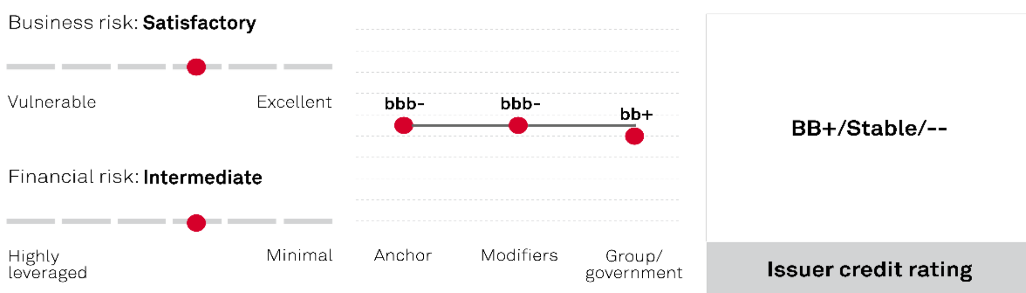
Ecopetrol S.A.

July 18, 2023

Ratings Score Snapshot



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Credit Highlights

Overview

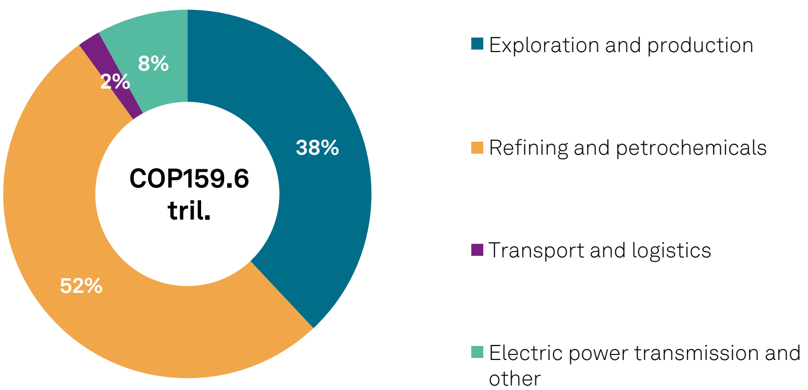
Key strengths	Key risks
Main player in Colombia's oil and gas industry	High capex for growth and business transition
Ongoing energy transition with specific targets	Stand-alone credit risk capped by sovereign
Consistent profitability margins	Exposure to crude oil price volatility
Revenue diversification through four business lines	

We expect Ecopetrol's business line related to low-emission solutions will account for about 30%-50% of EBITDA by 2040. Based on the ESG awareness in the oil and gas industry and the global energy transition, we think Ecopetrol is in line with the goals of transitioning toward renewable energy sources proposed by the new Colombian government. The government is aiming to address climate change, which will have broad implications for hydrocarbon demand, prices, and the production of fossil fuels over the long term.

As the producer of 68% of the country's crude oil and 70% of its natural gas, Ecopetrol maintains specific strategies to comply with government plans and strengthen its presence in terms of sustainability, such as 30.0% gas share of total production (currently at 22.0%), electric energy efficiency, CO2 capture and storage, renewable energies, and the production of hydrogen fuel alternatives. The company has set specific targets for upcoming production of natural gas and hydrocarbon cleaner alternatives. In addition, the growth prospects of its most recent investment in Interconexion Electrica S.A. E.S.P. (ISA; not rated) will contribute to its plan to transition to more sustainable power transmission, as part of its diversified portfolio.

Ecopetrol--revenue diversification

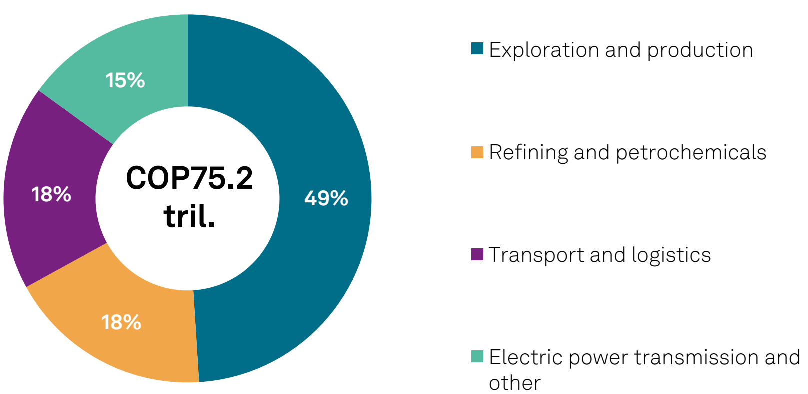
As of Dec. 31, 2022



Source: Ecopetrol S.A.

Ecopetrol--EBITDA diversification

As of Dec. 31, 2022



Source: Ecopetrol S.A.

Revenue growth--through diversification, consistent profitability, and no significant liability increases--remains commensurate with its current financial risk. Based on the company’s current and projected product mix (upstream, downstream, midstream, and power transmission and other), we expect debt-to-EBITDA ratios of 1.5x-2.0x and FFO-to-debt ratios close to 35.0%, while reference prices remain at about $85 per barrel.

