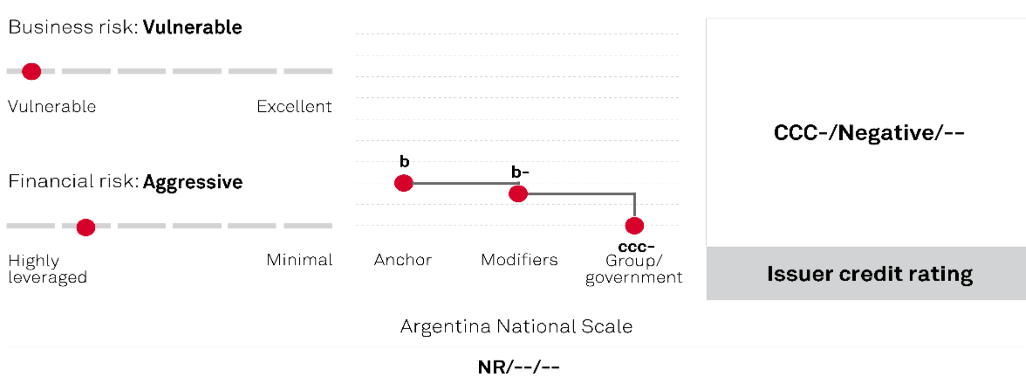
# Compania General de Combustibles S.A.

**October 2, 2023**

## Ratings Score Snapshot

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## Credit Highlights

### Overview

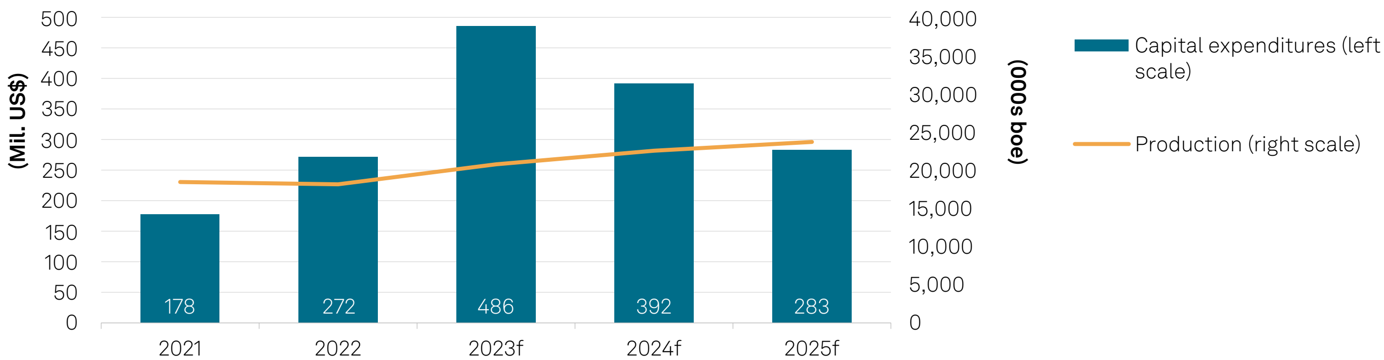
| Key strengths | Key risks |
|---|---|
| Argentina's seventh-largest upstream producer, with the second-largest gas transportation infrastructure in the country. | Exposure to significant macroeconomic, regulatory, and transfer and convertibility risks as an Argentina-based company. |
| Low average interest-expense rate, providing coverage cushion. | Smaller scale and lower diversification than those of higher-rated international peers. |
| | Projected negative free operating cash flow for the next two years. |
| | Exposure to oil and gas price volatility. |

***A high level of capital expenditures is resulting in negative free operating cash flow and increasing leverage.*** Compania General de Combustibles S.A. (CGC) has been investing heavily in machinery and equipment, as well as in the development of wells. Capex jumped last year to

$295 million from $182 million in 2021, and we expect capex of about $485 million in 2023 and close to $400 million in 2024. Higher capex resulted in negative free operating cash flow (FOCF) in 2022.

