

Ecopetrol Business Group Announces Third Quarter 2020 Results

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BOGOTÁ, Colombia, Oct. 27, 2020 /PRNewswire/ -- **Ecopetrol** S.A. (BVC: **ECOPETROL**; NYSE: EC) announced today the **Ecopetrol** Group's financial results for the third quarter and the first nine months of 2020. Financial results were prepared in accordance with the International Financial Reporting Standards applicable in Colombia.



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Financial Summary Income Statement - Ecopetrol Group

Billion (COP)	3Q 2020	3Q 2019	Δ (\$)	Δ (%)	9M 2020	9M 2019	Δ (\$)	Δ (%)
Total sales	12,323	18,014	(5,691)	(31.6%)	35,836	52,266	(16,430)	(31.4%)
Depreciation and amortization	2,296	2,166	130	6.0%	6,685	6,189	496	8.0%
Variable cost	4,038	6,735	(2,697)	(40.0%)	14,304	19,629	(5,325)	(27.1%)
Fixed cost	2,010	2,339	(329)	(14.1%)	6,256	6,870	(614)	(8.9%)
Cost of sales	8,344	11,240	(2,896)	(25.8%)	27,245	32,688	(5,443)	(16.7%)
Gross income	3,979	6,774	(2,795)	(41.3%)	8,591	19,578	(10,987)	(56.1%)
Operating and exploratory expenses	1,300	1,063	237	22.3%	2,382	2,955	(573)	(19.4%)
Operating income	2,679	5,711	(3,032)	(53.1%)	6,209	16,623	(10,414)	(62.6%)
Financial income (loss), net	(957)	(648)	(309)	47.7%	(2,221)	(1,426)	(795)	55.8%
Share of profit of companies	15	56	(41)	(73.2%)	92	290	(198)	(68.3%)
Income before income tax	1,737	5,119	(3,382)	(66.1%)	4,080	15,487	(11,407)	(73.7%)
Income tax	(575)	(1,770)	1,195	(67.5%)	(1,209)	(5,315)	4,106	(77.3%)
Net income consolidated	1,162	3,349	(2,187)	(65.3%)	2,871	10,172	(7,301)	(71.8%)
Non-controlling interest	(289)	(339)	50	(14.7%)	(913)	(932)	19	(2.0%)
Net income attributable to owners of Ecopetrol before impairment	873	3,010	(2,137)	(71.0%)	1,958	9,240	(7,282)	(78.8%)
(Expense) recovery for impairment long-term assets	(22)	1	(23)	(2,300.0%)	(1,226)	3	(1,229)	(40,966.7%)
Deferred tax of impairment	4	0	4	-	281	0	281	-
Net income attributable to owners of Ecopetrol	855	3,011	(2,156)	(71.6%)	1,013	9,243	(8,230)	(89.0%)
EBITDA*	5,254	8,270	(3,016)	(36.5%)	12,506	23,934	(11,428)	(47.7%)
EBITDA Margin	42.6%	45.9%	-	(3.3%)	34.9%	45.8%	-	(10.9%)

*Ebitda adjusted to exclude the effect of the Voluntary Retirement Plan amounts to COP 5,419 billion in 3Q20 and COP 12,843 billion in 9M20.

The figures included in this report are not audited. The financial information is expressed in billions of Colombian pesos (COP), or US dollars (USD), or thousands of barrels of oil equivalent per day (mboed) or tons, as noted. For presentation purposes, certain figures in this report were rounded to the nearest decimal place.

In words of Felipe Bayón Pardo, CEO of **Ecopetrol**:

*"The operating and financial results of the third quarter reflect a better price environment, the gradual reactivation across the entire value chain within **Ecopetrol** Group and the progressive effect of the adjustment measures we undertook in the first half of the year. Thus the **Ecopetrol** Group reverted the downward trend of the previous quarters and obtained a net income of COP 855 billion and an EBITDA of COP 5.3 trillion, corresponding to an EBITDA margin of 43%, the highest recorded during the year and comparable to those reported in 2019. This quarter's outcome stands for 85% of the accumulated net income year to date, and the results are comparable to the first quarter figures, previous to the crisis originated by the pandemic.*

A worldwide improved balance between supply and demand provided a significant recovery of the average Brent price, which rose 30% between the second and third quarter of the year, from 33 to 43 USD per barrel. This environment enabled better realization prices along with higher volumes of crude oil and fuels sold, primarily due to the reactivation of the local demand once the mandatory lockdown measures were lifted and the resumption of economic activities began.

