



Argentine Corporate Credit Indicators: Second-Quarter 2019

Victory of Opposition in Primary Election Elevates Uncertainty

Sovereign Downgrade: Fitch Ratings downgraded the sovereign ratings of Argentina to 'CCC' from 'B' following the primary election results. The downgrade reflects elevated policy uncertainty following the August 11 primary election, a severe tightening of financing conditions and expected deterioration in the macroeconomic environment that increases the likelihood of a sovereign default or restructuring of some kind. The primary election results point to heightened risks of policy discontinuity, after the upcoming October 2019 general election, prompting a collapse in market sentiment, sharp Argentine peso depreciation and widening of sovereign debt spreads. The current situation poses a major setback to macroeconomic stabilization efforts and sovereign financing conditions. These adverse developments could impair the country's liquidity position and amplify debt sustainability risks.

Corporates Exposed to the Sovereign: Argentine utilities such as AES Argentina, Agua y Saneamientos, Albanesi, Genneia and MSU Energy Group (Rio Energy, UGEN and UENSA) were downgraded in line with the sovereign to 'CCC', as each issuer is either directly or indirectly dependent or exposed to the government. Argentine electricity utilities are exposed to the Electric Wholesale Market Administrator Company, or Compañía Administradora del Mercado Mayorista Eléctrico Sociedad Anónima (CAMMESA), which acts as an agent on behalf of an association representing agents of electricity generators, transmission, distribution and large consumers or the electric wholesale market participants. CAMMESA is highly reliant on financial support from the government. Fitch aligns Argentine utilities with their counterparty risk. Ratings are also constrained by the macroeconomic environment, including high inflation and steep currency depreciation, increasing the uncertainty in the regulatory environment. Agua y Saneamientos' ratings are in line with the sovereign, given its strong dependence on the government.

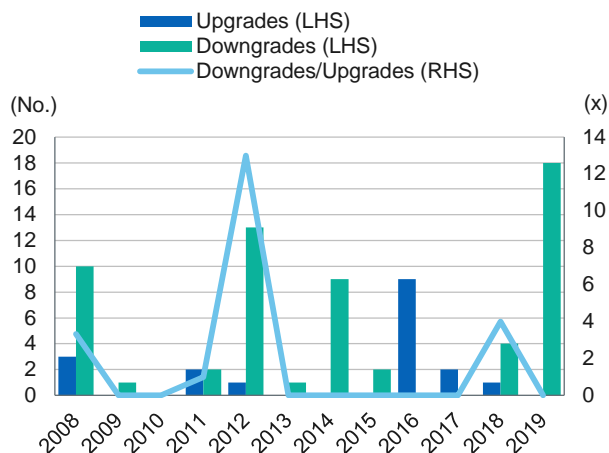
Corporates Capped by the Country Ceiling: Companies such as IRSA, Mastellone and Telecom Argentina have Foreign Currency (FC) Issuer Default Ratings (IDRs) constrained by Argentina's Country Ceiling of 'B-', with their respective Negative Outlooks reflecting the deteriorating operating environment. Fitch believes a default would most likely be driven by transfer and convertibility restrictions, not by a material deterioration of a company's business or financial profile. In cases where there is a two-notch gap between the FC and Local Currency IDRs, Fitch's [Country-Specific Treatment of Recovery Ratings Criteria](#) allows for Recovery Ratings to be notched above the Argentine soft cap of 'RR4'; therefore, we assigned a Recovery Rating of 'RR3' to IRSA's and Telecom Argentina's outstanding international notes.

Weaker Oil & Gas Sector: Capex, CGC, PCR and Pampa Energia's ratings are also aligned with Argentina's Country Ceiling. These issuers have Negative Outlooks, operate in a strategic sector, and are exposed to government intervention, such as Decree 566/19 announced on Aug. 16, 2019 capping oil prices at USD59.00/barrel, at an exchange rate of USD1.00/ARS45.19, and gasoline and diesel prices for refining. Capex, PCR and Pampa Energia are integrated upstream and utilities companies with modest exports of crude oil. Fitch estimates Capex's and Pampa Energia's cash balances are held abroad and 50% of EBITDA generated from crude exports covers the next 12 months of debt service by more than 1.0x, offsetting the inherent risk of the power generation business and exposure to CAMMESA. PCR has operations in Colombia (BBB/Negative) and Ecuador (B-/Stable) but cash flow from Colombia does not cover the next 12 months of debt service in order to apply Colombia's Country Ceiling of 'BBB+'; therefore, Fitch applies Ecuador's Country Ceiling of 'B-'.

Short-Lived Market Rally: Some issuers took advantage of a short-lived market rally after President Mauricio Macri announced his vice presidential candidate, Miguel Angel Pichetto, in June 2019. The renewed optimism, relative financial stability and rising poll figures, coupled with a few months of decelerated inflation and indications the U.S. Federal Reserve was in no hurry to accelerate interest rates, allowed YPF, Pampa and Telecom Argentina to capitalize on issuances. YPF issued USD500 million in June and USD400 million through its subsidiary YPF Luz in July. Pampa issued USD300 million and Telecom Argentina issued USD400 million in July. There are no major maturities in 2019, except for YPF's USD311 million maturing in September and CLISA's USD87 million maturing in October. Median cash/short-term debt remains below 1.3x for these issuers, similar to 2018. With the potential new political and economic environment, no new debt issuances are expected in 2019. Issuers deciding to test the market will likely face highly unfavorable terms due to heightened volatility in Argentina's politics, central bank policy and FX rates.

