YPF (Long) Thesis

26.5.2013

Company Facts

- YPF was nationalised by the Argentine government from Spanish giant oil Company Repsol.

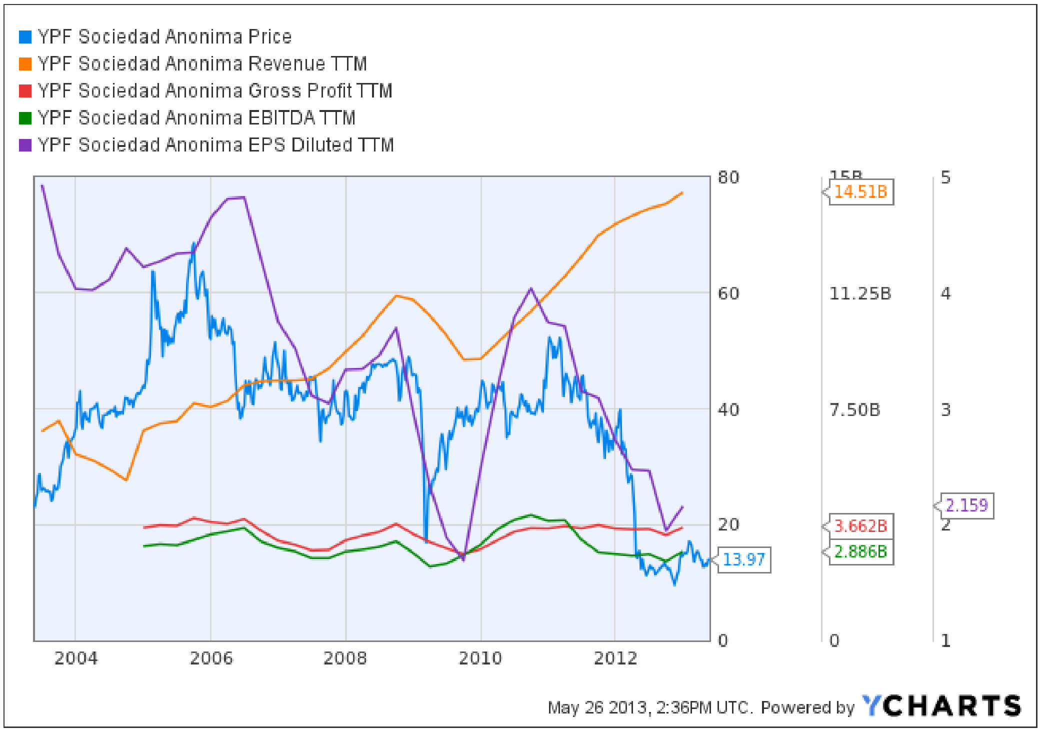
- This nationalisation was implemented on the Argentines largest oil producer because Repsol wasn't investing enough to help local demand. Maybe due to the Spanish European financial crisis.
- http://www.bbc.co.uk/news/world-europe-17740393

- This automatically spooked investors,fearing that this nationalisation could be the beginning of further nationalisation sending the stock tumbling from a high of $55 in 2010 to a low of $9 in November 2012. The stock is currently at 13.95. .http://seekingalpha.com/article/1218251-mat-wilson-following-the-money-to-undervalued-contrarian-plays

- Major shale gas discoveries were discovered in Argentina, yet poor Repsol couldn't invest and the Argentine government having its own financial woes. It was estimated that $6 billion was needed in the bbc article above.

- Thats when Chevron announced a $1.5 billion investment in the stock, CVX is not stupid to go out and invest that much if it believes that YPF will fall into legal issues.http://www.reuters.com/article/2013/05/15/us-ypf-chevron-idUSBRE94E16K20130515?feedType=RSS&feedName=innovationNews&rpc=43

YPF Fundamentals



- The chart clearly indicates the rising revenues of YPF despite the decline in EPS which probably due of interest expenses.
- EBITDA or operating profit along with gross profit has been constant over the years despite the plunge in stock prices.

