

RATING ACTION COMMENTARY

Fitch Rates Ecopetrol's Senior Notes 'BB+'

Tue 09 Jan, 2024 - 10:06 a. m. ET

Fitch Ratings - New York/Bogota - 09 Jan 2024: Fitch Ratings has assigned a 'BB+' rating to Ecopetrol S.A.'s new issuance of up to USD 1.85 billion senior unsecured notes with a 12-year maturity. The proceeds of the notes will be used to repay USD 1.2 billion of the 2025 bonds and other non-investment expenses.

Ecopetrol S.A.'s ratings reflect the close linkage with the Republic of Colombia (BB+/Stable), which owns 88.5% of the company. Ecopetrol's ratings also reflect the company's strategic importance to the country, as well as its ability to maintain a solid financial profile.

KEY RATING DRIVERS

Linkage to Sovereign: Ecopetrol's ratings reflect the strong linkage with the credit profile of the Republic of Colombia, owner of 88.5% of the company's total capital. The ratings also reflect the very strong incentive of the Colombian government to support Ecopetrol in the event of financial distress, given the company's strategic importance to the country as a supplier of virtually all liquid fuel demand in Colombia, and owner of 100% of the country's refining capacity.

Ecopetrol relies on the receipt of funds from the Colombian government, through its stabilization fund Fondo de Estabilización de Precios de los Combustibles (FEPC), to offset the difference from selling gasoline and diesel in the local market at lower prices versus the export market. At September 2023, the amount accrued in the FEPC was COP 25.7 trillion (USD 5.7 billion). Fitch expects that the balance in the FEPC account will decrease with several price adjustments being rolled-out by the government. During 2022, the price of gasoline was adjusted by COP 600/gallon, and by additional COP 4,220/gallon during the nine months of 2023.

Strong Financial Profile: Ecopetrol's 'bbb' Standalone Credit Profile (SCP) reflects the company's strong financial profile. Fitch-calculated gross leverage as measured by total debt to EBITDA is expected to average 2.5x through the rating horizon, which is moderate for the industry, as Brent prices continue supporting EBITDA generation, and debt is not expected to have any drastic changes. Fitch expects Ecopetrol's interest coverage as measured by EBITDA to interest expense coverage to exceed 6x consistently through the rating horizon.

Positive FCF Expected: Fitch expects Ecopetrol's FCF to be positive going forward, subject to revisions to investment and dividends plans. Fitch's base case assumption includes the company having an average annual capex budget of approximately USD 5.5 billion over the next three years, and that it will pay 60% of previous year's net income in line with its 40% to 60% dividend policy. This, coupled with Fitch's price assumptions for Brent crude oil price of USD 80/bbl in 2023, USD 75/bbl in 2024 and USD 60/bbl in the long term, would result in positive FCF over the next three years.

Stable Operating Metrics: Fitch assumes total hydrocarbons production to be 730 thousand barrels of oil equivalent per day (boe/d) in 2023 exhibiting a trend or recovery expected to continue over the next three years. The company's 2022 proved reserves (1P) of 1,969 million boe gave the company a reserve life of 8.7 years as of 3Q23. Fitch assumes a 105% reserve replacement rate. Fitch's calculated after-tax full cycle cost for Ecopetrol has remained relatively stable over the past three years at approximately USD 47/boe.

DERIVATION SUMMARY

Ecopetrol's rating linkage to the Colombian sovereign rating is in line with the linkage for most national oil and gas companies (NOCs) in the region, including Petroleos Mexicanos (PEMEX; B+/Rating Watch Negative), Petroleo Brasileiro S.A. (Petrobras; BB/Stable), Petroleos del Peru - Petroperu S.A. (BB+/Negative) and Empresa Nacional del Petroleo (ENAP; A-/Stable).

In most cases in the region, NOCs are of significant strategic importance for energy supply to their countries, including in Mexico, Colombia and Brazil. NOCs can also serve as a proxy for federal government funding as in Mexico, and have strong legal ties to governments through their majority ownership, strong control and governmental budgetary approvals.

Ecopetrol's SCP is commensurate with a 'bbb' rating, which is in line with that of Petrobras at 'bbb', given

ENTITIES

Ecopetrol S.A.

ISSUER CONTENT

Latin American Oil & Gas Netbacks to Vary by Location

Ecopetrol S.A.

