FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Petroquimica Comodoro Rivadavia S.A. at 'B-'; Outlook Stable

Thu 24 Feb, 2022 - 2:40 PM ET

Fitch Ratings - New York - 24 Feb 2022: Fitch Ratings has affirmed Petroquimica Comodoro Rivadavia S.A.'s (PCR) Long-Term Foreign Currency (FC) and Local Currency Issuer Default Ratings (IDRs) at 'B-'. The Rating Outlook Stable.

PCR's ratings reflect its small oil production size, concentrated cement business in the Patagonia region of Argentina, and exposure to the Argentine electricity industry's regulatory risk. PCR's Argentine operations and cash flows are slightly offset by its Ecuadorian oil operations, which cover its hard-currency consolidated interest expense. Fitch expects PCR's ex-Argentine EBITDA will cover its hard-currency consolidated interest expense over the rated horizon, mitigating the impact of capital controls in Argentina.

KEY RATING DRIVERS

Applicable Country-Ceiling: PCR's FC IDR is rated at the country-ceiling of Ecuador (B-) as cash flow from its Ecuadorian operations cover its hard-currency consolidated interest expense. Fitch estimates PCR's hard-currency consolidated interest expense is USD35 million per annum and its Ecuadorian EBITDA will average USD74 million. This covers hard-currency interest expense. In the event that cash flow from Ecuador operations does not cover hard-currency interest expense, the applicable country ceiling will be that of

Argentina, and the company's FC IDR will be revised in the event it is below its current level of 'B-'.

Leverage Profile: Fitch estimates PCR's leverage decreased to 2.4x in 2021 from 3.3x in 2020, explained mainly by higher Brent prices as well as higher revenues from the renewable energy business after the San Jorge and Mataco wind farm COD. Fitch expects the company will maintain stable gross leverage, defined as total debt to EBITDA, averaging below 3.5x over the rated horizon. The decrease in leverage is due to improved EBITDA supported by higher Brent prices and predictable renewable energy EBITDA coupled with a manageable amortization schedule. Fitch assumes PCR's consolidated debt will end 2021 at approximately USD440 million as PCR continues expanding renewable generation and then debt decreasing to roughly USD380 million once it starts amortizing. Fitch estimates PCR's total debt to 2020 proved (1P) reserves will be USD13.67 barrels of equivalent (boe).

Small Production Profile: PCR's ratings reflect its small and concentrated production profile, which is consistent to the 'B' rating category. Although the company has exploration and production interest in nine blocks in Argentina (five) and Ecuador (four), most of its asset base as 1P reserves and production is concentrated in Argentina at 70% and 60%, Ecuador 30% and 40%, respectively. This limited diversification exposes the company to operational and macroeconomic risks associated with small-scale oil and gas production. Fitch expects the company's working interest production to average 17,500boe per day (boed) from 2021-2024, maintaining a flat level over that time.

Hydrocarbon Reserves: The company reported gross 2020 1P reserves estimated at 32.5 million boe, excluding the Colombia asset PCR sold in 2021 for USD13 million. Fitch expects the company will maintain its 5.1 years 1P reserve life by maintaining production at 17,500 boed. Further, Fitch estimates the company's total debt to 1P increased by 34% to USD13.67/bbl in 2021 from USD10.14/bbl in 2020. The company has strong concession life with the earliest material concession expiring in 2025 (El Sosneado). PCR's largest concession is El Medanito, currently accounts for approximately 34% of working interest production, expiring in 2026. Other concessions have longer expiration dates.

Expansion into Renewables: Fitch views PCR's successful completion of 329MW of wind capacity and 86MW of capacity in construction as a credit positive. The company currently operates four wind farms: Bicentenario (PEBSA I & II) 125MW capacity, El Mataco 102.6MW capacity, and San Jorge 100.8MW. These wind farms were financed via project finance and bank loan debt totaling roughly USD410 million of capex.

PCR's two new projects are Mataco III, 36MW capacity, and Vivorata, 50MW capacity, both started construction 4Q21 and will be completed during 3Q23 and 4Q23, respectively. These new wind farms will be private PPAs with high quality offtakers and the estimated financing capex will be USD68 million for Mataco III and USD88 million for Vivorata.

Heightened Counterparty Exposure: PCR depends on payments from CAMMESA, which acts as an agent on behalf of an association representing agents of electricity generators, transmission, distribution and large consumers or the wholesale market participants (Mercado Electrico Mayorista; MEM).

CAMMESA's payment delay risk is slightly mitigated in the RenovAR program with the presence of the FODER trust fund, which is prefunded with six months to one year of revenue. Payment days for the FODER are 42 days and no delays have been reported recently from the company. The company estimates USD21 million of its EBITDA from renewables is backed by a World Bank guarantee.

