

## Ecopetrol S.A.

# A tough night: disappointing 4Q23 result and reserves down by 6.4% YoY

Maintain Rating: NEUTRAL | PO: 2,765.00 COP | Price: 2,290.00 COP

## 4Q23 results 23% below BofAe

Ecopetrol reported EBITDA of COP12.2tn (down 24% QoQ and 23% YoY), 23% below our estimates of COP16.1tn and 18% below the consensus of COP15.0tn. Compared to BofAe, the miss can be largely explained by weaker than expected results at the Downstream segment. Consolidated net income came in at COP5.9tn, 23% below BofAe. Of note, FEPC amounted to COP20.5tn, down vs. 3Q23, mainly explained by 1) payment of dividends to the govt. of COP21.6tn; 2) accrual for the quarter amounting to COP4.7tn; 3) increase in gasoline prices and decrease in reference prices (COP20.5 tn).

## Reserve update at 1,883 million barrels; down 6.4% YoY

Ecopetrol reported proven reserves of 1,883MMboe as of the end of 2023, down 6.4% YoY. According to the company, an organic incorporation of +307 MBPE was achieved through new projects, improved forecasts of producing fields, better prospects for improved recovery, and extensions and discoveries. On the other hand, the incorporation of reserves was affected by -188 MBPE due to factors such as the fall in the price of crude oil from the Brent benchmark and inflationary effects, as well as the changes in technical conditions. In this context, the Reserve Replenishment Index (IRR) was 48% and the Reserves/Production Ratio stood at 7.6 years.

## Upstream: In-line EBITDA

Upstream EBITDA of COP7.4tn (down 15% QoQ) broadly in line with our estimate of COP7.5tn. Production reached 758kboed (up 2.2% QoQ and +5.2% YoY), slightly above our expectation of 747kboed.

## Downstream to blame; margins dropped QoQ

Downstream EBITDA of COP219bn (down 81% QoQ and -89% YoY) came below our estimates of COP3.4tn due to higher-than-expected costs reported. Margins significantly dropped this quarter (Refinería de Cartagena's margin dropped 29.5% QoQ to US\$14.1/bbl and Refinería de Barrancabermeja's dropped 37.4% QoQ to US\$12.4/bbl), explained by weakening of diesel, jet, and gasoline spreads, partially offset by optimization in cost and higher diesel and jet yields.

## Midstream and ISA: slightly below BofAe

Midstream EBITDA of COP2.5tn came below our est. of COP2.8tn (down 11% QoQ and 14% YoY). ISA's contribution to Ecopetrol's EBITDA was COP2.1bn (up 7.9% QoQ and flat YoY), below our estimate of COP2.4tn due to lower-than-expected revenues.

## Maintain Neutral

Despite concerns arising from govt. ownership of ~88% of Ecopetrol and resulting influence on pricing policy and investment decisions, we believe these risks are priced in. We think div prospects are healthy (21% 2024) and the Colombian govt. is committed to closing the gap between oil-products prices and international references in 2024.

29 February 2024

### Equity

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### Stock Data

Price (Common / ADR)	2,290.00 COP / 11.70 USD
Price Objective	2,765.00 COP / 14.00 USD
Date Established	9-Jan-2024 / 9-Jan-2024
Investment Opinion	B-2-8 / C-2-8
52-Week Range	1,980.00 COP - 2,775.00 COP
Market Value (mn)	94,157,231 COP
Free Float	8.6%
Average Daily Value	2.05 USD
Shares Outstanding (mn)	41,116.7 / 2,055.8
BofA Ticker / Exchange	XESSF / BOG
BofA Ticker / Exchange	EC / NYS
Bloomberg / Reuters	ECOPETL CB / ECO.CN
ROE (2023E)	17.3%
Net Dbt to Eqty (Dec-2022A)	83.7%

FEPC = Fuel Price Stabilization Fund

ISA = Interconexión Eléctrica S.A.

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**Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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Timestamp: 29 February 2024 10:35PM EST

**Exhibit 2: Ecopetrol 4Q23 result – actual vs. expected (COP)**

Ecopetrol's EBITDA came 24% below our estimates

	4Q23A	4Q23E	4Q22A	3Q23A	YoY	QoQ	A/E
<b>Net Revenues</b>	34,794	<b>33,077</b>	<b>39,678</b>	<b>35,130</b>	<b>-12%</b>	<b>-1%</b>	<b>5%</b>
COGS	(23,307)	(18,632)	(24,007)	(20,605)	-3%	13%	25%
<b>Gross Profit</b>	<b>11,487</b>	<b>14,445</b>	<b>15,671</b>	<b>14,525</b>	<b>-27%</b>	<b>-21%</b>	<b>-20%</b>
Operating expenses	(3,787)	(2,577)	(3,655)	(2,709)	4%	40%	47%
<b>Operating Income</b>	<b>7,700</b>	<b>11,868</b>	<b>12,016</b>	<b>11,816</b>	<b>-36%</b>	<b>-35%</b>	<b>-35%</b>
Depreciation	4,551	<b>4,323</b>	3,980	4,223	14%	8%	5%
<b>EBITDA</b>	<b>12,251</b>	<b>16,191</b>	<b>15,996</b>	<b>16,039</b>	<b>-23%</b>	<b>-24%</b>	<b>-24%</b>
EBITDA Margin	35%	0	40%	46%			
<b>Financial Result</b>	<b>(1,486)</b>	<b>(1,781)</b>	<b>(1,469)</b>	<b>(630)</b>	<b>1%</b>	<b>136%</b>	<b>-17%</b>
Equity income	199	112	112	109	78%	83%	78%
<b>Income before income tax</b>	<b>6,413</b>	<b>10,199</b>	<b>10,659</b>	<b>11,295</b>	<b>-40%</b>	<b>-43%</b>	<b>-37%</b>
Income tax	(454)	(5,099)	(2,945)	(5,307)	-85%	-91%	-91%
<b>Net Income</b>	<b>5,959</b>	<b>5,099</b>	<b>7,714</b>	<b>5,988</b>	<b>-23%</b>	<b>0%</b>	<b>17%</b>
<b>EPS (COP)</b>	<b>103</b>	<b>101</b>	<b>167</b>	<b>124</b>	<b>-38%</b>	<b>-17%</b>	<b>1%</b>