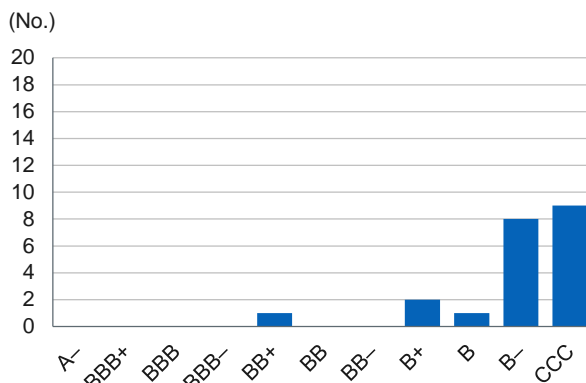
Argentine Corporates: Rating Portfolio

Downgrades and Upgrades — International Scale



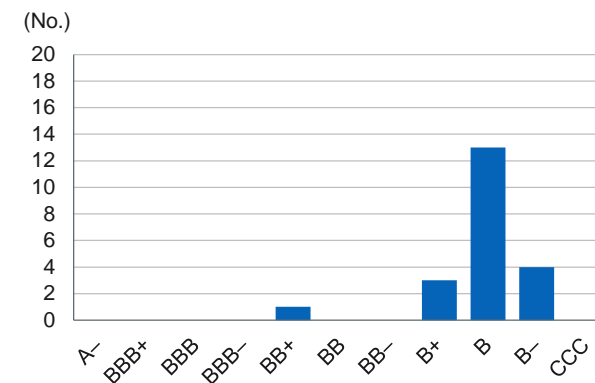
Note: Excludes multiple rating actions on the same issuer.
Source: Fitch Ratings, Fitch Solutions.

Argentine Corporate Ratings Distribution — International Scale (August 2019)



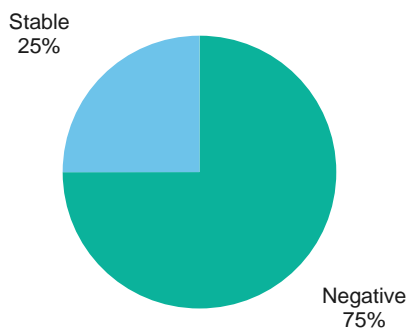
Note: Excludes multiple rating actions on the same issuer.
Source: Fitch Ratings, Fitch Solutions.

Argentine Corporate Ratings Distribution — International Scale (December 2018)



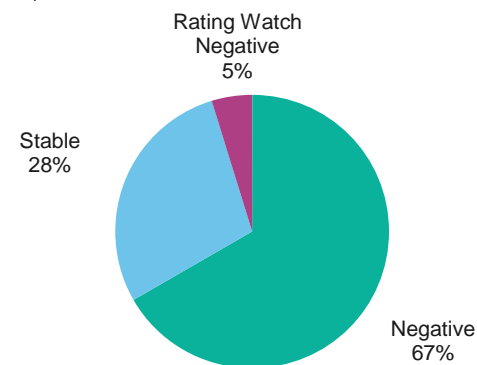
Note: Excludes multiple rating actions on the same issuer.
Source: Fitch Ratings, Fitch Solutions.

Rating Outlook/Watch — International Scale (As of August 2019)



Source: Fitch Ratings, Fitch Solutions.

Rating Outlook/Watch — International Scale (As of December 2018)



Source: Fitch Ratings, Fitch Solutions.

Argentine Corporates: Sector Risks Profile

Key Risks for Argentine Corporates In 2019: High Interest Rates and FX Conversion Risk

- Inflationary pressures leading to SG&A pressures and declining demand.
- High interest rates leading to elevated interest expenses and accounting adjustments.
- A collapse in confidence makes prospects of a recovery unclear.
- FX depreciation and higher FX risk after the local currency plummets, pressuring leverage.
- Corruption scandals with utility companies facing difficult scenarios amid federal graft investigations.
- The downgrade of the sovereign creates challenges for corporates refinancing, despite the ability to generate local cash flow.

SG&A – Selling, general and administrative.
Source: Fitch Ratings, Fitch Solutions.

Argentine Corporate Ratings: Outlook by Issuer

Issuer	LT IDR	Outlook/Watch	Issuers' Ability to Withstand Challenges In 2019	Key Factors
AES Argentina Generacion, S.A.	CCC	N.A.	Strong	Dependence on payments from CAMMESA exists, although sector regulations and tariffs are improving.
Agua y Saneamientos Argentinos, S.A.	CCC	N.A.	Weak	The rating is linked to Argentina's Sovereign Rating, given strong dependence on the government and cash injections to support operations.
Albanesi, S.A.	CCC	N.A.	Weak	An aggressive expansion plan to increase capacity resulted in pressured credit metrics that should normalize once new projects begin operations.
Arcor S.A.I.C.	B	↓	Medium to Strong	An expansion plan enhances geographic and product diversification.
Arcos Dorados Holdings, Inc.	BB+	→	Strong	Arcos Dorados is headquartered in Argentina, but its cash flow generation is heavily concentrated in Brazil, which accounted for 44% of revenue and 69% of EBITDA in 2018.
Capex, S.A.	B-	↓	Medium	An integrated thermoelectric generation company with a vertically integrated business model provides the company an advantage over other Argentine generation companies.
CLISA – Compania Latinoamericana de Infraestructura y Servicios	CCC	N.A.	Medium to Strong	The company relies on contractual government agreements with regulations and lengthy renegotiation periods. A currency mismatch exists with 85% of debt denominated in foreign currency. An embargo was placed on one of the company's subsidiaries.
Compania General de Combustibles, S.A.	B-	↓	Medium	Relatively low and concentrated reserves life, offset by an increase in production.
Genneia, S.A.	CCC	N.A.	Medium	The dominant issuer in renewables. A robust capacity expansion plan over the next few years brings along execution risk and capex.
GeoPark Limited	B+	→	Strong	Operations in Colombia allow the company to be rated higher than the sovereign. Production capacity is significantly increased.

Legend: ↓ – Negative Outlook. → – Stable Outlook.

LT IDR – Long-Term Issuer Default Rating. N.A. – Not applicable. CAMMESA – Compañía Administradora del Mercado Mayorista Eléctrico, S.A. *Continued on the next page.*

Source: Fitch Ratings, Fitch Solutions.

