

Quick Picks & Lists

Colombia



Ecopetrol: Political Risks Are High, Shares Remain In A Downtrend

Sep. 14, 2022 10:01 AM ET **Ecopetrol S.A. (EC)** | XLE, IXC | 1 Like



Mike Zaccardi, CFA, CMT

1.27K Followers

Follow

Summary

- Following a tumultuous June election, Colombia's energy stocks have faced headwinds.
- **Ecopetrol** has a very cheap valuation and high yield, but price action suggests more downside.
- The technicals and momentum outweigh appealing P/E and free cash flow figures for now.
- With the sector seeing relative strength this year, better to stick with global energy winners that are also cheap.



Three Lions

Political uncertainty is very high right now, with the U.S. midterms less than two months away. We have already seen a slew of bills pushed through to shore up positive fervor among voters. Meanwhile, the latest prediction markets show a dead heat in the battle for Congress. Domestic election risk pales in comparison to downright instability in South America, though.

Back in June, Colombia's Gustavo Petro won a presidential election race, and

What's a strong buy today? Find out with Premium.

Our 'Strong Buys' are beating the market by 4-to-1 since 2010.

Seeking Alpha

+1,754%

S&P 500 Return

+385%

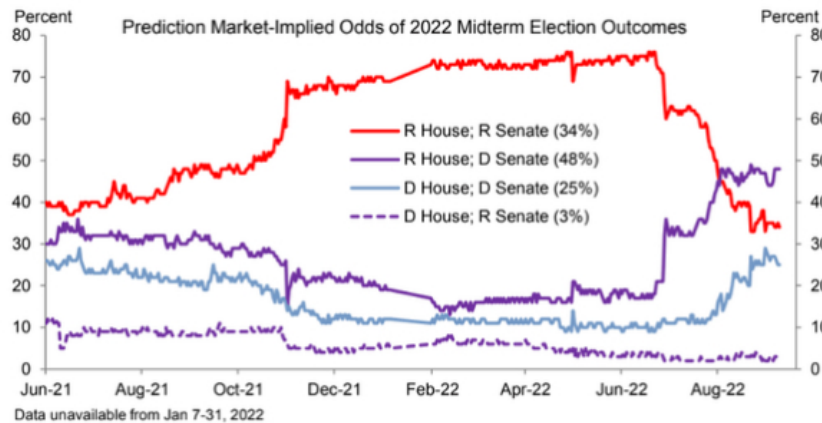


Unlock Top Picks Now

that single event helped send many oil & gas company stocks into a tailspin all while the global energy market was selling off. One major Energy sector stock now trades at an extremely low valuation, but is all the risk priced in? Let's dive in.

Political Risk Abroad & At Home: Betting Market Trends For Control of Congress

Exhibit 1: Prediction Markets Imply a Closer Midterm Election



Source: PredictIt, Goldman Sachs Global Investment Research

Goldman Sachs Investment Research

According to Bank of America Global Research, **Ecopetrol** (NYSE:NYSE:EC) is Colombia's national oil company. Oil and gas production is currently approximately 692tboe/d (81% oil). The company also has a total of 287 tbpd of refining capacity. Other operating assets include oil and gas pipelines, and **Ecopetrol** has a growing renewables business. The company has downside risks due to heavy political uncertainty in Colombia. Recent elections back in June may lead to more government interference in the industry, pressuring how much in the way of profits and free cash flow can be returned to equity holders.

The \$23 billion market cap Oil, Gas & Consumables industry stock within the Energy sector trades at a cheap 3.2 trailing 12-month GAAP price-to-earnings ratio and pays a very lofty 13.5% dividend yield, according to [The Wall Street Journal](#).

On valuation, BofA analysts see strong earnings growth this year, followed by an EPS drop in 2023. Earnings growth further out is lackluster. Amid so much political risk, the forward operating P/E is depressed, and it is hard to see much cause for it to recover. The upside for shareholders is that its free cash flow yield is high, so for now the dividend should be safe, but it's hard to predict what the political winds will be in the coming quarters.

EC: Earnings, Valuation, Dividend Forecasts

Estimates(Dec) (COP)	2020A	2021A	2022E	2023E	2024E
EPS	41.05	406.06	503.61	465.16	466.42
GAAP EPS	48.37	400.72	503.61	467.35	468.60
EPS Change (YoY)	-88.5%	889.2%	24.0%	-7.6%	0.3%
Consensus EPS (Bloomberg)			648.47	542.70	472.65
DPS	212.42	28.74	243.64	302.17	325.61
ADREPS (US\$)	0.22	2.17	2.55	2.39	2.37
ADR DPS (US\$)	1.15	0.36	1.23	1.55	1.65
Valuation (Dec)					
P/E	67.2x	6.8x	5.5x	5.9x	5.9x

GAAP P/E	57.1x	6.9x	5.5x	5.9x	5.9x
Dividend Yield	7.7%	1.0%	8.8%	10.9%	11.8%
EV / EBITDA*	13.9x	5.9x	3.6x	3.7x	3.9x
Free Cash Flow Yield*	-1.3%	0.6%	13.1%	11.7%	12.4%

* For full definitions of *IQmethod*SM measures, see page 5.

BofA Global Research

Ecopetrol's corporate event calendar is light until the next earnings report, which is unconfirmed to take place on Tuesday, November 8, BMO, according to data provided by Wall Street Horizon.

