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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

Argentina’s midterm elections gave President Javier Milei’s coalition a stronger-than-expected victory, expanding its congressional control to roughly 42% of seats. This outcome strengthens Milei’s ability to advance labor and tax reforms, which could signal greater economic stability and growth over time.

Both the energy and financial sectors are seen as key beneficiaries of a stronger economic backdrop. Energy companies (YPF, Pampa Energía and TGS) remain strong players in a resilient industry, while banks (Grupo Financiero Galicia and Banco Macro) stand to gain from eased regulations, renewed lending growth, and increased financial inclusion.

Meetings with Galicia, Banco Macro, and Ternium highlighted optimism about reform-driven growth. Galicia could onboard a large number of unbanked Argentinians through fintech initiatives; Banco Macro maintains a stable position and defensive balance sheet; and Ternium, with its diversified regional exposure and disciplined capital structure, offers broader Latin American growth potential.

## Part Two

Only one week has passed since we published [Part One of our Notes from the Road – Argentina Edition](#) and much has changed in the country. What has not changed is our positive view on Argentinian equities. In Part One of our series, we explored three companies in the country’s energy sector with whom we met earlier this month, namely YPF, Pampa Energía, and Transportadora de Gas del Sur (TGS). In this piece, we will delve into our meetings with another set of companies with whom we also sat down: Banco Galicia, Banco Macro, and Ternium. But first, some thoughts on the midterm election results from last Sunday.

As we wrote the first part of this series, exactly one week ago, the political situation in Argentina appeared murky, at best. Frankly, that is one of the reasons why we chose to start Part One of our Argentina series by discussing our meetings with companies in the country’s energy sector, as we believe that YPF, Pampa, and TGS appear to be strong players in a flourishing industry that should transcend political volatility. What a difference a week makes. As we now know, although there appeared to be mixed feelings regarding President Javier Milei’s performance over the first two years of his administration, Argentinians decided to give him a second chance to bring about the change he promised.

With 41% of the vote, Milei's party, La Libertad Avanza (LLA) and its coalition, decisively defeated the main opposition Fuerza Patria, which along with its allies, garnered 32% of the vote. Although the margin of victory for LLA was stronger than expected, the broad geographic reach of the win was also surprising. When we visited Argentina, the "best case scenario" hoped for by several of the companies that we spoke with was that LLA would increase its position from approximately 15% of the seats to slightly over 33%. That was the hope. The current election results showed that LLA and its coalition could end up controlling close to 42% of the seats. This increase in Milei's legislative coalition means that congress should no longer be able to easily override the President's vetoes, paving a smoother road for the implementation of many of his proposals, including labor and tax reforms.

Many people that we spoke to before the elections had hoped that the heavy losses suffered in September's elections in Buenos Aires would serve as a wakeup call to the Milei administration to get back on track. The President appears to have received the message. He must now work to repair the alliances with the centrist-leaning factions of the country that had backed his administration in its early days. The mid-term elections showed that Argentinians want to move away from the conditions that have plagued their country in the past, mainly economic instability and political scandal. **This could mark a seminal moment in Argentina's future, paving the way for new reforms with wide reaching implications throughout the country. Two of the country's strongest industries, energy and financials, could potentially be meaningful beneficiaries from many of these changes.**

Argentina's financial sector could benefit from Milei's victory in several ways. First policy continuation from the Milei administration should bring back

financial stability. In an effort to protect the Argentinian Peso, the administration had implemented a series of temporary regulations, including an increase in bank reserve requirements held at the central bank, or BCRA. These regulations reduced the country's banks' ability to lend, increased funding costs, and ultimately decreased net interest margins, the equivalent of a bank's profit margins. Milei's victory, which implies increased economic stability, should lend support to the Peso, which could in turn lead to the easing of regulations, allowing local banks to once again increase lending. Second, and more importantly, a long-term increase in consumer confidence from improving economic conditions should lead to increased spending, potentially translating into increased lending by banks over time. Coupled with an increase in the availability of capital and a reduction in lending costs, consumers should be incentivized to spend and borrow, leading to increased revenues for the country's financial institutions. Lastly, the successful passing of Milei's proposed reforms, particularly the tax and labor reforms, should, in theory, increase the number of currently unbanked individuals who would join the banking system, increasing the revenue potential of banks.

