FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Austin - 09 Nov 2023: Fitch Ratings has affirmed Petroquimica Comodoro Rivadivia S.A.'s (PCR) Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) at 'B-'. The Rating Outlook is 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 flow are slightly offset by its Ecuadorian oil operations, which cover its hard-currency consolidated interest expense. Fitch estimates PCR's ex-Argentine EBITDA will cover its hard-currency consolidated interest expense over the rated horizon, mitigating the impact of capital controls.

KEY RATING DRIVERS

Diversified Cash Flow: PCR's has diversified cash flow profile stemming from its three business segments. In 2022, PCR's EBITDA reached USD210 million, USD120 million of which was from its Oil and Gas (O&G) business, USD64 million from Renewables and USD31 million from Cement. Over the rating horizon, Fitch estimates the share of consolidated EBITDA from the Renewable Energy segment will reach 47% -- roughly USD96 million by 2025 -- contributing to a more predictable cash flow profile, while reducing O&G production and maintaining its strong position in the Cement business in Patagonia.

Adequate Leverage: Fitch expects PCR will increase gross leverage, defined as total debt to EBITDA, close to 3.1x at YE 2023, compared to 2.0x in 2022 and 2021. Fitch estimates PCR's consolidated debt will end 2023 at approximately USD624 million as it

Small Production Profile: PCR's ratings reflect its small and concentrated production profile of below 20,000boed, which is consistent with the low end of the 'B' rating category. The company has exploration and production interest in 14 blocks in Argentina (10) and Ecuador (four), but most of its respective asset base of Proven Reserves (1P) and production is concentrated in Argentina at 84% and 60%, and Ecuador at 16% and 40%.

Counterparty Exposure: PCR's power cash flows are concentrated with one off-taker, approximately 63% of PCR's Renewable Energy segment revenues depend on payments from Compania Administradora del Mercado Mayorista Electrico Sociedad Anonima (CAMMESA), which acts as an agent on behalf of an association representing agents of electricity generators, transmission, distribution, large consumers or wholesale market participants (Mercado Electrico Mayorista). All contracts are under the RenovAr program and have a guarantee from FODER (Argentina Renewable Fund Guarantee) and in certain cases, with an additional guarantee from the World Bank, the latter of which applies to the Mataco/San Jorge plant for up to USD21.5 million.

DERIVATION SUMMARY

PCR is a small oil and gas producer with operations in Argentina and Ecuador. Argentina represents 60% of production and Ecuador contributed 40%. Production is expected to remain relatively flat, averaging around 18,000boed through 2025, comparable to its 'B' rated peers, GeoPark Limited (B+/Stable), Frontera Energy Corporation (B/Stable) and Gran Tierra Energy Inc. (B/Stable).

Over the rated horizon, PCR will have the smallest production profile among rated Latin American peers. Fitch estimates GeoPark will average approximately 40,000boed over the rated horizon, Gran Tierra approximately 47,000boed and Frontera Energy 48,000boed. PCR reported 22.7 million boe of 1P reserves at the end of 2022, equating to a reserve life of 4.0 years, which is lower than GeoPark at 5.2 years, Frontera Energy's 8.6 years and Gran Tierra's 7.0 years.

PCR's cement segment is small and geographically focused and does not compare well with some of its regional peers. PCR has the capacity to produce 825,000 tons per year, compared with GCC, S.A.B. de C.V. (BBB-/Positive) with capacity of 5.9 million metric tons per year. 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 lower

PCR's gross leverage is higher than oil and gas peer GeoPark (0.8x), Frontera (0.8x) and Gran Tierra (1.2x). Unlike its oil and gas peers, PCR has a more diversified business model due to its Cement and Renewable Energy segments. The power business compares with Pampa Energia S.A. (B-/Stable), MSU Energy S.A. (CCC-), Capex S.A. (CCC+) and Genneia S.A. (CCC-). Similar to PCR, Pampa Energia and Capex 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 Include

--Fitch's end-of-period and average foreign exchange rate for Argentine pesos to U.S. dollars;

--Average working interest production of 18,000boed from 2023 to 2025;

--Fitch's price deck for Brent per barrel (bbl) of USD80 in 2023, USD75 in 2024, USD70 in 2025 and USD65 in the long term;

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

--Capex of USD368 million between 2023 and 2025, with average annual capex of USD123 million;

--Average dividends of USD10 million paid each year from 2023 through 2025;

--Installed capacity of 415MW, increasing to 527MW in 2024;

--Renewables have 98% availability and a 45% capacity factor increasing to 52% at a monomic price of USD45/MWh in 2023;

--CAMMESA/FODER pay on time.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Ecuadorian EBITDA does not cover Hard Currency interest expense;

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

--A significant deterioration of credit metrics to total debt/EBITDA of 5.0x or more.

--Weakening of liquidity.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: As of 3Q23, PCR reported a cash balance of USD194.2 million, which covers about four 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's maturity profile is manageable and the company has strong access to 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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating

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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APPLICABLE CRITERIA

Country-Specific Treatment of Recovery Ratings Criteria (pub. 03 Mar 2023)

Country Ceiling Criteria (pub. 24 Jul 2023)

Corporate Rating Criteria (pub. 03 Nov 2023) (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), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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