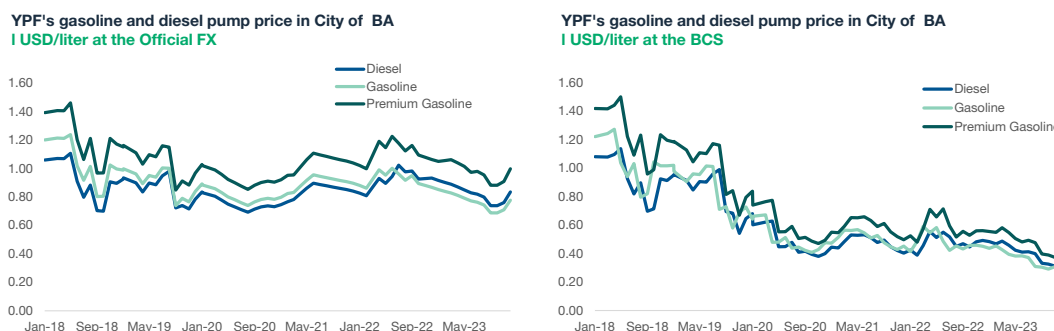


Some thoughts on the O&G sector

On November 1st, the government gave the green light to YPF to increase pump prices by 9.7%, while just August - September accumulated inflation was 27%. Once again, the increase in pump prices lags behind inflation. With the elections ahead, questions arise about the future of the sector.

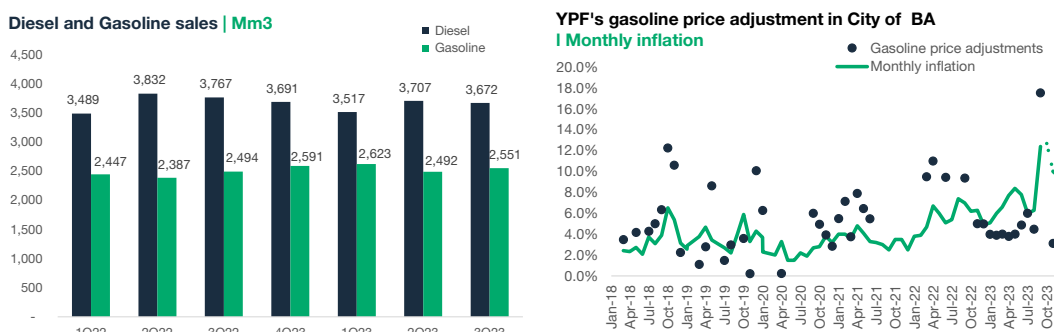
Figure 1: The delay in gasoline and diesel prices is not sustainable for much longer. Crude oil exports may help the government to gain time up to a certain point.



Source: TPCG Research based on surtidores.com.ar

The gasoline and diesel price dynamic has been relatively similar during this government. If Massa wins, we do not expect major changes. The fact is that YPF's 2022 performance was outstanding despite local prices lagging behind inflation because of the strong international price environment and the extraordinary increase in diesel demand. This year, the price of petrochemicals has lowered, grain and flour exports dwindled, and inflation pressures heightened, which makes it more difficult to sustain the local price policy. In 9M23, diesel volumes sold were down -1.7% yoy. The gasoline price dropped 10% yoy to USD0.78/liter (at the official FX) in Nov-2023. At the BCS, gasoline is USD0.31/liter. In Jan-2018, it was USD1.20/liter. Since then, it has been on the decline. Prices were not updated from June 2021 to January 2022. With gasoline cheapening, volumes sold increased +4.6% yoy in 9M23. Part of this increase in volumes sold is explained by retail clients and fuel trucks crossing borders from neighboring countries to purchase gasoline. Gasoline is USD0.99/liter in Paraguay, USD1.12/liter in Brazil and USD1.94/liter in Uruguay.