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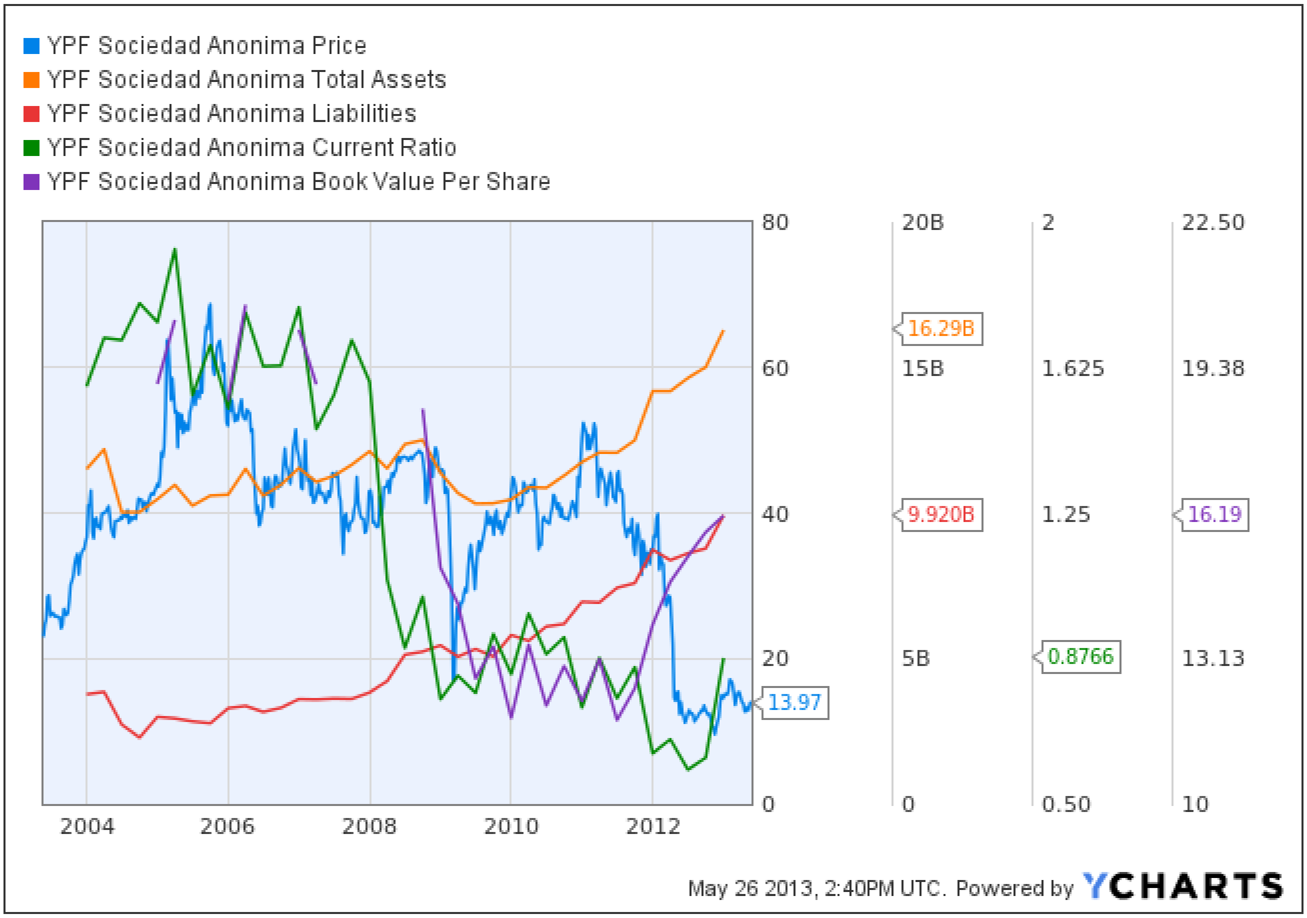


- This confirms the chart above that YPF had been increasing assets on debt as total assets grew along with total liabilities, they grew in tendom as outlined by the chart above.

