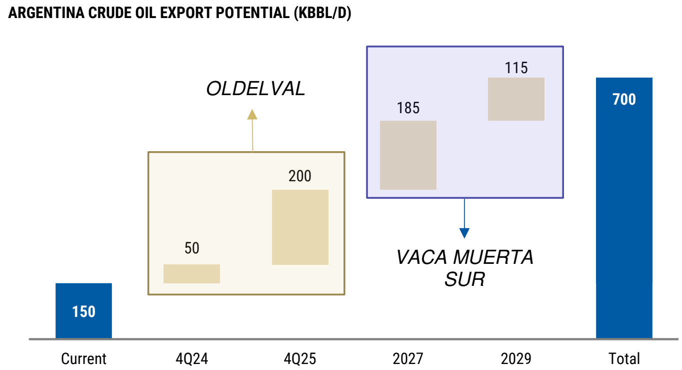


Source: RystadEnergy, Morgan Stanley Research

We estimate Argentina to reach oil exports of ~700Kbpd by the end of decade, and further lower its dependency from imported natural gas in the coming years. The unconventional oil and gas reservoirs of Argentina have proved very productive and prolific, and we have a high degree of confidence that once companies have enough visibility on the delivery of incremental evacuation capacity, new upstream development projects will be sanctioned. Key producers have outlined projects that will utilize a large portion of the incremental pipeline capacity:

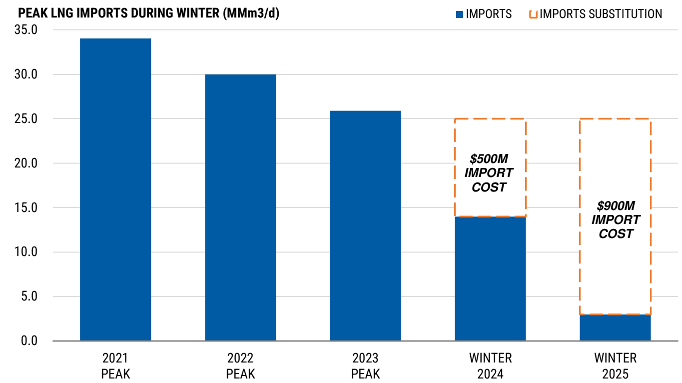
- *YPF (YPF.N):* last year, the company unveiled plans to double its oil production from 2022 levels, which would add ~225Kbpd to the potential export base of the country. Annual required capex for the company would be in the range of US$5–6 billion.
- *Vista (VIST.N):* in its last investor day, management presented a target to reach total hydrocarbon 100Kbpd production by 2026 and a vision to reach 150Kbps by the end of the decade. Crude oil export capacity addition would be ~40Kbpd by 2026 and ~85Kbpd by 2030. Required investments would reach US$800–900 million per year.
- Other producers, such as Chevron, Shell, Pampa, Pan American, Tecpetrol, Petronas, also have oil expansion projects in the making, which would further utilize infrastructure close to future nameplate capacity

Exhibit 45: New Pipeline Capacity Will Unlock 550Kbpd of Oil Exports Through the End of the Decade



Source: Morgan Stanley Research estimates

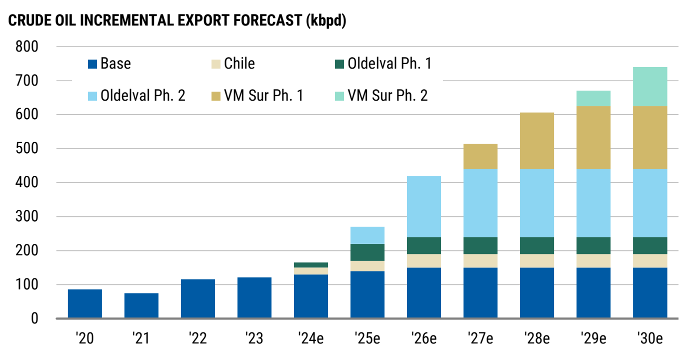
Exhibit 46: Relative to 2023, Savings on LNG Imports Could Reach Nearly ~$1.0B Per Year



Source: Secretaría de Energía, Morgan Stanley Research estimates

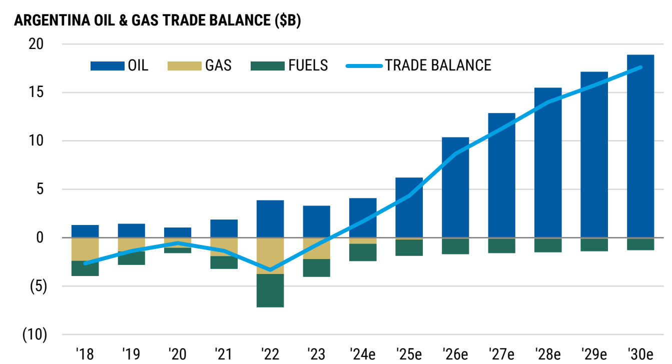
Energy trade balance could be a major tailwind to the economy in the next decade. We forecast a substantial improvement in the oil & gas trade balance, moving from multiple years of deficit into positive territory in 2024, at ~US$2.0 billion net exports. The next five years should see a powerful combination of strong oil production growth and the removal of most of LNG imports, which we expect to be marginal during the winter period. With a long-term oil price estimate of US$70/bbl (aligned with the view of our Global Energy team), we estimate the net exports of energy will surpass $10 billion in 2027, finishing the decade at nearly ~US$18 billion (see Exhibit 48).

Exhibit 47: Staggered Investment in Infrastructure to Support Exports Growth



Source: Secretaría de Energía, Morgan Stanley Research estimates

Exhibit 48: The Oil & Gas Industry Will be an Important Driver of Trade Balance



Source: Secretaría de Energía, Morgan Stanley Research estimates

Macro normalization also plays an important role to de-risk future investment and drive higher NAVs across our coverage. With the current macro imbalances and severe capital controls still in place, many industry participants are reluctant to deploy new capital in Argentina. This is particularly the case for international players (including oil service providers), which are unable to repatriate capital via the payment of dividends. It also means that Argentine producers pay a premium for goods and services when compared to other emerging markets, to compensate for the additional risk. We estimate the Argentina "cost premium" is in a range of 10–20%.

The higher level of uncertainty also prompted us to having used a higher discount rate in our DCF models, adding a country risk spread of ~500bps on top of our other LatAm coverage (e.g., until this update, we used a 17% discount rate for Argentina, vs. 12% in Brazil in our upstream models).

The normalization of macro indicators and the removal of capital controls could trigger a wave of new capital to flow into the industry, generating a virtuous cycle. Companies would have more comfort to sanction new investments, equipment availability would increase and potentially accelerate production growth, developments/lifting costs would decline, and funding would become more plentiful and cheaper. Migrating toward that virtuous cycle prompts us to use a more normalized discount rate across our coverage from now onwards.

Exhibit 49: Sensitivity of Fair Value to Capex/Opex Savings

	VIST	YPF	PAM	TGS
Base Case	40.0	10.5	35.0	10.0
-5%	42.3	12.7	37.0	10.2
-10%	44.5	14.8	39.0	10.5
-15%	46.7	16.9	41.0	10.7
-20%	49.0	19.1	43.0	10.9
-25%	51.2	21.2	45.1	11.2

Source: Morgan Stanley Research estimates

Exhibit 50: Sensitivity of Fair Value to Discount Rates

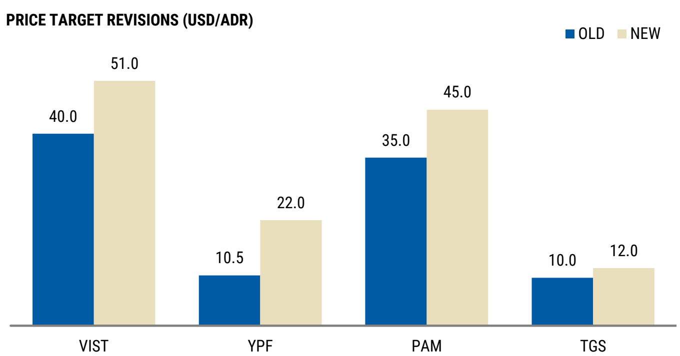
$/ADR	VIST	YPF	PAM	TGS
Base Case	40.0	10.5	35.0	10.0
-100bps	43.3	13.1	38.0	10.6
-200bps	46.9	16.0	41.3	11.3
-300bps	51.0	19.3	45.1	12.0
-400bps	55.6	23.2	49.5	12.9
-500bps	60.8	27.7	54.5	13.9

Source: Morgan Stanley Research estimates

How to Play Oil & Gas Equities in Argentina

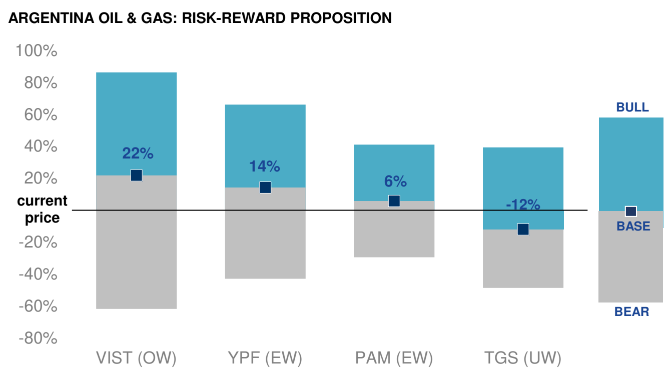
With Argentina on the right path to a potential macro normalization, we adjust our risk perception and believe there can be additional upside for equities, in a more gradual fashion. We are revising our discount rate assumptions for the stocks under our coverage, closing the existing premium attributed to Argentina vs. our other LatAm coverage by ~50% (i.e. down to ~250bps). We believe stocks could reflect the improved outlook more gradually from here. Incremental visibility on economic policy success, removal of capital controls and evidence of cost/capex dilution would be triggers for us to potential fully close the discount gap and revise our cash flows estimates higher across the coverage.

Exhibit 51: Price Target Increases Driven Discount Rate Revisions



Source: Morgan Stanley Research estimates

Exhibit 52: VIST Our Preferred Stock to Play Argentine Energy



Source: Morgan Stanley Research estimates

We continue to prefer Vista (VIST.N) to play the energy sector in Argentina; we upgrade YPF (YPF.N) to Equal-weight on the back of a now balanced risk-reward proposition.

