

Research Update:

Argentine Oil And Gas Co. CGC Upgraded To 'CCC+' From 'CCC' And Off CreditWatch Positive On Stronger Liquidity

October 7, 2021

Rating Action Overview

- Argentine oil and gas company Compañía General de Combustibles S.A. (CGC) improved its liquidity profile after it refinanced its debt and expanded its operations after acquiring China Petroleum & Chemical Corp.'s (Sinopec)'s assets in Argentina.
- On Oct. 7, 2021, S&P Global Ratings revised upwards CGC's stand-alone credit profile (SACP) to 'b-' from 'ccc'. At the same time, we raised our ratings on the company to 'CCC+' from 'CCC'. We also removed the ratings from CreditWatch with positive implications, where we placed them on Sept. 18, 2020, and assigned a stable outlook.
- The ratings and outlook on CGC remain capped by our 'CCC+' assessment of Argentina's transfer and convertibility (T&C) risks and incorporate our view of the company's greater financial flexibility, stronger cash flows, and balanced capital structure.

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Rating Action Rationale

Recent debt refinancing improves CGC's liquidity and capital structure. The higher SACP reflects our view of CGC's stronger cash position, which rose to \$270 million as of June 2021 from \$72 million in March 2021, even after acquiring 100% shares of Sinopec Argentina Exploration and Production Inc. (Sinopec Argentina). In addition, the company obtained a \$115 million syndicated loan in August 2021, issued around \$120 million in bonds in the domestic market in August 2021, and is currently offering to exchange up to \$40 million of the outstanding \$93.4 million senior unsecured notes due November 2021 for its senior unsecured amortizing notes due 2025 (\$8 million already tendered during the early bird period). These actions strengthened CGC's capital structure by extending its debt maturity profile.

Sinopec Argentina's acquisition supports CGC's growth and liquidity. The merger of acquired assets significantly increases CGC's business size and scale, reaching production of 50,000 barrels of oil equivalent per day (boe/d) and raising reserves by 50% to 90 million boe. We believe that the stronger business position and the additional cash flows from Sinopec Argentina's operations will support the payment of CGC's short-term obligations, gradually improving its liquidity position. We may revise our assessment of CGC's business profile to a stronger category

once the company fully integrates Sinopec's assets and reaches synergies.

The company continues to face considerable exposure to Argentina's volatile and difficult regulatory and business conditions.

Our ratings continue to incorporate CGC's exposure to high volatility and country-related risks. Although CGC exports most of its oil production, it sells its natural gas output in the domestic market, which represent about 65% of total production (on a pro forma basis including Sinopec Argentina). Therefore, our 'CCC+' rating on CGC continues to reflect its high exposure to Argentina (CCC+/Stable/C) and to central bank's restrictions on accessing foreign currency and/or transferring funds abroad.

Outlook

The ratings and outlook on CGC remain capped by our 'CCC+' assessment of Argentina's transfer and convertibility risks. We expect CGC to maintain sufficient liquidity especially during periods in which market access isn't an option. Also, the combined operations would bolster cash flows in the next 12 months while oil prices remain favorable. We expect gross debt to EBITDA close to 2.0x and free operating cash flow (FOCF) of about 10% of debt in the next 12 months.

Downside scenario

In the next 12 months, we could lower our ratings on CGC or revise the outlook to negative if Argentina's T&C risks rise further, undermining domestic companies' ability to service their foreign debt. We could also revise downwards CGC's SACP and eventually lower our ratings if liquidity erodes, for example, because of sharp drops in oil or gas prices. We could also revise downwards the SACP if debt to EBITDA rises above 6.0x.

Upside scenario

We could raise our ratings on CGC if we were to revise our assessment of Argentina's T&C to a stronger category in the next 12 months. Also, we could revise upwards the SACP 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.

Company Description

CGC is an Argentina-based oil and gas exploration and production company that recently acquired Sinopec's assets in Argentina. After the merger, about 60% of CGC's oil and gas production comes from the Austral basin and 39% from the San Jorge basin, both in southern Argentina. Gas represents about 65% of total production and approximately 65% corresponds to unconventional sources. Proven reserves (P1) total around 90 million boe. Oil and gas production will total about 60,000 boe per day after the acquisition.

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], 40% stake in Gasoducto GasAndes, and 16% in Transportadora de Gas del Mercosur) with 25 billion cubic meters (m³) of gas transported by TGN during 2019.

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 and that the company benefits from financial flexibility and credit access from being part

of the group, we don't incorporate any rating impact for our group rating methodology.

