



Rating Action: Moody's affirms Ecopetrol's Baa3 ratings; outlook remains negative

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New York, September 21, 2023 -- Moody's Investors Service ("Moody's") affirmed Ecopetrol S.A.'s ("Ecopetrol") ba3 Baseline Credit Assessment (BCA) and its Baa3 issuer rating and senior unsecured ratings. Moody's also maintained the negative outlook reflecting a more aggressive financial policy in a context of global geopolitical risk and high interest rates.

RATINGS RATIONALE

Ecopetrol's Baa3 ratings and ba3 BCA continue to reflect the company's status as Colombia's leading oil and gas producer, accounting for over 60% of the country's production and close to 100% of the supply of oil products, as well as its large power transmission business in Colombia and other countries in Latin America. Ecopetrol's reserve replacement strategy has been well executed in recent years, with an average reserve replacement rate of 130% in 2018-22 and a 104% for 2022.

Furthermore, Moody's assumes a high probability of support from the Government of Colombia (Baa2 stable) and a moderate default dependence between the two entities. This assessment results in a three-notch uplift of Ecopetrol's issuer rating to Baa3 from its ba3 BCA.

While robust oil and gas prices have helped Ecopetrol's cash generation in 2022-23, Moody's expects that, based on an estimated average Brent price of \$65 dollars per barrel, the company's cash flow will decline in 2024 and 2025. However, despite commodities prices volatility, Moody's believes that the company will be able to meet its financial obligations in the next 12-18 months supported by access to global and Colombian capital markets and government support.

Ecopetrol's Baa3 ratings also take into consideration the solid and relatively stable cash flow from its power transmission company, Interconexión Eléctrica S.A. E.S.P. (ISA, Baa2 stable) and its midstream subsidiary, Cent SAS, which includes Oleoducto Central S.A. (Baa3 negative).

The negative rating outlook is based on Moody's view that Ecopetrol will continue facing refinancing risk for a Baa3 rating category for its \$1.8 and \$1.5 million maturities coming due in 2024 and 2025, primarily based on the extended time that the company took to refinance close to \$3.1 billion in debt maturing in 2023, which demonstrates a more aggressive financial policy.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Ecopetrol's rating outlook would be stabilized if the company is able to refinance upcoming debt maturities for 2024 and 2025 in the next 6 months. In turn, an upgrade of Ecopetrol's ba3 BCA or Baa3 rating is unlikely in the next 12 months given the negative rating outlook. However, if the company manages to strengthen its financial policies and simultaneously demonstrates ability to refinance upcoming debt maturities well in advance, and reduce financial leverage below 1.5x on a sustained basis, while growing production and keeping proved reserve life stable, its ratings could be upgraded. Specifically, its rating could be upgraded if the company's Leverage Full Cycle Ratio remains at 1.5x, which would indicate stable finding and development costs; retained cash flow/net debt would have to be over 40%; and the Government of Colombia's rating would have to be sustained at Baa2 because in Moody's views it is unlikely that Ecopetrol would be rated above the sovereign rating.

A ratings downgrade could occur if Ecopetrol is not able to refinance its upcoming maturities in the next 6 months; if its reserve life declines significantly on a sustained basis; or if retained cash flow/net debt declines to around 20%. In addition, because Ecopetrol's ratings benefit from implicit support from the Government of Colombia, a negative action on the government's rating or a change in Moody's assumptions about government support could lead to a negative action on Ecopetrol's ratings.

Profile

Ecopetrol, 88.5% owned by the government of Colombia, is the largest integrated oil and gas company in the country. The company has three business segments, namely hydrocarbons, low-emission solutions and transmission and toll roads. Its gross production averaged close to 723.7 mboed and total assets amounted \$75 billion on June 30, 2023.

ISA, headquartered in Medellin, Colombia, is an operating holding company with businesses in the electricity transmission, toll roads, telecommunications, and systems management sectors. The company holds direct and indirect ownership stakes in a portfolio of subsidiaries located in Colombia, Brazil, Peru, and Chile.

The methodologies used in these ratings were Integrated Oil and Gas published in September 2022 and available at <https://ratings.moodys.com/rmc-documents/393389>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moodys.com/rmc-documents/64864>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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