



Market Commentary
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English Version

Insigneo Weekly Dispatch

Exploring the YPF–Burford Capital Saga

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Exploring the YPF-Burford Capital Saga

The YPF-Burford litigation stems from Argentina’s 2012 nationalization of YPF, with Burford now leveraging a USD 16.1bn judgment to pressure for a settlement, which could potentially involve sovereign bonds rather than actual control of YPF.

Despite being at the center of the case, YPF appears to have no legal liability. Markets and recent credit upgrades appear to reflect the view that a forced transfer of 51% of state-owned shares is improbable.

While headline risk may persist, YPF’s fundamentals remain intact, supported by sovereign tailwinds, strategic investment in Vaca Muerta, and continued infrastructure expansion.

July 1st marked the reopening of the saga between Argentina and a group of investors, backed by Burford Capital, involved in litigation over YPF. On this day, U.S. District Court Judge Loretta Preska ruled in favor of

the transfer of 51% of Argentina’s stake in YPF to Burford’s investor group, in order to satisfy a USD 16.1bn judgement against the country. On July 14th, a federal appeals court in New York blocked the judge’s order for Argentina to hand over its shares, giving both parties some room for negotiation. This news came as the latest link in a long chain of events that have plagued the company. Given its impact on YPF and Argentina as a whole, we decided to take a deeper look at the situation to gauge the possible aftermath of the decision and how it may affect the company.

First, it is worth noting that this case traces its origins back to 2012, when the Argentinian Congress approved the nationalization process of Repsol’s stake in YPF. Naturally, the nationalization process led to litigation, resulting in the payment of USD 5bn in sovereign bonds by Argentina to Repsol to reach a settlement. Repsol then sold its remaining stake in YPF to Morgan Stanley. In 2015, Burford Capital, together with one of the minority stakeholders, Eton Park, filed a lawsuit against Argentina. Years later, in September 2023, Judge Loretta Preska ordered Argentina to pay the plaintiffs, a judgment Argentina has since been appealing.

Against this backdrop, Argentina has been very vocal in rejecting any negotiations with Burford Capital, despite growing pressure on the Milei administration to surrender its stake in YPF. **As such, we believe that Judge Preska's ruling earlier this month was an attempt to force the Milei administration back to the negotiating table.** Granted, it is not lost on us that this is a very real case; however, it would be very hard to enforce it as it currently stands. The forceful transfer of the majority of a state-owned enterprise to a group of foreign investors brings with it a slew of its own legal issues, including issues of a nation's sovereignty over its domestic assets. It is likely that this is a road that nobody wants to travel. Argentina even seems to have the support of the U.S. government, along with that of other countries in the region, such as Uruguay, Chile, and Brazil. In fact, the U.S. government's stance against this case transcends administrations, as both the Trump and Biden administrations shared the same view.

Frankly, we believe that the true goal of Burford Capital is not to receive 51% of YPF, but rather to reach some sort of settlement. It is important to keep in mind that Burford Capital is not an investor itself; it is a legal finance firm. Legal finance firms tend to fund litigation and monetize legal claims, usually getting paid by a portion of the resulting proceeds if the case is won or settled. What would a possible settlement look like? A settlement could take many forms, which could include a mix of YPF shares and other assets. It is reported that Burford is attempting to probe into Argentina's gold reserves and would also accept sovereign bonds as a form of compensation. There are also reports that a U.S. court could order a large-scale seizing of Argentinian assets in the United States or elsewhere to serve as compensation. Although this outcome is not impossible, it is improbable. **We believe that a settlement which includes a mix of Argentina's sovereign bonds could be the intended goal of the litigation, especially given the country's improving prospects.**

If we focus specifically on YPF, the company filed a Form 6-K, used to disclose material information, on June 30. In it, YPF stated that it has no legal role or responsibility in the ongoing litigation. We agree with that statement; this is an Argentina issue, not a YPF issue, although the company is caught in the middle. The markets appear to agree with us. Although YPF's securities initially took a hit after the announcement of Judge Preska's ruling, the markets seem to have digested the news and are now siding with the thesis that a potential surrender of the government's stake in the company is not the most likely outcome. In fact, Moody's even upgraded YPF's debt rating to 'B2' on July 22, on the back of a sovereign upgrade. We continue to have a favorable view on YPF's debt and equity, as the company continues to focus on developing its industry-leading position in the Vaca Muerta oil and gas basin, as well as expanding its transportation networks to better serve export markets in the future. These efforts are also being backed by the Milei administration, most recently by the signing of the fifth RIGI project for a total of USD 9bn in new investments, with one of the beneficiaries being the Vaca Muerta Sur pipeline. Bear in mind that RIGI is the Spanish acronym for *Régimen de Incentivo para Grandes Inversiones* – a law aimed at attracting national and foreign investment in key sectors.

The current litigation case is likely to create headline risk and increase the volatility of YPF's financial assets in the near future; however, this should prove to be transitory until a settlement is reached. ■



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