Table 1

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

Industry Sector: Oil & Gas Exploration & Production

| | --Fiscal year ended Dec. 31-- | | | | |
|------------------------------------|-------------------------------|-------|--------|--------|--------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| (Mil. \$) | | | | | |
| Revenue | 372.0 | 515.8 | 470.3 | 260.3 | 219.6 |
| EBITDA | 228.6 | 308.6 | 243.0 | 67.2 | 80.7 |
| Funds from operations (FFO) | 171.4 | 248.6 | 198.0 | 33.5 | 42.3 |
| Interest expense | 47.6 | 43.1 | 40.8 | 27.7 | 34.4 |
| Cash interest paid | 52.7 | 41.3 | 33.5 | 30.1 | 33.5 |
| Cash flow from operations | 127.6 | 266.2 | 122.6 | 36.8 | 3.6 |
| Capital expenditure | 81.3 | 183.1 | 157.4 | 132.0 | 65.8 |
| Free operating cash flow (FOCF) | 46.3 | 83.0 | (34.8) | (95.2) | (62.3) |
| Discretionary cash flow (DCF) | 42.2 | 83.0 | (34.8) | (95.2) | (62.3) |
| Cash and short-term investments | 88.1 | 97.8 | 36.1 | 22.6 | 133.0 |
| Gross available cash | 88.1 | 97.8 | 36.1 | 22.6 | 133.0 |
| Debt | 463.4 | 479.1 | 472.5 | 399.4 | 412.5 |
| Equity | 286.2 | 321.0 | 261.7 | 40.7 | 72.4 |
| Adjusted ratios | | | | | |
| EBITDA margin (%) | 61.4 | 59.8 | 51.7 | 25.8 | 36.7 |
| Return on capital (%) | 18.1 | 33.0 | 33.1 | 7.6 | 8.8 |
| EBITDA interest coverage (x) | 4.8 | 7.2 | 6.0 | 2.4 | 2.3 |
| FFO cash interest coverage (x) | 4.3 | 7.0 | 6.9 | 2.1 | 2.3 |
| Debt/EBITDA (x) | 2.0 | 1.6 | 1.9 | 5.9 | 5.1 |
| FFO/debt (%) | 37.0 | 51.9 | 41.9 | 8.4 | 10.3 |
| Cash flow from operations/debt (%) | 27.5 | 55.6 | 25.9 | 9.2 | 0.9 |
| FOCF/debt (%) | 10.0 | 17.3 | (7.4) | (23.8) | (15.1) |
| DCF/debt (%) | 9.1 | 17.3 | (7.4) | (23.8) | (15.1) |

Table 2

Compania General de Combustibles S.A. -- Peer Comparison

Industry Sector: Oil & Gas Exploration & Production

| | Compania General de Combustibles S.A. | | Petroquimica Comodoro Rivadavia S.A. | Gran Tierra Energy Inc. | Frontera Energy Corp. | Petro Rio S.A. |
|-------------------------------------|---------------------------------------|--------------|--------------------------------------|-------------------------|-----------------------|----------------|
| Ratings as of Oct. 7, 2021 | CCC+/Stable/-- | B+/Stable/-- | CCC+/Stable/-- | B-/Stable/-- | B+/Stable/-- | B+/Stable/-- |
| --Fiscal year ended Dec. 31, 2020-- | | | | | | |

Table 2

Compania General de Combustibles S.A. -- Peer Comparison (cont.)