The increase in the total cost in the third quarter versus the second quarter (from 21.3 to 24.5 USD per barrel) was due to higher operating activity. However, total cost per barrel year to date decreased compared to the same period a year ago (26.1 versus 34.8 USD per barrel) as a result of the initiatives to optimize our cost and lower purchases and imports, both in price and volume.

*To address this historic turning point, the **Ecopetrol** Group's has remained committed to the well-being of Colombians and the strengthening the local economy after the health emergency created by COVID-19. Through our social assistance program Apoyo País, aids totalling COP 52 billion have been delivered to date, out of COP 88 billion initially announced, in the form of medical equipment, personal protective elements, cleaning products and food supplies, as well as contributions to research and development foundations and institutions through alliances and support to initiatives assisting vulnerable populations like "Comparto mi Energía", among others.*

*The operational sustainability plan implemented ensured the continuity of **Ecopetrol** Group's operation under the minimum vital, striving for the lowest potential exposure of our employees and allies to the virus. In the process of adapting to the new normal, a pilot plan was launched in October for the safe and gradual return of administrative employees to the Company's facilities. This pilot plan will be subject to the evolution of the pandemic and to the provisions of local and national authorities.*

Our proactive commercial strategy has allowed us to continue diversifying our customer base and to guarantee crude exports for the remainder of the year. Whereas 12 years ago 90% of our international crude oil sales were headed to the Gulf of Mexico (US) and only 8% to Asia, today this ratio is 43% and 49%, respectively. In keeping with the above mentioned, on October 19 we achieved a new commercial milestone with the fulfillment of the first shipment of one million barrels of crude delivered at place (DAP) to one of the leading private refiners in South Korea. The Company is also pursuing other anchor markets for Colombian oil in countries such as Sweden and Spain. This commercial strategy, along with better conditions for placing our products on the market, resulted in a significant improvement in the crude oil basket price realization, which increased from 20.4 USD per barrel in the second quarter to 38.4 USD per barrel in the third quarter.

*The **Ecopetrol** Group's operating results are in line with the targets of the 2020-2022 business plan, which was recently updated. In **exploration**, **Ecopetrol** completed the drilling of three wells operated directly, reaching a total of ten year to date, maintaining activities in strategic areas such as Piedemonte and Brazil. It is worth highlighting the signing of a commercial agreement between Hocol and Lewis Energy for the exploration of natural gas in a frontier play in the Perdices block, located in the department of Atlántico.*

*Cumulative average **production** for this quarter reached 697.7 mboed by September, out of which gas represented 20%, driven by the gradual recovery of gas demand from thermal power plants and the industrial sector, and the reactivation of crude oil production, which in turn was primarily due to a better price scenario. This helped mitigate to a certain extent the negative effect of some operational and public order situations that impacted production in the third quarter.*

***Natural gas** remains a strategic priority for the **Ecopetrol** Group, and reached an EBITDA margin of 55% and contributed on 34% to the upstream EBITDA, year to date. The aforementioned is the result of the stability of its US dollars-denominated prices and a positive commercial dynamism over the period.*

*As we mentioned in the second quarter, our **Permian** operations resumed at the end of July and five wells were drilled within the third quarter. By the end of 2020, we expect an estimated net average production for **Ecopetrol** between 5 to 5.5 mboed (before royalties).*

*Regarding the development of the **Comprehensive Research Pilot Projects (PPII)** for unconventional hydrocarbon reservoirs in Colombia, with the issuing of the regulatory framework (technical, environmental, social and contractual terms), Colombia now has the guidelines required to advance towards the execution of the pilot tests. **Ecopetrol** has stated its interest to participate in such projects. We wait the results of process launched by the National Hydrocarbon Agency to select contractors for the **Special Research Project Contracts (CEPI)**, which will take place during the month of November 2020. Once granted, the next step would be launching the process for obtaining the environmental licenses.*

