

ECOPETROL S.A. (ECOPETROL)

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Fitch Affirms Heritage Petroleum Company Limited's Ratings at 'BB'; Outlook Stable

04/17/2023 | 07:45am EDT



Fitch Ratings has affirmed Heritage Petroleum Company Limited's (Heritage) Long-Term Foreign and Local Currency Issuer Default Ratings at 'BB'.

The Rating Outlook is Stable. Fitch has also affirmed the 'BB' rating of the senior secured notes of \$500 million due 2029.

Heritage's rating reflects its strategic importance to Trinidad and Tobago. Heritage and its guarantors, TPHL and Paria, play a key role in the government's oil and gas development plan, and are a material source of government revenue and economic development in the country.

Key Rating Drivers

Strategic Importance for Trinidad and Tobago: Heritage's rating reflects the company's strategic importance for oil production in Trinidad and Tobago, representing over half of crude production in the country in 2022. Over the rated horizon, total production is expected to grow from 43,600boed in 2022, to 56,500boed in 2026. Further, the government take (royalties, supplemental petroleum taxes, and cash taxes) is estimated to average USD12.36 per barrel over the rated horizon. The government has acted to support Heritage in the past by waiving its supplemental petroleum tax for a period of two years beginning in June 2019.

Stable Production Profile: Heritage's production is expected to average 52,700 boed through the rating horizon, which places the company firmly in the 'b' category. 2022 was estimated to average 43,600 boed, reflecting production figures are a rating constriction. 1P reserve life of 10.6 years is strong and consistent with a higher rating category. Heritage has demonstrated ability to replace reserves at a rate of 130% on average in the last three years, and Fitch assumes the company will be able to continue to replace reserves at a rate of 104% through the rating horizon.

High Government Take: Royalties plus taxes are estimated to average 25% through the rating horizon. This includes royalties, supplemental production and corporate taxes. Fitch estimated Heritage's half-cycle cost of production at \$40.67/boe in 2022 and full-cycle cost of production were \$42.2/boe. Government take was estimated to be \$25/boe in 2022 resulting in a post-tax full-cycle cost of production of \$67.6/boe. The estimated net-back in 2022 was \$27.4/boe based on a realized crude price of \$95/bbl.

Manageable Leverage Profile: Fitch estimated Heritage's gross leverage, defined as total debt to EBITDA, to be 2.2x in 2022, the estimated average for between 2023 through 2026. Net debt is estimated to be negative at YE 2022 and to be around 1.1x over the rated horizon. Total debt to 1P is estimated to be \$5.60/boe and total debt to PDP at \$6.50/boe in 2022. On average, EBITDA will cover debt service (amortizing debt and interest expense) 3.1x between 2022 and 2026.

Derivation Summary

Heritage Petroleum Company Limited compares best to other rated government-related entities (GREs) in the region including Ecopetrol (BB+/Stable), Pemex (BB-/Stable),

Financials		COP	
Sales 2023	153 431 B	Capitalization	105 259 B
Net income 2023	19 456 B	EV / Sales 2023	1,34x
Net Debt 2023	100 004 B	EV / Sales 2024	1,28x
P/E ratio 2023	5,26x	Nbr of Employees	18 903
Yield 2023	22,9%	Free-Float	10,4%

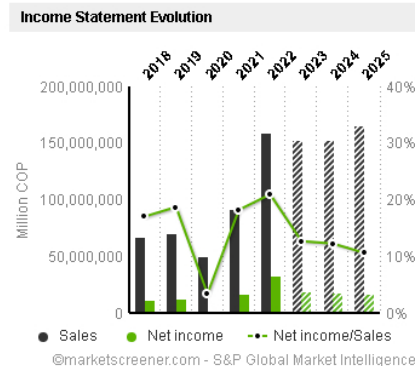
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Technical analysis trends ECOPETROL S.A.			
	Short Term	Mid-Term	Long Term
Trends	Neutral	Neutral	Neutral

» Technical analysis



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Consensus	
Mean consensus	HOLD
Number of Analysts	8

Sell █ █ █ █ Buy

World Europe America Asia

🇺🇸 S&P 500	4129	-0.22%
🇺🇸 DOW JONES	33866	-0.06%
🇺🇸 NASDAQ 100	13005	-0.57%
🇨🇦 TSX COMP	20565	-0.07%
🇬🇧 FTSE 100	7880	+0.10%
🇩🇪 DAX	15790	-0.11%
🇫🇷 CAC 40	7498	-0.28%
🇪🇺 EURO STOXX 50	4368	-0.53%
🇨🇳 MSCI CHINA	67	+1.53%
🇯🇵 TOPIX	2027	+0.41%
🌐 MSCI EMERGING	1002	+0.20%
🌐 MSCI WORLD	2816	-0.35%