Industry Sector: Oil & Gas Exploration & Production

| | Compania General de Combustibles S.A. | | Petroquimica Comodoro Rivadavia S.A. | Gran Tierra Energy Inc. | Frontera Energy Corp. | Petro Rio S.A. |
|------------------------------------|---------------------------------------|--------------|--------------------------------------|-------------------------|-----------------------|----------------|
| | S.A. | GeoPark Ltd. | | | | |
| (Mil. \$) | | | | | | |
| Revenue | 372.0 | 393.7 | 297.5 | 237.8 | 648.5 | 366.7 |
| EBITDA | 228.6 | 236.2 | 142.0 | 91.3 | 174.0 | 227.8 |
| Funds from operations (FFO) | 171.4 | 158.5 | 98.9 | 25.6 | 127.8 | 204.0 |
| Interest expense | 47.6 | 54.7 | 30.1 | 57.6 | 57.0 | 36.9 |
| Cash interest paid | 52.7 | 37.6 | 37.4 | 50.2 | 43.1 | 23.8 |
| Cash flow from operations | 127.6 | 131.1 | 84.8 | 80.9 | 170.4 | 287.7 |
| Capital expenditure | 81.3 | 75.3 | 91.2 | 96.3 | 97.7 | 48.9 |
| Free operating cash flow (FOCF) | 46.3 | 55.8 | (6.5) | (15.4) | 72.7 | 238.7 |
| Discretionary cash flow (DCF) | 42.2 | 51.8 | (11.6) | (15.4) | 26.9 | 238.7 |
| Cash and short-term investments | 88.1 | 201.9 | 87.5 | 13.7 | 232.3 | 150.6 |
| Debt | 463.4 | 875.2 | 483.0 | 891.8 | 646.7 | 569.4 |
| Equity | 286.2 | (109.2) | 250.0 | 257.0 | 764.8 | 606.8 |
| Adjusted ratios | | | | | | |
| EBITDA margin (%) | 61.4 | 60.0 | 47.7 | 38.4 | 26.8 | 62.1 |
| Return on capital (%) | 18.1 | (12.7) | 13.7 | (49.0) | (15.3) | 7.8 |
| EBITDA interest coverage (x) | 4.8 | 4.3 | 4.7 | 1.6 | 3.1 | 6.2 |
| FFO cash interest coverage (x) | 4.3 | 5.2 | 3.6 | 1.5 | 4.0 | 9.6 |
| Debt/EBITDA (x) | 2.0 | 3.7 | 3.4 | 9.8 | 3.7 | 2.5 |
| FFO/debt (%) | 37.0 | 18.1 | 20.5 | 2.9 | 19.8 | 35.8 |
| Cash flow from operations/debt (%) | 27.5 | 15.0 | 17.5 | 9.1 | 26.4 | 50.5 |
| FOCF/debt (%) | 10.0 | 6.4 | (1.3) | (1.7) | 11.2 | 41.9 |
| DCF/debt (%) | 9.1 | 5.9 | (2.4) | (1.7) | 4.2 | 41.9 |

Our Base-Case Scenario

- Argentina's GDP to grow 7.2% and 2.1% in 2021 and 2022, respectively.
- Average inflation rate in Argentina of 47.5% in 2021 and 42.0% in 2022.

- Argentina's average foreign exchange (FX) rate of ARP97 per \$1 in 2021, ARP132.5 per \$1 in 2022, and ARP180 per \$1 in 2023.
- Average Brent crude oil prices of \$69 per barrel in 2021 and \$65 per barrel in 2022, with our recently published oil and gas price deck ("S&P Global Ratings Revises Oil And Natural Gas Price Decks", published on Oct. 4, 2021).
- Average realized gas prices of about \$5.0 per million of British thermal units, including the benefits related to the government's gas incentive programs.
- Total oil production of 11,600 barrels of oil equivalent (boe) per day in 2021 and 16,700 in 2022, incorporating that of Sinopec Argentina during the second half of 2021 and full 2022.
- Total gas production of 5.0 million cubic meters (Mm3/d) per day in 2021 and 3.1 Mm3/d per day in 2022.
- Annual dividends from midstream assets of about \$2.5 million in 2021 and 2022.
- Annual capital expenditures (capex) of about \$157 million in 2021 and \$174 million in 2022.
- No dividend distribution.
- Our adjusted debt calculation incorporates CGC's asset retirement obligations, which totaled \$22.7 million as of June 30, 2021.

Key Metrics

| | 2019A | 2020A | 2021E | 2022E |
|-----------------------------------|-------|-------|-------|-------|
| Adjusted EBITDA (mil. \$) | 308.6 | 228.4 | 333.8 | 303.8 |
| EBITDA margin (%) | 59.8 | 0.6 | 0.5 | 0.5 |
| Gross debt/EBITDA (x) | 3.0 | 3.8 | 1.7 | 1.4 |
| Funds from operations (%) | 0.5 | 0.4 | 0.5 | 0.5 |
| EBITDA/interest expense (x) | 7.2 | 1.9 | 2.3 | 4.1 |
| Free operating cash flow/debt (%) | 0.2 | 0.1 | 0.1 | 0.1 |

All figures are S&P Global Ratings adjusted. E—Estimate.

Liquidity

We assess CGC's liquidity as less than adequate. Although cash position has increased thanks to new debt, we consider a significant portion will be quickly used to pay down upcoming debt maturities, such as the senior unsecured bond due November 2021, and to finance a heavier investment plan after Sinopec Argentina's acquisition. However, CGC demonstrated, in our view, that it can raise considerable funds in domestic bond market amid the volatile economic conditions, and could engage in refinancing again in the future.