Argentine Corporates: Sector Risks Profile (Continued)

Argentine Corporate Ratings: Outlook by Issuer (Continued)

Issuer	LT IDR	Outlook/Watch	Issuers' Ability to Withstand Challenges In 2019	Key Factors
IRSA Propiedades Comerciales, S.A.	B-	↓	Strong	A solid business position. The current economic environment brings the risk of operating in the commercial real estate industry in the country.
IRSA Inversiones y Representacion, S.A.	B-	↓	Medium	The issuer maintains current occupancy levels in both shopping centers and premium office segments, despite high inflation and challenging economic conditions.
Mastellone Hermanos, S.A.	B-	↓	Medium	Exposure to currency risk, as debt is U.S. dollar denominated and sales are mainly in Argentine pesos. Remains the largest dairy company and the leading processor of dairy products. Arcor owns about 43%.
Pampa Energia, S.A.	B-	↓	Strong	Significant market share across all business lines. A leading company in the midstream, transmission and electricity distribution segments as Pampa Energia co-controls Transportadora de Gas del Sur S.A. (TGS), Compañía de Transporte de Energía Eléctrica en Alta Tensión Transener S.A. (Transener) and is a majority owner of Empresa Distribuidora y Comercializadora Norte S.A. (EDENOR).
Pan American Energy, S.L.	B+	→	Strong	Pan American has reliable and strong cash flow generation, a high level of U.S. dollar-denominated export revenue relative to total debt, strong parent ownership and a good track record of payment during stressed sovereign scenarios.
Petroquímica Comodoro Rivadavia S.A.	B-	↓	Medium	A small oil and gas production size and reserve concentration. An aggressive capex plan, which will predominately be financed with project finance debt. The construction of wind farm projects should have a positive effect.
Rio Energy, S.A.	CCC	N.A.	Weak	High dependence on payments from CAMMESA with ratings aligned to the counterparty risk as CAMMESA relies on financial support from the Argentine government. Implicit support from the parent company, MSU Energy S.A.
Telecom Argentina S.A.	B-	↓	Strong	A solid financial profile, underpinned by robust operational cash flow generation and a conservative capital structure. A volatile macroeconomic environment can affect cash flow. Telecom Argentina remains a leading provider in a mature market with competitive dynamics.
UENSA, S.A.	CCC	N.A.	Weak	High dependence on payments from CAMMESA with ratings aligned to the counterparty risk as CAMMESA relies on financial support from the Argentine government. Implicit support from the parent company, MSU Energy S.A.
UGEN, S.A.	CCC	N.A.	Weak	High dependence on payments from CAMMESA with ratings aligned to the counterparty risk as CAMMESA relies on financial support from the Argentine government. Implicit support from the parent company, MSU Energy S.A.
YPF S.A.	CCC	N.A.	Medium	Ratings are linked to the government. YPF must maintain an ambitious capex program, which could create significant operational challenges in the medium to long term. The company operates in a strategic sector for the country, which historically was exposed to government intervention. Below optimal reserves life.

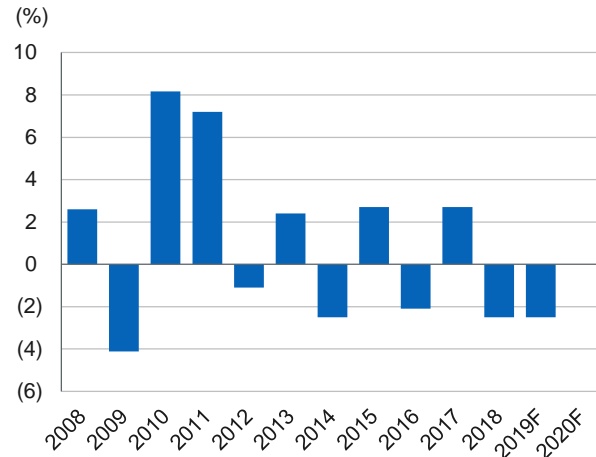
Legend: ↓ – Negative Outlook. → – Stable Outlook.

LT IDR – Long-Term Issuer Default Rating. N.A. – Not applicable. CAMMESA – Compañía Administradora del Mercado Mayorista Eléctrico, S.A.

Source: Fitch Ratings, Fitch Solutions.

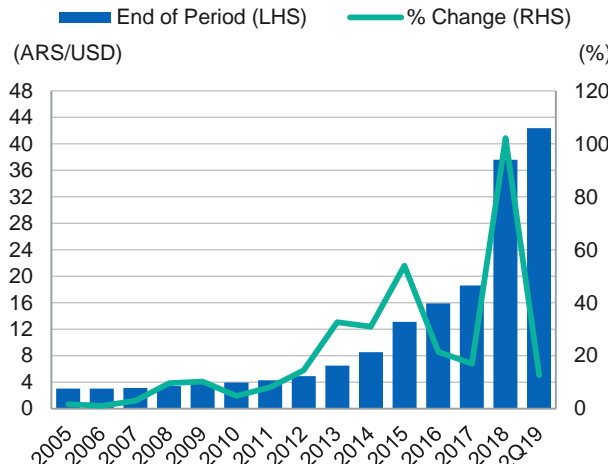
Argentine Corporates: Key Macro Variables

Argentine Real GDP Growth



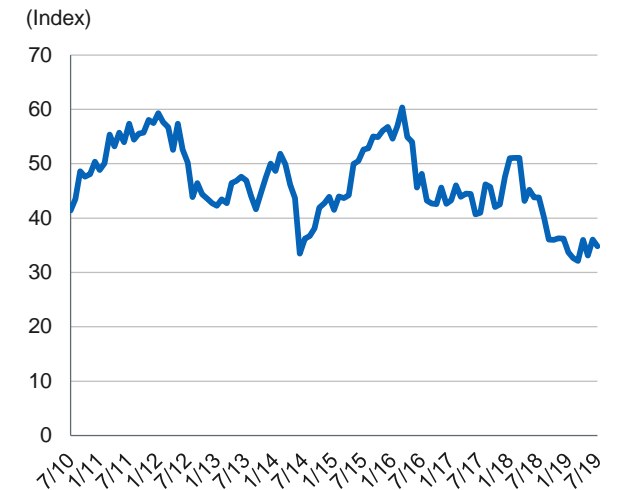
F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