*In the **midstream** segment, we highlight a recovery in the transported volumes of gasoline and diesel during September, reaching 94% and 86% of pre-pandemic levels, respectively. Continuing our search for dilution efficiencies, successful technical tests to transport heavy crude oil at 650 cSt[1] were carried out in **Cenit**, Ocesa, Oleoducto de los Llanos (ODL) and Oleoducto de Colombia (ODC) pipeline systems. A large-scale implementation of this scheme could bring about relevant efficiencies for the transport chain, subject to its economic feasibility.*

We would also like to mention the optimization achieved in the handling of Castilla crude in the port of Coveñas, by which a 250,000 barrel tank was released, increasing the available storage capacity and providing flexibility should another potential COVID-19 outbreak occur, affecting demand again.

*The **downstream** segment exhibited operating stability during the quarter in all business units and an improvement of margins and throughput when compared to the second quarter of 2020. The Cartagena Refinery reported 100% use of national crude oil in September, the maximum level since the beginning of its operations. The use of local feedstock maximizes its margins and enables production increases for the **Ecopetrol** Group. Esenttia continued to report solid operating results, achieving two historical quarterly records: the highest polypropylene production, 173.6 thousand tons (kton), and the highest sales volume, 147.2 kton, delivering an important contribution towards the consolidated results of the segment.*

*As part of the **Ecopetrol** Group's commitment to energy transition, during the third quarter we signed a contract for the construction of the San Fernando solar farm with a capacity of 59 MW, the construction of which is expected to begin in November 2020. Moving forward towards our goal of having 300 MW of generation capacity from renewable sources by 2022, we also launched a competitive bidding process for a new wave of solar powered projects for 112 MW.*

*In the execution of our strategy regarding climate change and complying with the commitments acquired from our endorsement of the Climate and Clean Air Coalition (CCAC), we approved the fugitive emissions and venting management strategy. Further, as part of our biodiversity agenda, we announced our participation in the **Sembrar Nos Une** ("Planting Unites Us") initiative, sponsored by the National Government, in which we envisage the planting of six million trees by 2022. We have planted 1.8 million trees since 2018 and expect to plant 457,000 more trees in the last quarter of 2020, completing in this way the one million anticipated for 2020, with four million additional trees expected to be planted during the next two years.*

***Technology** has been an essential enabler to maintain operation during the pandemic. In the last quarter, in average, 7,423 meetings per day were made digitally, with 4,500 concurrent connections each day. We are incorporating into the operation digital tools based on artificial intelligence, analytics and self-management. We have been reaping the benefits of the digital agenda, mainly from the Petrotechnical Database, Gross Refining Margin, Integrated Fields, Volumetric Management and Investment Management projects.*

*Throughout 2020, **Ecopetrol** has demonstrated its resilience, adaptability and the commitment to confront an unprecedented situation. With preservation of life as a priority, and in strict accomplishment to our strategic pillars, we remain devoted to the generation of sustainable value for society and the social and economic development of the regions where we operate".*

To review the full report please visit the following link:
<http://www.ecopetrol.com.co/wps/wcm/connect/cb558d01-a59b-4f9b-b1bb-611ac77c289c/Ecopetrol++Q3+2020+Earnings+Release+VF.pdf?MOD=AJPERES&attachment=true&id=1603838520178>

This release contains statements that may be considered forward looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. All forward-looking statements, whether made in this release or in future filings or press releases or orally, address matters that involve risks and uncertainties, including in respect of the Company's prospects for growth and its ongoing access to capital to fund the Company's business plan, among others. Consequently, changes in the following factors, among others, could cause actual results to differ materially from those included in the forward-looking statements: market prices of oil & gas, our performance and production activities, market conditions, applicable regulations, the exchange rate, the Company's competitiveness and the performance of Colombia's economy and industry, to mention a few. We do not intend, and do not assume any obligation to update these forward-looking statements.

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[1] cSt: centistock, unit of viscosity

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