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Is Ecopetrol SA (EC) Too Good to Be True? A Comprehensive Analysis of a Potential Value Trap

Unpacking the Risks and Rewards of Investing in Ecopetrol SA



GuruFocus Research

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Value-focused investors are always on the hunt for stocks that are priced below their intrinsic value. One such stock that merits attention is Ecopetrol SA (EC, Financial). The stock, which is currently priced at 11.35,

recorded a loss of 4.16% in a day and a 3-month increase of 16.57%. The stock's fair valuation is \$22.62, as indicated by its GF Value.

Understanding the GF Value

The GF Value represents the current intrinsic value of a stock derived from our exclusive method. The GF Value Line on our summary page gives an overview of the fair value that the stock should be traded at. It is calculated based on three factors:

GuruFocus has detected 3 Warning Signs with Ecopetrol SA EC.

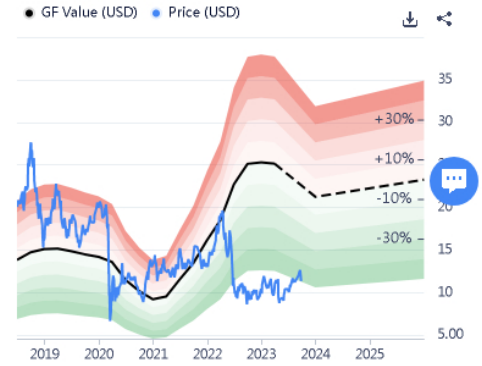
- EC 30-Year Financial Data
- The intrinsic value of EC
- Peter Lynch Chart of EC

- Historical multiples (PE Ratio, PS Ratio, PB Ratio and Price-to-Free-Cash-Flow) that the stock has traded at.
- GuruFocus adjustment factor based on the company's past returns and growth.
- Future estimates of the business performance.

We believe the GF Value Line is the fair value that the stock should be traded at. The stock price will most likely fluctuate around the GF Value Line. If the stock price is significantly above the GF Value Line, it is overvalued and its future return is likely to be poor. On the other hand, if it is significantly below the GF Value Line, its future return will likely be higher.

EC Chart

GF Value: \$22.62 Possible Value Trap, Think Twice



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Ticker	Price	Day's Change %	Price Change
EC	\$11.37	-3.99	-0.1

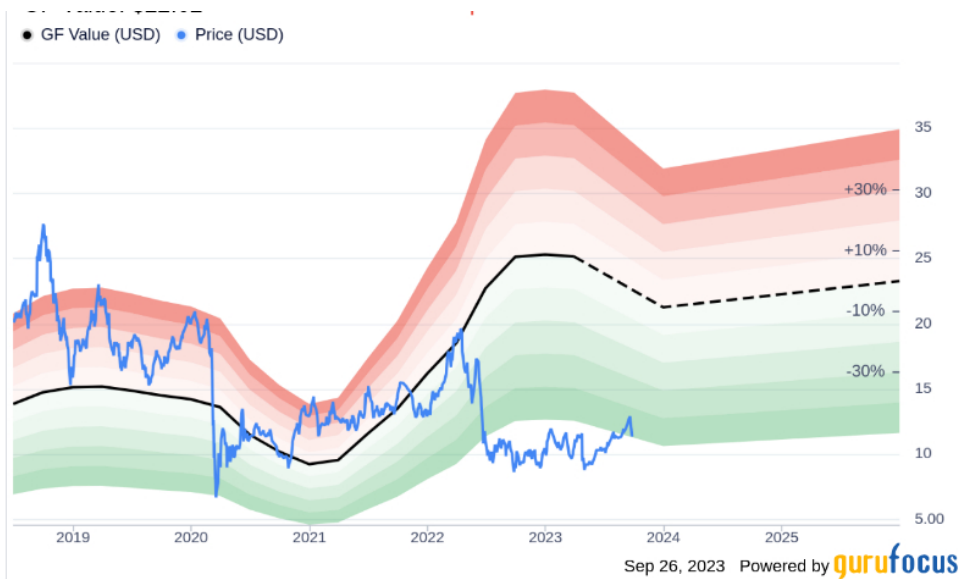
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Ecopetrol SA (EC)

