

## RATING ACTION COMMENTARY

# Fitch Affirms Ecopetrol's Foreign and Local Currency IDRs at 'BB+'; Outlook Stable

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Fitch Ratings - New York/Bogota - 15 Nov 2023: Fitch Ratings has affirmed Ecopetrol S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB+'. The Rating Outlook for the IDRs is Stable. Fitch has also affirmed the company's National Long- and Short-Term ratings at 'AAA(col)'/F1+(col)'. The Outlook for the National Long-Term rating is Stable.

Ecopetrol's ratings reflect the close linkage with the Republic of Colombia (Foreign and Local Currency IDRs, BB+/Stable), which currently owns 88.5% of the company. Ecopetrol's ratings also reflect the company's strategic importance for the country, as well as its ability to maintain a solid financial profile.

## KEY RATING DRIVERS

**Linkage to Sovereign:** Ecopetrol's ratings reflect the strong linkage with the credit profile of the Republic of Colombia, owner of 88.5% of the company's total capital. The ratings also reflect the very strong incentive of the Colombian government to support Ecopetrol in the event of financial distress, given the company's strategic importance to the country as a supplier of virtually all liquid fuel demand in Colombia, and owner of 100% of the country's refining capacity.

Ecopetrol relies on the receipt of funds from the Colombian government, through its stabilization fund Fondo de Estabilizacion de Precios de los Combustibles (FEPC), to offset the difference from selling gasoline and diesel in the local market at lower prices versus the export market. At September 2023, the amount accrued in the FEPC was COP25.7 trillion (USD5.7 billion). Fitch expects that the balance in the FEPC account will decrease with several price adjustments beings rolled-out by the government. During 2022, the price of

gasoline was adjusted by COP600/gallon, and by additional COP4,220/gallon during the nine months of 2023.

**Strong Financial Profile:** Ecopetrol's 'bbb' Standalone Credit Profile (SCP) reflects the company's strong financial profile. Fitch-calculated gross leverage as measured by total debt to EBITDA is expected to average 2.5x through the rating horizon, which is moderate for the industry, as Brent prices continue supporting EBITDA generation, and debt is not expected to have any drastic changes. Fitch expects Ecopetrol's interest coverage as measured by EBITDA to interest expense coverage to exceed 6x consistently through the rating horizon.

**Positive FCF Expected:** Fitch expects Ecopetrol's FCF to be positive going forward, subject to revisions to investment and dividends plans. Fitch's base case assumption includes the company having an average annual capex budget of approximately USD5.5 billion over the next three years, and that it will pay 60% of previous year's net income in line with its 40% to 60% dividend policy. This, coupled with Fitch's price assumptions for Brent crude oil price of USD80/bbl in 2023, USD75/bbl in 2024 and USD60/bbl in the long term, would result in positive FCF over the next three years.

**Stable Operating Metrics:** Fitch assumes total hydrocarbons production to be 730 thousand barrels of oil equivalent per day (boe/d) in 2023 exhibiting a trend or recovery expected to continue over the next three years. The company's proved reserve (1P) of 1,969 million boe gave the company a reserve life of 8.7 years as of 3Q23. Fitch assumes a 105% reserve replacement rate. Fitch's calculated after-tax full cycle cost for Ecopetrol has remained relatively stable over the past three years at approximately USD47/boe.

## DERIVATION SUMMARY

Ecopetrol's rating linkage to the Colombian sovereign rating is in line with the linkage for most national oil and gas companies (NOCs) in the region, including Petroleos Mexicanos (PEMEX; B+/Rating Watch Negative), Petroleo Brasileiro S.A. (Petrobras; BB/Stable), Petroleos del Peru - Petroperu S.A. (BB+/ Negative) and Empresa Nacional del Petroleo (ENAP; A-/Stable).

In most cases in the region, NOCs are of significant strategic importance for energy supply to their countries, including in Mexico, Colombia and Brazil. NOCs can also serve as a proxy for federal government funding as in Mexico, and have strong legal ties to governments through their majority ownership, strong control and governmental budgetary approvals.

Ecopetrol's SCP is commensurate with a 'bbb' rating, which is in line with that of Petrobras at 'bbb', given Petrobras' recent significant debt reduction. Excluding IFRS16 leases, Ecopetrol's leverage at YE 2021 was 3.1x. Ecopetrol's credit profile is materially higher than that of Pemex's 'ccc-' SCP as a result of Ecopetrol's deleveraging capital structure versus PEMEX's increasing leverage trajectory. Ecopetrol will continue to report stable production, which Fitch expects to stabilize around 700,000 boed. This production trajectory further supports the notching differential between the two companies' SCP.

