

## LatAm Oil &amp; Gas

## 4Q23 preview: a better quarter for Oil &amp; Gas integrated players

Earnings Preview

**A better quarter for Oil & Gas integrated players**

The LatAm Oil & Gas space should deliver positive results in the 4Q23. We estimate stronger QoQ for the integrated players. Overall, for Petrobras, Ecopetrol, and YPF better sequential results will be mainly driven by: 1) higher output, and 2) better downstream results.

**Ecopetrol:** We estimate Ecopetrol to report an EBITDA of US\$4,087mn, a sequential improvement vs. 3Q23's US\$3,971mn, and 21% above 4Q22's US\$3,382mn, driven by better downstream results.

**Petrobras:** We expect Petrobras to report stronger sequential results, with adjusted EBITDA of US\$15 billion, up 13% QoQ and 10% YoY. The main drivers for the stronger QoQ performance are: 1) higher production (as described below); 2) lower exploration costs; and 3) better downstream results.

**YPF:** We estimate Adj. EBITDA at US\$1,069mn, up 13% QoQ and 23% YoY. The stronger results were mainly driven by better downstream results (EBITDA of US\$52mn, up 380% QoQ and 71% YoY), due to the increase in fuel prices in Argentina.

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Equity  
Latin America  
Oil & Gas

**Caio Ribeiro**  
Research Analyst  
BofAS  
+1 646 855 4051  
[caio.ribeiro@bofa.com](mailto:caio.ribeiro@bofa.com)

**Leonardo Marcondes >>**  
Research Analyst  
Merrill Lynch (Brazil)  
[leonardo.marcondes@bofa.com](mailto:leonardo.marcondes@bofa.com)

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## 4Q23 preview: a better quarter for integrated players

The LatAm Oil & Gas space should deliver positive results in the 4Q23. We estimate stronger QoQ for the integrated players. Overall, for Petrobras, Ecopetrol, and YPF better sequential results will be mainly driven by: 1) higher output, and 2) better downstream results.

### Integrated Companies

#### Ecopetrol: Stronger QoQ results driven by better downstream results

We estimate Ecopetrol to report an EBITDA of US\$4,087mn, a sequential improvement vs. 3Q23's US\$3,971mn, and 21% above 4Q22's US\$3,382mn, driven by better downstream results. We expect net production to reach 618kboed, down 2% QoQ and -1% YoY. Net income is expected at US\$1,287mn, down 13% QoQ and -21% YoY, mainly explained by the new tax regime in Colombia.

We expect a sequential improvement to be driven by better downstream results, with the segment's EBITDA increasing by 39% QoQ and +80% YoY, led by higher refining margins.

We reiterate our Neutral rating as we believe that the dividends in 2024 will continue to be attractive – as there is still COP25.7 trillion deficit in the Fuel Price Stabilization Fund (FEPC) – and that the government is committed to closing the gap between oil-products prices and international references in this year. However, we see some risks arising from the government's ownership of ~88% of Ecopetrol and resulting influence on investment decisions.

#### Exhibit 1: Ecopetrol – 4Q23 Earnings estimates (US\$m)

We expect an adjusted EBITDA of US\$4.1bn

US\$m	4Q23E	3Q23A	QoQ	4Q22A	YoY
Production (kboed)	618	628	-2%	623	-1%
Net revenues	8,350	8,698	-4%	8,389	0%
Adj. EBITDA	4,087	3,971	3%	3,382	21%
Net income consolidated	1,287	1,483	-13%	1,631	-21%

Source: BofA Global Research Estimates

BofA GLOBAL RESEARCH

#### Petrobras: Stronger QoQ EBITDA due to higher production

We expect Petrobras to report stronger sequential results, with adjusted EBITDA of US\$15 billion, up 13% QoQ and 10% YoY. The main drivers for the stronger QoQ performance are: 1) higher production (as described below); 2) lower exploration costs; and 3) better downstream results.

Petrobras reported a strong domestic oil production of 2,361kbpd, up 1.9% QoQ and +11.1% YoY. The improvement can be largely explained by the ramp-up of: 1) P-71, at Itapu field (150kbpd); 2) Almirante Barroso (150kbpd), at Búzios field; and 3) FPSO Anna Nery (70kbpd) & FPSO Anita Garibaldi (80kbpd), at Marlim complex. According to Petrobras, start-up of four new wells in complementary projects in Campos and Santos basins also contributed to the strong performance.

Pre-salt oil production stood at 1,937kbpd, up 3.5% QoQ and +18.2% YoY, mainly explained by the ramp-up of the abovementioned platforms. Pre-salt production represented 82% of the company's domestic oil output. Post-salt prod. dropped 5.8% QoQ to 388kbpd as a result of higher losses from stoppages and maintenance, partially offset by the ramp-up of FPSO Anna Nery and start-up of two new wells from complementary projects.