- *Vista (VIST.N; OW):* Vista offers a distinctive investment opportunity, with a pristine track record and growth optionality that is rare in Argentina. The company does not depend on macro developments to deliver on its business plan — although macro normalization would be of great benefit. In addition, it can choose to accelerate investments, while maintaining positive free cash flow, and deliver even faster growth.
- *YPF (YPF.N; EW):* The stock has been amongst the preferred vehicles for investors to play the macro normalization in Argentina, having had a strong rally in 2023. Our new price target offers limited upside, but the bull case could be attractive for those with a more bullish view on the macro normalization path. We remain EW as despite the potentially attractive growth prospects, we believe YPF is unlikely to generate positive FCF in 2024–25, and prefer exposure to other energy stocks in the region.
- *Pampa (PAM.N; EW):* While we believe Argentine stocks can materially re-rate as a result of future macro normalization, we stay on the sidelines with PAM as some of its businesses depend on regulated tariff reviews and are exposed to inflation and cost pressures. We think those will ultimately be favorable, but timing is uncertain and the current valuation already reflects a portion of the expected benefits.
- *TGS (TGS.N; UW):* The 95% tariff hike for the regulated gas transportation business in 2023 was most welcome, but with inflation still rapidly increasing in Argentina, more hikes would be necessary to sustain or increase profitability. We believe that is unlikely to happen in the very near term. Across our Argentina Energy coverage, TGS has the highest exposure to domestic revenue, making the high inflation environment and FX devaluation path concerns, which we believe will likely cap relative upside to equity holders vs. other stocks under our coverage.

Equity Strategy: Long Way Back, Argentina

Nikolaj Lippmann, Juan Ayala, Julia Nogueira

Some of LatAm's best stocks have grown out of Argentina to the US, but we see a long way back for Argentina's domestic equity market due to the lack of policy anchors and sustainability. We remain cautious Argentine equities.

Argentina's reform program could place the country back at the LatAm investor universe, but there is a long way back. We see three stages for Argentina to converge: 1) fiscal adjustment, 2) Big Fix reform (omnibus bill or similar), 3) deep structural reform consensus (central bank independence rooted in the Constitution).

We think investors will look for sustainability of an open capital account, floating FX, central bank independence, and a rules-based fiscal framework, among other things. MSCI inclusion is likely years away, but Argentina's ongoing economic recession and potential lower executive political capital could provide trading opportunities.

Current policy makers could win the some battles. The fiscal adjustment is playing out, and the central bank has been rebuilding FX reserves in recent months. A strong harvest could accelerate this by April. However, the much-needed omnibus bill is still being discussed after a setback in Congress. After decades of interventionism with special rules for special interest groups, the country will likely need Big Fix that can help market forces reestablish balance from prior imbalances. If this fails, growth will be harder to rebuild, and thus the longer-term credibility and narrative with be harder to build. President Javier Milei appears to be betting that by changing as much as he can as fast as he can, he will improve the odds of growth.

A new policy consensus is required. We think Argentina needs to pass a Big Fix that reestablishes market forces in the economy. This is key to unlocking the full potential of the country that will be based on the generation of growth and broader welfare for Argentines, allowing for a consensus-based policy path. Argentina is the only major country in the region without central bank independence, and the result is far from ideal. Indeed, President Milei has discussed closing the central bank altogether. While LatAm economies and market structure are far from perfect, there are important lessons to be learned from Chile and other countries.

What to buy? We have no position in Argentine equities. Our preference would be to play the "energizing the world" theme in oil via the Vaca Muerta with Vista (see above, Oil & Gas: From Deficit to Major Trade Balance Contributor). However, investors using call option thinking could be using the banking system (all UW-rated by Jorge Kuri) to play the asymmetry of potential returns. We think there is a long way back for that space and it's closely linked to the future of structural reforms.

As the ongoing economic recession unfolds, we are concerned that the Executive's ability to pass structural reforms could diminish. For the project to play out, the ongoing macro adjustment needs to translate into sustainable political capital for the Executive to push reforms in Congress over the next few quarters.

Stage 2: It's All About Policy Execution, Anchors and Sustainability

In our 2022 Insight report entitled The Delicate Dance Ahead; Risk/Reward Is Attractive, we argued that the impact of the October 2023 presidential election on Argentine equities should have two clear distinct stages:

- Stage 1: A muddle through macro scenario until the October 2023 presidential election, coupled with expectations of real earnings growth, macro policy orthodoxy, and a reform agenda post elections, which should support equity performance amid a challenging macro economic backdrop; and
- Stage 2: Starts after the presidential election and it's all about the execution and the delivery of expectations embedded in risky asset prices by then. This is followed by a clear path to macro stability and sustainable earnings growth.

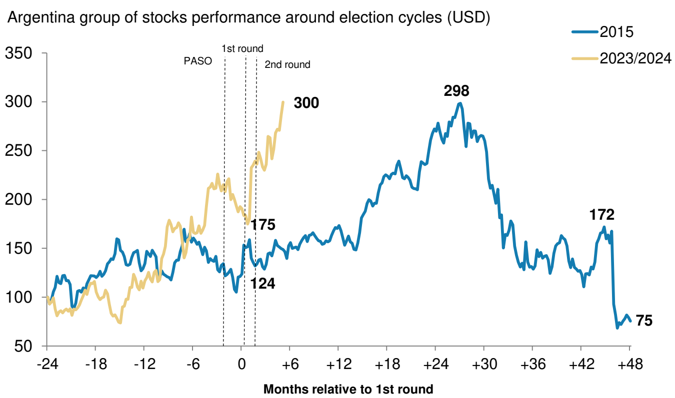
Therefore, after recommending an off-benchmark position in Argentine equities in Stage 1, we decided to take profits as we moved to Stage 2 in late 2023, on theory that [ok? was "on the back of the thesis that"] the implementation phase offers a less compelling risk/reward for the asset class.

As we rapidly move into Stage 2, we decided to benchmark the performance of Argentine equities during the ongoing pre- and post-electoral cycle to 2015, using an ample window of analysis (from 2 years ahead of the presidential contest to 4 years after). We provide some key takeaways below:

1. The rally in our group of Argentine stocks ahead and after the 2023 presidential election appears to be front-loaded relative to the 2015 electoral cycle. For instance, our group of stocks is up ~200% in USD terms over the past 28 months (i.e., from 24 months before the 2023 election to 4 months after), which is materially better than the +50% return registered by the group over the same window of time in the 2015 pre- and post-electoral cycle.

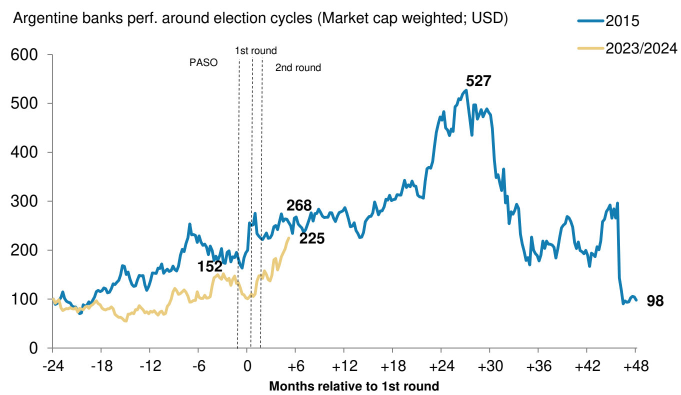
2. However, the strong performance evident in the group's headline level in 2023 is helped by commodity prices, which are [ok? was "… 2023 comes on the back of the commodity bucket, which is ..."] driven more by industry- and company-specific local drivers (e.g., interest in Vaca Muerta shale area) rather than expectations of the results of the electoral cycle and the domestic economy potential reacceleration path. Indeed, the group of domestic-oriented Argentine names, which is represented by local banks (market cap–weighted GGAL, BMA, BBAR, [you don't include SUPV?] for which we have trading data for both electoral cycles), has underperformed the 2015 composite benchmark during the window of analysis (24 months before the presidential contest to 4 months after). For instance, during the current electoral cycle Argentine banks on a market cap weighted basis have returned ~125% over the past 28 months, which is below the ~170% return during the same window of analysis in the 2015 electoral cycle.

Exhibit 53: The rally in our Argentine group of stocks ahead and after the 2023 presidential election appears to be front loaded relative to the 2015 electoral cycle



Source: Bloomberg and Morgan Stanley Research

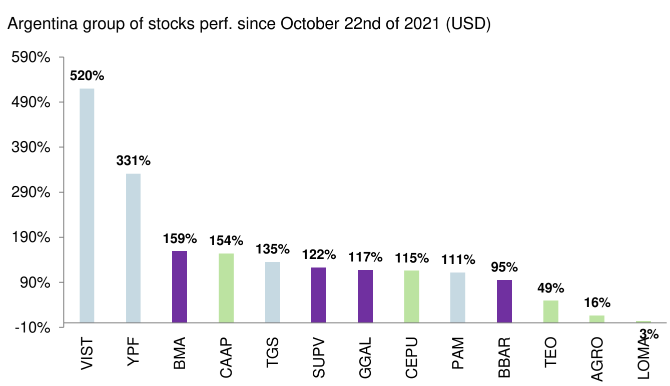
Exhibit 54: However, the local domestic cohort of the equity market (i.e., banks) have posted weaker than the return in the 2015 electoral cycle



Source: Bloomberg and Morgan Stanley Research

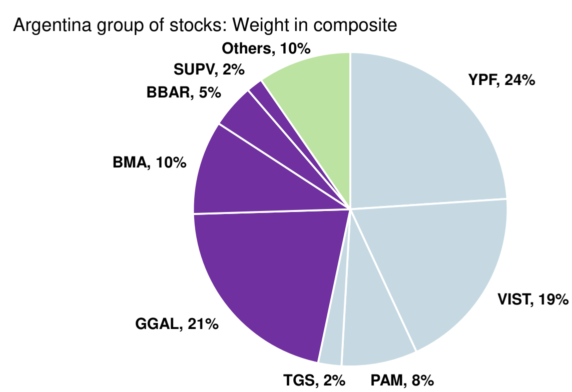
Meanwhile, oil & gas stocks in our Argentine composite (i.e., Vista, YPF, Pampa, and TGS) have been the major drivers of gains over the past 27 months (up 100-500%), and they accounted for ~55% of our group of stocks. As highlighted by Morgan Stanley oil & gas analyst Bruno Montanari, interest for Vaca Muerta is strong and Vista is the best name to get pure exposure to the shale theme through a high-quality company and management team with a positive track record. For more details, see Oil & Gas: From Deficit to Major Trade Balance Contributor .

Exhibit 55: Oil & gas stocks in our Argentine composite have been the major drivers of gains...



Source: Bloomberg and Morgan Stanley Research

Exhibit 56: ...over the past 28 months and they account for ~55% weight in our group of stock



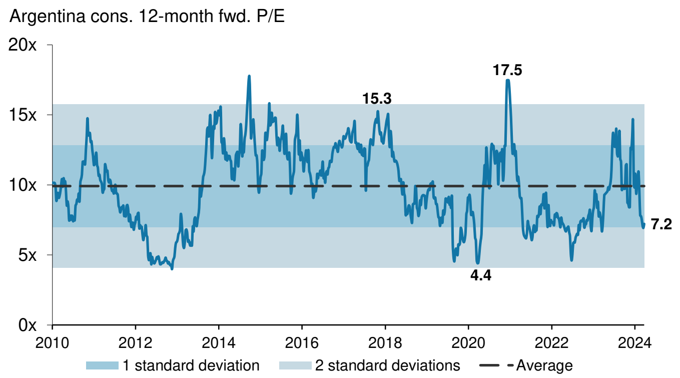
Source: Bloomberg and Morgan Stanley Research

3. Returns at the headline level appear to be front-loaded, relative to the maximum gain registered by our Argentina composite post the election of an orthodox Executive in 2015 (~200% two years after the election), the current level offers limited upside.