## KEY ASSUMPTIONS

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

- Ecopetrol remains majority owned by Colombia;
- Brent average 80 USD/bbl in 2023 and USD75/bbl in 2024 before trending toward USD60/bbl in the long term;
- 9.5% discount to Brent on average through rating horizon;
- Stable production growth of 1.5% per annum through 2026;
- 105% reserve replacement ratio per year;
- Aggregate capex of approximately USD5.5 billion per year for the next three years;
- Dividends of 60% of previous year's net income.

## RATING SENSITIVITIES

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

- Although not expected in the short to medium term, an upgrade of Colombia's sovereign ratings.

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

- A downgrade of Colombia's sovereign ratings;
- A significant weakening of the company's linkage with the government and a lower government incentive to support couple with a deterioration of its standalone credit

profile;

-- A decrease of 1P reserves below 1.5 billion boe could trigger a downgrade to the SCP of the company from 'bbb'.

## **LIQUIDITY AND DEBT STRUCTURE**

**Strong Liquidity:** Ecopetrol's strong liquidity profile is supported by cash on hand, which amounted to USD3.46 billion at Sept. 30, 2023, strong access to the capital markets and an adequate debt maturity profile. By November 2023, the company has already refinanced all of its 2023 maturities. Based on market appetite, Fitch does not expect Ecopetrol will have difficulty refinancing, partially or in full, its 2024 maturities.

**ISA contribution:** Fitch expects that the majority of Ecopetrol's consolidated EBITDA will continue to be generated from its oil & gas business. Fitch estimates that ISA's EBITDA of USD1.7 billion in 2023, adjusted to Ecopetrol's ownership, is expected to represent 8.3% of Fitch's projected Ecopetrol EBITDA for 2023. Gross leverage excluding ISA, defined as total debt to EBITDA, is expected to be 2.0x in 2023, and Fitch forecasts 2.3x on average through 2026, compared to 2.5x on a fully consolidated basis.

## **ISSUER PROFILE**

Ecopetrol is a leading integrated energy and infrastructure company in the Latin American and Central American region. The company is the largest in Colombia in relation to their Upstream, Midstream and Downstream business segments. Interconexión Eléctrica S.A. is 51% owned by Ecopetrol and is largest energy transmission company in the region acquisition.

## **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.

## **PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS**

Ecopetrol S.A.'s Long-Term IDR is linked to the sovereign rating of Colombia.

## **ESG CONSIDERATIONS**

Ecopetrol S.A. has an ESG Relevance Score of '4' for Governance Structure due to its nature as a majority government-owned entity and the inherent governance risk that arises with a

dominant state shareholder, which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

Ecopetrol S.A. has an ESG Relevance Score of '4' for Exposure to Social Impacts due to multiple attacks to its pipelines, which has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

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 decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Ecopetrol S.A.	LT IDR	BB+ Rating Outlook Stable	BB+ Rating Outlook Stable
	Affirmed		
	LC LT IDR	BB+ Rating Outlook Stable	BB+ Rating Outlook Stable
	Affirmed		
	Natl LT	AAA(col) Rating Outlook Stable	AAA(col) Rating Outlook Stable
	Affirmed		
	Natl ST	F1+(col) Affirmed	F1+(col)

senior unsecured	LT	BB+	Affirmed	BB+
senior unsecured	Natl LT	AAA(col)	Affirmed	AAA(col)
senior unsecured	Natl ST	F1+(col)	Affirmed	F1+(col)

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

[Government-Related Entities Rating Criteria - Effective from 30 September 2020 to 12 January 2024 \(pub. 30 Sep 2020\)](#)

[Metodología de Calificación de Entidades Relacionadas con el Gobierno \(pub. 12 Nov 2020\)](#)

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

[Metodología de Calificación de Finanzas Corporativas – Efectiva del 29 de diciembre de 2022 al 21 de diciembre de 2023 \(pub. 29 Dec 2022\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub. 16 Jun 2023\)](#)

[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 \(1\)](#)

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Ecopetrol S.A.

EU Endorsed, UK Endorsed

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