- YPF is below its book value at $16.19, without taking into account the value of the shale gas discoveries.

- The ratio has come under pressure in recent times due to Argentina's liquidity problems however. (This COULD be eased by the $1.5 billion investment by CVX).

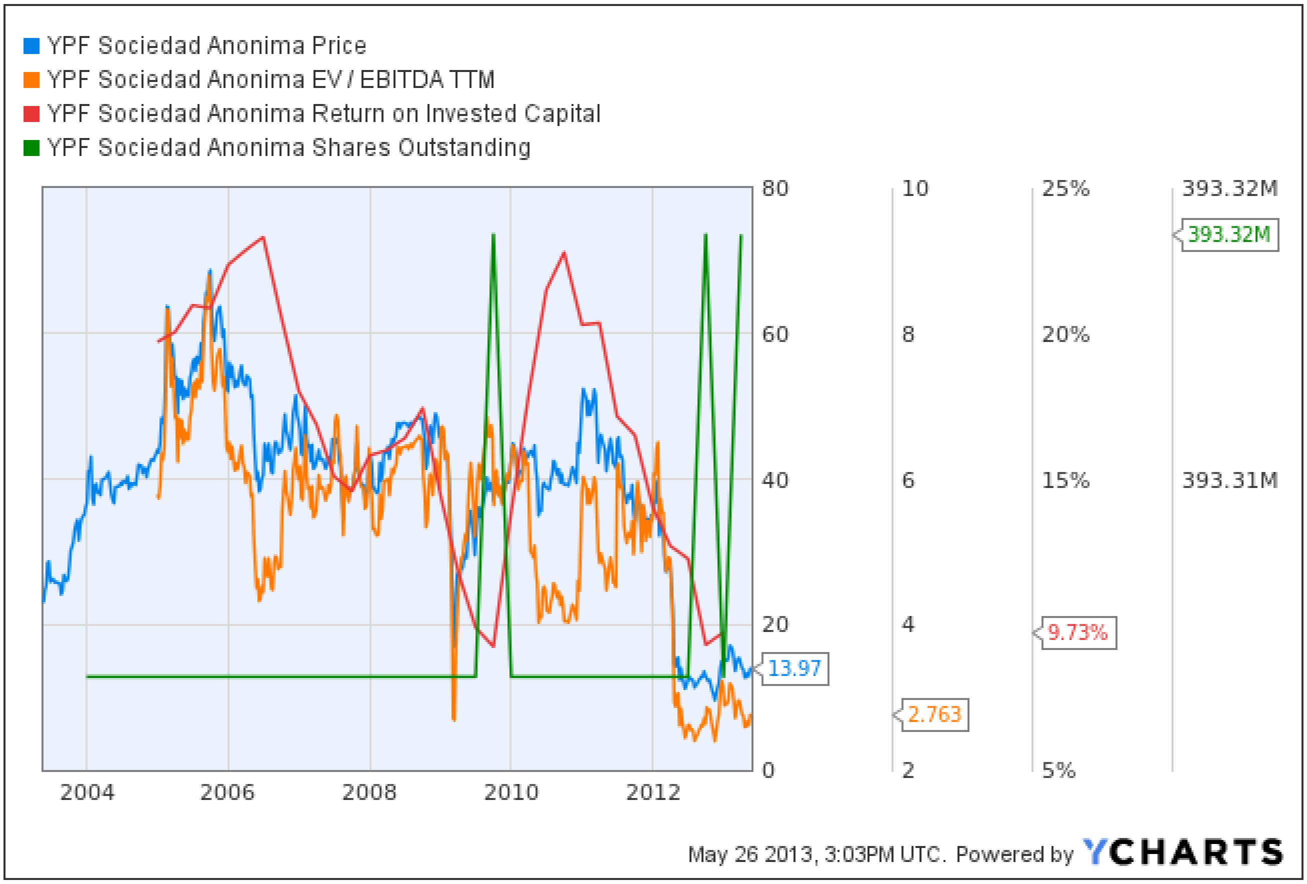
- This chart indicates how YPF significantly reduced its dividend after the nationalisation in order to invest internally, right before the nationalisation the dividend yield was at a whopping 31.00% its as if the Spanish cojones knew they were about to be nationalised and squeezed every last peso out of YPF.

