

FITCH WIRE

Easing Capital Controls Muted Positive for Argentine Oil and Gas Cos

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Fitch Ratings-Austin/New York-17 June 2022: The Argentine government's recent initiative to ease capital control restrictions for energy companies to encourage further investment in production, boost exports and generate hard-currency taxable income will have a limited positive effect on energy companies' credit profiles, Fitch Ratings says. Per the official decree (no. 277/2022) published on May 27, 2022, energy companies that increase oil and natural gas production may access US dollars at the official exchange rate.

Among Fitch's rated portfolio, Pan American Energy (BB-/Stable), YPF (CCC), and Compania General de Combustibles (CGC; B-/Stable) stand to benefit the most from the program, as they currently export or are actively planning to export crude oil and can easily scale operations. Gas producers such as Pampa Energia (B-/Stable), Capex (CCC+/Stable) and Tecpetrol Internacional (BB/Stable) will see less of a benefit as expansion of gas production is constrained, due to bottlenecks in transportation and limited export capacity, as Chile is currently Argentina's only viable export market.

Argentina heavily restricts access to FX in the official market via strict capital controls, which aim to contain the effects of deep macroeconomic imbalances but also discourage investment. Thirty days from the decree's May 27, 2022 publication, energy companies will be granted limited access to the official FX window to repay debt, make dividend payments and to repatriate direct investments of non-residents based on crude oil and natural gas

produced above 2021 volumes, considered the baseline. Oil and natural gas companies will be able to use 20% and 30%, respectively, of additional revenue from the incremental output for unrestricted access to FX. Incremental production and exports are expected to provide a nominal boost to revenue in the short term.

Overreliance on expensive liquefied natural gas (LNG) imports, coupled with Argentina's FX reserves estimated at USD5.8 billion, which are declining rather than growing per its IMF program targets, are factors behind the government's policy. The nation produced an average of 513,563 barrels of oil per day and 4.3 billion cubic feet of gas per day in 2021. Argentina remains a net importer of gas, primarily LNG in 2021 and so far in 2022. Imports from Bolivia historically averaged two-thirds of imports. Energy development and increased production is constrained by Argentina's volatile regulatory and economic environment and infrastructure bottlenecks, such as the lack of a liquefaction facility for LNG exports.

The Vaca Muerta deposit, situated in the Neuquen Basin in northern Patagonia, is the second-largest shale gas deposit and fourth-largest shale oil reserve globally. If fully developed, Vaca Muerta has the capacity to transform Argentina from being energy deficient to being a net exporter, even in the winter months.

The government declared in February 2022 the construction of the new President Nestor Kirchner pipeline, a project of strategic public interest to facilitate national production of natural gas. The proposed pipeline will connect Vaca Muerta to the Buenos Aires region and is estimated to increase transportation capacity by 25% to 44 million cubic meters. It remains to be seen if the project will be completed by mid-to-late 2023, when auctions will be announced for transport capacity from the pipeline, given there have already been setbacks due to political discord.

Energy companies will need to plan for additional capex to make the most of the vast hydrocarbon resource. Furthermore, with an upcoming presidential election in 2023, it remains to be seen if an FX policy and regulatory framework can be preserved to support the goals of increased energy investment and production.

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