Argentina Absolute Valuations

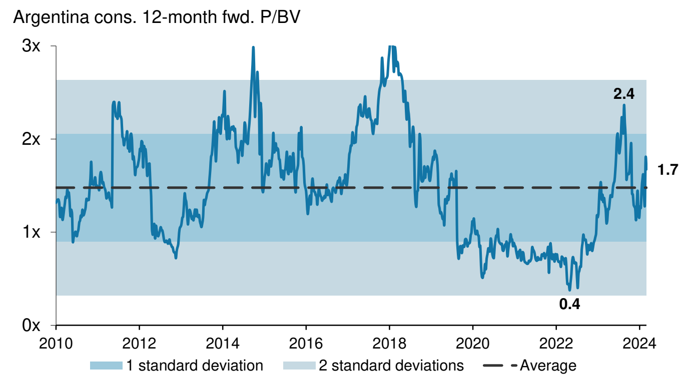
Argentine equities currently trade at what we view as undemanding valuations, especially if we consider the potential for earning reacceleration in a macro recovery scenario. For instance, our group of Argentine equities (YPF, VIST, PAM, EDN, CEPU, TGS, LOMA, BMA, GGAL, BBAR, SUPV; ex TEO and CAAP) currently trades at 7.2x forward consensus earnings (or -0.9 S.D. vs. the 9.9x 14-year historical average), and at 1.9x consensus forward book value (+0.8 S.D. vs. the 1.5x historical average).

Exhibit 57: Our group of Argentine equities currently trade at 7.2x forward consensus earnings (or -0.9 S.D. vs. its 9.9x 14-year historical average...



Source: Bloomberg and Morgan Stanley Research

Exhibit 58: ...and at 1.9x forward book value (+0.8 S.D. vs. its 1.5x historical average)



Source: Bloomberg and Morgan Stanley Research

Vista: Changes to Our Estimates

Exhibit 59: Summary of Estimate Changes

	OLD		NEW	
US$m, except EPS	**2024e**	**2025e**	**2024e**	**2025e**
Revenue	1,675	2,033	1,675	2,033
EBITDA Adj.	1,202	1,464	1,202	1,464
EBITDA Margin	72%	72%	72%	72%
EBITDAX	**1,202**	**1,464**	**1,202**	**1,464**
Net Financials	(12)	(15)	(4)	(16)
FX Gain (Loss)	14	8	22	6
Net Income	537	698	542	697
Normalized EPS	5.41	7.04	5.46	7.02
Capex US$m	860	844	860	844
Net Debt	156	(233)	159	(239)
Total Production (Kboe/d)	69.8	85.0	69.8	85.0
Realized Oil (US$/bbl)	69.0	68.6	69.0	68.6

Source: Morgan Stanley Research estimates

Valuation & Risks

Our year-end 2024 price target of $51.0/ADR is derived from our NAV methodology. We use a PV14 methodology (14% discount rate in USD in real terms) to account for the higher risk profile of Argentine shale, as well as increased ESG-related concerns in the asset class. For conventional assets, we base our estimates on recoverable 2P volume, while for unconventional, we base it on shale acreage using our Vaca Muerta model.

Risks to our estimates and base case fair value: i) lack of access to further funding options; ii) well economics (capex/opex) at Vaca Muerta disappoints, lowering NAVs; iii) lower than expected oil prices; iv) changes to Argentina oil sector regulations and level of taxes and royalties; v) other unforeseen operating disruptions.

Exhibit 60: VIST: Price Target Build-Up: $51.0/ADR

VISTA Base Case NAV	Volume Mboe	EV/boe US$	EV US$M	EV US$/sh
Core Shale - Vaca Muerta	910	5.8	5,253	52.9
Upside Shale - Vaca Muerta	0	-	0	0.0
Entre Lomas, conventional	1	41.9	56	0.6
Medanito-Jaguel, conventional	1	46.8	70	0.7
Others, conventional	9	10.6	90	0.9
Total	**921**	**5.9**	**5,469**	**55.1**
Exploration Capex			0	0.0
Corporate NPV			(251)	(2.5)
Vista Enterprise Value			**5,219**	**52.6**
Net Debt (Cash)			159	1.6
Vista Equity Value			**5,060**	**51.0**

Source: Morgan Stanley Research estimates

Vista: Financial Summary

Exhibit 61: Vista: Financial Summary

Key Assumptions	2022	2023	2024e	2025e	2026e
Net Production (Kboe/d)	**48.5**	**51.4**	**69.8**	**85.0**	**95.6**
Entre Lomas	5.0	2.4	2.0	1.9	1.8
Medanito-Jaguel	5.4	2.4	2.2	2.1	2.0
Conventional	3.5	3.2	5.0	4.6	4.3
Core Shale - Vaca Muerta	34.7	43.3	60.6	76.4	87.6
Upside Shale - Vaca Muerta	-	-	-	-	-
Unconventionals (% of total)	71%	84%	87%	90%	92%
Brent (Real; $/bbl)	100.9	82.4	78.7	73.9	71.2
Crude oil ($/bbl)	72.0	66.6	69.0	68.6	69.8
Natural gas ($/MMBTU)	4.0	3.5	3.8	4.1	4.2

Shale Inventory Summary	Inv. Life (Yrs)*	IRR (%)	Locations
Core Shale Hub	23.2	42%	720
Shale Upside	NM	NA	238

** at 2023e activity pace*

Base Case NAV	Volume*	EV/boe	EV($m)	US$/sh
Conventional Fields	11.4	19.0x	216	2.2
Core Shale - Vaca Muerta	910.0	5.8x	5,253	52.9
Upside Shale - Vaca Muerta	0.0	-	0	0.0
Total NAV	**921.4**	**5.9x**	**5,469**	**55.1**
Exploration Capex			0	0.0
Corporate SG&A			(251)	(2.5)
Enterprise Value			**5,219**	**52.6**
Net Debt (Cash)			159	1.6
Equity Value			**5,060**	**51.0**

*Mboe

Indebtedness - US$m	2022	2023	2024e	2025e	2026e
Total Debt	579	687	609	495	316
Cash & Marketable Securities	244	213	450	734	1,139
Net Debt	334	473	159	(239)	(823)
Total Debt / EBITDA	0.8x	0.8x	0.5x	0.3x	0.2x
Net Debt / EBITDA	0.4x	0.5x	0.1x	0.0x	0.0x
Total Debt / Capital	41%	36%	25%	17%	9%
Net Debt / Capital	23%	24%	7%	-8%	-23%

Valuation Metrics	2022	2023	2024e	2025e	2026e
Diluted Shares (m)	96	99	99	99	99
P/E	5.8	7.9	7.7	6.0	5.3
P/BV	1.6	2.3	2.2	1.6	1.2
EV/EBITDA	2.3	3.8	3.4	2.6	1.9
EV/DACF	2.4	3.9	3.7	2.9	2.3
ROE	31.9%	31.8%	30.3%	28.0%	24.1%
ROCE	38.7%	34.8%	31.6%	36.3%	35.5%
ROIC	37.7%	35.7%	32.1%	36.8%	35.8%
Dividend Payout Ratio	9%	0%	0%	0%	0%
Dividend Yield	2%	0%	0%	0%	0%
FCF Yield	12%	0%	7%	10%	15%

Income Statement - US$m	2022	2023	2024e	2025e	2026e
Net Revenue	**1,144**	**1,121**	**1,675**	**2,033**	**2,304**
Lifting Costs	(133)	(95)	(111)	(133)	(147)
Royalties	(145)	(129)	(201)	(264)	(322)
Other Income (Expenses)	(101)	40	(160)	(172)	(183)
EBIT	**529**	**631**	**838**	**1,089**	**1,227**
Depreciation & Amortization	235	276	365	375	425
EBITDA, adjusted	**746**	**865**	**1,202**	**1,464**	**1,651**
EBITDA margin	**65%**	**77%**	**72%**	**72%**	**72%**
Net Financial Expenses	(102)	(86)	(26)	(22)	(14)
FX/Derivatives Gain (Loss)	7	0	22	6	2
Pre-Tax Profit	**433**	**545**	**834**	**1,072**	**1,215**
Income Taxes	(164)	(148)	(292)	(375)	(425)
Effective Tax Rate	38%	27%	35%	35%	35%
Minority Interest	0	0	0	0	0
Net Income	**270**	**397**	**542**	**697**	**790**
Normalized EPS	**2.68**	**3.73**	**5.46**	**7.02**	**7.96**

Balance Sheet - US$m	2022	2023	2024e	2025e	2026e
Cash & Marketable Securities	244	213	450	734	1,139
Accounts Receivable	90	205	190	183	197
Inventories	13	8	8	8	8
PP&E	1,606	1,928	2,423	2,892	3,274
Intangibles	28	23	23	23	23
Other Assets	56	222	272	292	292
Total Assets	**2,038**	**2,598**	**3,365**	**4,131**	**4,932**
Short Term Debt	80	96	149	219	183
Payables & Accruals	249	227	297	247	265
Tax Liabilities	322	420	652	884	1,058
Long Term Debt	498	590	460	277	133
Other Liabilities	44	18	18	18	18
Shareholder's Equity	844	1,247	1,789	2,486	3,276
Total Liabilities + Equity	**2,038**	**2,598**	**3,365**	**4,131**	**4,932**

Cash Flow - US$m	2022	2023	2024e	2025e	2026e
EBITDA	**746**	**865**	**1,202**	**1,464**	**1,651**
Working Capital	(88)	(157)	35	(63)	4
Taxes	0	0	(60)	(143)	(252)
Net Interest	(37)	(23)	(26)	(22)	(14)
Other Items	30	5	0	(0)	0
Cash from Operations	**651**	**690**	**1,153**	**1,236**	**1,390**
Capex	(479)	(701)	(860)	(844)	(807)
Acquisition & Asset Sales	(97)	9	0	0	0
Other Investment Activities	(6)	(7)	0	0	0
Cash from Investing	**(583)**	**(699)**	**(860)**	**(844)**	**(807)**
Debt Issuance	129	318	0	0	0
Debt Repayment	(205)	(276)	(56)	(108)	(178)
Dividends	(24)	0	0	0	0
Equity Issuance	(6)	0	0	0	0
Other Financing	0	0	0	0	0
Cash from Financing	**(106)**	**43**	**(56)**	**(108)**	**(178)**
Translation & Others	(33)	(65)	0	0	0
Change in Cash	**(71)**	**(31)**	**237**	**284**	**405**

Source: Company data, Morgan Stanley Research estimates

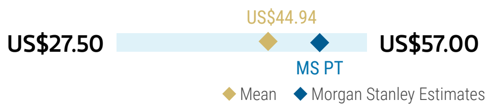
Risk Reward – Vista Energy SAB de CV (VIST.N) Top Pick