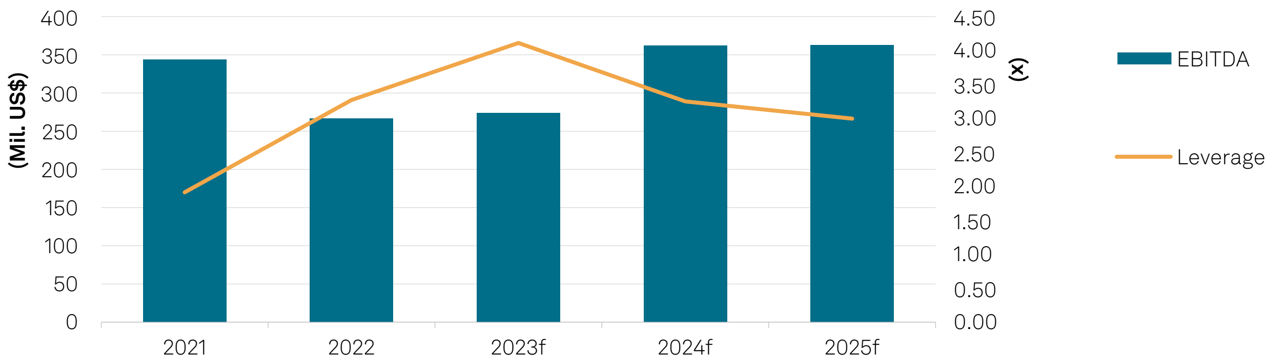
During the first half of 2023, CGC drilled 47 wells (six of which were exploratory) in the San Jorge and Austral basins, with a total success rate of 89%. Total daily average production reached 61.8 million barrels of oil equivalent (boe) during the second quarter. Although we expect higher production levels because of increased investment, we project negative FOCF in both 2023 and 2024. Moreover, the company partially financed capex with financial debt, and we now project that leverage will rise above 4.0x in 2023, from 3.3x in 2022 and 1.9x in 2021.

### Evolution of capital expenditures and production




boe--Barrels of oil equivalent. f--S&P Global Ratings' forecast. Sources: Company filings and S&P Global Ratings.

## Leverage versus EBITDA




f--S&P Global Ratings' forecast. Sources: Company filings and S&P Global Ratings.



***CGC's recent management of its liabilities improved its liquidity and its capital structure.*** In July 2023, CGC issued $200 million in convertible notes that were fully subscribed by The Dow Chemical Co.'s Argentine subsidiary. CGC used the proceeds to refinance financial liabilities with shorter maturities. By doing this, CGC extended the average life of its financial debt to 2.93 years and reduced its cost of capital to an average annual rate of 2.55%. As a result, we expect interest coverage of 7.9x in 2023 and 9.0x-9.5x in 2024-2025.

***Our ratings continue to incorporate CGC's exposure to high volatility and country-related risks.*** The 'CCC-' rating on CGC is lower than its 'b-' stand-alone credit profile (SACP) because we cap our ratings on CGC at our 'CCC-' transfer and convertibility (T&C) assessment of Argentina. The company remains vulnerable to Argentina's volatile regulatory and business conditions. Oil exports are only 6% of total production; obtaining export permits, converting export revenue into local currency, and paying export duties are all part of the process of exporting oil. Domestic gas sales (around 60% of total production) depend on regulated tariffs, and local crude oil sales (around 30% of total production) depend on regulated fuel prices at gas stations.

Our 'CCC-' rating on CGC also continues to reflect the company's high exposure, amid macroeconomic volatility, to both Argentina (CCC-/Negative/C) and the central bank's restrictions on accessing foreign currency and transferring funds abroad. Nevertheless, as of June 2023, the company does not have debt that would need to be refinanced under the central bank's current regulations.

# Outlook

The negative outlook reflects the potential in the near future for harsher restrictions on accessing or transferring funds abroad, including limitations on imports or additional central bank regulations forcing Argentine entities to unilaterally push forward payments in foreign-currency debt--a situation that we typically view as being tantamount to default.

The negative outlook also reflects the chances of a deeper recession, along with increasing inflation and a sharp depreciation of the Argentine peso (ARS). They could take a toll on the company's operations and cash flows.

### Downside scenario

We could lower the ratings in the next six to 12 months if restrictions on accessing the foreign exchange market are tightened or extended and if we revise downward our T&C assessment of Argentina. We could also revise our assessment of CGC's SACP downward and eventually lower our ratings if liquidity is eroded, for example, because of weaker profitability, higher capex, or sharp drops in oil or gas prices. We could also revise our assessment of the SACP downward if debt to EBITDA rises above 6.0x.