Principal Liquidity Sources

- Cash and liquid investments of \$270 million as of June 31, 2021;
- Funds from operations of about \$270 million for the next 12 months; and
- \$120 million from the recent debt issuance in the domestic market.

Principal Liquidity Uses

- Short-term debt of \$232 million as of June 30, 2021;
- Working capital outflows of about \$30 million for the next 12 months; and
- Capex of about \$185 million for the next 12 months.

Covenants

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 net debt to EBITDA ratio is above 3.0x. For the purposes of this covenant, debt is measured on a net debt basis, while EBITDA includes dividends from midstream assets. We believe the company will be able to comply covenants with ample headroom.

Issue Ratings--Subordination Risk Analysis

Capital Structure

CGC's current capital structure mainly consists of \$196 million senior unsecured notes due 2025, \$93 senior unsecured notes due in November 2021, \$115 million amortizing syndicated loan due in 2023, \$100 million amortizing local bond due 2027, and \$90 million in other local bonds. About 30% of debt is short term and almost 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 any debt at the level of operating subsidiaries.

Reconciliation

Table 3

Compania General de Combustibles S.A.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

--Rolling 12 months ended June 30, 2021--

Compania General de Combustibles S.A. reported amounts (000s Ar\$)

| | Debt | Shareholders' equity | Revenue | EBITDA | Operating income | Interest expense | S&P Global Ratings' adjusted EBITDA | Cash flow from operations | Dividends | Capital expenditure |
|--|------------|----------------------|------------|------------|------------------|------------------|-------------------------------------|---------------------------|-----------|---------------------|
| | 48,197,006 | 32,168,508 | 40,836,558 | 23,562,244 | 15,550,875 | 5,031,100 | 25,494,294 | 21,605,629 | 348,676 | 10,944,230 |
| S&P Global Ratings' adjustments | | | | | | | | | | |
| Cash taxes paid | -- | -- | -- | -- | -- | -- | (570,493) | -- | -- | -- |
| Cash interest paid | -- | -- | -- | -- | -- | -- | (4,900,012) | -- | -- | -- |
| Reported lease liabilities | 3,536,258 | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Dividends received from equity investments | -- | -- | -- | 254,813 | -- | -- | -- | -- | -- | -- |

Table 3

Compania General de Combustibles S.A.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)

| | | | | | | | | | | |
|--|------------|----|----|-----------|-----------|----|-------------|-------------|----|----|
| Asset-retirement obligations | 9,872,936 | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Exploration costs | -- | -- | -- | 164,853 | -- | -- | (164,853) | -- | -- | -- |
| Nonoperating income (expense) | -- | -- | -- | -- | (612,257) | -- | -- | -- | -- | -- |
| Reclassification of interest and dividend cash flows | -- | -- | -- | -- | -- | -- | -- | (4,645,199) | -- | -- |
| EBITDA: Other income/(expense) | -- | -- | -- | 1,512,384 | 1,512,384 | -- | -- | -- | -- | -- |
| Total adjustments | 13,409,194 | 0 | 0 | 1,932,050 | 900,127 | 0 | (5,635,358) | (4,645,199) | 0 | 0 |

S&P Global Ratings' adjusted amounts

| | Debt | Equity | Revenue | EBITDA | EBIT | Interest expense | Funds from operations | Cash flow from operations | Dividends | Capital expenditure |
|--|------------|------------|------------|------------|------------|------------------|-----------------------|---------------------------|-----------|---------------------|
| | 61,606,200 | 32,168,508 | 40,836,558 | 25,494,294 | 16,451,002 | 5,031,100 | 19,858,936 | 16,960,430 | 348,676 | 10,944,230 |

Ratings Score Snapshot

Issuer credit rating: CCC+/Stable/--

Business risk: Vulnerable

- Country risk: Very high
- Industry risk: Moderately High
- Competitive position: Vulnerable

Financial risk: Aggressive

- Cash flow/leverage: Aggressive

Anchor: b

Modifiers

- 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: 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
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

Ratings List

Upgraded; CreditWatch/Outlook Action

| | To | From |
|--|----------------|------------------|
| Compania General de Combustibles S.A. | | |
| Issuer Credit Rating | CCC+/Stable/-- | CCC/Watch Pos/-- |
| Compania General de Combustibles S.A. | | |
| Senior Unsecured | CCC+ | CCC/Watch Pos |
| | To | From |
| Compania General de Combustibles S.A. | | |
| Analytical Factors | b- | ccc |

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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