Leading Independent Player in Argentina Shale; Compelling Upside

PRICE TARGET US$51.00

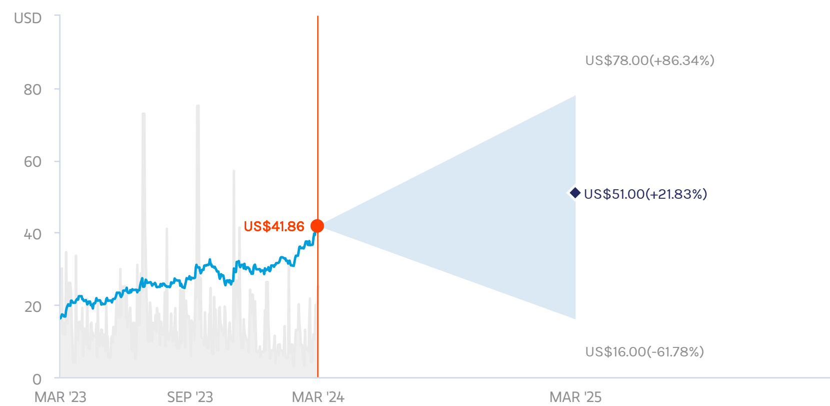
Base case derived using our NAV methodology. We use PV14 (14% discount rate in USD in real terms) to account for the higher risk profile of Argentine shale, as well as increased ESG-related concerns in the asset class. For conventional assets, we base our estimates on recoverable 2P volume, while for unconventional, we base it on shale acreage using our Vaca Muerta model.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



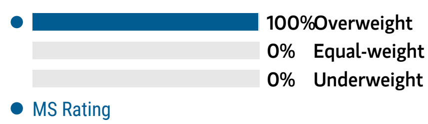
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- Interest for Vaca Muerta is gaining traction, and Vista is the best name to get pure exposure to the play through a high-quality company and management team, with very positive track record.
- The stock has overperformed, but we believe there is further upside as the market prices in an overly conservative production outlook.
- Vista's core shale hub yield IRRs of 40-80% in the more likely scenarios of oil prices and well costs, which justifies production growth instead of dividends + buybacks in the shorter term.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Self-help: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE US$78.00

Long-term Brent: $80/bbl

An attainable production upside to 140Kbpd. Management decides to add a third drilling rig at Bajada del Palo, fourth unit in other blocks, adding ~200 wells to its pipeline. Higher production, along with a higher level of oil prices, result in outsized IRRs, exceeding 100%.

BASE CASE US$51.00

Long-term Brent: $70/bbl

Core shale hub delivers 100Kbpd production. Factory-mode development of Bajada del Palo Oeste with ~550 wells allows production to grow at a 5-year CAGR of 12%, with consistent FCF generation. Macro challenges in Argentina still leave Vista exposed to higher operating costs vs. North American peers, although at competitive levels.

BEAR CASE US$16.00

Long-term Brent: $40/bbl

Reduced investment pace. An environment of lower oil prices, along with a worse macro-political backdrop prompts management to work with one dedicated drilling rig and a half-time unit. Production still grows at a 5-year CAGR of 6%, but to only half of its full potential.

Risk Reward – Vista Energy SAB de CV (VIST.N)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Average Brent (US$/bbl Real Terms)	82	79	74	71
Realized Oil Price (US$/bbl Nominal Terms)	67	69	69	70
Total Production (Kboe/d)	51.4	69.8	85.0	95.6

INVESTMENT DRIVERS

- Successful production ramp-up in the core shale hub
- Consistent growth in exports of incremental production
- Domestic investment climate in Argentina post the 2023 election cycle

GLOBAL REVENUE EXPOSURE

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

RISKS TO PT/RATING

RISKS TO UPSIDE

- Management's decision to add a third rig in the core shale hub
- Upwards revision of type-well curve
- Drilling efficiencies driving lower well costs

RISKS TO DOWNSIDE

- Limited access to varied funding options
- Increased capital restrictions in Argentina
- Unexpected increase in oil export taxes

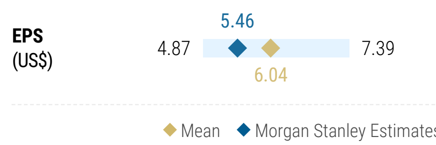
OWNERSHIP POSITIONING

Inst. Owners, % Active	86.1%
HF Sector Long/Short Ratio	1.5x
HF Sector Net Exposure	3.3%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

YPF: Changes to Our Estimates

Exhibit 62: Summary of Estimate Changes

	OLD		NEW	
US$m, except EPADR	**2024e**	**2025e**	**2024e**	**2025e**
Revenue	16,124	17,333	15,790	16,745
Costs & Expenses	(14,796)	(14,913)	(14,086)	(14,130)
EBITDA	**4,739**	**5,809**	**5,080**	**5,925**
EBITDA Margin	29.4%	33.5%	32.2%	35.4%
Net Financials	(73)	(467)	849	(556)
Net Income	825	1,367	1,665	1,441
Normalized EPADR	2.10	3.48	4.23	3.66
Liquids Production (Kbbl/d)	297.5	300.0	297.5	300.0
Gas Production (Mm3/d)	38.0	38.0	38.0	38.0
Total Production (Kboe/d)	536.3	538.8	536.3	538.8
Crude Realization ($/bbl)	61.3	68.1	61.3	68.1
Product Realization ($/m3)	403.8	537.0	397.9	516.9
Capex	5,179	4,065	5,118	4,063
Net Debt	9,613	9,495	9,154	8,998
Net Debt/EBITDA	2.0	1.6	1.8	1.5
FX Rate (EOP)	1,318.0	1,898.0	1,665.2	2,171.7
FX Rate (Ave.)	1,028.8	1,610.8	1,124.4	1,950.2

Source: Company data, Morgan Stanley Research estimates

Valuation & Risks

Our year-end 2024 price target of $22.0/ADR (up from $10.5) is based on our DCF methodology. We project the FCF of each business segment. For upstream, we forecast flat production between 2023-28. For downstream, we use a perpetuity approach with a 4% nominal LT growth rate. We use a WACC of 17.8% in USD, based on: i) country risk spread of 1,100bps and cost of equity of 24.0%, ii) pretax USD-based interest rate of 13.0%, iii) debt/capital ratio of 40%.

Risks to our estimates and base case fair value include: i) lack of access to new funding options; ii) well economics (capex/opex) at Vaca Muerta disappoints, lowering NAVs; iii) slowdown in global economic recovery causing another downturn in oil prices; iv) changes to Argentina's oil sector regulations and level of taxes and royalties; v) other unforeseen operating disruptions.

Exhibit 63: YPF: Price Target Build-Up: $22.0/ADR

DCF Valuation - Firm Total (US$ mm)		
NPV of FCFF (2025-30)	43%	7,375
PV of Terminal Value	57%	9,654
Enterprise Value	**100%**	**17,029**
Less: 4Q23 EOP Net Debt		9,154
Equity Value		**7,875**
Less: Minority Interests		43
Plus: Investments in Affiliates		812
Common Equity Value		**8,644**
Diluted Shares Outstanding (m)		393
$/ADR, Base Case		**22.0**

Source: Morgan Stanley Research estimates

YPF: Financial Summary

Exhibit 64: YPF: Financial Summary

Key Assumptions	2022	2023	2024e	2025e	2026e
Net Production					
Crude Oil (Kbbld)	226.0	242.8	247.5	250.0	250.0
NGL (Kbbld)	41.6	43.0	50.0	50.0	50.0
Natural Gas (Mm3/d)	37.5	36.2	38.0	38.0	38.0
Total	**503.2**	**513.3**	**536.3**	**538.8**	**538.8**
Price					
Brent (US$/bbl)	100.9	82.4	78.7	73.9	71.2
YPF Realization (US$/bbl)	64.5	62.6	61.3	68.1	67.7
Henry Hub	6.4	2.5	2.7	2.7	2.7
YPF Realization (US$/bbl)	3.6	3.5	3.8	3.9	4.0
FX: USD / ARS (EOP)	177.13	808.48	1,665.23	2,171.65	2,495.56
FX: USD / ARS (Ave.)	130.76	295.62	1,124.35	1,950.25	2,373.25

Segment Information	2022	2023	2024e	2025e	2026e
Revenue Breakdown	**15,824**	**16,188**	**13,112**	**14,150**	**14,940**
E&P	7,142	7,328	7,566	8,132	8,093
Refining & Marketing	16,005	23,393	13,455	14,496	15,291
Corporate	1,167	862	32	36	39
Elimination	(8,490)	(15,396)	(7,941)	(8,515)	(8,483)
EBITDA Breakdown	**5,063**	**4,250**	**5,080**	**5,925**	**6,697**
E&P	3,170	2,919	3,419	4,082	4,089
Downstream	1,818	1,646	1,551	1,737	2,501
Gas & Power	168	34	114	110	111
Corporate	(102)	(193)	(4)	(4)	(4)
Elimination	8	(155)	0	0	0

Indebtedness - US$m	2022	2023	2024e	2025e	2026e
Short Term Debt	1,433	1,845	3,619	2,984	3,349
Long Term Debt	6,218	6,993	6,448	7,296	5,948
Total Debt	7,651	8,838	10,067	10,280	9,297
Net Debt	6,358	7,446	9,154	8,998	8,184
Total Debt/EBITDA	1.51	2.08	1.98	1.73	1.39
Net Debt/EBITDA	1.26	1.75	1.80	1.52	1.22
Total Debt / Capital	42%	50%	93%	103%	98%
Net Debt / Capital	35%	42%	84%	90%	86%

Valuation Metrics	2022	2023	2024e	2025e	2026e
Diluted Shares (m)	393	393	393	393	393
P/E (tax adjusted)	1.7	4.9	4.6	5.7	4.4
P/BV	0.3	0.8	9.3	(22.7)	34.2
EV/EBITDA	2.0	3.4	3.4	2.9	2.4
EV/EBITDAX	2.0	3.3	3.3	2.9	2.4
ROE	26.5%	-23.7%	18.6%	177.2%	-551.4%
ROCE	10.3%	-31.9%	6.8%	18.4%	27.3%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
FCF Yield	17.6%	-4.9%	-16.0%	4.0%	12.2%

Income Statement - US$m	2022	2023	2024e	2025e	2026e
Net Revenues	**18,906**	**17,355**	**15,790**	**16,745**	**17,562**
COGS	(14,391)	(14,007)	(11,936)	(11,848)	(11,792)
Operating Expenses	(2,239)	(5,587)	(2,150)	(2,282)	(2,387)
Operating Income	**2,276**	**(2,239)**	**1,704**	**2,615**	**3,383**
Depreciation & Amortization	2,849	3,278	3,376	3,310	3,314
EBITDA, adjusted	**5,063**	**4,250**	**5,080**	**5,925**	**6,697**
EBITDA Margin	**27%**	**24%**	**32%**	**35%**	**38%**
Net Financial Expenses	333	1,222	849	(556)	(758)
Other Income (Expenses)	0	0	0	0	0
Pre-Tax Profit	**2,609**	**(1,017)**	**2,553**	**2,059**	**2,625**
Income Taxes	(833)	(1,414)	(888)	(618)	(788)
Effective Tax Rate	32%	-139%	35%	30%	30%
Non-controlling Interest	435	(50)	0	0	0
Net Income	**2,211**	**(2,480)**	**1,665**	**1,441**	**1,838**
Normalized EPADR	**5.52**	**(1.00)**	**4.23**	**3.66**	**4.67**