As mentioned before, we sat down with the investor relations teams of two of the country's largest financial institutions, Grupo Financiero Galicia and Banco Macro. During our meeting with Grupo Financiero Galicia, a strong emphasis was placed by the bank on the last point above, the number of people potentially entering the country's banking system if reforms are successfully passed. Galicia estimated that there could be as much as 9 million Argentinians who operate in the gig economy with no current access to the country's financial services. **If labor and tax reforms are successfully passed, a meaningful portion of this unbanked population may require access to the banking system, something that Galicia has been preparing for through the use**

of its Tarjeta Naranja program. Largely through fintech, Tarjeta Naranja offers customers access to basic financial services at a low cost for the consumer, but also at a relatively low cost for the bank as well. More importantly, it allows the bank an opportunity to bring these customers under its financial umbrella. Given Galicia's vertically integrated suite of product offerings, the customer could benefit from the bank's different services, as his or her needs grow over time. It is also worth mentioning that Galicia was very transparent in saying that the bank's current abnormally low non-performing loans figures would likely increase in the near-term, rising to higher levels which are more in line with historical averages. Galicia's public candor with Wall Street regarding this fact is appreciated, as it mitigates the impact of possible surprises.

Much like Grupo Financiero Galicia, Banco Macro is another large financial institution in Argentina. However, unlike Galicia, Banco Macro has a slightly different end market within the country. While Grupo Financiero Galicia tends to target the full spectrum of Argentinian consumers, Banco Macro has traditionally been more focused on providing financial services directly to the government and its employees. That is not to say that Banco Macro does not cater to other segments of the population. On the contrary, it has a strong presence in providing consumer and private banking services; however, a meaningful portion of its business has traditionally stemmed from a relatively less variable segment of the population. **This dynamic has provided the bank with a generally more stable balance sheet, compared to some of the country's other financial institutions, giving it a more "defensive" positioning.** However, through its exposure to financial services provided to the government, the bank does appear poised to increase its level of lending to this segment of the economy, particularly given some of its strong ties with several provincial governments.

Finally, we also sat down with the investor relations team of Argentine metal producer Ternium. After having covered the materials industry as an equity analyst for many years and getting used to meeting with steel companies with highly leveraged balance sheets, it was nice to speak with a steel company with a focus on a relatively lean capital structure. Operating mainly as a manufacturer of steel products used in the construction and automobile industries, Ternium has exposure to end markets throughout the region, including Argentina, Mexico, and Brazil. **The focus of our conversation revolved around the company's growth in the value-added segment of this industry, differentiating itself from competitors through relatively higher profit margins while attempting to maintain capital discipline.** Unlike many of the companies that we met with in Argentina, Ternium has a higher degree of global diversification and is not purely a play on the country, but a way to get exposure to the Latin American region in general. Although the integration of Brazil's Usiminas operations could temporarily affect cash flows, the company appears to be well positioned to continue to successfully compete throughout the region in the future.

From all our meetings in early October, we were pleased to see that YPF, Pampa Energia, Transportadora de Gas del Sur, Grupo Financiero Galicia, Banco Macro, and to an extent Ternium, would likely be meaningful beneficiaries from what, at the time, was a potential victory by the Milei administration. As we stand today, that victory is now a reality, potentially cementing the underpinnings of a stronger Argentina into the future. Sunday's electoral results solidify our positive view on Argentina and our overweight position on the country's equity markets.

As a matter of full disclosure, the Latin American Equity portfolio managed by Insigneo has positions in the six companies mentioned above and retains an overweight position in Argentina relative to its benchmark. ■



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