Source: BofA Global Research Estimates, company filings

BofA GLOBAL RESEARCH

**Price objective basis & risk****Ecopetrol S.A. (XESSF / EC)**

Our price objective of COP2,765 (US\$14/ADR) is based on a DCF-based valuation using the BofA base case oil price scenario, which sees a rise in the price of Brent to US\$80/bbl in 2023, US\$90/bbl for 2024, and US\$70/bbl for 2025 and beyond. We use a 12.8% WACC and a LT growth rate of 2%. Ecopetrol trades at a discount to international peers, warranted in our view by the company's current challenges.

Upside risks to our price objective are oil price movements and faster-than-expected implementation in the company's production and development projects. Downside risks to our PO are negative oil price trends, slower-than-expected oil and gas production growth, possible changes to energy policy in Colombia, which could affect risk perceptions as well as the company's assets.

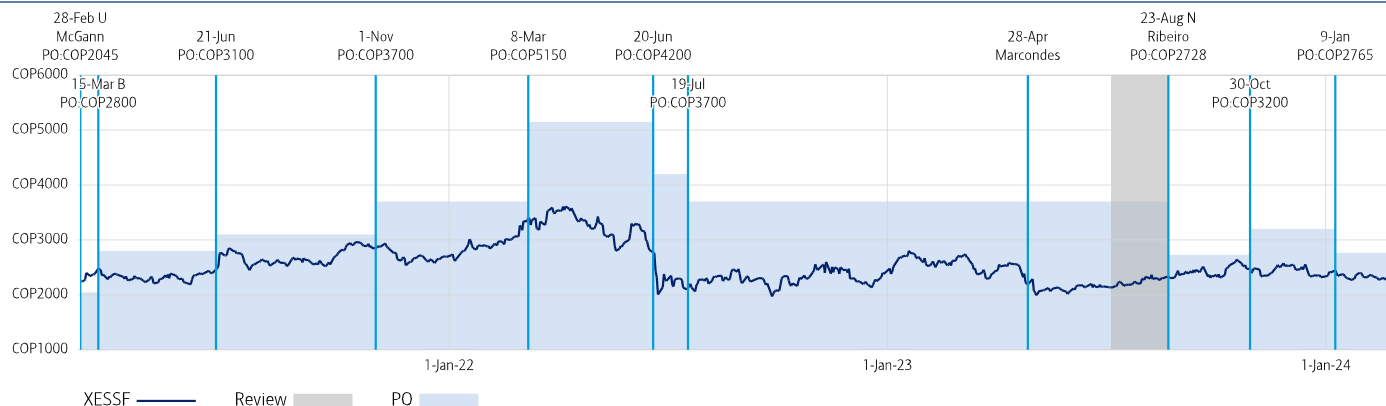
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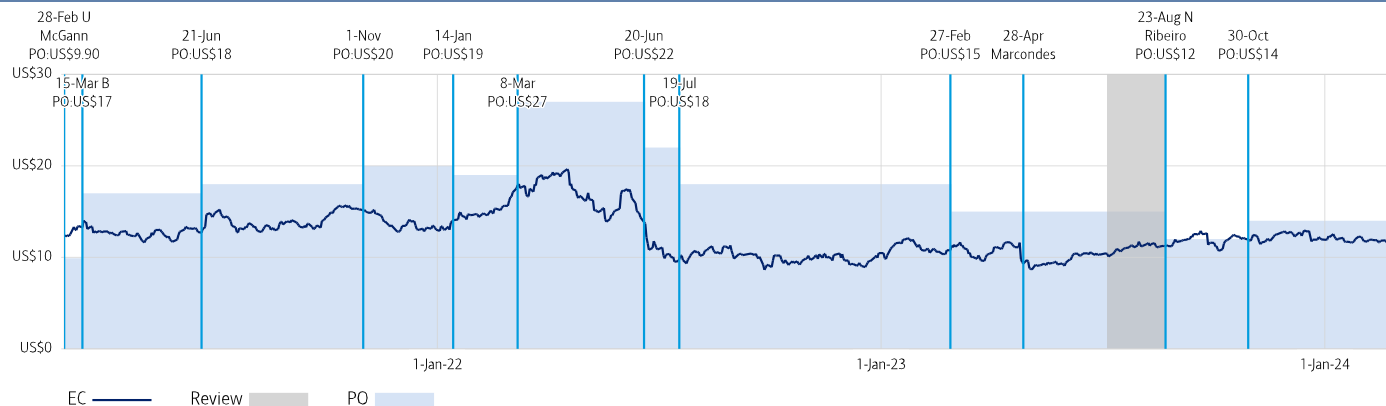
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Ecopetrol S.A. (EC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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