Balance Sheet - US$m	2022	2023	2024e	2025e	2026e
Cash & cash equivalents	1,293	1,392	913	1,282	1,113
Inventories	1,737	1,679	1,303	1,451	1,590
Accounts receivables	1,503	972	1,263	1,569	1,731
Other current assets	809	390	190	145	126
Tangible fixed assets	18,043	18,309	10,131	8,444	7,394
Intangible fixed assets	384	367	178	137	119
Other non current assets	2,132	1,878	2,075	2,013	1,937
Total Assets	**25,902**	**24,988**	**16,053**	**15,041**	**14,011**
Short term debt	1,433	1,845	3,619	2,984	3,349
Accounts payable	2,564	2,314	2,234	2,487	2,297
Salaries and social security	297	209	219	245	209
Other current liabilities	487	541	263	201	175
Long term debt	6,218	6,993	6,448	7,296	5,948
Provisions	2,570	2,655	1,289	989	860
Other non current liabilities	1,786	1,395	1,124	1,139	922
Minority interest	104	89	43	33	29
Shareholders Equity	10,444	8,945	813	(333)	221
Total Liabilities + Equity	**25,902**	**24,988**	**16,053**	**15,041**	**14,011**

Cash Flow - US$m	2022	2023	2024e	2025e	2026e
EBITDA	**5,063**	**4,250**	**5,080**	**5,925**	**6,697**
Working Capital	(598)	(747)	(75)	(224)	(594)
Taxes	(7)	797	(227)	(309)	(861)
Net Interest & Dividends	(903)	(1,084)	(874)	(1,025)	(953)
Other Items	1,176	1,701	(0)	(0)	0
Cash from Operations	**4,731**	**4,918**	**3,904**	**4,367**	**4,289**
Capex	(4,093)	(5,251)	(5,118)	(4,063)	(3,362)
Acquisitions & Asset Sales	0	0	0	0	0
Other Investment Activities	93	101	(0)	(0)	(0)
Cash From Investing	**(4,000)**	**(5,149)**	**(5,118)**	**(4,063)**	**(3,362)**
Debt Issuance	449	2,522	2,800	2,089	0
Debt Repayment	(753)	(1,428)	(1,138)	(1,745)	(930)
Dividends	0	0	0	0	0
Equity Issuance	0	0	0	0	0
Other Financing	5	102	0	0	0
Cash From Financing	**(298)**	**1,196**	**1,662**	**344**	**(930)**
Translation & Others	135	1,637	0	0	0
Change in Cash	**567**	**2,602**	**448**	**648**	**(3)**

Source: Company data, Morgan Stanley Research estimates

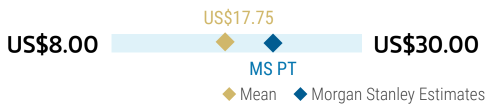
Risk Reward – YPF SA (YPF.N)

Balanced Risk-Reward Post Strong Rally

PRICE TARGET US$22.00

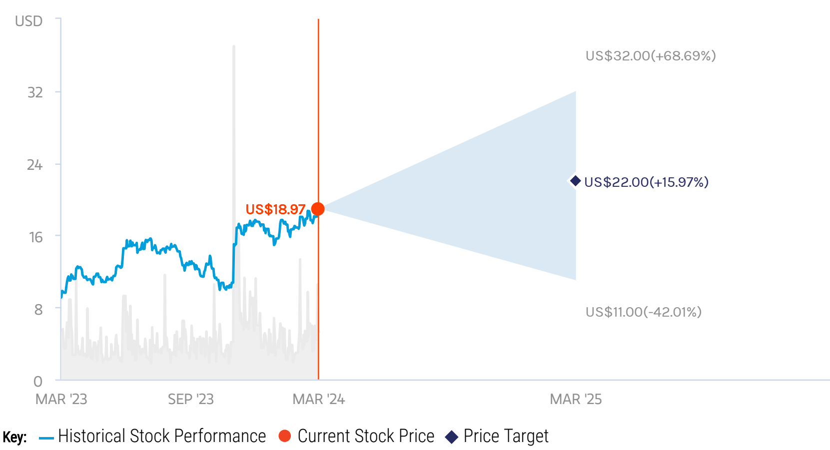
Base case derived using our DCF methodology. We estimate cash flows through 2030, and discount them at 17.8% WACC in USD terms (made of 24.0% cost of equity, pre-tax interest cost of 13% and a debt/capital ratio of 40%)

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART

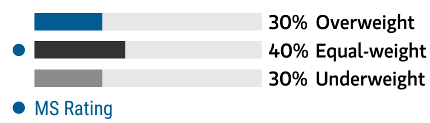


Source: Refinitiv, Morgan Stanley Research

EQUAL-WEIGHT THESIS

- Our Equal-weight rating is underpinned by a balanced risk-reward proposition following a macro-driven stock rally.
- We are less concerned about YPF's leverage and refinancing need given the improvements in capital markets access, but stay on the sidelines as we believe YPF is unlikely to generate positive FCFs attractive enough relative to other LatAm peers..
- A recently unveiled divestment plan from non-core assets could boost returns and make YPF more efficient, but capital deployment in potentially large scale LNG projects have uncertain IRRs, in our view.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

BULL CASE US$32.00

Long-term Brent: $80/bbl

Vaca Muerta back to full steam. Macroeconomic reforms are successful, driving a new wave of investments in Argentina and further amplifies funding options at lower cost. Higher oil prices are fully passed through to fuel prices, allowing the company to generate positive FCF sooner.

BASE CASE US$22.00

Long-term Brent: $70/bbl

Stabilizing macroeconomic environment removes funding concerns. A supportive energy policy in Argentina allows YPF to gradually move fuel prices to international parity, while better macroeconomic conditions allows the company to fund its shale development projects. High capex requirements prevents positive FCF generation in the short-term

BEAR CASE US$11.00

Long-term Brent: $40/bbl

Lower oil prices and continues funding requirement. Oil and fuel prices in Argentina remain below international parity, further pressuring FCF generation. YPF leverages the balance sheet again in order to sustain an aggressive capex program.

Risk Reward – YPF SA (YPF.N)

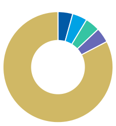
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Realized Oil Price (US$/bbl)	63	61	68	68
Total Production (Kboe/d)	513	536	539	539
Refining Margin (US$/bbl Real Terms)	10.6	10.1	11.0	15.7

INVESTMENT DRIVERS

- Perception of Argentine country risk, affecting discount rates
- Maintenance of local crude and fuel prices above international parity
- Continued access to international funding, allowing the development of Vaca Muerta reserves

GLOBAL REVENUE EXPOSURE



- 0-10% Europe ex UK
- 0-10% Mainland China
- 0-10% North America
- 0-10% UK
- 90-100% Latin America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

RISKS TO PT/RATING

RISKS TO UPSIDE

- Supportive energy policy that prioritizes YPF's ability to fund projects in Vaca Muerta
- Gradual increase in oil & gas production in the coming quarters
- Successful non-core assets divestment

RISKS TO DOWNSIDE

- Lack of access to funding options
- Well economics at Vaca Muerta disappoint
- Changes to hydrocarbon regulations
- Other unforeseen operating disruptions

OWNERSHIP POSITIONING

Inst. Owners, % Active	85%
HF Sector Long/Short Ratio	1.5x
HF Sector Net Exposure	3.3%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e

EPS (US$) ◆ 4.23

Note: There are not sufficient brokers supplying consensus data for this metric

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Pampa: Changes to Our Estimates

Exhibit 65: Summary of Estimate Changes

	OLD		NEW	
US$M, except EPADR	**2024e**	**2025e**	**2024e**	**2025e**
Net revenues	1,792	1,845	1,810	1,879
Costs & expenses	(1,016)	(1,021)	(1,103)	(1,069)
EBITDA, adjusted	**990**	**1,019**	**951**	**1,004**
EBITDA mg.	55.3%	55.2%	52.5%	53.4%
Net financials	(236)	(391)	(226)	(329)
Net income	371	308	316	337
EPADR, normalized	6.8	5.7	5.8	6.2
Capex	504	398	600	444
FCF	(211)	(67)	(281)	(47)
ND/EBITDA (US$-based)	1.5	1.7	1.4	1.5
ARS/USD eop	1,318.0	1,898.0	1,665.2	2,171.7
ARS/USD average	1,028.8	1,610.8	1,124.4	1,950.2
Inflation Y/Y eop (%)	304%	71%	304%	71%

Source: Morgan Stanley Research estimates

Valuation & Risks

Our year-end 2024 PAM price target of $45.0/ADR (up from $35.0) is based on a sum-of-the-parts approach. For Generar, Transener, TGS and non-shale Upstream, we use a DCF based on 15.8% WACC (in USD terms). For the shale assets, we use a multiple of ~$4.4K/acre; and for Petrochemicals, we use a peak EV/EBITDA target multiple, given the much above average results expected NTM.

Risks to our estimates and base case fair value include: i) below expectation results of tariff reviews for the regulated asset base; ii) delays in the implementation of normalized tariffs for power and natural gas transportation assets; iii) FX volatility not being fully compensated by tariff readjustment or price increases, leading to margin compression and mismatch in USD debt repayment schedule; iv) disappointing well economics (capex/opex) at Vaca Muerta and tight gas operations leading to NAV compression; v) unfavorable changes to the oil gas regulatory framework in Argentina; vi) other unforeseen operating disruptions across the different business units.