FX Rate



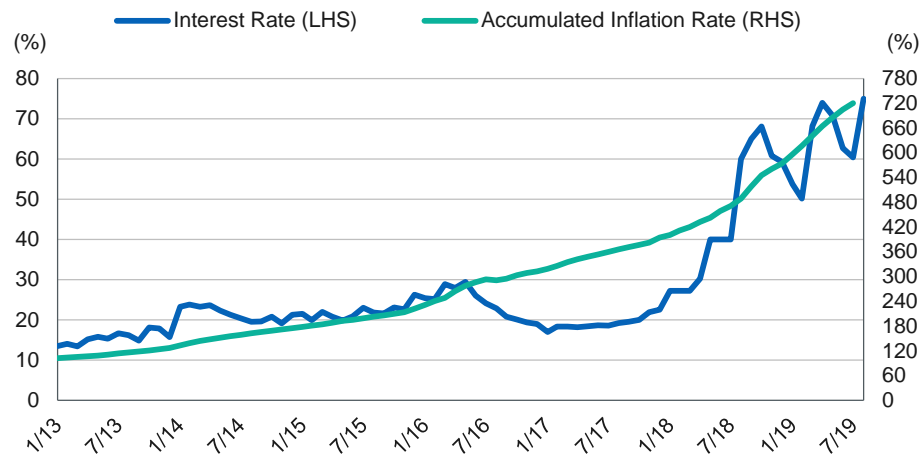
Source: Fitch Ratings, Fitch Solutions, International Monetary Fund.

Consumer Confidence



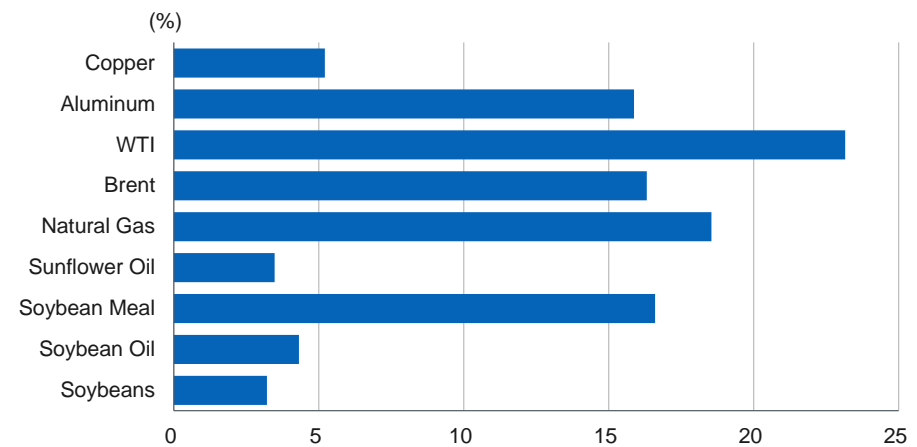
Source: Centro de Investigacion de Finanzas, Universidad Torcuato di Tella.

Inflation and Interest Rates



Note: Inflation rate shown is for the city of Buenos Aires, Argentina.
Source: Banco Central de la Republica Argentina, Gobierno de la Ciudad de Buenos Aires.

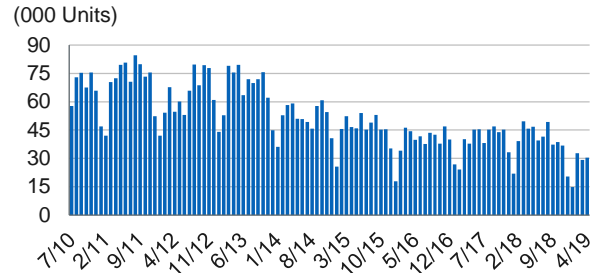
Key Commodity Price Changes (Yoy July 2019)



WTI – West Texas Intermediate.
Source: The World Bank.

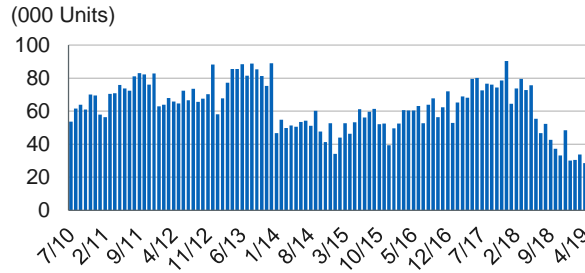
Argentine Corporates: Key Macro Variables (Continued)

Vehicle Production



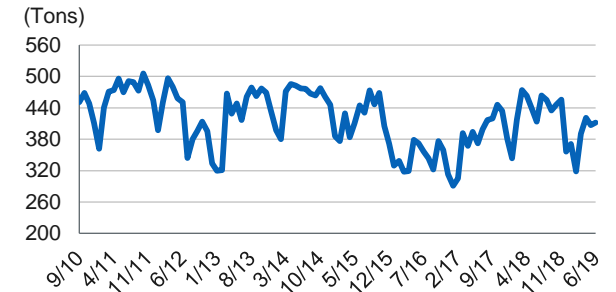
Source: Fitch Ratings, Fitch Solutions, Asociacion de Fabricantes de Automotores.

Vehicle Sales



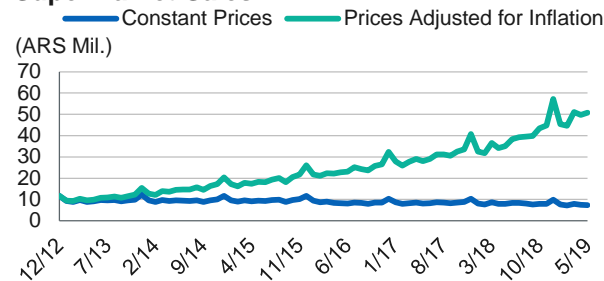
Source: Fitch Ratings, Fitch Solutions, Asociacion de Fabricantes de Automotores.