Fitch Afirma Calificación de Ecopetrol en 'AAA(col)'; Perspectiva Estable

Fitch Affirms Ecopetrol's Foreign and Local Currency IDRs at 'BB+'; Outlook Stable

LatAm Oil & Gas - Relative Credit Analysis; 2023 Sector Credit Outlook: Neutral

Latin American Oil & Gas - Relative Credit Analysis

Fitch Rates Ecopetrol's Senior Notes 'BB+'

RECOMMENDED CONTENT

North American Utilities, Power & Gas Dashboard: Fourth-Quarter 2023

North American Utilities, Power & Gas Rating Action Summary Report: Fourth-Quarter 2023

Air Canada

Carrier Global Corporation

Fitch Rates Liberty Utilities Co.'s Senior Unsecured Notes 'BBB+'

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Fitch Ratings - Latin American Oil & Gas

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Petrobras' recent significant debt reduction. Excluding IFRS16 leases, **Ecopetrol**'s leverage at YE 2021 was 3.1x. **Ecopetrol**'s credit profile is materially higher than that of Pemex's 'ccc-' SCP as a result of **Ecopetrol**'s deleveraging capital structure versus PEMEX's increasing leverage trajectory. **Ecopetrol** will continue to report stable production, which Fitch expects to stabilize around 700,000 boed. This production trajectory further supports the notching differential between the two companies' SCP.

KEY ASSUMPTIONS

- Ecopetrol** remains majority owned by Colombia;
- Brent average 82 USD/bbl in 2023 and USD80/bbl in 2024 before trending toward USD60/bbl in the long term;
- 9.5% discount to Brent on average through rating horizon;
- Stable production growth of 1.5% per annum through 2026;
- 105% reserve replacement ratio per year;
- Aggregate capex of approximately USD5.5 billion per year for the next three years;
- Dividends of 60% of previous year's net income.

RATING SENSITIVITIES

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

- Although not expected in the short to medium term, an upgrade of Colombia's sovereign ratings.

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

- A downgrade of Colombia's sovereign ratings;
- A significant weakening of the company's linkage with the government and a lower government incentive to support couple with a deterioration of its SCP;
- A decrease of 1P reserves below 1.5 billion boe could trigger a downgrade to the SCP of the company from 'bbb'.

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity: **Ecopetrol**'s strong liquidity profile is supported by cash on hand, which amounted to USD3.46 billion at Sept. 30, 2023, strong access to the capital markets and an adequate debt maturity profile. By November 2023, the company had already refinanced all of its 2023 maturities. Based on market appetite, Fitch does not expect **Ecopetrol** will have difficulty refinancing, partially or in full, its 2024 maturities.

ISA Contribution: Fitch expects that the majority of **Ecopetrol**'s consolidated EBITDA will continue to be generated from its oil and gas business. Fitch estimates that ISA's EBITDA of USD1.7 billion in 2023, adjusted to **Ecopetrol**'s ownership, is expected to represent 8.3% of Fitch's projected **Ecopetrol** EBITDA for 2023. Gross leverage excluding ISA, defined as total debt to EBITDA, is expected to be 2.0x in 2023, and Fitch forecasts 2.3x on average through 2026, compared to 2.5x on a fully consolidated basis.

ISSUER PROFILE

Ecopetrol is a leading integrated energy and infrastructure company in the Latin American and Central American region. The company is the largest in Colombia in relation to their Upstream, Midstream and Downstream business segments. Interconexión Eléctrica S.A. is 51% owned by **Ecopetrol** and is largest energy transmission company in the region acquisition.

DATE OF RELEVANT COMMITTEE

14 November 2023

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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS








Ecopetrol S.A.'s LT IDR is linked to the sovereign rating of Colombia.

ESG CONSIDERATIONS

Ecopetrol S.A. 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

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RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

* Ratings displayed in orange denotes EU or UK Unsolicited and Non-Participatory Ratings

Where there was a review with no rating action (Review – No Action), please refer to the "Latest Rating Action Commentary" for an explanation of key rating drivers

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factors.

Ecopetrol S.A. has an ESG Relevance Score of '4' for Exposure to Social Impacts due to multiple attacks to its pipelines, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT	RATING
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Ecopetrol S.A.	
senior unsecured	LT BB+ New Rating

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[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on www.fitchratings.com

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The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

- [Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)
- [Metodología de Calificación de Entidades Relacionadas con el Gobierno \(pub. 12 Nov 2020\)](#)
- [National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)
- [Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)
- [Metodología de Calificación de Finanzas Corporativas – Efectiva del 29 de diciembre de 2022 al 21 de diciembre de 2023 \(pub. 29 Dec 2022\)](#)
- [Parent and Subsidiary Linkage Rating Criteria \(pub. 16 Jun 2023\)](#)
- [Corporate Rating Criteria \(pub. 03 Nov 2023\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

- [Dodd-Frank Rating Information Disclosure Form](#)
- [Solicitation Status](#)
- [Endorsement Policy](#)

ENDORSEMENT STATUS

Ecopetrol S.A. EU Endorsed, UK Endorsed

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