



Insigneo Weekly Dispatch

Argentina: Ideas on How to Tango to the Beat of a New Administration

After the historical win by Javier Milei, we thought we would present you with what we believe are some of the best alternatives in fixed income and equities to gain exposure to the Argentinian markets.

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Argentina: Ideas on How to Tango to the Beat of a New Administration

Argentina has been one of the most salient topics in Latin America in the last quarter of the year – more so in the aftermath of the presidential elections, leaving the market and investors alike trying to gauge how to best position themselves to weather what seems to be a leap into the libertarian unknown.

We have been pondering the same question. We addressed the main points on the electoral outcome earlier this week [here](#), so in this piece, we thought we would present you with what we believe are some of the best ideas to gain exposure to the Argentinian markets.

Fixed Income

After Monday's holiday, Argentinian fixed income markets positively penciled in the election news, reflected by the yield-widening moves observed across the USD-denominated sovereign curve. Moreover, the two more liquid tenors – namely the ARGENT 2030 and the ARGENT 2035 – exhibited price increases of over 10% in the initial session after the elections. However, this rally may rely almost entirely on the upcoming cabinet announcements, with all eyes set on the appointment of the economic minister. Furthermore, the outperformance of Argentinian bonds will also depend on Milei's ability to slash government spending and the fiscal deficit, which

may result in tensions with different social groups. Moreover, another factor that needs to be monitored is the upcoming coupon payment that Argentina should honor in January, which amounts to USD 960mn. If the government is able to service its interest in a timely manner, it would bode well for its sovereign debt.

When we turn our attention to the credit markets, it is worth stressing the outperformance of the oil companies that operate in the Vaca Muerta shale basin, where we highlight YPF. YPF's bonds rallied following Milei's victory, underpinned by his proposal to privatize the company and remove existing controls that currently hamper the sector. Market analysts have stated that a potential privatization of YPF could attract foreign investors to a battered oil and gas sector. However, it is worth bearing in mind that the court judgment on the 2012 expropriation of YPF is still ongoing, and even if Argentina was granted a delay on its USD 16.1bn payment on the matter while it pursues a court appeal, the uncertainty surrounding this issue is still present. Not winning the appeal would bode ill for the country's macroeconomic stance. In this regard, the YPFDAR 8.75 2024 and the YPFDAR 8.5 2029 could present attractive opportunities from which to profit from the renewed interest in the Argentinian oil and gas sector.

Meanwhile, another point that bears monitoring in Milei's cabinet is the appointment of his energy minister, Eduardo Rodriguez Chirillo. Rodriguez had been a part of the energy ministry in 1995 and 1996 as an external consultant and has ample experience in electricity, water, and natural gas regulation. According to Argentinian media,

Rodriguez Chirillo is focused on achieving the efficiency and reorganization of the subsidy system while maintaining an equilibrium between the necessity of having private investments and consumer protection.

Another Argentinian name in our focus list that may overperform in the Milei era is Adecoagro, as the company should benefit from the proposed changes to farming policies, such as potential export tax eliminations. Furthermore, we should remember that Adecoagro reported strong 3Q23 results against the backdrop of record crushing figures, higher sugar production, and a reduction of the company's net leverage. Specifically, the AGRO 2027 appears fairly valued, trades at a discount, and offers an attractive coupon and yield – all traits that make for an attractive alternative to gain exposure to the agribusiness sector.

Equities

Argentinian equities moved aggressively higher on Monday, following the election results. Although most have given back some of their initial gains, the majority of these stocks remain well above where they stood the previous week.

Leading the pack was YPF, closing over 40% higher and posting its strongest single day move since the early '90s. A 40% move in a stock in a single day is highly uncommon, but keeping things in perspective, leading up to the election the stock had retreated nearly 40% from its highs in July. In fact, the stock remains approximately 20% below its 5-year highs seen in 2019, and nearly 80% below its all-time highs seen in the early 2000's. We are not implying that YPF will return to its all-time highs,

but we do think that there is upside potential remaining in the long term. The company has been increasing its emphasis on oil & gas exploration and production in the Vaca Muerta basin in Argentina. To this point, management went as far as reorganizing its corporate structure, better consolidating its assets into “Upstream”, or exploration & production assets, and “Downstream” or refining, marketing, and transportation assets. After this restructuring, approximately two thirds of YPF’s assets will fall under the Upstream umbrella and one third under Downstream. This restructuring further emphasizes management’s focus on growing production to increase earnings, expecting to nearly quadruple 2022 levels of oil production through 2027. In our opinion, this expectation is rather lofty; however, we believe that doubling production growth through 2027 is certainly feasible. In the past, an unstable political backdrop was always a roadblock limiting YPF’s production growth. If the new administration succeeds in deregulating the energy sector as it claims it wants to do, this change in political stance could allow the company to achieve its production growth potential.