In addition, the company has actively refinanced current liabilities to improve its maturity schedule and to achieve a higher liquidity cushion for expected growth capital expenditure (capex). We believe that within the next two years the company will maximize operating cash generation as capex requirements increase to deliver better results on its drilling campaigns, exploration activities, and production diversification toward natural gas. Based on its diversification toward power transmission, this segment's high EBITDA margins will also strengthen its financial risk profile.

Our stand-alone assessment of Ecopetrol remains capped by the sovereign rating. We think the likelihood that the Colombian government would provide sufficient extraordinary support to the company under stressed scenarios (in a timely manner) is very high. As such, we cap Ecopetrol's stand-alone credit profile at the same level as of the Colombian sovereign rating (foreign currency: BB+/Stable/B; local currency: BBB-/Stable/A-3). This is mainly related to our view that the company maintains a very strong link to the government, as well as a very important role as the leading oil and gas producer in the country. On the other hand, the government has proved its intentions to preserve the company's liquidity through stressed scenarios, allowing Ecopetrol to have some flexibility on cash payouts.

Outlook

The stable outlook on Ecopetrol mirrors that on Colombia. The ratings on the sovereign limit the company's credit quality, given the government's potential intervention in the company's operations. Therefore, we expect the ratings on Ecopetrol to move in tandem with the sovereign ratings in the next 12-18 months.

Downside scenario

We would lower the ratings on Ecopetrol if we took a similar rating action on Colombia. We could revise down Ecopetrol's SACP if its financial performance weakens such that we expect debt to EBITDA to rise above 2x. This could stem from lower crude oil prices and demand.

Upside scenario

We could upgrade Ecopetrol if we take a similar action on the sovereign rating on Colombia, while all other factors remain unchanged. Additionally, although unlikely in the next 12-18 months, we could revise up the SACP to 'bbb' if the company's performance is well above our expectations. Such a scenario would result from higher-than-expected production stemming from investments outside Colombia, leading to discretionary cash flow to debt at or above 25% on a consistent basis. Also key would be a conservative distribution of dividends to shareholders.

Our Base-Case Scenario

Assumptions

Our economic assumptions include:

- Colombia's GDP to grow 1.1% in 2023 and 2.6% in 2024, and CPI of 11.0% and 4.3%, respectively.
- Average foreign exchange rates of Colombian peso (COP) 4,755 per $1 in 2023 and COP4,775 per $1 in 2024.
- Brent oil price to average $85 per barrel (bbl) for the rest of 2023 and 2024. Oil prices are persistently higher and appear likely to remain elevated for longer as the Russia-Ukraine conflict and sanctions continue. We consider a realized price of about $77/bbl-$82/bbl to reflect the price differential between Colombian mix and Brent.
- Henry Hub natural gas price deck assumptions of $3.25 per million British thermal units (mmBtU) for the rest of 2023 and 2024. However, Colombian gas prices are contractual with no ties with market prices.

Our operating assumptions for Ecopetrol include:

- Oil production rates to increase 1.3% to about 549 mboepd in 2023 (from 542 million mboepd in 2022) and 4.8% to about 575 mboepd in 2024.
- Natural gas production rates to increase 5.5% to about 177 mboepd in 2023 (from 168 mboepd in 2022) and -3.0% to about 172 mboepd in 2024.
- Crude oil average realized price of about $81.90/boe for the rest of 2023 and $76.90/boe for 2024.
- Natural gas average realized price of about $18.53/boe for 2023 and $18.53/boe for 2024.
- Adjusted EBITDA of COP67.0 trillion in 2023 and COP66.0 trillion in 2024.
- Annual capex of COP 30.6 trillion in 2023 and COP 27.1 trillion in 2024, of which about 69.4% will be for exploration and production activities, 10.9% for refining and petrochemicals, 8.4% for transport and logistics, and the remaining 11.3% for electric power transportation. Among this capex, about COP15.0 billion will be destined for ESG transformation.
- Dividend distribution of about COP8.0 trillion for 2023 and COP12.4 trillion for 2024.
- A neutral effect between taxes and dividend distributions, which we do not believe will deviate our expected discretionary cash generation for the company.