After hours (Indicative prices)

DAX	-0.02%
FTSE 100	+0.01%
CAC 40	-0.07%

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🇺🇸 ALIBABA GROUP HOLDIN...	+1.18%
🇺🇸 PAYPAL HOLDINGS, INC.	+1.03%
🇩🇪 BASF SE	+0.81%
🇺🇸 INTEL CORPORATION	+0.42%
🇺🇸 MICROSOFT CORPORATI...	+0.35%
🇫🇷 LVMH MOÛT HENNESSY ...	-2.15%
🇺🇸 NETFLIX, INC.	-2.91%
🇺🇸 ADVANCED MICRO DEVI...	-3.20%
🇺🇸 ALPHABET INC.	-3.53%
🇳🇱 ASML HOLDING N.V.	-3.99%

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🇺🇸 ENPHASE ENERGY, INC.	+8.43%
🇺🇸 CATALENT, INC.	+6.66%
🇺🇸 M&T BANK CORPORATION	+5.93%
🇺🇸 FIRST SOLAR, INC.	+5.65%
🇺🇸 SOLAREDGE TECHNOLO...	+5.15%
🇺🇸 NORTHERN TRUST COR...	-4.71%
🇺🇸 BANK OF NEW YORK ME...	-6.71%
🇺🇸 MODERNA, INC.	-7.74%
🇺🇸 SIGNATURE BANK	-10.35%
🇺🇸 STATE STREET CORPOR...	-11.33%

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Petrobras (BB-/Stable), and YPF (CCC-).

Heritage's production is concentrated in oil. Its total production in 2022 represented 59% of total oil production in the country. This compares to Pemex whose oil production is 70% of the total countries output, [Ecopetrol](#) at 85%, Petrobras at 95% and YPF at 25%. Heritage and its GRE peers are all deemed to be strategically important for the energy security of their respective countries.

Heritage half-cycle and full-cycle cost of production compares favorably to peers. For 2022, Fitch estimates its half-cycle cost was \$40.67boe and full cycle cost was \$42.20/bbl. This compares closest to Pemex whose 2022 half-cycle cost was \$60/boe and full-cycle was \$77/boe. [Ecopetrol's](#) was estimated to be \$18.2boe and \$30.6boe, Petrobras at \$14.1boe and \$22.89 boe, and YPF at \$31.41 boe and \$47.00boe in 2022. Heritage has a high government take estimated to be \$25.43boe in 2022.

Heritage has a stable reserve profile with a 1P reserve life of 10.6 years reported in 2022, which is higher than YPF's 6.1 years, and [Ecopetrol's](#) 8.9 years, and in line with Petrobras' 10 years and Pemex's 10.15 years. Heritage's pro forma gross leverage, defined as total debt to EBITDA was estimated to be 2.2x in 2022, and its total debt to 1P was estimated at \$7.39boe in 2022. This compares favorably to Pemex at 2.8x in 2022 and \$14.49boe per 1P. [Ecopetrol's](#) leverage was 1.2x and \$10.84boe, Petrobras at 0.8x and \$3.61boe and YPF at 1.2x and \$5.86boe, all lower than that of Heritage.

Key Assumptions

Fitch made the following Key Assumptions within the Rating Case of the issuer:

Fitch's price deck for Brent of \$100bbl in 2022, \$85bbl in 2023 and \$53bbl long term;

Realized Brent price \$4.0bbl discount to Fitch's price deck;

Average oil production of 51,300bbld between 2023 through 2026;

Production cost of \$19.5bbl between 2023 through 2026;

Royalties of 12.5% per bbl over the rated horizon;

Supplemental petroleum tax (SPT) of 13% per bbl over the rated horizon;

Production tax of \$1.20bbl over the rated horizon;

SG&A of \$1.5bbl over the rated horizon;

Effective cash tax rate of 30%;

Capex budget of \$500 million over the rated horizon, an average of \$125 million per annum;

Reserve replacement ratio of 105%.

RATING SENSITIVITIES

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

Material improvement in the country's overall economic condition.