GF Value: \$22.62

Possible Value Trap



Considering the Risks

However, investors need to consider a more in-depth analysis before making an investment decision. Despite its seemingly attractive valuation, certain risk factors associated with **Ecopetrol SA** should not be ignored. These risks are primarily reflected through its low Altman Z-score of 1.55. These indicators suggest that **Ecopetrol SA**, despite its apparent undervaluation, might be a potential value trap. This complexity underlines the importance of thorough due diligence in investment decision-making.



Understanding the Altman Z-Score

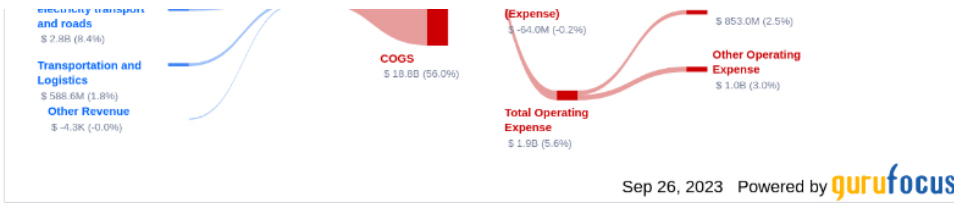
Before delving into the details, let's understand what the Altman Z-score entails. Invented by New York University Professor Edward I. Altman in 1968, the Z-Score is a financial model that predicts the probability of a company entering bankruptcy within a two-year time frame. The Altman Z-Score combines five different financial ratios, each weighted to create a final score. A score below 1.8 suggests a high likelihood of financial distress, while a score above 3 indicates a low risk.



About **Ecopetrol SA**

Ecopetrol SA is a vertically integrated oil company with operations in Latin America and the United States Gulf Coast. Based out of Colombia, the company explores, develops, and conducts production activities in various countries. **Ecopetrol** works as the primary operator or partner in a joint venture, in a host of assets held onshore and offshore. Along with production, the company refines and markets crude oils and byproducts produced from its fields. Crude products are moved by **Ecopetrol** through a series of pipelines throughout Colombia, along with a network of third-party production centers and facilities.





Exploring Ecopetrol SA's Low Altman Z-Score

A dissection of **Ecopetrol SA's Altman Z-score** reveals **Ecopetrol SA's** financial health may be weak, suggesting possible financial distress:

The **Retained Earnings to Total Assets** ratio provides insights into a company's capability to reinvest its profits or manage debt. Evaluating **Ecopetrol SA's** historical data, 2021: 0.03; 2022: 0; 2023: 0.02, we observe a recent decline following an initial increase in this ratio. This downward movement indicates **Ecopetrol SA's** diminishing ability to reinvest in its business or effectively manage its debt. Consequently, it exerts a negative impact on its Z-Score.

Conclusion

Given the low Altman Z-Score and the declining Retained Earnings to Total Assets ratio, it appears that **Ecopetrol SA** might be a potential value trap. Despite its seemingly undervalued price, the company's financial health may be weaker than it appears, posing a significant risk to investors. Therefore, thorough due diligence is crucial before making an investment decision.

GuruFocus Premium members can find stocks with high Altman Z-Score using the following Screener: [Walter Schloss Screen](#).

Disclosures

I/we have no positions in any stocks mentioned, and have no plans to buy any new positions in the stocks mentioned within the next 72 hours. [Click for the complete disclosure](#)

Rating: ☆☆☆☆☆ 0 / 5 (0 votes)



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On September 25, 2023, [Amy Weaver](#), President and CFO of [Salesforce Inc \(CRM, Financial\)](#), sold 942 shares of the company's stock. This move is part of a broader trend of insider selling at Salesforce Inc, as we will explore in this article.

Amy Weaver is a key figure at Salesforce Inc,

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CRM	+	\$202.49	-1.87	-3.8

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