Steel Production



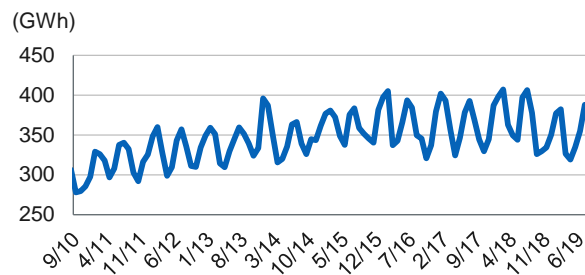
Source: Fitch Ratings, Fitch Solutions, Camara Argentina de Acero.

Supermarket Sales



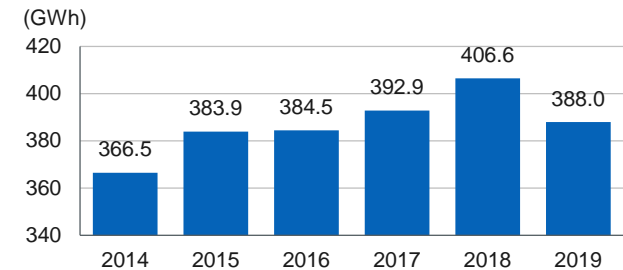
Source: Fitch Ratings, Fitch Solutions, Ministerio de Hacienda y Finanzas, Publicas, Programacion Macroeconomica.

Daily Energy Demand



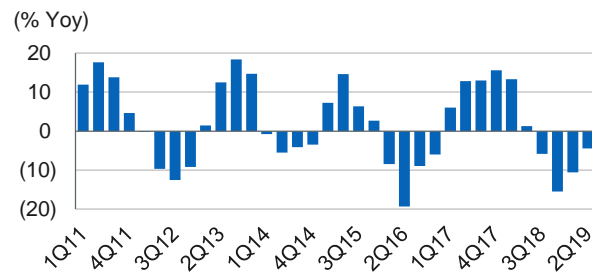
Source: Fitch Ratings, Fitch Solutions, Ministerio de Energia y Minería.

Annual Average Daily Energy Demand



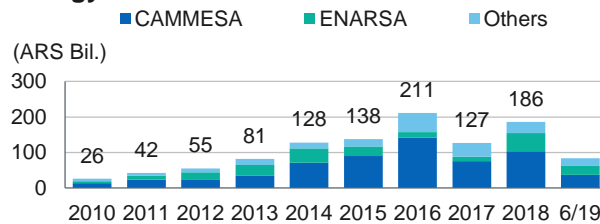
Source: Fitch Ratings, Fitch Solutions, Ministerio de Energia y Minería.

Cement Consumption



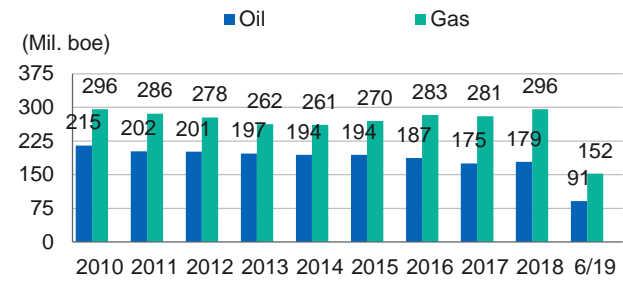
Source: Fitch Ratings, Fitch Solutions, Asociacion de Fabricantes de Cemento Portland.

Energy Sector Subsidies



CAMMESA – Compañia Administradora del Mercado Mayorista Electrico S.A. ENARSA – Energia Argentina S.A. Source: Asociacion Argentina de Presupuesto y Administracion Financiera Publica.

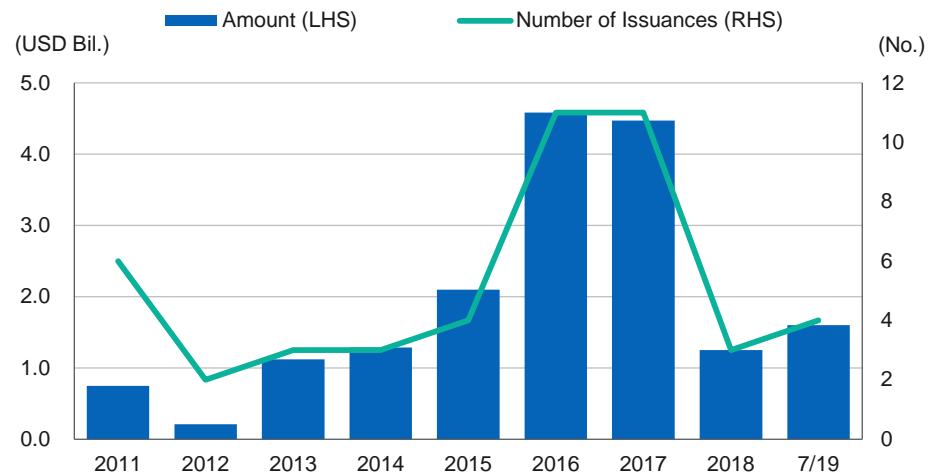
Oil and Gas Production



boe – Barrels of oil equivalent. Source: Fitch Ratings, Fitch Solutions, Ministerio de Energia y Minería..