Vista Energy (VIST) is another energy company operating in Argentina’s Vaca Muerta region that an investor could also consider as a potential investment. Vista is actually a Mexican oil & gas exploration and production company. However, the vast majority of its production growth potential stems from Argentina’s Vaca Muerta basin. Vista is led by a proven management team that is focused on shifting from the conventional practice of vertical drilling to unconventional methods of horizontal shale drilling. Overtime, horizontal drilling

should reduce per unit production costs, as more oil and gas can be extracted from the same well, meaningfully increasing profit margins.

Two other companies that an investor could potentially consider in the country’s energy generation and transmission industry are Pampa Energia (PAM) and Central Puerto (CEPU). Both of these companies operate in the country’s electric power generation and could benefit from deregulation in the energy sector. However, we believe that YPF and Vista Energy are better positioned to benefit from the effects of a more benign stance from the new administration.

In addition to the energy sector, the Argentinian consumer could also benefit from a more business friendly approach from the Milei administration. Financial companies like Banco Macro (BMA) and Grupo Financiero Galicia (GGAL) could reap the benefits of a potential increase in consumer spending. As one of the largest financial institutions in Argentina, Banco Macro offers credit card and consumer loans, which could experience an increase in demand in a more stable economic environment. Grupo Financiero Galicia’s Banco Galicia is one of Argentina’s largest private banking institutions, which could benefit from a potential influx of capital back into the country, if the new administration is able to stabilize the economy and increase business confidence.

Another, more indirect approach to getting exposure to a potential increase in demand from the Argentinian consumer would be through MercadoLibre (MELI). With dominant e-commerce and fintech operations throughout Latin America,

Mercado Libre is labeled by some as the eBay of the region and others as the Amazon of Latin America. The company operates a business model consisting of an integrated platform of diversified business lines, providing consumers in the region with one of the most complete ecosystems through which to conduct transactions. Mercado Libre is comprised of a portfolio of complementary businesses including Mercado Libre Market Place, Mercado Pago, Mercado Crédito, Mercado Envios, Mercado Libre Ads, Mercado Libre Classifieds, and Mercado Shops. Through this portfolio, the company can offer services ranging from e-commerce, fintech, credit and financing, to logistics and online store fronts. True, most of the company's revenues stem from Brazil. However, Argentina comprises its second largest market, accounting for 25% of sales. High revenue growth rates, coupled with prudent expense management, have led to increased profitability for Mercado Libre, which could continue to be propelled higher by the potential of increased expansion in the Argentinian market.

Lastly, an investor looking to get exposure to the Argentinian equity market through an ETF could consider the Global X MSCI Argentina ETF (ARGT). With approximately 30 holdings, this ETF seeks to replicate the performance of the MSCI Argentina Index. However, it is important to keep in mind that approximately 70% of the ETF is concentrated in its top ten holdings, led by MercadoLibre, which alone represents nearly 30% of the ETF.

In the end, it remains to be seen how effective the new administration will be in implementing its proposed reforms. We are all too familiar with listening to overstated campaign promises only to see them implemented with limited success. However, even the perception of a better future ahead may be enough to improve business confidence, and sometimes perception can become reality.

As a matter of full disclosure, the Insigneo Latin American Equity Portfolio holds positions in YPF, Vista Energy, and MercadoLibre. It is important to keep in mind that the individual equities referenced here can exhibit high degrees of volatility and are not suitable for every investor. These investments are best considered on a case-by-case basis, based on a particular investor's willingness and ability to tolerate risk. If you need more information or would like to discuss these potential ideas in more detail, please do not hesitate to contact the Insigneo Research Team.



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