- The debt to equity ratio also steadily increased over the years with the increase in total assets as outlined in the previous chart.

- Looking at valuation ratios; the price to cash flow ratio is high which indicates the delicate cash situation that's at YPF. This could also been seen at the current ratio above and how it deteriorated over time. This indicates that YPF barely made ends meet.

- The P/E ratio is at 6.469 times which is still significantly below its +10 times P/E ratio average over the past couple of years.

- PEG is at 0.6889

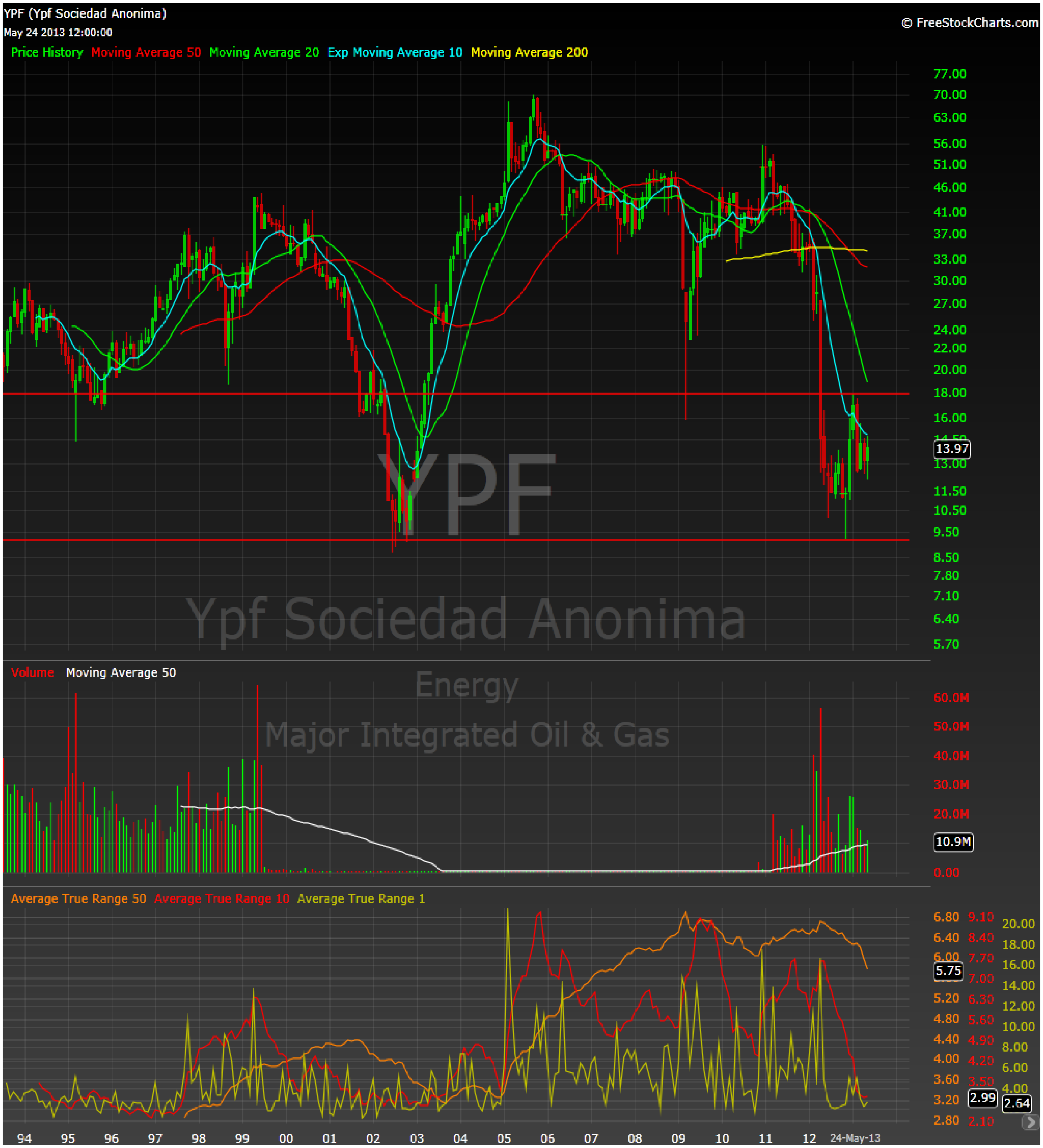


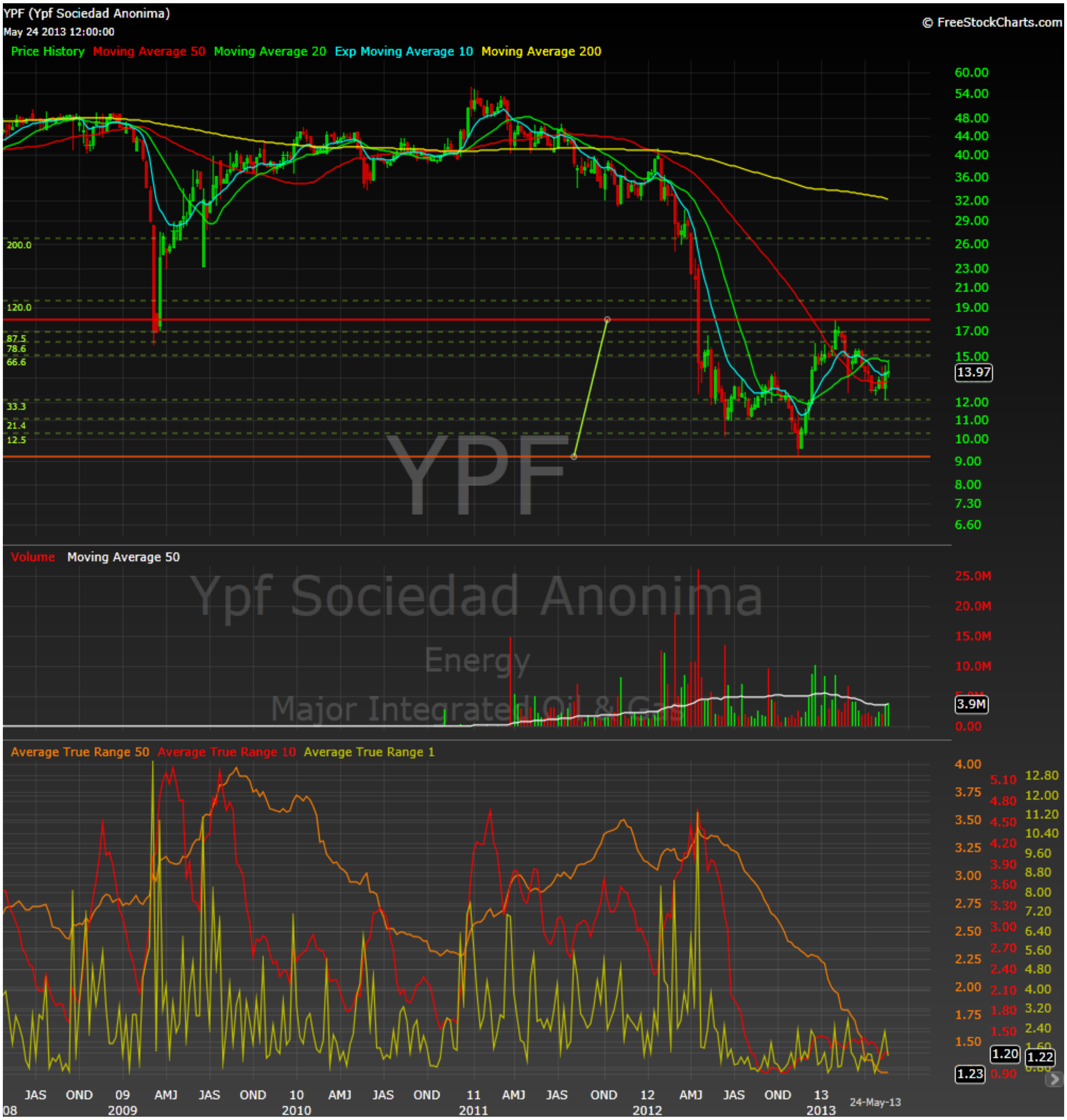
- On other valuation metrics, YPF also scores high marks. Its EV/EBITDA is close to its all time low of 2.763 times indicating how cheap the firm is.