Figure 2: Diesel volumes sold were down by -0.9% qoq / -2.5% yoy, while gasoline volumes sold were up +2.4% qoq / +2.3% yoy



Source: TPCG Research based on Secretariat of Energy

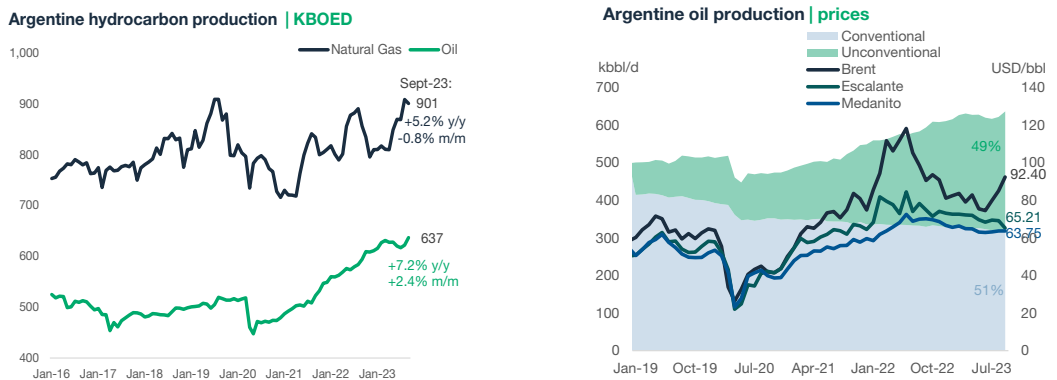
According to Milei's sayings, he would fix local prices to be in line with international ones. This could lead us to think that local prices would adjust more rapidly. However, timing is key. In the case of YPF, it is important that diesel and gasoline local prices improve in USD terms, considering that diesel and gasoline account for 75% of total refined volumes sold.

YPF's exports are not significant yet. Therefore, for example, if pump prices increase by 30% but then there is an FX devaluation of 60%, the impact will be negative for YPF's domestic revenues, while it will be positive for a company that it is only in the Upstream business, like Vista.

The Upstream business looks like it will come out well with either of the candidates, as both will try to implement policies for incentivizing crude oil exports. However, YPF relies on downstream cash generation to increase hydrocarbon production. On the Capex side, shale production is more capital intensive than conventional. On the cost side, unconventional lifting costs are significantly lower than conventional. For this reason, YPF's local revenues should help the company to boost shale production, which ultimately is the most cost-efficient.

Despite the macro and political uncertainty, production continues uphill. Crude oil production resumed its upward trend in August. The reason for that is the several midstream projects coming on line. At the end of September, Oldeval increased the transportation capacity of its crude oil pipeline by +20kbbld. By year-end, the Vaca Muerta Norte crude oil pipeline expansion project will reach completion. In June 2024, Oldeval's transportation capacity will further increase by +60kbbld. Consequently, we do not see companies backing down production growth considering that they have already invested in Oldeval's project through take or pay contracts.

Figure 3: Although crude oil production was flat qoq in 3Q23, there was an acceleration in production growth in September. We expect crude oil production to continue rising in 4Q23 and 1Q24. In Sept-23, crude oil from unconventional fields increased +3.4% m/m while from conventional fields was up by +1.4 m/m%.



Source: TPCG Research based on Secretariat of Energy

On the natural gas side, the Plan Gas Ar, and then the construction of the Nestor Kirchner pipeline, gave more visibility about growth prospects. What would make the difference is the LNG terminal. It is difficult to say what the fate of YPF and Petronas MoU. A decision must be taken before the 2024 year-end. Time is ticking. The first stage of the LNG project would have a production capacity of 5MTPA, with the possibility to increase it to 20MTPA. To take perspective of the project, Venture Global Calcasieu Pass is developing an LNG export facility in Cameron Parish, Louisiana, US, to export 10MTPA of LNG per year. The U.S. is the largest LNG exporter worldwide, with an export capacity of 104.5MTPA. It is followed by Australia with 87.7MTPA, Qatar with 77.4MTPA, and Malaysia with 32MTPA.

Petronas is the state-owned Malaysian energy integrated company. In Malaysia, the company accounts for an LNG complex with a total capacity of 29.3mtpa and two floating LNG plants of 2.7mtpa. The company is also in the LNG business in Australia and Egypt. The company built an unconventional gas processing plant in Gladstone Australia, with a production capacity of 7.8MTPA, through a JV with Santos, Total, and Kogas. In Egypt, Petronas is under a JV with Shell. On a strategic point of view, there are several projects to increase LNG production capacity in the U.S., Australia, and Qatar. For this reason, we do not rule out the Malaysian government through Petronas entering into this project to do not fall behind in the ranking. In spite of the obvious differences, other EM countries with LNG facilities are Nigeria, Algeria, Trinidad & Tobago, Mozambique, among other. It is worth mentioning that YPF entered into a JV with Petronas to develop La Amarga Chica block in Vaca Muerta in 2014 when there were capital controls, the CPI statistics were manipulated, sovereign global bonds were into technical default, and the economic perspectives were negative.

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