DERIVATION SUMMARY

PCR is a small oil and gas producer with operations in Argentina and Ecuador. Argentina represents 60% of production while Ecuador contributed 40%. Production is expected to remain relatively flat averaging 17,500 boed through 2024, which is comparable with its 'B' rated peers, GeoPark Ltd (B+/Stable), Frontera Energy (B/Stable), Gran Tierra Energy (B-/Stable) and Compania General de Combustibles (CGC; B-/Stable).

Over the rated horizon, PCR will have the smallest production profile amongst rated peers in Latin America. Fitch estimates, Geopark will average roughly 40,000 boed over the rated horizon, Gran Tierra around 33,000boed, CGC with increasing over 45,000 boed, and Frontera Energy 40,000 boed. Further, PCR reported 32.5 million boe of 1P reserves, ex-Colombia, at the end of 2020 equating to a reserve life of 5.1 years is lower than line GeoPark at 7.4 years and Frontera Energy's 6.2 years, Gran Tierra's 9.5 years but higher than CGC's 4.6 years.

PCR's cement segment is small and geographically focused and does not compare well to some of its peers in the region. PCR has a capacity of producing 750,000 tons per year compared with Cementos Pacasmayo (BBB-/Stable) with capacity: 4.9 million metric tons a year and GCC, S.A.B. de C.V. (BBB-/Stable) with 5.8 million metric tons. PCR's cement business is focused in the Patagonia region and has a strong market share due to its geographic location and production efficiencies caused by the lower freight and energy costs. PCR's cement margins historically have averaged in the 10%-12% range from 2014 through 2018 but recently increased to the higher 30% range, which is more in line with peer's median of approximately 30%.

PCR's gross leverage is expected to decrease to 2.4x in 2021, explained by higher EBITDA in its upstream business due to Brent prices. PCR's gross leverage is higher than oil and gas peer CGC (1.4x), Geopark (1.8x). Frontera (1.4x), and Gran Tierra (2.2x). Unlike its oil and gas peers, PCR does have a more diversified business model with its cement segment and renewable energy segment. The power business compares to Pampa Energia (B-/Stable), MSU Energy (CCC), Capex S.A. (CCC+) and Genneia (CCC). Similar to PCR, Pampa Energia and Capex both have oil and gas as well as energy business segments, taking into consideration that Capex is a closer peer by scale compared with the much larger Pampa Energia.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

--Fitch's EOP and average foreign exchange rate for ARS to USD;

--Average working interest production to be 17,500 boed in from 2020 until 2024;

--Fitch's price deck for Brent per barrel (bbl) 2021 USD71, 2022 USD70, 2023 USD60, and USD53 in the long term;

--Cement sales growth linked to Fithc's real GDP growth of Argentina;

--Capex between 2021-2024 of USD340 million with an average annual capex of USD85 million;

--Average dividends of USD5 million paid each year from 2021 through 2024;

--Installed Capacity of 329 MW increasing to 415MW in 2024;

--Renewables having 98% availability and 55% capacity factor at a monomic price of USD44MWh in 2021 increasing USD46 by 2024;

--CAMMESA/FODER pay on time.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Diversification of operations outside of Argentina and Ecuador with cash flows covering 12 months of hard currency debt service;

--Net production rising consistently to 30,000 boed on a sustained basis while maintaining a total debt to 1P reserves of USD8bbl or below;

--Reserve life is unaffected as a result of production increase at approximately seven years;

--Sustained conservative capital structure and investment discipline.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Downgrade of the country ceiling of Ecuador and/or Argentina;

--Sustainable production size decreased to below 15,000 boed;

--Material delay in CAMMESA/FODER payments that materially affect working capital;

--Significant cost overruns that result in increased leverage and/or weaken liquidity;

--A significant deterioration of credit metrics to total debt/EBITDA of 5.5x or more.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: As of 3Q21, PCR reported a cash balance of USD105 million, which covers two years of interest expense. Fitch believes with a strong cash balance and cash flow from operations, the company will adequately cover its interest expense and upcoming maturities. Fitch believes the company maturity profile is manageable and the company has strong access with local banks in the event it needs additional liquidity.

ISSUER PROFILE

PCR is an Argentine independent energy company focused on three main activities: the exploration and production of hydrocarbons, the production and distribution of cement and construction materials, and renewable power generation.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Petroquimica Comodoro Rivadavia S.A.	LT IDR	B- Rating Outlook Stable Affirmed	B- Rating Outlook Stable
	LC LT IDR	B- Rating Outlook Stable Affirmed	B- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

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APPLICABLE CRITERIA

Country-Specific Treatment of Recovery Ratings Criteria (pub. 05 Jan 2021)

Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria (pub. 08 Jan 2021)

Corporate Rating Criteria (pub. 15 Oct 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Petroquimica Comodoro Rivadavia S.A.	EU Endorsed, UK Endorsed

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Corporate Finance: Leveraged Finance   Latin America   Argentina