Utilization factor clocked in 94% in 4Q23, down 2ppt from the record posted in the 3Q23 of 96%. Domestic sales vol. was 1,733kbpd (-4.8% QoQ and -3.5% YoY) – the

decrease was mainly driven by lower diesel (-6.6% QoQ) and LPG (-5.6% QoQ), due to weaker seasonality, and gasoline (-2.2% QoQ), as hydrous ethanol gained market share. [\(see our feedback note for 4Q23 operational results\)](#).

We reiterate our Buy rating on the stock given: 1) substantial growth in upstream production ahead; 2) minimum dividend yields are still enticing for 2024 and potential to pay extraordinary dividends; and 3) its pricing policy more aligned with international prices. Yet, we expect the stock to face some volatility in the short-term while investors do not have a clearer idea of PBR's total dividends (and buyback to be executed).

## Exhibit 2: Petrobras 4Q23 preview (US\$ million)

We estimate an adjusted EBITDA of US\$15bn

US\$m	4Q23E	3Q23A	QoQ	4Q22A	YoY
Domestic Oil Production (kbpd)	2,361	2,318	2%	2,111	12%
Net revenues	26,306	25,142	5%	29,586	-11%
Adj. EBITDA	15,021	13,331	13%	13,636	10%
Net income	6,529	5,390	21%	8,116	-20%

Source: BofA Global Research Estimates

BofA GLOBAL RESEARCH

## YPF: Results positively impacted by Downstream business

YPF's Adj. EBITDA is estimated at US\$1,069mn, up 13% QoQ and 23% YoY. The stronger results were mainly driven by better downstream results (EBITDA of US\$52mn, up 380% QoQ and 71% YoY), due to the increase in fuel prices in Argentina.

It is important to highlight that fuel prices started to increase only in December. Therefore, the rise in prices did not fully impact the quarter's result and we expect these to positively impact the results going forward.

We reiterate our cautious investment thesis on YPF's as we would like to have clearer visibility on the conditions in which the Omnibus bill measures will be implemented given their likely unpopular consequence (inflation). At least in the short term, we think that the development of Vaca Muerta, and therefore YPF, could continue to face: 1) challenging economics (high inflation, financing difficulties, FX devaluation); 2) capital controls; 3) government involvement in oil/gas/oil product pricing; and 4) restricted access to oil services/ equipment.

## Exhibit 3: YPF - 4Q23 Earnings estimates (US\$m)

We expect an adjusted EBITDA of US\$1,069mn

US\$m	4Q23E	3Q23A	QoQ	4Q22A	YoY
Production (kboed)	512	520	-2%	499	2%
Net revenues	4,514	4,504	0%	4,645	-3%
Adj. EBITDA	1,069	949	13%	868	23%
Net income	301	(137)	n.a.	464	-35%

Source: BofA Global Research Estimates

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## Exhibit 4: Stocks mentioned

Prices and ratings for stocks mentioned in the report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
EC	EC US	Ecopetrol S.A.	US\$ 11.88	C-2-8
XESSF	ECOPETL CB	Ecopetrol S.A.	COP 2345	B-2-8
PBR	PBR US	Petrobras ON	US\$ 17.65	C-1-8
PBRQF	PETR3 BZ	Petrobras ON	BRL 44.08	C-1-8
PBRA	PBR/A US	Petrobras PN	US\$ 17.09	C-1-8
PTBFB	PETR4 BZ	Petrobras PN	BRL 42.69	C-1-8
YPF	YPF US	YPF SA	US\$ 17.91	C-3-9
YPFSF	YPFD AR	YPF SA	ArP 19631.4	C-3-9

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Prices and ratings for stocks mentioned in the report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
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Source: BofA Global Research

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**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.

**Petrobras (PBRQF / PBR)**

Our price objective of US\$20.20/ADR (R\$48.00/share) is based on a discounted cash flow (DCF)-based valuation using the BofA base case oil price scenario, which assumes a Brent price of US\$80/bbl for 2024, and US\$70/bbl for 2025 and beyond. We use a 14.70% weighted-average cost of capital (WACC) and an long-term growth rate of 2.0%.

Upside and downside risks to achieving our price objective are more favorable or less favorable results from the following factors: (1) oil price trends, (2) political/economic developments in Brazil, (3) possible increase in global risk aversion/higher interest rate environment, and (4) operational delays in production/development projects.

**Petrobras PN (PTRBF / PBRA)**

Our price objective of US\$20.20/ADR (R\$48.00/share) is based on a discounted cash flow (DCF)-based valuation using the BofA base case oil price scenario, which assumes a Brent price of US\$80/bbl for 2024, and US\$70/bbl for 2025 and beyond. We use a 14.70% weighted-average cost of capital (WACC) and an long-term growth rate of 2.0%.

Upside and downside risks to achieving our price objective are more favorable or less favorable results from the following factors: (1) oil price trends, (2) political/economic developments in Brazil, (3) possible increase in global risk aversion/higher interest rate environment, and (4) operational delays in production/development projects.

**YPF SA (YPF)**

Our PO of US\$11.30/ADR (ARS 7,920.17/share) is based on a DCF methodology, using the BofA base case oil price scenario, which assumes Brent prices of US\$85/bbl in 2023, US\$90/bbl for 2024, and US\$70/bbl for 2025 and beyond. We use a 16.2% WACC and terminal growth rate of 3%.

