

Tear Sheet:

## **Ecopetrol S.A.**

January 26, 2023

Ecopetrol S.A.'s financial performance during 2022 improved relative to our base-case assumptions, mainly because of higher hydrocarbon prices and strong operating performance. The company reached pre-pandemic production levels with about 706 thousand barrels of oil equivalent per day (Mboed) as of Sept. 30, 2022. Moreover, EBITDA margins have risen to about 48% from 43% a year ago. This has been mainly as a result of the company's focus on improving some of its operating parameters, such as lifting costs, crude dilution factor and the integration of Interconexión Eléctrica S.A. E.S.P. (ISA) that has a predictable revenue stream and healthy margins due to the nature of the utility business. We expect Ecopetrol to continue deleveraging with debt to EBITDAX below 2x even under our lower long-term price deck assumptions of \$90 per barrel (bbl) for Brent oil.

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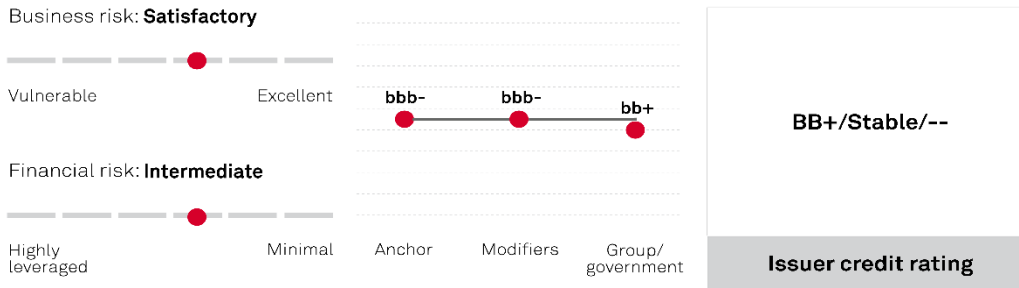
The company also has wide access to bank financing and to the capital markets, evidenced by its recent issuance of \$2 billion senior unsecured notes due 2033. This increases headroom in the company's liquidity because this transaction will cover about 50% of short-term debt maturities.

Additionally, Ecopetrol is taking steps towards energy transition and it has a clear roadmap to address current ESG challenges. The company participates in the entire oil and gas value chain and in energy infrastructure following ISA's acquisition, widening revenue diversification by entering an industry with very low risk due to very low cyclicality and competitive risk. As of Sept. 30, 2022, ISA represents about 10% of Ecopetrol's total EBITDA.

We maintain our assessment of a very high likelihood of extraordinary government support to the company in a scenario of financial distress. In our view, Ecopetrol plays a very important role in Colombia's economy, given its position as the largest company in the country. The company has a significant presence in Colombia's oil and gas sector, producing 66% and 55% of Colombia's total crude oil and natural gas, respectively. It also acts as the main supplier of oil-derived products in the domestic market. Additionally, Ecopetrol has a very strong link with the government; however, the company's board of directors consists of seven independent members out of nine. As a result, the sovereign rating currently caps our ratings on Ecopetrol, making it unlikely that we could rate the company above that of its controlling shareholder, given a meaningful risk of extraordinary government intervention in Ecopetrol during the hypothetical sovereign fiscal stress.

## **Ratings Score Snapshot**

## Ecopetrol S.A.



## Company Description

Ecopetrol is a vertically integrated oil and gas company based in Bogota, Colombia. The company is also engaged in power and infrastructure related activities. It has presence in Colombia, Brazil, Mexico, and the U.S. Gulf Coast. Ecopetrol is involved in all stages of the hydrocarbon chain: exploration, production, refining, and marketing. The government of Colombia owns 88.49% of Ecopetrol, making it the controlling shareholder, while institutional shareholders and retail investors own the remaining 11.51%.

