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# Ecopetrol's Recent Weakness Spells Opportunity

Jun. 05, 2023 11:26 AM ET | [Ecopetrol S.A. \(EC\)](#) | 6 Comments | 2 Likes



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## Summary

- [Ecopetrol's](#) share price has been punished by crude oil prices, despite an announced repayment of owed government money.
- The company is continuing to spend billions annually on growth spending, which has enabled strong production growth.
- Going forward, we expect the company's cash generation and unique position in a growing economy to support stronger shareholder returns.
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[Ecopetrol](#) (NYSE:[EC](#)) is the largest petroleum company in Colombia with a market capitalization of less than \$20 billion. The company has continued to have a discount to its share price as a result of instability in Colombia, but despite that, as we'll see throughout this article it can drive substantial

## About EC


Symbol	Last Price	% Chg
<a href="#">EC</a>	9.78	0.15%



Market Cap	<b>\$19.98B</b>
PE (FWD)	<b>4.08</b>
Yield (TTM)	<b>21.99%</b>
Rev Growth (YoY)	<b>54.92%</b>
Short Interest	-

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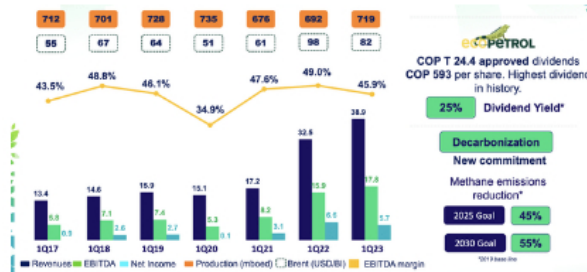
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-  [Ecopetrol](#) Now At The Mercy Of New Left-Wing Government, And Exploration Restrictions  
Alexander Alvarez

shareholder returns.

## Ecopetrol Quarterly Results

The company has continued to generate strong quarterly results.



Ecopetrol Investor Presentation

The company had more than 700 thousand barrels / day in production with an almost 46% EBITDA margin. The company generated \$38.9 trillion COP in revenue (\$9 billion USD). That's almost double the company's market capitalization annualized. The company has maintained an almost 46% EBITDA margin and earned \$5.7 trillion COP net income (P/E <4).

The company has approved incredibly strong dividends of COP 593 / share (20:1 ADR ratio) meaning a 25% annualized dividend yield at this time. The company's recovery in production after a post-2020 dip is exciting to see.

## Ecopetrol and Colombia Energy Demand

At the same time, the company is building up a strong base portfolio for local energy supply with high efficiency.



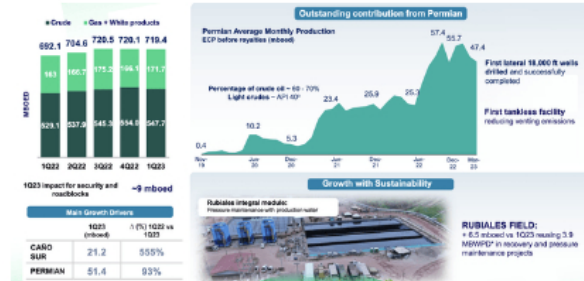
Ecopetrol Investor Presentation

The company had \$267 million USD in EBITDA and LPG earnings at a 59% EBITDA margin. The company had 160.2 thousand barrels / day of production and recently enabled bidirectionally on its pipeline. The company has continued to invest in solar, biomass, thermal and other renewable assets. These are effectively utility scale assets that can provide reliable cash flow.

That can provide reliable multi-decade cash flow for the company.

## Ecopetrol Production and Exploration

The company's production has recovered, especially as the company expands elsewhere such as the Permian Basin.



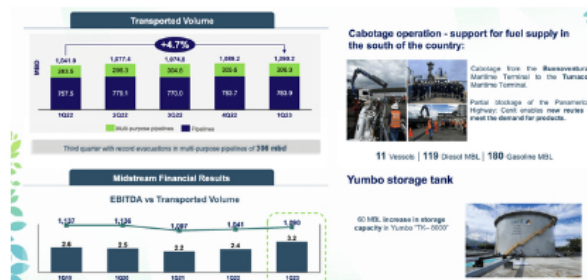
### Ecopetrol Investor Presentation

The company's Permian Basin production has gone from effectively nothing to almost 50 thousand barrels / day. The company's Cano Sur production also grew dramatically, up 555% YoY adding more than 16 thousand barrels / day in production. The company has worked to improve recovery in its projects with water injection etc.

The company's 2023 exploratory program involves 8 drilled wells, along with substantial seismic acquisition. That exploratory program will enable continued long-term growth.

## Ecopetrol Logistics

The company has also worked to improve its logistics to enable strong margins.



### Ecopetrol Investor Presentation

Transported volumes for the company have increased to more than 1 million barrels / day. The company has added new storage facilities and new routes to meet demand for products and enable the company's logistics operations to flow more smoothly. For developing countries it's a complex part of the problem to get production exported and one that Ecopetrol has worked on.

The company's growth in logistics business is a great way to increase margins.

## Ecopetrol Shareholder Returns

Ecopetrol has an ability to provide substantial shareholder returns as a result of its income at the end of the day.



### Ecopetrol Investor Presentation

Ecopetrol is investing massively in capital. The company continues to target a midpoint of more than \$6 billion USD in capex in 2023, or a 30% capex yield on the company's stock. It's been a big part of the company's recent production growth and we expect it to be a big part of the company's continued focuses. It sets the company up well for the long-term.

The company continues to drive massive revenue although its cash-flow goes to capital spending. Still, with a \$4.5 billion cash balance the company can afford temporarily higher capital expenditures.

## Colombian Government

Unfortunately for investors, the complex part of investing in Ecopetrol is the Colombian government, given the government's 88% ownership of the country. Ecopetrol is also the largest source of the company's exports and a valuable producer in its own right. The intrinsic combination leads to things such as Ecopetrol's CEO being replaced after a leadership change.

Another major factor is \$7.9 billion USD that is effectively owed to the company from the Colombian government. That's due to subsidies that the company accepts for selling its products in Colombia versus the global market. Supposedly the company will be repaid from dividends its providing to the government, but until the cash arrives, it's tough to say.

However, there also remains controversy over whether the country will approve new oil and gas exploration projects and what Ecopetrol's role will

be in a resuming world. The company's importance in the country makes it powerful, but the government's ownership stake also makes the company vulnerable to state decisions.

This is one of the company's largest risks and we recommend paying close attention as a result.

## Conclusion

**Ecopetrol** has been investing massively in continued growth of its portfolio. The company has a 30% market cap spend on capital spending to the tune of more than \$6 billion annualized. That's despite pressure from the government to potentially halt all future drilling by the company. A government that owes the company a massive amount of money it plans to pay back.

Regardless of what exactly happens here it is a significant element of risk for the company and will continue to be one. We expect the company's capital spending to continue enabling production growth. Let us know your thoughts in the comments below.

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