Exhibit 66: Pampa: Price Target Build-Up: $45.0/ADR

SoP-Based Base Case (US$M)	Pampa Stake (%)	EBITDA 2024e	Multiple	EV	% of Total EV
Utilities				**1,985**	**52%**
Generation	100.0%	427	4.5	1,934	51%
Transener	26.3%	14	3.7	51	1%
Oil & Gas				**1,868**	**49%**
TGS	29.3%	124	4.3	529	14%
Upstream ex-Shale		469	2.5	431	11%
Upstream Shale	165			718	19%
PetChem	100%	64	3.0	191	5%
Overhead				**(56)**	**-1%**
Enterprise Value				**3,797**	**100%**
(-) Net Debt				1,343	
(-) Minorities				0	
Equity Value				**2,453**	
$/ADR, Base Case				**45.0**	

Source: Morgan Stanley Research estimates

Pampa: Financial Summary

Exhibit 67: Pampa: Financial Summary

Key Assumptions	2022	2023	2024e	2025e	2026e
E&P					
Gas Production (MMm3/d)	9.8	10.3	13.5	13.8	13.8
Oil Realization (US$/bbl)	69.7	66.2	69.0	68.3	67.7
Gas Realization ($/MMbtu)	4.2	4.2	4.4	4.5	4.5
PetChem					
Utilization rate (%)	68%	64%	65%	65%	65%
Volumes (Kton)	423	406	385	385	385
Generar					
Energy Generation (GWh)	17,722	18,833	20,414	20,414	20,414
Avg. Gross Margin (US$/MWh)	16.5	15.0	19.4	21.4	21.7
Transener					
Regulatory EBITDA (US$m)	258	307	320	299	287
Effective EBITDA (US$m)	28	10	47	137	146
Underperformance (%)	-89.3%	-96.6%	-85.3%	-54.3%	-49.3%
FX: USD / ARS (EOP)	177.1	808.5	1,665.2	2,171.7	2,495.6
FX: USD / ARS (Ave.)	130.8	295.6	1,124.4	1,950.2	2,373.3
Year-end inflation (%)	72%	134%	304%	71%	18%

EBITDA Breakdown - US$M	2022	2023	2024e	2025e	2026e
E&P	353	336	466	477	480
Petrochemicals	60	59	64	60	50
Generar	352	379	432	477	482
Edenor	0	0	0	0	0
Others & Holding	3	(41)	(11)	(10)	(10)
EBITDA	**768**	**734**	**951**	**1,004**	**1,003**
TGS *	415	366	440	443	464
Transener *	37	28	70	152	153
Stake Adjusted EBITDA	**899**	**848**	**1,098**	**1,174**	**1,180**

* not consolidated

Indebtedness - US$M	2022	2023	2024e	2025e	2026e
Short-Term Debt	273	224	282	165	842
Long-Term Debt	1,340	1,224	1,687	1,783	1,129
Total Debt	1,613	1,448	1,969	1,948	1,971
Net Debt	913	613	1,343	1,524	1,412
Total Debt/EBITDA	2.1	2.0	2.1	1.9	2.0
Net Debt/EBITDA	1.2	0.8	1.4	1.5	1.4
Total Debt / Capital	41%	38%	79%	88%	87%
Net Debt / Capital	23%	16%	54%	69%	62%

Valuation Metrics	2022	2023	2024e	2025e	2026e
Diluted Shares (m)	1,384	1,366	1,364	1,364	1,364
P/E	3.6	14.8	7.3	6.9	6.5
P/BV	0.8	1.1	4.5	9.0	7.9
EV/EBITDA	2.3	3.6	3.5	3.5	3.4
ROE	22%	5%	61%	131%	121%
ROCE	22%	11%	17%	29%	32%
ROIC	17%	8%	15%	28%	30%
Dividend Payout Ratio	0%	1%	0%	0%	10%
Dividend Yield	0.0%	0.1%	0.0%	0.0%	1.5%
FCF Yield	12.7%	-2.2%	-12.1%	-2.0%	5.6%

Income Statement - US$M	2022	2023	2024e	2025e	2026e
Net Revenues	**1,852**	**1,738**	**1,810**	**1,879**	**1,871**
COGS	(1,154)	(1,083)	(857)	(881)	(875)
Operating Expenses	(145)	(272)	(257)	(259)	(258)
Profit (loss) JV	123	15	11	71	92
EBIT	**676**	**398**	**707**	**810**	**831**
Depreciation & Amortization	214	269	255	266	265
EBITDA, adjusted	**768**	**734**	**951**	**1,004**	**1,003**
EBITDA Margin (%)	41%	42%	53%	53%	54%
Financial income	6	6	10	17	19
Financial expense	(233)	(356)	(244)	(337)	(347)
Other financial results	195	525	8	(9)	(6)
Pre-Tax Profit	**645**	**573**	**481**	**481**	**496**
Income Taxes	(148)	(448)	(164)	(143)	(141)
Effective Tax Rate (%)	28%	80%	35%	35%	35%
Minority Interest	(0)	6	0	0	0
Net Income	**496**	**130**	**316**	**337**	**355**
Normalized EPADR	**9.0**	**3.4**	**5.8**	**6.2**	**6.5**

Balance Sheet - US$M	2022	2023	2024e	2025e	2026e
Cash & Cash Equivalents	700	834	625	424	559
Accounts Receivable	490	313	445	486	482
Inventories	173	205	129	141	140
PP&E	2,173	2,566	1,478	1,294	1,214
Investments in JVs	902	672	333	320	300
Financial assets	27	35	17	13	11
Other Assets	276	97	47	36	31
Total Assets	**4,743**	**4,721**	**3,075**	**2,714**	**2,739**
Short-Term Debt	273	224	282	165	842
Long-Term Debt	1,340	1,224	1,687	1,783	1,129
Tax Liabilities	28	14	7	5	5
Payables & Accruals	302	283	224	217	215
Deferred Taxes	112	298	200	153	133
Other Liabilities	403	266	151	129	118
Minority Interest	7	9	4	3	3
Shareholders Equity	2,278	2,404	520	258	293
Total Liabilities + Equity	**4,743**	**4,721**	**3,075**	**2,714**	**2,739**

Cash Flow - USS$M	2022	2023	2024e	2025e	2026e
EBITDA	**768**	**734**	**951**	**1,004**	**1,003**
Working Capital	(159)	(215)	(330)	(150)	(49)
Taxes	(3)	(0)	(68)	(137)	(139)
Net Interest	(227)	(350)	(234)	(320)	(328)
Other Items	243	430	0	0	0
Cash from Operations	**621**	**599**	**318**	**397**	**487**
Capex	(397)	(657)	(600)	(444)	(358)
Acquisitions & Asset Sales	(135)	(2)	0	0	0
Other Investment Activities	387	1,863	0	0	69
Cash From Investing	**(133)**	**1,204**	**(600)**	**(444)**	**(289)**
Debt Issuance	322	352	874	178	99
Debt Repayment	(147)	(230)	(267)	(193)	(62)
Dividends	(0)	(2)	0	0	(36)
Equity Issuance/Repurchase	(17)	0	0	0	0
Other Financing	(196)	(300)	0	0	0
Cash From Financing	**(39)**	**(180)**	**607**	**(15)**	**2**
Translation	166	314	(817)	(186)	134
Change in Cash	**127**	**135**	**(209)**	**(201)**	**135**

Source: Company data, Morgan Stanley Research estimates

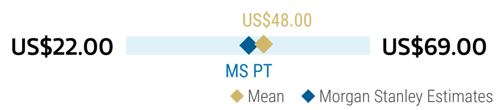
Risk Reward – Pampa Energia SA (PAM.N)

Gas Story Compelling, but Mostly in the Price

PRICE TARGET US$45.00

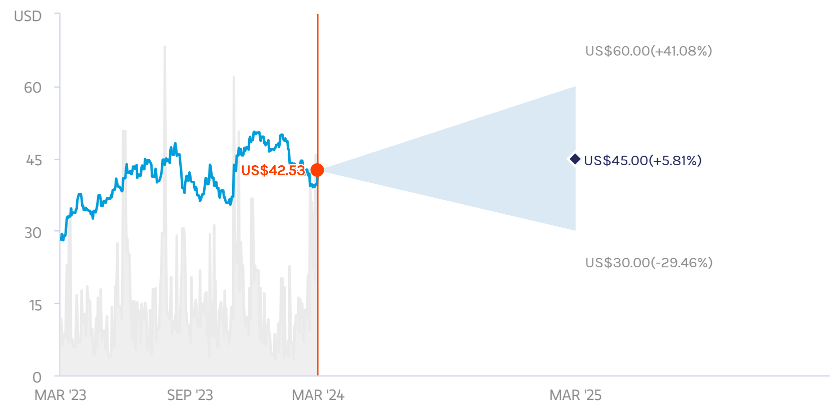
Price target derived using our sum-of-the-parts approach (for Generar, Transener, non-shale Upstream, and TGS, we use a DCF; for shale, we use a $/acre multiple; for PetChem, we use target EV/EBITDA multiple).

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



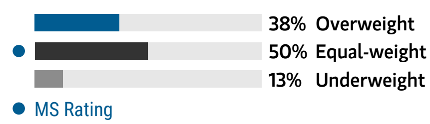
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

EQUAL-WEIGHT THESIS

- Fundamentals for the Argentine natural gas sector have markedly improved in past years, and PAM is a key company to play growing production in the country.
- Higher for longer global commodity prices could be supportive to the story in a bull case scenario.
- Regulatory and macro stability concerns remain, but are well understood by the market at this point, and we see a balanced value proposition.
- The stock provides some exposure to USD-linked revenues, with a healthy balance sheet.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

BULL CASE US$60.00

LT Gas Price: $7/MMBTU

Investment environment improves in Argentina; gas prices become supportive of shale development. On Generar, we assume operational improvements and higher dispatch. Elsewhere, we assume policy continuation and macro normalization. Argentina becomes an exporter of natural gas and a play to navigate higher for longer global gas prices.

BASE CASE US$45.00

LT Gas Price: $4/MMBTU

Natural gas growth delivered at attractive prices. Pampa delivers on capacity expansion linked to the new pipeline and the government honors the incentive gas program. On Generar, we assume no cut on new capacity PPAs and no changes to current legacy remuneration (Res. 31/2020).

BEAR CASE US$30.00

LT Gas Price: $3/MMBTU

Regulatory instability; Vaca Muerta gas potential fails to materialize. Gas markets deteriorate and we assign limited value to Pampa's shale acreage. Regulatory risks and uncertainties prevent the business from operating at profitable levels.

Risk Reward – Pampa Energia SA (PAM.N)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Average FX Rate (ARS/USD)	295.6	1,124.4	1,950.2	2,373.3
Year-end inflation (%)	133.9	303.8	71.1	17.5
Gas prices ($/MMBTU)	4.2	4.4	4.5	4.5

INVESTMENT DRIVERS

- Delivering on volumes and cash flows according to Plan Gas
- Perception of Argentine country risk
- Development of the tight gas reservoirs
- No disruption to current policies on power generation

GLOBAL REVENUE EXPOSURE

100% Latin America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

RISKS TO PT/RATING

RISKS TO UPSIDE

- Increased activity at Vaca Muerta shale
- Acceleration of midstream investments debottlenecking gas output

RISKS TO DOWNSIDE

- Changes in the regulatory framework in place, with reduction in remuneration
- Below expectation results of tariff reviews (e.g. lower regulatory asset base)
- Unfavorable changes to the O&G regulatory framework in Argentina
- Other unforeseen operating disruptions across the different business units

OWNERSHIP POSITIONING

Inst. Owners, % Active	82.7%
HF Sector Long/Short Ratio	1.5x
HF Sector Net Exposure	1.2%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e

EPS (US$) ◆ 5.80

Note: There are not sufficient brokers supplying consensus data for this metric

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

TGS: Changes to Our Estimates

Exhibit 68: Summary of Estimate Changes

	OLD		NEW	
US$m, except EPADS	**2024e**	**2025e**	**2024e**	**2025e**
Revenue	851	927	842	859
Costs & Expenses	(427)	(515)	(402)	(416)
Adj. EBITDA	**424**	**412**	**440**	**443**
Net Financials	(72)	(39)	(325)	(92)
Net Income	150	153	10	165
Normalized EPADS	0.99	1.01	0.07	1.10
Contracted capacity (Mcf/d)	2,931	2,931	2,935	2,935
Volume Sold ('000 ton)	1,100	1,100	1,100	1,100
Capex	110	110	110	110
ND/EBITDA (ARS based)	(0.3)	(0.6)	0.1	(0.3)
FX Rate (EOP)	1,318	1,898	1,665	2,172
FX Rate (Ave.)	1,029	1,611	1,124	1,950
EBITDA US$M	**424**	**412**	**440**	**443**
Natural Gas Transportation	34	57	27	44
Natural Gas Liquids	280	249	300	301
Other Services	109	105	111	96
Telecomunications	1	2	1	1

Source: Morgan Stanley Research estimates

Valuation & Risks

Our year-end 2024 TGS price target of $12.0/ADR (up from $10.0) is based on our DCF model. We assume a WACC of 17.0% (nominal USD), made of a 20.9% cost of equity and 7.8% after-tax cost of debt.