Corporate Event Calendar

WALL STREET HORIZON						Wed Sep 14 2022 06:16:22 GMT-0400 (Eastern Time)	
HOME	EVENTS BY TICKER	EARNINGS	ETF	IPO	LOGOUT		
YOU REQUESTED 1 TICKERS		CUSTOM LIST	31 EVENT TYPES	HORIZON: 1 YEAR	ALL DATA BARS		
TICKER SUMMARY							
4 FUTURE EVENTS							
11/8/2022	Before Market	Tue	EC -	ED -	UNCONFIRMED Next Earnings Date for Q3 2022 more...		
0 EVENTS TODAY							
45 PAST EVENTS							
DATE	TIME	DAY	TICKER	EVENT	DESCRIPTION		
9/13/2022		Tue	EC -	FORUM -	HSBC Global Emerging Markets Forum 2022 more...		
8/5/2022	2:56 AM	Fri	EC -	NQ -	Datebreaks Change for Q3 2022 from 11/8/2022 (INFERRED) to 11/8/2022 (UNCONFIRMED)		
8/4/2022	11:00 AM	Thu	EC -	ECC -	Earnings Conference Call for Q2 2022 more...		
8/4/2022	6:56 AM	Thu	EC -	XTV -	Datebreaks Change for Q2 2022 from 8/4/2022 (UNCONFIRMED) to 8/4/2022 (CONFIRMED)		
8/4/2022	2:51 AM	Thu	EC -	DVT -	Datebreaks Change for Q2 2022 from 8/3/2022 (Confirmed) to 8/4/2022 (Unconfirmed)		
8/4/2022	Before Market	Thu	EC -	ED -	CONFIRMED Next Earnings Date for Q2 2022 more...		
8/4/2022		Thu	EC -	ERN-RPT -	Earnings Report for Q2/2022: COP N/A more...		
7/28/2022	6:16 AM	Thu	EC -	DTV -	Datebreaks Change for Q2 2022 from 8/2/2022 (Unconfirmed) to 8/3/2022 (Confirmed)		
7/8/2022		Fri	EC -	DIV-PAY -	Pay date for Special dividend of \$0.799 more...		
7/1/2022		Fri	EC -	DIV-ANC -	Announcement date for Special dividend of \$0.799 more...		
6/29/2022		Wed	EC -	DIV-REC -	Record date for Special dividend of \$0.799 more...		
6/28/2022		Tue	EC -	DIV-EX -	Ex Date for Special dividend of \$0.799 more...		
6/17/2022	7:00 AM	Fri	EC -	SHARE -	Shareholder Meeting more...		
5/11/2022	11:00 AM	Wed	EC -	ECC -	Earnings Conference Call for Q1 2022 more...		

Wall Street Horizon

The Technical Take

EC is one of the not too many energy stocks that is caught in a very bearish pattern. After failing to climb above its late 2019 to early 2020 highs near \$20 earlier this year, shares began to fall fast. A bearish gap down back in June took place after EC broke trendline support. It was not until the stock dropped more than 50% from its year-to-date high when it found some buyers under \$9. Since late July, a bear flag has persisted - a period of corrective price consolidation. The presumption is that new lows will be made from this pattern.

Technically, I think the stock could go back down to either \$8.50 from late 2020 or the March 2020 low in the low \$6s. On the upside, expect \$13.50 to be minor resistance - the gap fill point.

EC: Bear Flag After Breaking Uptrend Support





StockCharts.com

The Bottom Line

Free webinar: Chris DeMuth Jr.'s top investing plays

Historically, every market - *even the one we're in right now* - has silver linings.

These are **strategies that take advantage of mispriced stocks.**

For nearly two decades, hedge fund founder **Chris DeMuth Jr.** has used these strategies successfully as a part of his investing playbook. His service, *Sifting the World*, provides his deep-dive research on special situations in the financial markets.

Now, at an **exclusive webinar on September 13, 2PM ET**, Chris discusses why he believes that the best opportunities this year are still ahead of us.

As a special bonus, Chris will name 3 stocks he believes offer the best risk-reward right now, and take questions.

This webinar is **FREE**, but seats are limited. Sign up now and save yours.

[Save my seat »](#)

Seeking Alpha ^α Marketplace

I would stay away from **Ecopetrol** for now. While its valuation is exceptionally low and the yield is extremely high, there is much political risk with this Colombia-based energy company. Moreover, the technical chart appears bearish to me. With so many global energy stocks trading at cheap valuations and shareholder accretive capital allocation policies, it's better to stick with those which are more stable vs EC.

This article was written by



Mike Zaccardi, CFA, CMT

1.27K Followers

Follow

CFA & CMT Charterholder | Freelance Financial Writer at SoFi & Ally | Investments | Markets | Personal Finance | Retirement | create written content used in various formats including bl

[Show More](#)

Disclosure: I/we have no stock, option or similar derivative position in any of the companies mentioned, and no plans to initiate any such positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Like (1)

Share

Print

Comment

Recommended For You



Don't Take The Cheese, It's A Trap

Brad Thomas



Exxon Mobil: The Crude Reality

David Alton Clark



Nvidia: Prepare For A \$125~\$200 Trading Window

Envision Research



Otter Tail: Benefiting Significantly From Materials Shortage

Power Hedge



Omega Healthcare Is Up 8.64% In 2022, Yields 8.2%, And My Target Is \$37.54

Steven Fiorillo

Comments

Sort by

Newest



Be the first to comment

Publish

Disagree with this article? [Submit your own](#). To report a factual error in this article, [click here](#). Your feedback matters to us!