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# Ecopetrol Now At The Mercy Of New Left-Wing Government, And Exploration Restictions

May 04, 2023 9:30 AM ET | **Ecopetrol S.A. (EC)** | FEC:CA, FECCF, GPRK... | 11 Comments | 4 Likes



**Alexander Alvarez**

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## Summary

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- The majority state owned company is now in the hands of the president after the ousting of the previous board and CEO.
- The unusually high dividend is due to a collapse in stock price and not due to increased performance



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Executive Order 17000, the government has vowed to cease issuing new exploration and mining licenses to oil companies operating in Colombia.

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Bogota cityscape of big buildings and mountains and blue sky

Arturo Rosenow/iStock via Getty Images

## Ecopetrol

**Ecopetrol** (NYSE:EC) is the largest company in Colombia by market cap with a valuation of approximately \$18 billion USD. The company was founded in 1951 and was listed on the NYSE in 2008. They operate multiple segments including exploration & production, transportation & logistics, and refining, petrochemical, & biofuels. Apart from a diversified value chain, they also have some limited geographic diversification with operations in Brazil, Peru, and the United States, outside of their primary region which is Colombia. The main shareholder of **Ecopetrol** is the Colombian government with just **over 88% of all shares**, a fact which is important to consider moving forward.

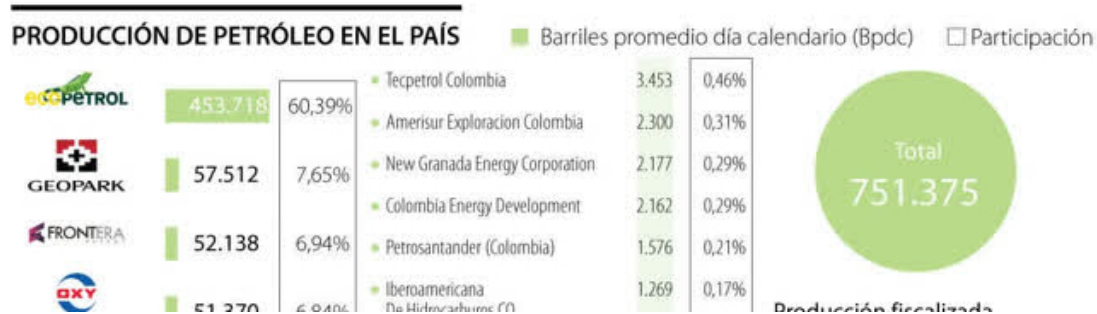
## Why Government Participation Matters

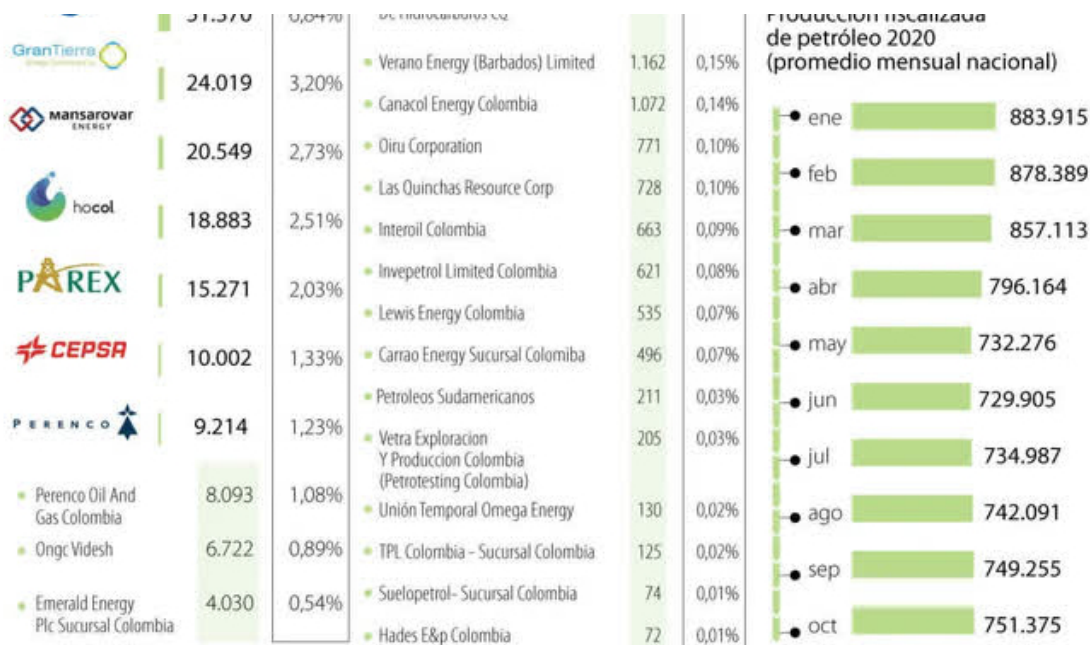
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Under normal circumstances we would be looking at financials and new projects that the company is embarking upon in order to determine what the future may hold for investors, however this being Latin America, nothing is ever that simple. In the past couple of years, the region has been undergoing a phenomenon known as the “pink tide” which is a resurgence of left-wing parties which are now detached from “the reds” otherwise known as communists but that still hold on to many of their beliefs. The difference between left-wing parties in Latin America and their peers in North America and Europe, is that their peers in advanced economies have deep roots in democracy, rule of law, and free markets. This contrasts to the history of the Latin American left which has it’s roots in authoritarianism, a rejection of rule of law, and an opposition to free markets. Look no further than the left-wing governments in countries such as Nicaragua, Venezuela, Cuba, Argentina, Bolivia, & Peru, if you are in need of recent examples within the last decade.