### Upside scenario

We could raise our ratings on CGC if we were to revise our T&C assessment of Argentina upward in the next 12 months. We could revise our assessment of CGC's SACP upward to 'b' in the next 12 months if, for example, debt to EBITDA is consistently below 1.5x across the oil and gas price cycle.

## Our Base-Case Scenario

### Assumptions

- GDP contraction in Argentina of 2.0% in 2023, followed by GDP growth of 0.5% in 2024 and 2.0% in 2025.
- Average inflation in Argentina of 121% in 2023, 125% in 2024, and 75% in 2025.
- Average foreign exchange rate of ARS275 per $1 in 2023, ARS605 per $1 in 2024, and ARS1,025 per $1 in 2025.
- Average Brent crude oil price of $82 per barrel in 2023 and $85 per barrel in 2024-2025.
- Average realized gas prices of about $4.8 per million Btu in 2023 and $5.0-$6.0 per million Btu in 2024-2025, which include benefits related to the government's gas incentive programs.
- Total crude oil production of 20,200 boe per day in 2023 and 23,900 boe per day in 2024-2025.
- Total gas production of 5.5 million cubic meters per day in 2023, 6.0 million cubic meters per day in 2024, and 6.5 million cubic meters per day in 2025.
- Annual dividends from midstream assets of $5 million-$7 million in 2023-2025.
- Dividend distribution of $5 million-$7 million in 2023-2025, aligned with dividends received from midstream assets.
- Annual maintenance and expansion capex of about $485 million in 2023, $390 million in 2024, and $285 million in 2025.

## Key metrics

### Compania General de Combustibles S.A.--Forecast summary

Industry sector: Oil and gas exploration and production

| (Mil. ARS) | 2021a | 2022a | 2023e | 2024f | 2025f |
|---|---|---|---|---|---|
| Revenue | 72,857 | 147,291 | 359,581 | 894,860 | 1,414,901 |
| Adjusted EBITDA | 34,575 | 43,600 | 105,459 | 289,819 | 453,787 |
| Funds from operations (FFO) | 27,807 | 24,085 | 91,440 | 259,195 | 367,941 |
| Interest expense | 6,062 | 8,988 | 13,375 | 30,587 | 51,182 |
| Cash flow from operations (CFO) | 15,530 | 13,948 | 93,371 | 250,978 | 361,852 |
| Capital expenditures | 18,313 | 48,234 | 186,982 | 313,201 | 353,725 |
| Free operating cash flow (FOCF) | (2,783) | (34,286) | (93,611) | (62,223) | 8,126 |
| Dividends | 1,166 | 860 | 2,695 | 4,000 | 6,250 |
| Discretionary cash flow (DCF) | (3,949) | (35,147) | (96,306) | (66,223) | 1,876 |
| Debt | 66,132 | 142,665 | 433,645 | 942,259 | 1,360,338 |
| Cash and short-term investments, reported | 18,524 | 31,315 | 68,104 | 65,392 | 65,392 |
| **Adjusted ratios** | | | | | |
| Debt/EBITDA (x) | 1.9 | 3.3 | 4.1 | 3.3 | 3.0 |
| FFO/debt (%) | 42.0 | 16.9 | 21.1 | 27.5 | 27.0 |
| EBITDA interest coverage (x) | 5.7 | 4.9 | 7.9 | 9.5 | 8.9 |
| CFO/debt (%) | 23.5 | 9.8 | 21.5 | 26.6 | 26.6 |
| FOCF/debt (%) | (4.2) | (24.0) | (21.6) | (6.6) | 0.6 |
| DCF/debt (%) | (6.0) | (24.6) | (22.2) | (7.0) | 0.1 |
| EBITDA margin (%) | 47.5 | 29.6 | 29.3 | 32.4 | 32.1 |

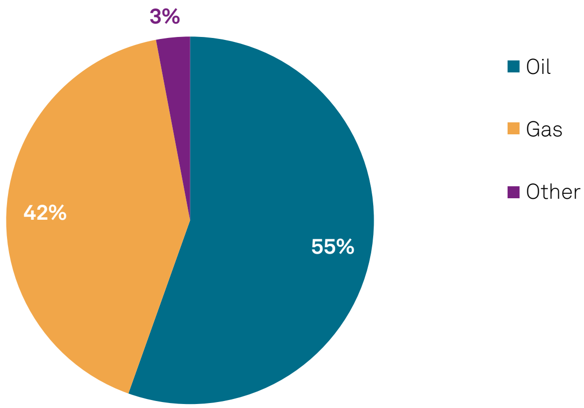
All figures are adjusted by S&P Global Ratings unless stated as reported. ARS--Argentine pesos. a--Actual. e--Estimate. f--Forecast.