Upside risks to our PO are: (1) new growth projects that are implemented in a way that allows for higher returns, (2) prices for refined products in Argentina, (3) energy policy in Argentina that could become more favorable for oil companies, (4) global energy price movements, (5) improvement in risk perceptions of Argentina.

Downside risks to achieving our price objective are: (1) worsening of Argentina's macroeconomic scenario and maintenance of capital controls, (2) increased government

involvement in energy policy in Argentina, (3) execution risk in improving recovery factor in YPF's oil fields, (4) more restricted access to oil services and equipment.

**YPF SA (YPFSF)**

Our PO of US\$11.30/ADR (ARS 7,920.17/share) is based on a DCF methodology, using the BofA base case oil price scenario, which assumes Brent prices of US\$85/bbl in 2023, US\$90/bbl for 2024, and US\$70/bbl for 2025 and beyond. We use a 16.2% WACC and terminal growth rate of 3%.

Upside risks to our PO are: (1) new growth projects that are implemented in a way that allows for higher returns, (2) prices for refined products in Argentina, (3) energy policy in Argentina that could become more favorable for oil companies, (4) global energy price movements, (5) improvement in risk perceptions of Argentina.

Downside risks to achieving our price objective are: (1) worsening of Argentina's macroeconomic scenario and maintenance of capital controls, (2) increased government involvement in energy policy in Argentina, (3) execution risk in improving recovery factor in YPF's oil fields, (4) more restricted access to oil services and equipment.

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## Latin America - Natural Resources Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
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	Alpek SAB de CV	ALPKF	ALPEKA MM	Leonardo Marcondes
	CSN	SIDHF	CSNA3 BZ	Caio Ribeiro
	CSN	SID	SID US	Caio Ribeiro
	Dexco SA	DURXF	DXCO3 BZ	Leonardo Neratika
	Empresas CMPC SA	XEMCF	CMPC CI	Leonardo Neratika
	Enauta Participacoes S.A.	QGEPF	ENAT3 BZ	Leonardo Marcondes
	Orbia	MXCHF	ORBIA* MM	Leonardo Marcondes
	Petro Rio	HRTPF	PRIO3 BZ	Caio Ribeiro
	Petrobras	PBRQF	PETR3 BZ	Caio Ribeiro
	Petrobras	PBR	PBR US	Caio Ribeiro
	Petrobras PN	PBRA	PBR/A US	Caio Ribeiro
	Petrobras PN	PTRBF	PETR4 BZ	Caio Ribeiro
	PetroReconcavo	XPXYF	RECV3 BZ	Leonardo Marcondes
	Suzano	XXRTF	SUZB3 BZ	Caio Ribeiro
	Suzano S.A.	SUZ	SUZ US	Caio Ribeiro
	Ternium	TX	TX US	Caio Ribeiro
	Usiminas SA	USNZY	USNZY US	Caio Ribeiro
	Usiminas SA	USSPF	USIM5 BZ	Caio Ribeiro
	Vale	VALE	VALE US	Caio Ribeiro
	Vale	VALEF	VALE3 BZ	Caio Ribeiro
	Vibra Energia SA	XUBRF	VBBR3 BZ	Leonardo Marcondes
<b>NEUTRAL</b>				
	Bradespar	BRDQF	BRAP4 BZ	Caio Ribeiro
	Companhia Brasileira de Alumínio	XZUDF	CBAV3 BZ	Leonardo Neratika
	CSN Mineracao	XZRAF	CMIN3 BZ	Caio Ribeiro
	Ecopetrol S.A.	XESSF	ECOPETL CB	Caio Ribeiro
	Ecopetrol S.A.	EC	EC US	Caio Ribeiro
	Gerdau S. A.	GGBUF	GGBR4 BZ	Caio Ribeiro
	Gerdau S.A.	GGB	GGB US	Caio Ribeiro
	Metalurgica Gerdau	MZGPF	GOAU4 BZ	Caio Ribeiro
	Ultrapar	XLRUF	UGPA3 BZ	Leonardo Marcondes
	Ultrapar Pa-ADR	UGP	UGP US	Leonardo Marcondes
<b>UNDERPERFORM</b>				
	Empresas Copec SA	PZDCF	COPEC CI	Leonardo Neratika
	Grupo Mexico	GMBXF	GMEXICOB MM	Caio Ribeiro
	Klabin S.A	XLWDF	KLBN11 BZ	Caio Ribeiro
	Klabin S.A	KLBAY	KLBAY US	Caio Ribeiro
	Southern Copper	SCCO	SCCO US	Caio Ribeiro
	YPF SA	YPF	YPF US	Leonardo Marcondes
	YPF SA	YPFSF	YPFD AR	Leonardo Marcondes
<b>RSTR</b>				
	Braskem SA-A	BAKAF	BRKM5 BZ	Leonardo Marcondes
	Braskem SA-ADR	BAK	BAK US	Leonardo Marcondes

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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)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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