## Outlook

The stable outlook on Ecopetrol mirrors that on Colombia. The ratings on the latter limit the company's credit quality, given the government's potential intervention in the company's operations. Therefore, we expect the ratings on Ecopetrol to move in tandem with the sovereign ratings in the next 12 to 18 months.

## Downside scenario

We would lower the ratings on Ecopetrol if we took a similar rating action on Colombia. We could revise downward Ecopetrol's stand-alone credit profile (SACP) if its financial performance weakens such that we expect debt to EBITDA to rise above 2x. This could stem from lower crude oil prices and demand.

## Upside scenario

We could upgrade Ecopetrol if we take a similar action on the sovereign rating on Colombia, while all other factors remain unchanged. Additionally, although unlikely in the next 12-18 months, we could upwardly revise the SACP to 'bbb' if the company's performance is well above our expectations. Such a scenario would result from higher-than-expected production stemming from investments outside Colombia, leading to discretionary cash flow (DCF) to debt at or above 25% on a consistent basis. This would also require a conservative distribution of dividends to shareholders.

## Key Metrics

### Ecopetrol S.A.--Key Metrics\*

Mil. COP	2020a	2021a	2022e	2023f	2024f
Revenue	50.2	91.8	125.9	121.6	115.7
Revenue growth (%)	-29.7	82.9	37.1	-3.5	-4.8
EBITDA	18.2	41.6	59.8	59.0	56.3

**Ecopetrol S.A.**

EBITDA margin (%)	36.3	45.3	47.5	48.6	48.6
Funds from operations (FFO)	9.7	31.6	48.9	48.9	46.5
Capital expenditure	11.1	13.3	23.9	23.1	17.4
Free operating cash flow (FOCF)	-3.8	6.4	14.7	14.5	13.4
Dividends	8.7	2.7	8.8	18.5	13.7
Debt	56.9	96.8	91.0	95.1	95.4
Debt to EBITDA (x)	3.1	2.3	1.5	1.6	1.7
FFO to debt (%)	17.1	32.7	53.8	51.5	48.7
FOCF to debt (%)	-6.7	6.6	16.2	15.3	14.1
EBITDA interest coverage (x)	5.6	10.3	10.7	12.4	12.6
FFO interest coverage (x)	5.1	10.5	11.6	13.8	14.2

\*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

**Financial Summary****Ecopetrol S.A.--Financial Summary**

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (bil. )	COP	COP	COP	COP	COP	COP
Revenues	48,486	55,954	68,604	71,489	50,223	91,881
EBITDA	18,339	24,274	32,292	32,392	18,221	41,625
Funds from operations (FFO)	10,727	15,991	21,624	24,567	9,729	31,629
Interest expense	3,386	3,165	3,222	2,659	3,265	4,046
Cash interest paid	2,536	2,723	2,630	1,766	2,346	3,334
Operating cash flow (OCF)	12,799	15,121	20,479	26,616	7,298	19,675
Capital expenditure	5,768	5,966	8,460	13,979	11,117	13,295
Free operating cash flow (FOCF)	7,031	9,156	12,019	12,637	(3,819)	6,380
Discretionary cash flow (DCF)	5,319	7,651	7,591	(1,230)	(12,554)	3,608
Cash and short-term investments	8,296	7,849	6,219	6,990	5,071	14,478
Gross available cash	8,296	7,849	6,219	6,990	5,071	14,478
Debt	51,224	44,628	41,770	44,104	56,956	96,787
Common equity	43,561	49,781	57,108	58,232	53,499	90,584
<b>Adjusted ratios</b>						
EBITDA margin (%)	37.8	43.4	47.1	45.3	36.3	45.3
Return on capital (%)	9.8	17.2	24.1	22.0	7.5	20.9