# Company Description

CGC is an Argentina-based oil and gas exploration and production company. About 60% of CGC's oil and gas production comes from the Austral Basin and 39% comes from the San Jorge Basin; both are in southern Argentina. Gas represents about 60% of total production, and approximately 65% of that amount is from unconventional sources. Proven reserves total about 145 million boe. Oil and gas production totals about 50,000 boe per day.

The company also operates in the midstream segment through stakes in three gas transportation pipelines: a 28% indirect stake in Transportadora de Gas del Norte (TGN), a 40% indirect stake in Gasoducto GasAndes, and a 16% indirect stake in Transportadora de Gas del Mercosur, with 18.7 billion cubic meters of gas being transported by TGN in 2022. Corporacion America International S.A.R.L. (not rated) ultimately controls CGC through a 70% stake and holds, either directly or indirectly, controlling interests in various other businesses mainly related to airport operations. Despite our belief that CGC is important to the group's growth strategy, we don't incorporate any rating impact under our group rating methodology.

### Revenue by segment for the first half of 2023




Source: Company filings.



# Peer Comparison

### Compania General de Combustibles S.A.--Peer comparison

| | Compania General de Combustibles S.A. | YPF S.A. | Pampa Energia S.A. | CAPEX S.A. | GeoPark Ltd. |
|---|---|---|---|---|---|
| Foreign currency issuer credit rating | CCC-/Negative/-- | CCC-/Negative/-- | CCC-/Negative/-- | CCC-/Negative/-- | B+/Stable/-- |
| Local currency issuer credit rating | CCC-/Negative/-- | CCC-/Negative/-- | CCC-/Negative/-- | CCC-/Negative/-- | B+/Stable/-- |
| Period | Annual | Annual | Annual | Annual | Annual |
| Period ending | 44,926 | 44,926 | 44,926 | 45,046 | 44,926 |
| Mil. | ARS | ARS | ARS | ARS | ARS |
| Revenue | 147,291 | 2,526,466 | 242,182 | 90,829 | 185,904 |
| EBITDA | 43,600 | 698,789 | 109,552 | 41,480 | 100,274 |
| Funds from operations (FFO) | 24,085 | 572,832 | 87,472 | 36,102 | 86,034 |
| Interest | 8,988 | 97,661 | 30,565 | 8,708 | 7,508 |
| Cash interest paid | 6,819 | 73,123 | 21,633 | 4,587 | 6,467 |
| Operating cash flow (OCF) | 13,948 | 663,537 | 60,804 | 24,738 | 76,332 |
| Capital expenditure | 48,234 | 532,128 | 55,535 | 36,294 | 29,900 |
| Free operating cash flow (FOCF) | (34,286) | 131,409 | 5,269 | (11,556) | 46,433 |
| Discretionary cash flow (DCF) | (35,147) | 127,166 | 2,988 | (28,908) | 35,708 |