Colombian president Gustavo Petro was voted into office as part of this pink tide and assumed office in August of 2022. [The former communist rebel](#) now leads a government whose job is to manage an economy that was heavily shaken by the pandemic, low commodity prices, and deep social unrest in the last couple of years. As part of his campaign, he vowed to stop issuing new permits for oil exploration & drilling, and to begin the transition to a green economy. [Time magazine reported](#) last year that “oil makes up 40% of exports, and 12% of government income”. Given the country’s reliance on energy exports, it’s strange that he would have such a tough stance against the industry, and yet his government has done little so far to walk back the statements he made during his election campaign. In order to appease investors, his government has stated that existing licenses will be respected and that companies may continue to explore and drill in areas covered by existing contracts. While this is good news, his original promise to cease all new exploration and drilling remains, meaning no new projects will take place during his administration as current things stand.

While this will have a terrible effect on [Ecopetrol](#) in the long run as they will be unable to maintain output at current levels, other large oil companies will suffer as well. Both GeoPark ([GPRK](#)) and Frontera Energy ([OTCPK:FECGF](#)) have significant investments in Colombia. Given the small size of these companies, they will be more vulnerable than let’s say Occidental Petroleum ([OXY](#)) whom have the 4th largest production in Colombia after the previous three but will be largely insulated given their massive size relative to their operations in Colombia. The following graphic courtesy of leading Colombian business newspaper *La Republica* shows the breakdown of average daily production of oil barrels by company and their corresponding percentage of the country’s total production for 2020:





La Republica

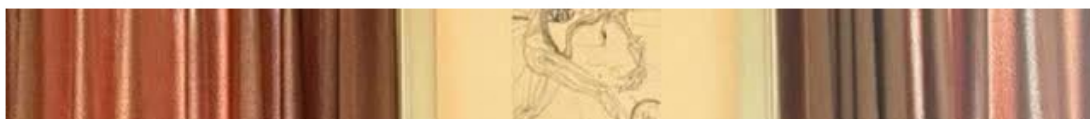
To make matters worse, we go back to the beginning of this article where I pointed out that the government was a majority shareholder of **Ecopetrol** and that this posed a problem. You see, as mentioned before, Petro took office in August of last year and since then, some interesting changes have been made to the board of directors which is composed of nine individuals. Prior to the inauguration of Petro, every single member of the board had been there for at least a year, with 7 out of the 9 having at least three years on the board.