**Ecopetrol S.A.****Ecopetrol S.A.--Financial Summary**

EBITDA interest coverage (x)	5.4	7.7	10.0	12.2	5.6	10.3
FFO cash interest coverage (x)	5.2	6.9	9.2	14.9	5.1	10.5
Debt/EBITDA (x)	2.8	1.8	1.3	1.4	3.1	2.3
FFO/debt (%)	20.9	35.8	51.8	55.7	17.1	32.7
OCF/debt (%)	25.0	33.9	49.0	60.3	12.8	20.3
FOCF/debt (%)	13.7	20.5	28.8	28.7	(6.7)	6.6
DCF/debt (%)	10.4	17.1	18.2	(2.8)	(22.0)	3.7

**Peer Comparison****Ecopetrol S.A.--Peer Comparisons**

	<b>Ecopetrol S.A.</b>	<b>Petroleo Brasileiro S.A. - Petrobras</b>	<b>Petroleos Mexicanos</b>	<b>YPF S.A.</b>
Foreign currency issuer credit rating	BB+/Stable/--	BB-/Stable/--	BBB/Stable/--	CCC+/Stable/--
Local currency issuer credit rating	BB+/Stable/--	BB-/Stable/--	BBB+/Stable/--	CCC+/Stable/--
Period	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-12-31
Mil.	\$	\$	\$	\$
Revenue	22,603	81,247	72,958	12,380
EBITDA	10,240	43,674	25,796	3,546
Funds from operations (FFO)	7,781	38,731	3,163	2,946
Interest	995	5,153	13,198	700
Cash interest paid	820	2,182	7,671	569
Operating cash flow (OCF)	4,840	35,054	1,235	3,326
Capital expenditure	3,271	6,127	11,483	2,286
Free operating cash flow (FOCF)	1,569	28,927	(10,249)	1,040
Discretionary cash flow (DCF)	888	15,876	(10,249)	1,040
Cash and short-term investments	3,562	11,135	3,732	1,107
Gross available cash	3,562	11,135	3,732	1,107
Debt	23,810	64,794	158,864	8,987
Equity	22,284	69,924	(105,855)	8,259
EBITDA margin (%)	45.3	53.8	35.4	28.6
Return on capital (%)	20.9	24.2	35.5	6.3
EBITDA interest coverage (x)	10.3	8.5	2.0	5.1
FFO cash interest coverage (x)	10.5	18.8	1.4	6.2
Debt/EBITDA (x)	2.3	1.5	6.2	2.5
FFO/debt (%)	32.7	59.8	2.0	32.8
OCF/debt (%)	20.3	54.1	0.8	37.0

**Ecopetrol S.A.--Peer Comparisons**

FOCF/debt (%)	6.6	44.6	(6.5)	11.6
DCF/debt (%)	3.7	24.5	(6.5)	11.6

**Environmental, Social, And Governance**

**ESG Credit Indicators**

E-1	E-2	E-3	<b>E-4</b>	E-5	S-1	<b>S-2</b>	S-3	S-4	S-5	G-1	<b>G-2</b>	G-3	G-4	G-5
- Climate transition risks					- N/A					- N/A				

N/A—not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings’ opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary “ESG Credit Indicator Definitions And Applications,” published Oct. 13, 2021.

Environmental factors are a negative consideration in our credit rating analysis of Ecopetrol due to the inherent environmental risks in the oil and gas industry. However, the company has set specific decarbonization and energy consumption milestones to reduce gas emissions, in line with government plans. Ecopetrol has allocated a higher portion of its capital spending to ensure its competitiveness and expand its decarbonization initiatives. Its recent acquisition of ISA will enable the company to diversify into a regulated and predictable electric transmission business, while taking further steps toward transitioning to renewable energy.

## Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>BB+/Stable/--</b>
<b>Local currency issuer credit rating</b>	<b>BB+/Stable/--</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Moderately High
Industry risk	Moderately High
Competitive position	Satisfactory
<b>Financial risk</b>	<b>Intermediate</b>
Cash flow/leverage	Intermediate
<b>Anchor</b>	<b>bbb-</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
<b>Stand-alone credit profile</b>	<b>bbb-</b>

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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