## Compania General de Combustibles S.A.--Peer comparison

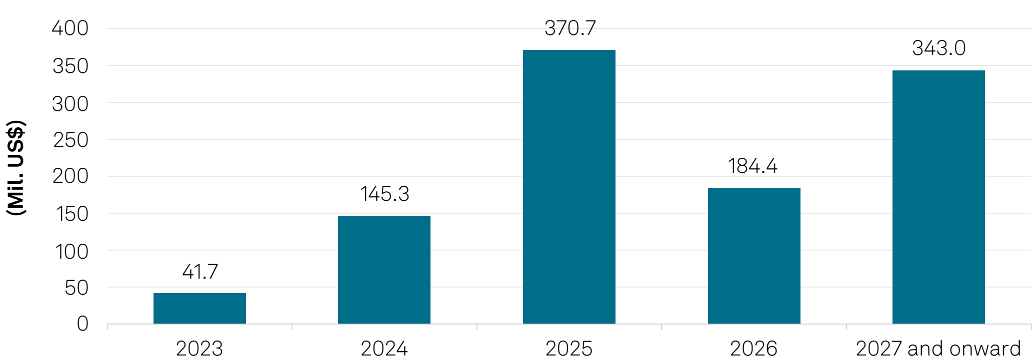
| | Compania General de Combustibles S.A. | YPF S.A. | Pampa Energia S.A. | CAPEX S.A. | GeoPark Ltd. |
|---|---|---|---|---|---|
| Cash and short-term investments | 31,315 | 193,363 | 123,970 | 2,809 | 22,821 |
| Gross available cash | 31,315 | 193,363 | 123,970 | 2,809 | 22,821 |
| Debt | 142,665 | 1,589,496 | 295,019 | 78,949 | 99,837 |
| Equity | 67,084 | 1,868,304 | 404,620 | 97,409 | 20,473 |
| EBITDA margin (%) | 29.6 | 27.7 | 45.2 | 45.7 | 53.9 |
| Return on capital (%) | 10.4 | 15.4 | 17.5 | 32.9 | 62.0 |
| EBITDA interest coverage (x) | 4.9 | 7.2 | 3.6 | 4.8 | 13.4 |
| FFO cash interest coverage (x) | 4.5 | 8.8 | 5.0 | 8.9 | 14.3 |
| Debt/EBITDA (x) | 3.3 | 2.3 | 2.7 | 1.9 | 1.0 |
| FFO/debt (%) | 16.9 | 36.0 | 29.6 | 45.7 | 86.2 |
| OCF/debt (%) | 9.8 | 41.7 | 20.6 | 31.3 | 76.5 |
| FOCF/debt (%) | (24.0) | 8.3 | 1.8 | (14.6) | 46.5 |
| DCF/debt (%) | (24.6) | 8.0 | 1.0 | (36.6) | 35.8 |

# Financial Risk

The following is the schedule for CGC's principal debt maturities as of July 31, 2023.

## Debt maturities

### Debt maturities as of July 31, 2023




Source: Company filings.

## Compania General de Combustibles S.A.--Financial Summary

| Period ending | Dec-31-2017 | Dec-31-2018 | Dec-31-2019 | Dec-31-2020 | Dec-31-2021 | Dec-31-2022 |
|---|---|---|---|---|---|---|
| Reporting period | 2017a | 2018a | 2019a | 2020a | 2021a | 2022a |
| Display currency (mil.) | ARS | ARS | ARS | ARS | ARS | ARS |
| Revenues | 4,898 | 17,709 | 30,881 | 31,286 | 72,857 | 147,291 |
| EBITDA | 1,265 | 9,150 | 18,478 | 19,220 | 34,575 | 43,600 |
| Funds from operations (FFO) | 631 | 7,453 | 14,887 | 14,414 | 27,807 | 24,085 |
| Interest expense | 521 | 1,536 | 2,579 | 4,001 | 6,062 | 8,988 |
| Cash interest paid | 567 | 1,262 | 2,472 | 4,431 | 5,208 | 6,819 |
| Operating cash flow (OCF) | 692 | 4,616 | 15,936 | 10,731 | 15,530 | 13,948 |
| Capital expenditure | 2,484 | 5,925 | 10,965 | 6,837 | 18,313 | 48,234 |
| Free operating cash flow (FOCF) | (1,792) | (1,309) | 4,971 | 3,895 | (2,783) | (34,286) |
| Discretionary cash flow (DCF) | (1,792) | (1,461) | 4,732 | 3,546 | (3,949) | (35,147) |
| Cash and short-term investments | 425 | 1,360 | 5,856 | 7,409 | 18,524 | 31,315 |
| Gross available cash | 425 | 1,360 | 5,856 | 7,409 | 18,524 | 31,315 |
| Debt | 7,517 | 17,791 | 28,687 | 38,969 | 66,132 | 142,665 |
| Common equity | 767 | 9,853 | 19,220 | 24,064 | 31,386 | 67,084 |
| **Adjusted ratios** | | | | | | |
| EBITDA margin (%) | 25.8 | 51.7 | 59.8 | 61.4 | 47.5 | 29.6 |
| Return on capital (%) | 7.6 | 33.1 | 33.0 | 18.1 | 22.7 | 10.4 |
| EBITDA interest coverage (x) | 2.4 | 6.0 | 7.2 | 4.8 | 5.7 | 4.9 |
| FFO cash interest coverage (x) | 2.1 | 6.9 | 7.0 | 4.3 | 6.3 | 4.5 |
| Debt/EBITDA (x) | 5.9 | 1.9 | 1.6 | 2.0 | 1.9 | 3.3 |
| FFO/debt (%) | 8.4 | 41.9 | 51.9 | 37.0 | 42.0 | 16.9 |
| OCF/debt (%) | 9.2 | 25.9 | 55.6 | 27.5 | 23.5 | 9.8 |
| FOCF/debt (%) | (23.8) | (7.4) | 17.3 | 10.0 | (4.2) | (24.0) |
| DCF/debt (%) | (23.8) | (8.2) | 16.5 | 9.1 | (6.0) | (24.6) |

