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Insigneo Weekly Dispatch

Notes From the Road – Argentina Edition: Meetings with Public Companies

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Notes From the Road – Argentina Edition: Meetings with Public Companies

We visited Buenos Aires earlier this month to meet with the investor relations teams from six major Argentine public companies, seeking insights into how firms are navigating political and macroeconomic volatility ahead of the upcoming mid-term elections.

Argentina's energy sector, particularly the Vaca Muerta Basin, stands out as a source of long-term potential that should transcend politics; government incentives like the RIGI offer 30 years of regulatory stability for major investments.

Key energy players such as YPF, Pampa Energía, and Transportadora de Gas del Sur (TGS) are leading developments in Vaca Muerta: YPF through advanced technology and efficiency initiatives,

Pampa through strategic reinvestment in oil and gas, and TGS by expanding its midstream infrastructure.

Part One

We were in Buenos Aires in the first half of this month, meeting with the investor relations teams of six of Argentina's most important public companies. Given the recent developments in Argentina, and ahead of the upcoming mid-term elections this Sunday, we wanted to get a true, boots on the ground, sense of the situation in the country and how these companies are positioned to face political and macroeconomic volatility. Over the course of our visit, we met with YPF, Pampa Energía, Transportadora de Gas del Sur, Grupo Financiero Galica, Banco Macro, and Ternium.

In the first part of this series, we will focus on one of Argentina's most important industries - energy. But first, a few notes on the general sense of Argentinians on the ground regarding their views of the upcoming election. **Please note that these views are those of a small sample set of the population and do not represent our views.**

While in the country, we tried to speak with everyone that we could regarding their sense of the current situation. From company management teams to Uber drivers, opinions varied, as expected. However, the general feeling was that although Argentinians elected President Javier Milei as an attempt to move away from the "Kirchnerismo" of previous administrations, Milei's administration was not fully delivering as expected. Interestingly, the consensus appeared to be focused not on dissatisfaction from the progress of economic reform. In fact, painful as this has been for some segments of the population, most people that we spoke with appeared to welcome progress in economic reforms.

Most of the dissatisfaction however appeared to stem from the corruption scandals surrounding the President's inner circle, with the general view being "we expected something different, but so far we are getting more of the same". Some hoped that the heavy losses suffered in recent elections in Buenos Aires would serve as a wakeup call to the Milei administration to get back on track, while others saw Milei as "the lesser of two evils". **While there were fervent supporters on either side of the political spectrum, the hope of those in the middle appeared to be that Milei would win enough support in congress to be able pass at least some of his economic and fiscal reforms to get the country on better footing, while moving away from the corruption scandals that have plagued the country in years past. We will see what the results reveal this Sunday.**

Energy

Although Argentina's energy industry is not immune from political and economic volatility, the benefits of its potential could transcend political affiliations. It is becoming increasingly apparent that government officials from either side of the aisle are recognizing the potential that the Vaca Muerta Basin represents for the country. A reflection of this is the fact that the country's Regimen de Incentivo para Grandes Inversiones, or RIGI, enacted by the Milei administration, provides 30 years of regulatory stability for certain investments in the energy sector. At the forefront of the development of the country's energy industry is YPF. After a two and a half hour meeting with YPF's investor relations team, we came out even more impressed by the company than we already were. **In our opinion, the main factors that will contribute to YPF's long-term success are 1) the scale of its position in Vaca Muerta, 2) its clear and coherent strategy, 3) an experienced management team, and 4) the efficient use of technology.** As the largest operator in Vaca Muerta, with one of the

largest acreage positions in the basin, YPF's strategy is clearly delineated by a short-, medium-, and long-term focus, also known as its "4x4 Plan". Headed by industry veteran CEO Horacio Marin, a petroleum engineer himself, the company is currently focused on developing the oil production of its assets in Vaca Muerta first, by shifting away from conventional oil production and into shale oil production, a practice that is more efficient and profitable than the former. Mr. Marin appears to be successfully applying his industry knowledge by prioritizing this shift in the short term, while divesting non-core assets over the medium term to focus on the company's core operations. Over the long term, YPF's strategy calls for a measured shift in focus from the production of oil to that of natural gas, through the joint development of the Vaca Muerta Sur pipeline and export plant complexes over time. At the same time, Mr. Marin is also heavily focused on the use of technology to improve production efficiency and reduce costs, thus enhancing the company's overall production profile. As a result, YPF is currently operating several "Real Time Intelligence Centers" in Buenos Aires and Nequen to monitor the drilling and completion operations of various wells throughout the region. I have covered the energy and materials industries as an equity analyst for many years, and in my opinion, I never saw an energy intelligence center as advanced and well run as YPF's Real Time Intelligence Center in Puerto Madero, which integrated many teams from different stages of the wells' operations, and enhanced their performance through the use of artificial intelligence. We were glad to see that Argentina appears to be moving towards more efficient methods of oil production, and YPF may be leading the charge.

While in Buenos Aires, we also met with the investor relations teams of Pampa Energia and Transportadora de Gas del Sur, also known as TGS. As one of Argentina's largest fully integrated electricity



Our visit to YPF's Real Time Intelligence Center in Puerto Madero.

companies, Pampa Energia is a staple in the power generation and transmission industry in the country. Responsible for 15% of the country's power generation, Pampa has grown to be a reliable cash generator with sustainable levels of debt. During our meeting, we were pleased to see that the company is repositioning its focus to participate in the development of the Vaca Muerta basin, using its heavy cash flow generation and deploying it to focus on the development and production of oil and gas in the region. However, Pampa is doing things differently, choosing to focus on the Rincon de Aranda region of the basin, a slightly different strategy from other players such as YPF and Vista Energy. We inquired as to why Pampa chose to produce in this region, and the answer was that it was able to acquire acreage in this now promising area at a relatively low price, an opportunity that it could not pass.

As Pampa focuses on efficiently deploying its cash flow into oil and gas production, it should also see its profit margins expand over time. In addition to power generation and oil and gas production, Pampa also enjoys a vast midstream pipeline network that continues to expand; this is where TGS comes in.

Through a consortium in partnership with others large investors, Pampa Energia is involved in the ownership of approximately 50% of TGS. As Pampa describes it, TGS is the backbone of gas distribution in Argentina. In fact, transporting approximately 60% of the country's gas needs, it can be argued that TGS is the most important pipeline distribution company in the country. However, gas distribution in Argentina is subject to regulations which are meaningfully impacted by changes in inflation. To this point, TGS is in the process of renewing its government

concessions, possibly under more favorable terms. However, in order to diversify its revenue stream away from a regulated industry, TGS is also expanding its midstream and natural gas processing operations in the country. Through the development of new natural gas distribution pipelines stemming from Nequen out to the coast for processing and export, TGS is also poised to participate in the long-term potential that Vaca Muerta has to offer.

Going into our meetings with YPF, Pampa Energia, and TGS, we were well aware of the potential of Vaca Muerta, and what this could mean for the companies involved and the country in general. However, it was encouraging to experience first-hand the fact that this potential is translating into reality. The one factor that unfortunately permeates this industry, and the country as a whole, is the obvious risk associated with Argentina's political situation. However, out of most industries in the country, the energy industry is one whose potential *should* transcend political volatility. That being said, as we have seen in the past, country risk is a very real risk.

Stay tuned for Part Two of our “Notes from the Road – Argentina Edition” coming out next week, where we will discuss our meetings with Grupo Financiero Galica, Banco Macro, and Ternium, as well as do a preliminary dive into the results of Sunday's closely watched election. ■



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