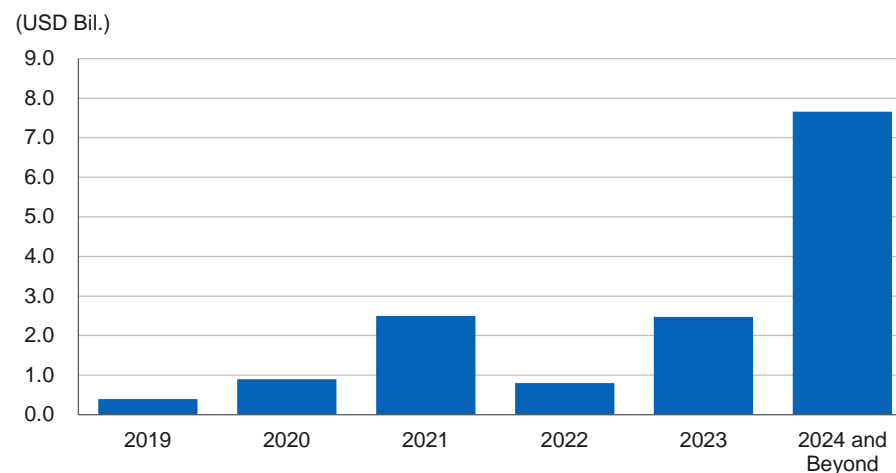
Argentine Corporates: Credit Overview

Cross-Border Issuances — Fitch Portfolio



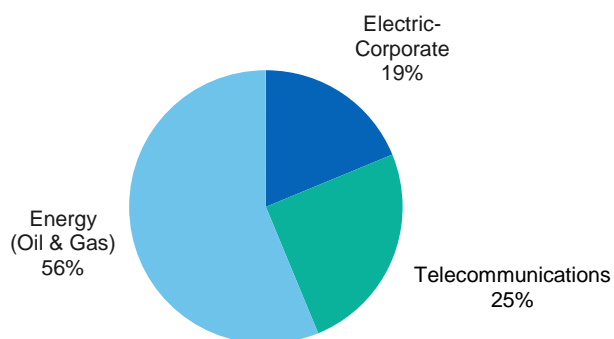
Source: Fitch Ratings, Fitch Solutions.

Cross-Border Bond Maturities — Fitch Portfolio



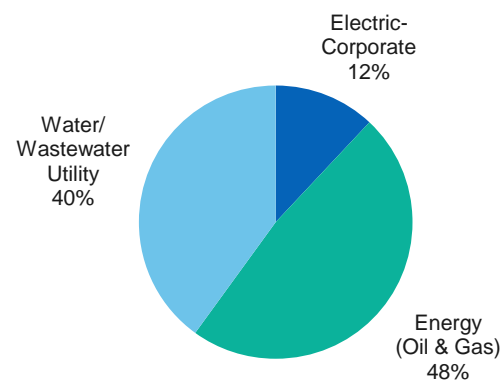
Source: Fitch Ratings, Fitch Solutions.

2019 Cross Border Issuance by Sector (As of July 2019)



Source: Fitch Ratings, Fitch Solutions.

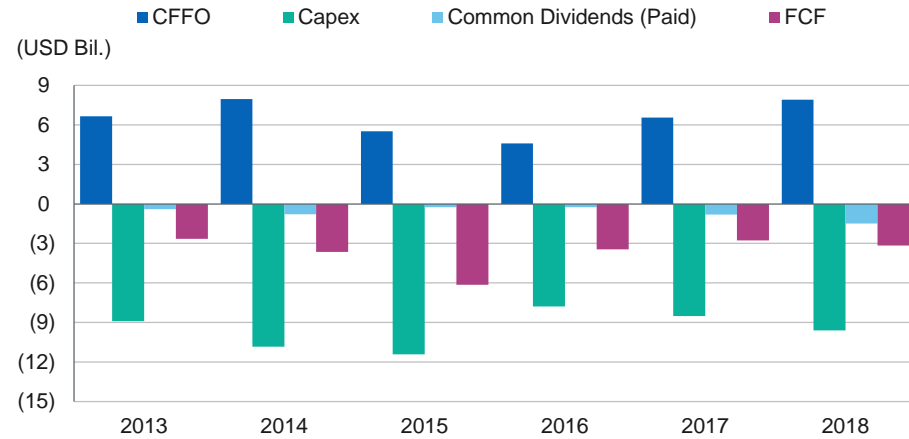
2018 Cross-Border Issuance by Sector



Source: Fitch Ratings, Fitch Solutions.

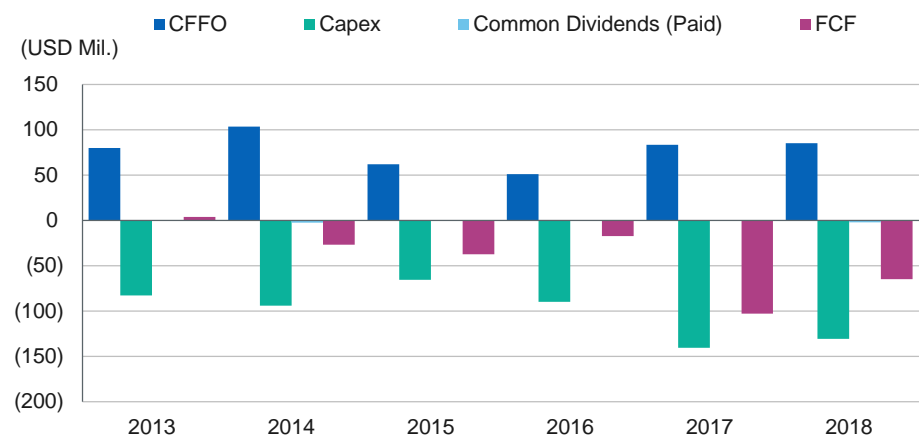
Argentine Corporates: Financial Profile

Aggregate Cash Flow Performance — Argentine Corporate International Ratings — Fitch Portfolio



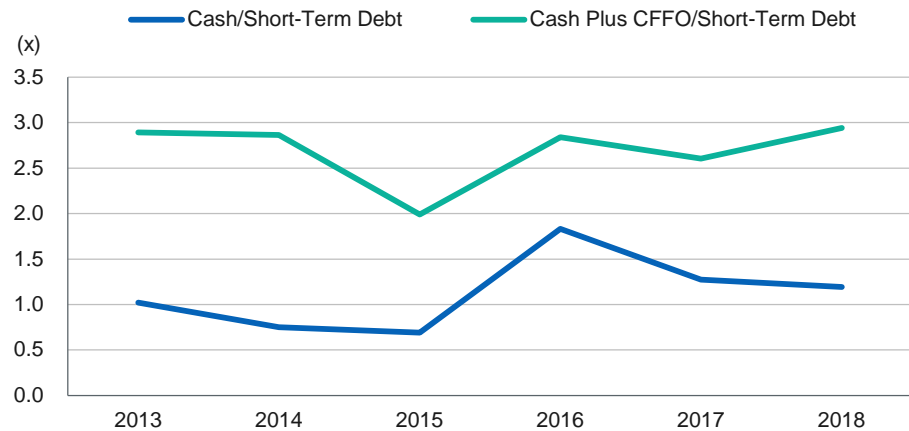
CFFO – Cash flow from operations.
Source: Fitch Ratings, Fitch Solutions.