## Reconciliation Of Compania General de Combustibles S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. ARS)

| | Debt | Shareholder Equity | Revenue | EBITDA | Operating income | Interest expense | S&PGR adjusted EBITDA | Operating cash flow | Dividends | Capital expenditure |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial year | Dec-31-2022 | | | | | | | | | |
| Company reported amounts | 130,297 | 67,084 | 147,291 | 43,712 | 16,381 | 8,988 | 43,600 | 18,970 | 860 | 48,234 |
| Cash taxes paid | - | - | - | - | - | - | (12,696) | - | - | - |
| Cash interest paid | - | - | - | - | - | - | (6,819) | - | - | - |

**Reconciliation Of Compania General de Combustibles S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. ARS)**

| | Debt | Shareholder Equity | Revenue | EBITDA | Operating income | Interest expense | S&PGR adjusted EBITDA | Operating cash flow | Dividends | Capital expenditure |
|---|---|---|---|---|---|---|---|---|---|---|
| Lease liabilities | 5,567 | - | - | - | - | - | - | - | - | - |
| Dividends from equity investments | - | - | - | 1,796 | - | - | - | - | - | - |
| Asset-retirement obligations | 6,801 | - | - | - | - | - | - | - | - | - |
| Nonoperating income (expense) | - | - | - | - | 1,450 | - | - | - | - | - |
| Reclassification of interest and dividend cash flows | - | - | - | - | - | - | - | (5,023) | - | - |
| EBITDA: other income/ (expense) | - | - | - | (1,908) | (1,908) | - | - | - | - | - |
| Total adjustments | 12,367 | - | - | (112) | (458) | - | (19,515) | (5,023) | - | - |

| S&P Global Ratings adjusted | Debt | Equity | Revenue | EBITDA | EBIT | Interest expense | Funds from Operations | Operating cash flow | Dividends | Capital expenditure |
|---|---|---|---|---|---|---|---|---|---|---|
| | 142,665 | 67,084 | 147,291 | 43,600 | 15,923 | 8,988 | 24,085 | 13,948 | 860 | 48,234 |

# Liquidity

We assess CGC's liquidity as being less than adequate. We expect sources of liquidity to cover uses by about 1.1x in the next 12 months, and we believe CGC's ability to absorb high-impact and low-probability events is limited by its small size and scale. However, the company benefits from long-standing relationships with various domestic banks, as seen in several syndicated loan agreements and loans obtained to refinance short-term debt. Moreover, we think CGC can raise considerable funds in the domestic bond market even in volatile economic conditions, and we think it could engage in refinancing in the future.

## Principal liquidity sources

- Cash and liquid investments of ARS44 billion as of June 30, 2023; and
- Funds from operations of about ARS180 billion for the next 12 months.

## Principal liquidity uses

- Short-term debt of ARS41 billion as of June 30, 2023;
- Working capital outflows of about ARS6 billion for the next 12 months;
- Maintenance capex of about ARS150 billion for the next 12 months; and
- Dividend payments of about ARS4 billion in the next 12 months.

# Covenant Analysis

### Requirements

CGC is subject to financial covenants that limit its ability to incur new debt if its EBITDA interest coverage ratio is below 2.5x and if its net-debt-to-EBITDA ratio is above 3.0x.