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

A deterioration of Heritage's financial flexibility, coupled with government inaction to support liquidity, potentially resulting from continued negative FCF or a material reduction of the company's cash on hand, credit facilities and restricted capital markets access;

A debt service coverage ratio below 1.5x on a sustained basis.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more in-

Last Close Price	2 560,00 COP
Average target price	2 750,86 COP
Spread / Average Target	7,46%

[» Consensus](#)

EPS Revisions



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Managers and Directors

Alberto Consuegra Granger	Chief Executive & Operating Officer
Jaime Eduardo Caballero Uribe	Chief Financial Officer
Saúl Kattan Cohen	Chairman
Andrés Mantilla Zárate	Vice President-Innovation & Technology
María Juliana Alban Durán	Vice President-Compliance & Compliance Officer

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Sector and Competitors

	1st jan.	Capi. (M\$)
ECOPETROL S.A.	5.79%	23 790
CHEVRON CORPORATION	-3.93%	326 712
CONOCOPHILLIPS	-8.05%	131 489
CNOOC LIMITED	26.45%	76 471
EOG RESOURCES, INC.	-6.11%	71 480
CANADIAN NATURAL RESOU...	10.19%	68 101

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Rankings	Nasdaq 100
ENPHASE ENERGY, INC.	+8.43%
RIVIAN AUTOMOTIVE, INC.	+4.46%
DEXCOM, INC.	+2.86%
JD.COM, INC.	+2.85%
DATADOG, INC.	+2.18%
KLA CORPORATION	-2.70%
ADVANCED MICRO DEVI...	-3.17%
LAM RESEARCH CORPO...	-3.18%
ALPHABET INC.	-3.64%
MODERNA, INC.	-7.74%

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Currency / Forex		
USD / EUR	0.9160	+0.01%
USD / CAD	1.3411	+0.36%
USD / MXN	18.1075	+0.65%
USD / BRL	4.9535	+0.89%
USD / INR	81.9800	+0.23%
USD / CNY	6.8798	+0.16%
USD / JPY	134.4885	+0.38%
USD / AUD	1.4945	+0.18%
USD / KRW	1319.9600	+1.26%
USD / HKD	7.8493	-0.00%
USD / GBP	0.8088	+0.28%
USD / CHF	0.8992	+0.49%

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Commodities		
GOLD	1990.40	-0.62%
CRUDE OIL (WTI)	80.81	-2.02%
CRUDE OIL (BRENT)	84.44	-2.25%
SILVER	24.95	-1.45%
PLATINUM	1050.72	+0.95%

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Cryptocurrencies		
BITCOIN	29366.8000	-3.15%
ETHEREUM	2072.2500	-2.26%
RIPPLE	0.5077	-2.55%

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formation about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

Liquidity and Debt Structure

Adequate liquidity: Heritage reported USD303 million in cash as of YE 2022. Over the rated horizon, the company is expected to be FCF neutral, but the rating case estimates the company will have adequate liquidity.

Issuer Profile

Heritage is the largest crude oil producer in Trinidad and Tobago, producing 59% of total crude in the country. It is a state-owned enterprise that is controlled by the government, through Trinidad Petroleum Holding Limited (TPHL).

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.

ESG Considerations

Heritage Petroleum Company Limited 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 ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Stocks mentioned in the article

	Change	Last	1st jan.
ECOPETROL S.A.	-0.12%	2560	5.79%
PETROBRAS	1.18%	26.59	7.35%

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04/12	Gran Tierra Energy Jumps Near 7% In US Pre-Mkt As Details Contract Agreement For Surori...	MT
04/12	Ecopetrol SA: Board of Directors of Ecopetrol S.A. appoints new Chairman of Ecopetrol S...	PU
04/12	Gran Tierra Energy signs extension deal with Colombia's Ecopetrol	AN
04/12	Colombia's Ecopetrol appoints Ricardo Roa as new CEO	RE
04/03	Ecopetrol S.A. Approves the Composition of Board Committees	CI

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Analyst Recommendations on [ECOPETROL S.A.](#)

03/23	UBS Adjusts Ecopetrol S.A Price Target to \$12 From \$13, Maintains Neutral Rating	MT
03/15	Goldman Sachs Adjusts Price Target on Ecopetrol to \$11 From \$12.40, Maintains Neutral R..	MT
02/09	UBS Downgrades Ecopetrol to Neutral From Buy, \$13 Price Target	MT

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
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