#### JUNTA DIRECTIVA DE ECOPETROL

- **Cecilia María Vélez White**  
Miembro desde abril de 2021
- **Sergio Restrepo Isaza**  
Miembro desde abril de 2019
- **Hernando Ramírez Plazas**  
Miembro desde 2018
- **Luis Guillermo Echeverri Vélez**  
Miembro desde abril de 2019
- **Luis Santiago Perdomo**  
Miembro desde abril de 2019
- **Carlos Gustavo Cano Sanz**  
Miembro desde abril de 2018
- **Germán Quintero Rojas**  
Miembro desde marzo de 2021
- **Esteban Piedrahíta Uribe**  
Miembro desde abril de 2019

Members of the board and when they joined (In Spanish) (La Republica)

Now, we see a completely different picture. Instead of 7 out of 9 being in place for at least a year, we have the same number, **7 out of 9 being named to the board after Petro's inauguration** some 9 months back. This may very well have been 9 out of 9 had it not been for the close to 12% of the company that is not state owned. As you may have guessed, **Ecopetrol** also has a new CEO to match the Petro led shakeup of the board of directors. To no one's surprise, this new CEO is none other than **Ricardo Roa, a personal friend and staunch supporter of the president**. The picture below shows the two in an informal setting in January 2022, half a year prior to the election and over a year before Ricardo was named the new CEO of **Ecopetrol**.





Ricardo Roa (left) & Gustavo Petro (right) in January 2022 (El Colombiano)

I won't make the argument that the new board of directors or the new CEO are incompetent, all of them are professionals with decades of experience in different areas and are generally intelligent people. The argument that I will make, is that unlike the previous board and CEO, all of the new executives are beholden to the current president. They do not have the ability nor likely the willingness to act independently of the president's goals and policies. Essentially, this is a group of yes men who will not act in favor of the ~12% of shareholders that are seeking to make a profit, but rather in favor of the Colombian state which is now controlled by Petro, and which will likely seek political gains to favor the ruling party rather than the overall well being of Colombia or their private sector shareholders.

## What this all means

Being the son of Colombian immigrants and currently residing in the country, I can say that I would not touch this company. While many investors focus on finances and metrics, investing in Latin America is a whole different ball game to investing in the United States, my home country, or the European Union, where I lived for several years. Yes, the company is paying a dividend of close to 20%, however, this is only due to the stock price being cut in half in the previous 12 months. Even if you get in now, there is no guarantee that the dividend will remain this high or that the stock price will not continue its devaluation gradually over time, as daily production declines with no new licenses issued by the government to revive it.

I'm not arguing that this is a bad investment, I am arguing that this is one that you should skip over if you are not looking to play roulette with your money. **Ecopetrol** is a company that is now in the hands of allies of a former communist rebel and at the mercy of his political whims. While it's certainly possible that Petro could wake up tomorrow and decide that he wants to do a complete 180 on his energy policies, I think that this is highly unlikely. For those looking to invest in oil, I would suggest you forget the dividend here and look for a company with actual growth potential as there are many out there. I know some will argue that this could turn out to

be a great investment and that possibility exists, however with no clear path to growth I can't justify buying **Ecopetrol** over a growth play. I would also recommend that investors in GeoPark and Frontera Energy do their homework as those companies do not have the size of Occidental Petroleum and could face challenges if their Colombian investments go south.

To recap, companies involved in the exploration or extraction of Colombian oil face a challenging future in the next couple of years if things do not change and this is especially true for **Ecopetrol** given their lack of independence from the Colombian government which will force them to prioritize political matters over economic ones.

**Editor's Note:** This article discusses one or more securities that do not trade on a major U.S. exchange. Please be aware of the risks associated with these stocks.

This article was written by



**Alexander Alvarez**

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I hold a bachelor's degree in business management from Fairleigh Dickinson University in New Jersey and an MBA from ESADE Business School in Europe and have experience working at both a Fortune 500 and an early stage st

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