Risks to our estimates and base case fair value include: i) below expectation results of tariff adjustments for the regulated asset base; ii) other unforeseen operating disruptions across the different business units.

Exhibit 69: TGS: Price Target Build-Up: $12.0/ADR

DCF Valuation - Firm Total (US$M)	
NPV of FCFF (2025-35)	1,383
PV of Concession Extension	453
PV of Tax Credits	0
Enterprise Value	**1,836**
Less: 4Q24 EOP Net Debt	31
Equity Value	**1,805**
Less: Minority Interests	0
Plus: Investments in Affiliates	0
Common Equity Value	1,805
ADR Outstanding (mn)	151
Base Case, $/ADR	**12.0**

Source: Morgan Stanley Research estimates

TGS: Financial Summary

Exhibit 70: TGS: Financial Summary

Key Assumptions	2022	2023	2024e	2025e	2026e
Natural Gas Transportation					
Average Deliveries (Mcf/d)	2,430	2,299	2,013	2,013	2,013
EBITDA $/Mcf	**104**	**44**	**25**	**41**	**57**
EBITDA Margin	46%	23%	20%	28%	33%
Natural Gas Liquids					
EBITDA $/ton	**203**	**162**	**273**	**274**	**270**
EBITDA Margin	37%	34%	55%	55%	53%
Volume Sold ('000 ton)	**1,130**	**1,131**	**1,100**	**1,100**	**1,100**
Ethane	329	394	380	380	380
Propane	410	369	365	365	365
Butane	265	238	240	240	240
Natural Gasoline	125	129	115	115	115
Macro Assumptions					
FX: USD/ARS (EOP)	177.1	808.5	1,665.2	2,171.7	2,495.6
FX: USD/ARS (Ave.)	130.8	295.6	1,124.4	1,950.2	2,373.3
Inflation: % Y/Y	72.4%	133.9%	303.8%	71.1%	17.5%

EBITDA Breakdown - US$M	2022	2023	2024e	2025e	2026e
EBITDA	**415**	**366**	**440**	**443**	**464**
Natural Gas Transportation	111	47	27	44	61
Natural Gas Liquids	229	184	300	301	297
Other Services	74	135	111	96	105
Telecommunications	0	(0)	1	1	1

Indebtedness - US$M	2022	2023	2024e	2025e	2026e
Short Term Debt	22	75	489	255	222
Long Term Debt	512	508	0	0	0
Total Debt	534	583	489	255	222
Net Debt	69	43	31	(122)	(159)
Total Debt/EBITDA	1.3	1.6	1.1	0.6	0.5
Net Debt/EBITDA	0.2	0.1	0.1	(0.3)	(0.3)
Total Debt / Capital	26%	36%	48%	32%	32%

Valuation Metrics	2022	2023	2024e	2025e	2026e
Diluted ADRs (m)	151	151	151	151	151
P/E	9.8	(823.0)	198.8	12.4	9.0
P/BV	1.2	2.1	3.9	3.7	4.3
EV/EBITDA	4.4	6.3	4.7	4.4	4.2
ROE	15%	0%	1%	32%	41%
ROCE	15%	7%	20%	41%	54%
ROIC	13%	6%	18%	36%	48%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	100.0%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	11.1%
FCF Yield	2.0%	4.1%	14.4%	11.7%	11.3%

Income Statement - US$M	2022	2023	2024e	2025e	2026e
Net Revenues	**976**	**948**	**842**	**859**	**916**
Cost of Sales	(679)	(712)	(501)	(514)	(565)
Others & Non-Recurring	(1)	(2)	0	0	0
EBIT	**297**	**234**	**341**	**345**	**351**
Depreciation & Amortization	118	132	99	98	114
EBITDA, adjusted	**415**	**366**	**440**	**443**	**464**
EBITDA Margin	**42%**	**39%**	**52%**	**52%**	**51%**
Net Financials	(19)	(240)	(325)	(92)	(2)
Income Taxes	(98)	3	(6)	(89)	(122)
Effective Tax Rate	35%	55%	35%	35%	35%
Net Income	**181**	**(3)**	**10**	**165**	**227**
Normalized EPADR	1.20	(0.02)	0.07	1.10	1.51

Balance Sheet - US$M	2022	2023	2024e	2025e	2026e
Cash & Cash Equivalents	465	540	458	377	381
Accounts Receivable	96	63	67	75	79
Inventories	10	9	9	10	11
PP&E	1,662	1,228	604	474	404
Financial assets	227	133	64	49	43
Other Assets	(134)	(86)	(42)	(32)	(75)
Total Assets	**2,326**	**1,887**	**1,161**	**954**	**843**
Short Term Debt	22	75	489	255	222
Payables & Accruals	59	52	57	79	81
Tax Liabilities	5	5	2	2	2
Long Term Debt	512	508	0	0	0
Deferred Taxes	120	105	51	39	34
Other Liabilities	99	84	41	31	27
Shareholders Equity	1,509	1,058	521	547	476
Total Liabilities + Equity	**2,326**	**1,887**	**1,161**	**954**	**843**

Cash Flow - US$M	2022	2023	2024e	2025e	2026e
EBITDA	**415**	**366**	**440**	**443**	**464**
Working Capital	(48)	(23)	(14)	10	(3)
Taxes	(153)	(18)	(6)	(89)	(122)
Net Interest	134	318	(15)	(14)	(9)
Other Items	(154)	(241)	(0)	0	7
Cash from Operations	**193**	**401**	**406**	**350**	**338**
Capex	(158)	(307)	(110)	(110)	(105)
Acquisitions & Asset Sales	0	0	0	0	0
Other Investment Activities	(71)	(160)	0	0	0
Cash From Investing	**(229)**	**(467)**	**(110)**	**(110)**	**(105)**
Debt Issuance	0	99	0	0	0
Debt Repayment	20	(36)	(6)	(211)	0
Dividends	0	0	0	0	(227)
Equity Issuance	0	0	0	0	0
Other Financing	0	0	0	0	0
Cash From Financing	**20**	**63**	**(6)**	**(211)**	**(227)**
Translation & Conversion	5	15	0	0	0
Change in Cash	**(11)**	**12**	**290**	**29**	**6**

Source: Company data, Morgan Stanley Research estimates

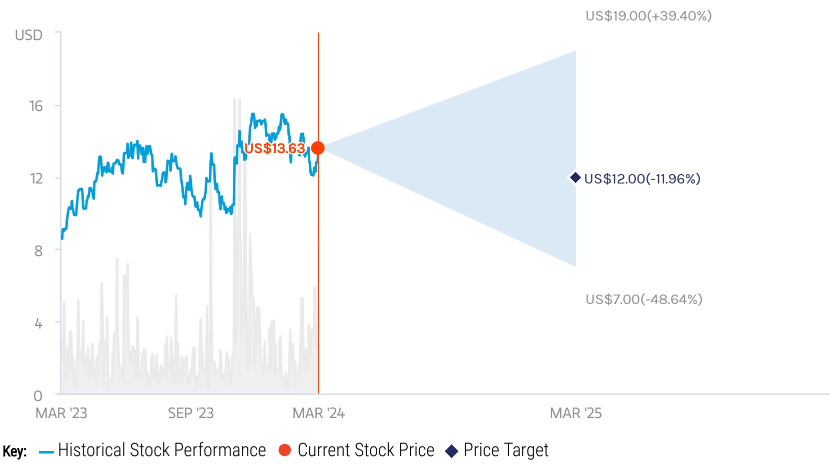
Risk Reward – Transportadora de Gas del Sur S.A. (TGS.N)

Uninspiring Risk Reward in Context of Argentina

PRICE TARGET US$12.00

Base case derived using our DCF model (we discount cash flows through 2035 using a 17.0% WACC based on a 20.9% cost of equity, pre-tax interest cost of 12% and a debt/capital ratio of 30%).

RISK REWARD CHART

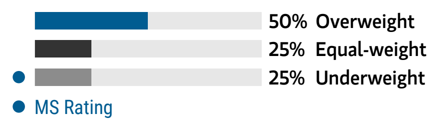


Source: Refinitiv, Morgan Stanley Research

UNDERWEIGHT THESIS

- TGS is subject to regulatory risk and tariff adjustment concerns, with a good part of its EBITDA currently coming from gas transportation. Share prices reflect some level of normalization ahead, for which we have no evidence at this point.
- Liquids provide a floor to results in USD terms, but higher gas costs could be a potential overhang.
- The challenging macro environment makes us skeptical on the company's ability to sanction new projects in the near-term.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

BULL CASE US$19.00

2024e EBITDA ($/Mcf): 114

Tariff adjustment recomposes prior profitability levels. Argentina economy recovers faster than expected, driving higher gas demand. TGS gets cummulative inflation adjustments on tariffs and its profitability goes back to prior levels within a few years.

BASE CASE US$12.00

2024e EBITDA ($/Mcf): 25

Tariff hikes uncertain. Despite the tariff hike last year, next adjustments are only expected to be granted in 2024, below the necessary levels to recompose past profitability levels. Liquids margins normalize ahead.

BEAR CASE US$7.00

2024e EBITDA ($/Mcf): -39

Tariffs freeze remains for longer. The government does not grant TGS its necessary tariff hikes for longer, and they stabilize at lower real rates, reducing the company's long-term cash generation potential.

