International experts put a price on the expropriation of YPF

With the expropriation of YPF the Argentine government became the controlling shareholder, with 51 percent.

April 16, 2013

How much should the Argentine government pay to Repsol for the expropriation of YPF?

This is the question that IESE Prof. Pablo Fernandez put to some 22,000 finance and economics professors, analysts, fund managers and business executives worldwide.

Of the nearly 2,000 responses received, 70 percent believed that YPF's own bylaws governing compensation to shareholders in the event of the State taking control of the company should be used to make the calculation.

There was some variation concerning the date on which to base the valuation: January 27, 2012, when rumors of the takeover bid first began to fly, or when the expropriation was officially announced on April 16, 2012. Depending on which date was chosen, this could result in a difference of nearly $2 billion.

In the end, the global average valuation was given at $10.3 billion.

Interestingly, the average price per share provided by Argentine experts ($50.2) hardly differs from that of the Spanish ($50.8).

Follow-up to case

The full report by Fernandez provides detailed comments from respondents to justify their valuations. The report itself is a follow-up to an earlier case written by Fernandez on the controversial YPF expropriation.

That case, "Valuation of an Expropriated Company: The Case of YPF and Repsol in Argentina," provides all the information and data you would need as if you were a member of the tribunal helping to determine the compensation that Repsol should receive for its YPF shares.

Rumblings of thunder

In 1999, Repsol acquired the vast majority of YPF's shares for $15 billion, during a wave of privatizations of state-owned enterprises.

Since the collapse of Argentina's economy in 2001-02, subsequent political leaders have tried to bring many lucrative industries back under government control.

The discovery of huge oil and gas deposits in the Vaca Muerta basin inspired the Argentine government to push for a controlling stake in YPF, wresting control away from Repsol.

Analysts estimated that Vaca Muerta could realistically generate enough oil to keep Argentina going for 30 years and enough gas for 50 years. This would make Argentina the world's third largest producer of shale gas reserves, after the United States and China. Moreover, YPF's earnings were expected to triple by 2015.

But in order to develop these resources, an annual investment of $25 billion would be required — far from the $3 billion YPF had invested in 2011.

This lack of adequate investment was one of the arguments that the Argentine President used to justify the government intervention. These vital energy resources, she argued, were tantamount to national interests.

Although the expropriation was not announced until April 16, 2012, rumors began to fly beforehand. Stock prices fell almost 11 percent within 24 hours of traders getting wind of the possible state maneuver.

In the weeks that ensued, YPF saw several of its oil concessions in Argentina cancelled. Over the next two months, its share price fell another 30 percent.

By the time of the expropriation, YPF shares were trading at just over $24, down from $40 in January. And the next day the share price dropped by another 29 percent.

Declines not reflected in target price

With the expropriation, Repsol saw its stake in YPF dwindle from 57.4 percent to just 6.4 percent, while the Argentine government became the controlling shareholder, with 51 percent.

The decline in the market value of YPF shares was not fully reflected in the evolution of the target price offered for the expropriation, say critics.

All but one of the valuations conducted between 2011 and 2012 estimated the target price at between $25 and $58 a share. The a
verage until February 2012 was almost $51 a share.

Fernandez's international survey adds more fuel to an ongoing fiery debate, as Repsol continues to battle Argentina for compensation in tribunals.

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