Median Cash Flow Performance — Argentine Corporate International Ratings — Fitch Portfolio



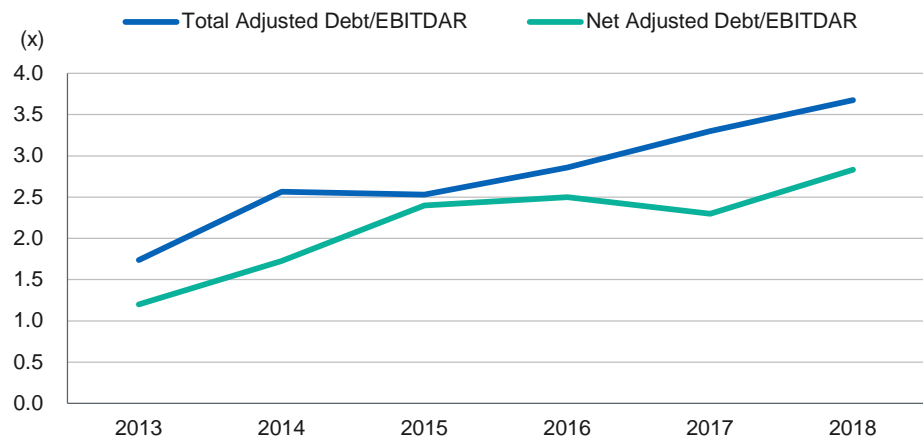
CFFO – Cash flow from operations.
Source: Fitch Ratings, Fitch Solutions.

Median Liquidity — Argentine Corporate International Ratings — Fitch Portfolio



CFFO – Cash flow from operations.
Source: Fitch Ratings, Fitch Solutions.

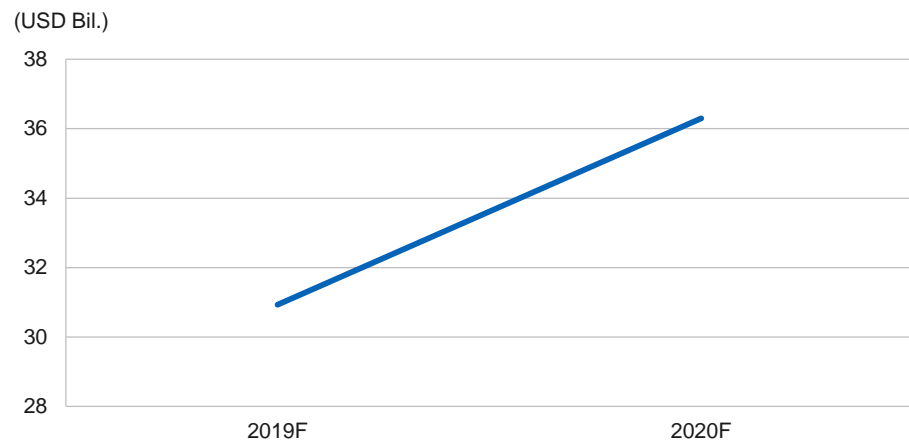
Median Leverage — Argentine Corporate International Ratings — Fitch Portfolio



Source: Fitch Ratings, Fitch Solutions.

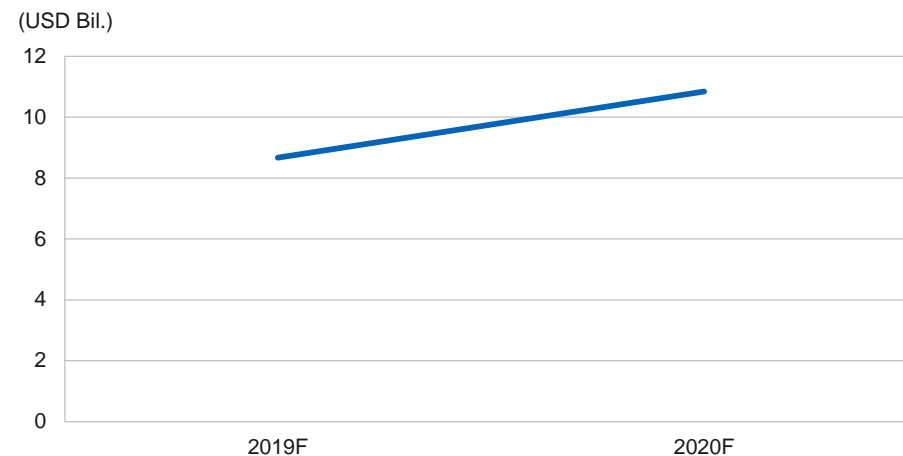
Argentine Corporates: Fitch Forecasts

Aggregate Revenue — Current Base Case Projections



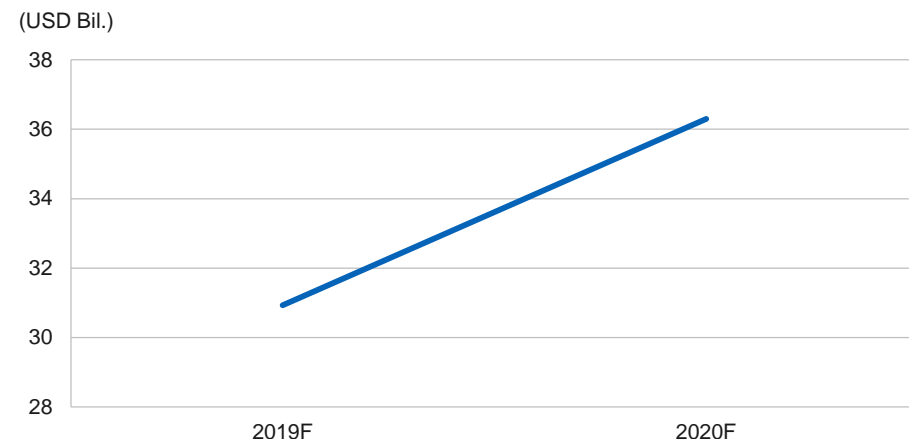
F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Aggregate EBITDAR — Current Base Case Projections