Risk Reward – Transportadora de Gas del Sur S.A. (TGS.N)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Average FX Rate (ARS/USD)	295.6	1,124.4	1,950.2	2,373.3
Inflation - Argentina (%)	134	304	71	18
Liquids EBITDA ($/ton)	162.4	273.0	273.6	270.3

INVESTMENT DRIVERS

- Cost of capital in Argentina
- ARS/USD exchange rate
- Domestic gas production
- Pass through of inflation to the gas transportation tariffs

GLOBAL REVENUE EXPOSURE

● 100% Latin America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

RISKS TO PT/RATING

RISKS TO UPSIDE

- New capacity additions in the gas transportation and NGL businesses
- Improving perception of Argentina macro risk

RISKS TO DOWNSIDE

- Change to gas transportation regulatory framework and tariff delays
- Failure to pass through inflation in the next tariff revisions
- Unfavorable changes to the energy regulatory framework in Argentina
- Other unforeseen operating disruptions across the business units

OWNERSHIP POSITIONING

Inst. Owners, % Active	83.8%	
HF Sector Long/Short Ratio	1.5x	
HF Sector Net Exposure	3.3%	

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e

EPS (US$) ◆ 0.07

Note: There are not sufficient brokers supplying consensus data for this metric

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley & Co. LLC, and/or Morgan Stanley C.T.V.M. S.A., and/or Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., and/or Morgan Stanley Canada Limited. As used in this disclosure section, "Morgan Stanley" includes Morgan Stanley & Co. LLC, Morgan Stanley C.T.V.M. S.A., Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., Morgan Stanley Canada Limited and their affiliates as necessary.

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Juan P Ayala; Thiago S Casqueiro; Julia M Leao Nogueira; Nikolaj Lippmann; Bruno Montanari; Carlos F Moraes; Simon Waever.

.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies. A Portuguese version of the policy can be found at www.morganstanley.com.br

Important Regulatory Disclosures on Subject Companies

As of February 29, 2024, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: Enauta Participacoes SA, Petro Rio S.A., Petrobras, Vista Energy SAB de CV.

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from 3R Petroleum, PetroReconcavo S.A..

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from 3R Petroleum, Argentina, Banco Macro S.A., Ecopetrol SA, Enauta Participacoes SA, Grupo Financiero Galicia, Grupo Supervielle S.A., Pampa Energia SA, Petro Rio S.A., Petrobras, PetroReconcavo S.A..

Within the last 12 months, Morgan Stanley has received compensation for products and services other than investment banking services from Banco BBVA Argentina S.A, Banco Macro S.A., Ecopetrol SA, Pampa Energia SA, Petro Rio S.A., Petrobras.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: 3R Petroleum, Argentina, Banco Macro S.A., Ecopetrol SA, Enauta Participacoes SA, Grupo Financiero Galicia, Grupo Supervielle S.A., Pampa Energia SA, Petro Rio S.A., Petrobras, PetroReconcavo S.A..

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: Banco BBVA Argentina S.A, Banco Macro S.A., Ecopetrol SA, Grupo Financiero Galicia, Grupo Supervielle S.A., Pampa Energia SA, Petro Rio S.A., Petrobras, PetroReconcavo S.A..

Morgan Stanley & Co. LLC makes a market in the securities of Banco BBVA Argentina S.A, Banco Macro S.A., Ecopetrol SA, Grupo Financiero Galicia, Pampa Energia SA, Petrobras, YPF SA.

The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues. Equity Research analysts' or strategists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report. Morgan Stanley trades or may trade as principal in the debt securities (or in related derivatives) that are the subject of the debt research report.

Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of February 29, 2024)

The Stock Ratings described below apply to Morgan Stanley's Fundamental Equity Research and do not apply to Debt Research produced by the Firm.

For disclosure purposes only (in accordance with FINRA requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1425	38%	296	43%	21%	626	40%
Equal-weight/Hold	1704	45%	321	46%	19%	718	45%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	634	17%	76	11%	12%	239	15%
Total	3,766		693			1584	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.
Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.
Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.
Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Important Disclosures for Morgan Stanley Smith Barney LLC & E*TRADE Securities LLC Customers

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC or Morgan Stanley or any of their affiliates, are available on the Morgan Stanley Wealth Management disclosure website at www.morganstanley.com/online/researchdisclosures. For Morgan Stanley specific disclosures, you may refer to www.morganstanley.com/researchdisclosures.
Each Morgan Stanley research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC and E*TRADE Securities LLC. This review and approval is conducted by the same person who reviews the research report on behalf of Morgan Stanley. This could create a conflict of interest.

Other Important Disclosures

Morgan Stanley & Co. International PLC and its affiliates have a significant financial interest in the debt securities of Argentina, Ecopetrol SA, Petrobras.
Morgan Stanley Research policy is to update research reports as and when the Research Analyst and Research Management deem appropriate, based on developments with the issuer, the sector, or the market that may have a material impact on the research views or opinions stated therein. In addition, certain Research publications are intended to be updated on a regular periodic basis (weekly/monthly/quarterly/annual) and will ordinarily be updated with that frequency, unless the Research Analyst and Research Management determine that a different publication schedule is appropriate based on current conditions.
Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.
Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Matrix at http://www.morganstanley.com/matrix.
Morgan Stanley Research is provided to our clients through our proprietary research portal on Matrix and also distributed electronically by Morgan Stanley to clients. Certain, but not all, Morgan Stanley Research products are also made available to clients through third-party vendors or redistributed to clients through alternate electronic means as a convenience. For access to all available Morgan Stanley Research, please contact your sales representative or go to Matrix at http://www.morganstanley.com/matrix.
Any access and/or use of Morgan Stanley Research is subject to Morgan Stanley's Terms of Use (http://www.morganstanley.com/terms.html). By accessing and/or using Morgan Stanley Research, you are indicating that you have read and agree to be bound by our Terms of Use (http://www.morganstanley.com/terms.html). In addition you consent to Morgan Stanley processing your personal data and using cookies in accordance with our Privacy Policy and our Global Cookies Policy (http://www.morganstanley.com/privacy_pledge.html), including for the purposes of setting your preferences and to collect readership data so that we can deliver better and more personalized service and products to you. To find out more information about how Morgan Stanley processes personal data, how we use cookies and how to reject cookies see our Privacy Policy and our Global Cookies Policy (http://www.morganstanley.com/privacy_pledge.html).
If you do not agree to our Terms of Use and/or if you do not wish to provide your consent to Morgan Stanley processing your personal data or using cookies please do not access our research.
The recommendations of Thiago S Casqueiro; Julia M Leao Nogueira; Nikolaj Lippmann; Bruno Montanari; Carlos F Moraes; Fernando D Sedano in this report reflect solely and exclusively the analyst's personal views and have been developed independently, including from the institution for which the analyst works.
Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research

may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

The "Important Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

Morgan Stanley may make investment decisions that are inconsistent with the recommendations or views in this report.

To our readers based in Taiwan or trading in Taiwan securities/instruments: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Any non-customer reader within the scope of Article 7-1 of the Taiwan Stock Exchange Recommendation Regulations accessing and/or receiving Morgan Stanley Research is not permitted to provide Morgan Stanley Research to any third party (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities regarding Morgan Stanley Research which may create or give the appearance of creating a conflict of interest. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. Neither this report nor any part of it is intended as, or shall constitute, provision of any consultancy or advisory service of securities investment as defined under PRC law. Such information is provided for your reference only.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A. located at Av. Brigadeiro Faria Lima, 3600, 6th floor, São Paulo - SP, Brazil; and is regulated by the Comissão de Valores Mobiliários; in Mexico by Morgan Stanley México, Casa de Bolsa, S.A. de C.V which is regulated by Comision Nacional Bancaria y de Valores. Paseo de los Tamarindos 90, Torre 1, Col. Bosques de las Lomas Floor 29, 05120 Mexico City; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents) and by Morgan Stanley Bank Asia Limited; in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and by Morgan Stanley Bank Asia Limited, Singapore Branch (Registration number T14FC0118J); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited having Corporate Identification No (CIN) U22990MH1998PTC115305, regulated by the Securities and Exchange Board of India ("SEBI") and holder of licenses as a Research Analyst (SEBI Registration No. INH000001105); Stock Broker (SEBI Stock Broker Registration No. INZ000244438), Merchant Banker (SEBI Registration No. INM000011203), and depository participant with National Securities Depository Limited (SEBI Registration No. IN-DP-NSDL-567-2021) having registered office at 18th Floor, Tower 2, One World Center, Plot- 841, Jupiter Textile Mill Compound, Senapati Bapat Marg, Lower Parel, Mumbai 400013, India Telephone no. +91-22-61181000; Compliance Officer Details: Mr. Tejarshi Hardas, Tel. No.: +91-22-61181000 or Email: tejarshi.hardas@morgan-stanley.com; Grievance officer details: Mr. Tejarshi Hardas, Tel. No.: +91-22-61181000 or Email: msic-compliance@morganstanley.com; in Canada by Morgan Stanley Canada Limited; in Germany and the European Economic Area where required by Morgan Stanley Europe S.E., authorised and regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin) under the reference number 149169; in the US by Morgan Stanley & Co. LLC, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, disseminates in the UK research that it has prepared, and research which has been prepared by any of its affiliates, only to persons who (i) are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Order"); (ii) are persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order; or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended) may otherwise lawfully be communicated or caused to be communicated. RMB Morgan Stanley Proprietary Limited is a member of the JSE Limited and A2X (Pty) Ltd. RMB Morgan Stanley Proprietary Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited. The information in Morgan Stanley Research is being disseminated by Morgan Stanley Saudi Arabia, regulated by the Capital Market Authority in the Kingdom of Saudi Arabia, and is directed at Sophisticated investors only.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client. A distribution of the different MS Research ratings or recommendations, in percentage terms for Investments in each sector covered, is available upon request from your sales representative.

The following authors are Fixed Income Research Analysts/Strategists and are not opining on or expressing recommendations on equity securities: Simon Waever.

The following authors are neither Equity Research Analysts/Strategists nor Fixed Income Research Analysts/Strategists and are not opining on or expressing recommendations on equity or fixed income securities: Fernando D Sedano.

INDUSTRY COVERAGE: Argentina Financial Institutions

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/19/2024)
Jorge Kuri		
Banco BBVA Argentina S.A (BBAR.N)	U (08/12/2019)	US$7.93
Banco Macro S.A. (BMA.N)	U (08/12/2019)	US$45.53
Grupo Financiero Galicia (GGAL.O)	U (08/12/2019)	US$24.37
Grupo Supervielle S.A. (SUPV.N)	U (08/12/2019)	US$5.52

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

INDUSTRY COVERAGE: LatAm E&P

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/19/2024)
Bruno Montanari		
3R Petroleum (RRRP3.SA)	O (06/13/2021)	R$30.08
Enauta Participacoes SA (ENAT3.SA)	E (11/03/2020)	R$29.68
PetroReconcavo S.A. (RECV3.SA)	E (03/13/2023)	R$23.40
Petro Rio S.A. (PRIO3.SA)	O (09/21/2022)	R$49.21
Vista Energy SAB de CV (VIST.N)	O (07/20/2021)	US$42.55

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

INDUSTRY COVERAGE: LatAm Integrated Oil & Gas

COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/19/2024)
Bruno Montanari		
Ecopetrol SA (EC.N)	U (03/01/2024)	US$10.86
Pampa Energia SA (PAM.N)	E (01/11/2023)	US$41.91
Petrobras (PBR.N)	E (03/08/2024)	US$14.53
YPF SA (YPF.N)	E (03/20/2024)	US$18.97

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

Morgan Stanley

The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
1-9-7 Otemachi, Chiyoda-ku
Tokyo 100-8104
Japan
Tel: +81 (0) 3 6836 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200