### Compliance expectations

For the purposes of the covenants, debt is measured on a net debt basis, while EBITDA includes dividends from midstream assets. We believe the company will be able to comply with these covenants in the next two years. However, we expect there to be very little headroom, especially in 2023.

## Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit rating analysis of CGC, consistent with our analyses of its sector peers. This reflects industry risks due to climate change and the transition to renewable energy sources.

Governance factors are a moderately negative consideration given that the company generates its EBITDA in Argentina, a jurisdiction with weak legal and regulatory frameworks, and this introduces operating and financial uncertainties. For instance, CGC's revenue relies heavily on government incentive plans and tariff-setting mechanisms that are generally short term in nature. Additionally, the central bank's tight exchange controls have forced most domestic corporations to pursue debt restructurings and have severely curtailed their access to capital markets.

## Rating Above The Sovereign

Our rating on CGC is capped by our 'CCC-' T&C assessment of Argentina because the bulk of the company's revenue and cash flow is generated domestically, as only 10% of production comes from exports. (We don't believe that percentage would be enough to fully cover foreign currency obligations if the sovereign were to further restrict access to foreign exchange markets.) Nevertheless, as of June 2023, the company does not have debt that would need to be refinanced under the central bank's current regulations. However, given the government's delicate situation on the external front, there could be harsher restrictions in the near future on accessing or transferring funds abroad, including additional central bank regulations forcing Argentine entities to unilaterally push forward payments in foreign-currency debt--a situation that we typically view as being tantamount to default.

## Issue Ratings--Subordination Risk Analysis

### Capital structure

CGC's current capital structure mainly consists of $595 million amortizing local bonds, $200 million convertible notes due 2028, $150 million amortizing senior unsecured notes due 2025, and $125 million in bank loans. About 18% of the debt is short term, and all of it is denominated in dollars.

### Analytical conclusions

We rate CGC's senior unsecured notes at the same level as the issuer credit rating because we don't believe there are material financial obligations that would rank ahead of the company's unsecured debt by way of structural or contractual subordination in a default scenario. CGC doesn't hold secured debt, nor does it hold debt at the level of the operating subsidiaries.

### Rating Component Scores

| | |
|---|---|
| **Foreign currency issuer credit rating** | CCC-/Negative/-- |
| **Local currency issuer credit rating** | CCC-/Negative/-- |
| **Business risk** | Vulnerable |
| Country risk | Very High |
| Industry risk | Moderately High |
| Competitive position | Vulnerable |
| **Financial risk** | Aggressive |
| Cash flow/leverage | Aggressive |
| **Anchor** | b |
| Diversification/portfolio effect | Neutral (no impact) |
| Capital structure | Neutral (no impact) |
| Financial policy | Neutral (no impact) |
| Liquidity | Less than Adequate (no impact) |
| Management and governance | Fair (no impact) |
| Comparable rating analysis | Negative (-1 notch) |
| **Stand-alone credit profile** | b- |

# Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

# Related Research

Not applicable

## Ratings Detail (as of October 02, 2023)*

**Compania General de Combustibles S.A.**

| | | |
|---|---|---|
| Issuer Credit Rating | | CCC-/Negative/-- |
| *Argentina National Scale* | | NR/--/-- |
| Senior Unsecured | | CCC- |
| **Issuer Credit Ratings History** | | |
| 30-Mar-2023 | | CCC-/Negative/-- |
| 07-Oct-2021 | | CCC+/Stable/-- |
| 06-Jul-2021 | | CCC/Watch Pos/-- |
| 18-Sep-2020 | | CCC/Negative/-- |
| 08-Sep-2020 | | CCC+/Stable/-- |
| 08-May-2020 | | CCC+/Negative/-- |
| 18-Mar-2020 | | B-/Watch Neg/-- |
| 20-Aug-2019 | | B-/Negative/-- |
| 26-Jul-2019 | | B-/Watch Pos/-- |
| 26-Feb-2019 | | B-/Stable/-- |
| 07-Sep-2000 | *Argentina National Scale* | NR/--/-- |
| 11-May-1999 | | raCC/Watch Neg/-- |
| 31-Dec-1998 | | raA/Watch Dev/-- |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.