- Its ROIC is also at an all time low at 9.73%, which is significantly below the 22.79% highs reached in 2010, implying that things could significantly improve for the the Company.

- Shares outstanding has been constant at 393.32 - 393.31 million despite the spike in the chart above. Indicating that a dilution of equity has not been taking place in the Company. Debt has been the main source of financing which indicates that the Company holds shareholders interests highly.

Reflexive Analysis




YPF (Ypf Sociedad Anonima)
May 24 2013 12:00:00
© FreeStockCharts.com
Price History Moving Average 50 Moving Average 20 Exp Moving Average 10 Moving Average 200
YPF
Volume Moving Average 50
Ypf Sociedad Anonima
Energy
Major Integrated Oil & Gas
Average True Range 50 Average True Range 10 Average True Range 1
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Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr
2012
2013
24-May-13

Technical Analysis

From the 3 charts above, it is obvious that YPF is hugging new lows not seen since 1994 despite the record revenues, quarter after quarter. The nationalisation story was the fuel to the bust that occurred when the stock fell from $55 to $9. This also happened during the EU credit crunch which spread to countries like Argentina which relied on Spain as an investor.

The move down was violent and harsh, it is obvious however from the same chart that the above average volume is playing a key role in a possible paradigm shift. YPF is clearly in accumulation.The news that Chevron has invested indicates that things might not be as bad as people expect. And that a move higher could be in the cards eventually.

The price certainly doesn't reflect the underlying fundamentals, and this could cause a vicious rise in stock prices to occur. A move back to equilibrium is not far fetched. YPF can easily double given the extreme present undervaluation, which could mark the beginning of a vicious bullish reinforcing up move.

If the government however further intervenes, then that could cause pressure on the stock price. The biggest risk here is that a repeat of PBR occurs. It is key to note however, that even PBR is higher valued than YPF at the moment indicating the margin of safety available in holding YPF and the possible potential of a ripping up move. Furthermore, PBR has zero insider ownership while YPF has 45.19% of it owned by insiders. The large margin of safety available in YPF makes an investment in the stock at the moment highly favorable.

Risks

- Market Risk Merval Index (Argentine Stocks Index) heads south.
- Risk that YPF turns into PBR (Petrobras brazil, in that the government forgets shareholders obligations for profit and turns the Company into one thats sole purpose is to serve the people.
- High debt could bankrupt the Company - (unlikely given size, assets that could be sold and given the fresh inflow of cash from Companies that want to invest in Argentina like CVX's $1.5 billion investment.
- Argentine sovereign debt deteriorates, the economy suffers and a spike in YPF debt yield occurs. This could hurt the financial situation at the Company.