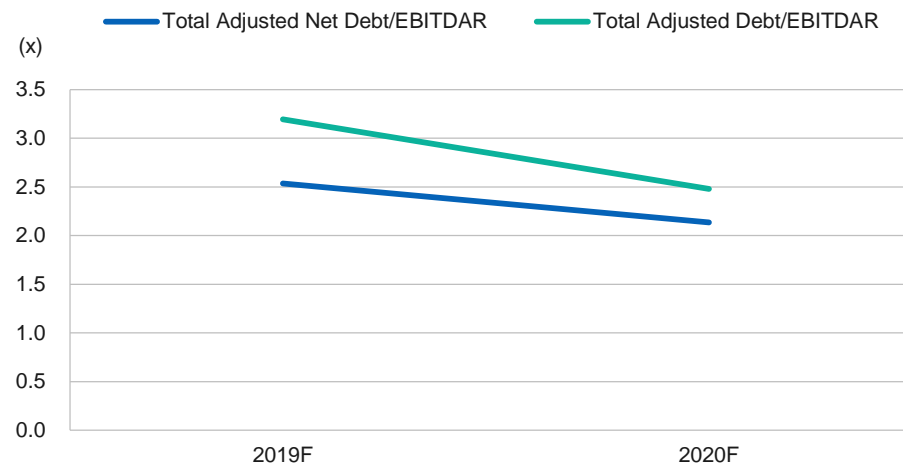
F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Aggregate Revenue — Current Base Case Projection



F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Median Leverage Base Case Projections



F – Forecast.
Source: Fitch Ratings, Fitch Solutions.

Argentine Corporates: Key Statistics

(USD Mil.)	LT IDR	Operating EBITDAR		Cash Flow from Operations		Adjusted Net Debt/EBITDAR (x)		Cash and Marketable Securities	2018	
		2018	2019F	2018	2019F	2018	2019F		Total Adjusted Debt	Short-Term Debt
AES Argentina Generacion S.A.	CCC	177	129	182	78	1.2	3.2	171	337	17
Agua y Saneamientos Argentinos S.A.	CCC	(298)	(137)	(134)	(138)	(2.6)	(3.4)	29	622	55
Albanesi S.A.	CCC	181	195	(37)	96	4.2	4.3	23	605	107
Arcor S.A.I.C.	B	284	313	(62)	12	4.6	3.8	122	1,011	293
Arcos Dorados Holdings Inc.	BB+	443	466	180	221	3.6	3.8	197	1,801	14
Capex S.A. ^a	B-	197	129	114	103	0.9	(0.2)	176	310	7
CLISA-Compania Latinoamericana de Infraestructura y Servicios	CCC	229	106	44	31	3.7	3.3	72	720	105
Compania General de Combustibles S.A.	B-	294	244	163	152	1.8	1.9	36	454	71
Genneia S.A.	CCC	152	225	80	203	5.1	4.5	154	925	92
Geopark Limited	B+	371	396	220	186	1.5	1.6	128	676	18
IRSA Propiedades Comerciales S.A. ^b	B-	136	140	84	84	3.2	2.8	221	548	14
Mastellone Hermanos S.A.	B-	60	75	20	28	4.0	3.0	13	198	0
MSU Energy S.A. ^c	CCC	92	124	31	46	8.0	7.0	119	851	20
Pampa Energia S.A.	B-	1,060	1,111	657	788	2.0	1.6	684	2,297	343
Pan American Energy, S.L.	B+	2,043	1,441	1,430	1,083	0.6	1.1	1,279	2,523	849
Petroquimica Comodoro Rivadavia S.A.	B-	177	186	86	91	1.9	1.9	185	438	72
Telecom Argentina S.A.	B-	2,100	1,654	1,364	1,237	1.6	1.7	220	2,728	533
YPF S.A.	CCC	4,946	2,275	3,502	1,654	2.5	2.3	1,515	10,736	1,724

^aCapex S.A.'s financials are for the LTM ended Jan. 31, 2019 and forecast financials are for April 30, 2020. ^bIRSA Propiedades Comerciales, S.A.'s forecast financials are for June 30, 2020. ^cThe rating listed for MSU Energy S.A. is the rating for its subsidiaries Rio Energy S.A., UGEN S.A., UENSA S.A. LT IDR – Long-Term Issuer Default Rating. F – Forecast.

Source: Fitch Ratings, Fitch Solutions.

2019 Fitch Ratings Outlooks

[Fitch Ratings 2019 Outlook: Latin American Corporates \(Navigating the New Political Landscape\) \(December 2018\)](#)[Fitch Ratings 2019 Outlook: Latin American Sovereigns \(November 2018\)](#)

Related Research

[Argentine Electricity Sector \(Regulatory Uncertainty, Inefficiency and FX Risk Cloud Outlook\) \(June 2019\)](#)[Argentina \(May 2019\)](#)[What Investors Want to Know: How Are Argentine Credits Weathering the Storm? \(April 2019\)](#)[Argentina Fiscal Risks Lurk Despite 2018 Target Compliance \(January 2019\)](#)[Argentine Gas Subsidy Program Developments Negative for Energy Sector \(January 2019\)](#)

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