Key metrics

Ecopetrol S.A.--Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Bil. COP)	2019a	2020a	2021a	2022a	2023e	2024f	2025f
Revenue	71,489	50,223	91,881	159,611	162,716	159,801	164,897
EBITDA	32,392	18,221	41,625	74,876	67,275	65,749	67,753
Funds from operations (FFO)	24,567	9,729	31,629	59,111	42,135	41,741	43,493
EBIT	22,132	7,961	31,164	62,682	53,970	52,677	54,273
Interest expense	2,659	3,265	4,046	6,530	8,163	8,476	8,602
Cash flow from operations (CFO)	26,616	7,298	19,675	33,179	27,845	42,646	35,051
Capital expenditure (capex)	13,979	11,117	13,295	21,878	30,672	27,148	27,252
Free operating cash flow (FOCF)	12,637	(3,819)	6,380	11,302	(2,827)	15,499	7,800
Dividends	13,867	8,734	2,771	13,357	8,117	12,520	11,720
Discretionary cash flow (DCF)	(1,230)	(12,554)	3,608	(2,055)	(10,944)	2,979	(3,920)
Debt	44,104	56,956	96,787	115,009	126,006	123,160	127,212
Equity	58,232	53,499	90,584	113,903	133,319	147,827	164,673
Adjusted ratios							
Debt/EBITDA (x)	1.4	3.1	2.3	1.5	1.9	1.9	1.9
FFO/debt (%)	55.7	17.1	32.7	51.4	33.4	33.9	34.2
FFO cash interest coverage (x)	14.9	5.1	10.5	11.8	6.9	6.6	6.7
EBITDA interest coverage (x)	12.2	5.6	10.3	11.5	8.2	7.8	7.9
CFO/debt (%)	60.3	12.8	20.3	28.8	22.1	34.6	27.6
FOCF/debt (%)	28.7	(6.7)	6.6	9.8	(2.2)	12.6	6.1
DCF/debt (%)	(2.8)	(22.0)	3.7	(1.8)	(8.7)	2.4	(3.1)
Annual revenue growth (%)	4.2	(29.7)	82.9	73.7	1.9	(1.8)	3.2
Gross margin (%)	48.7	43.1	50.0	51.1	46.3	46.8	46.9
EBITDA margin (%)	45.3	36.3	45.3	46.9	41.3	41.1	41.1
Return on capital (%)	22.0	7.5	20.9	30.1	21.9	19.6	19.1
Return on total assets (%)	17.1	5.9	16.4	23.0	16.8	15.3	15.0
EBITDA/cash interest (x)	18.3	7.8	12.5	13.6	9.4	8.8	8.9
EBIT interest coverage (x)	8.3	2.4	7.7	9.6	6.5	6.1	6.2

Company Description

Ecopetrol is a vertically integrated oil and gas company based in Bogota, Colombia. The company is also engaged in power and infrastructure-related activities. It has a presence in Colombia, Brazil, Mexico, and the U.S. Gulf Coast. Ecopetrol is involved in all stages of the hydrocarbon chain: exploration, production, refining, and marketing, as well as electric transmission business. The government of Colombia owns 88.49% of Ecopetrol, making it the controlling shareholder, while institutional shareholders and retail investors own the remaining 11.51%.

Peer Comparison

For our analysis, we chose peers in the oil and gas integrated industry with strong diversification between upstream, midstream and downstream revenue generation. Ecopetrol's SACP of 'bbb-' is higher than those of Pemex and YPF and fairly in line with Petrobras', at 'bb+'. This is supported by the company's financial risk profile with debt-to-EBITDA ratios close to 1.5x and EBITDA margins close to 47.0%. In addition, we believe the company compares positively with peers in terms of its stringent energy transition targets, which we expect will enable additional business opportunities.

Ecopetrol S.A.--Peer Comparisons

	Ecopetrol S.A.	Petroleo Brasileiro S.A. - Petrobras	Petroleos Mexicanos	YPF S.A.
Foreign currency issuer credit rating	BB+/Stable/--	BB-/Positive/--	BBB/Stable/--	CCC-/Negative/--
Local currency issuer credit rating	BB+/Stable/--	BB-/Positive/--	BBB+/Stable/--	CCC-/Negative/--
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2021-12-31	2022-12-31
Mil.	$	$	$	$
Revenue	32,880	121,299	72,958	14,264
EBITDA	15,425	70,165	25,796	3,945
Funds from operations (FFO)	12,177	56,276	3,163	3,234
Interest	1,345	5,210	13,198	551
Cash interest paid	1,131	1,828	7,671	413
Operating cash flow (OCF)	6,835	46,845	1,235	3,746
Capital expenditure	4,507	9,393	11,483	3,004
Free operating cash flow (FOCF)	2,328	37,452	(10,249)	742
Discretionary cash flow (DCF)	(423)	640	(10,249)	718
Cash and short-term investments	3,156	10,629	3,732	1,092
Gross available cash	3,156	10,629	3,732	1,092
Debt	23,692	62,150	158,864	8,974
Equity	23,464	68,926	(105,855)	10,548
EBITDA margin (%)	46.9	57.8	35.4	27.7
Return on capital (%)	30.1	42.0	35.5	15.4
EBITDA interest coverage (x)	11.5	13.5	2.0	7.2
FFO cash interest coverage (x)	11.8	31.8	1.4	8.8
Debt/EBITDA (x)	1.5	0.9	6.2	2.3
FFO/debt (%)	51.4	90.5	2.0	36.0
OCF/debt (%)	28.8	75.4	0.8	41.7
FOCF/debt (%)	9.8	60.3	(6.5)	8.3

Ecopetrol S.A.--Peer Comparisons

DCF/debt (%)	(1.8)	1.0	(6.5)	8.0

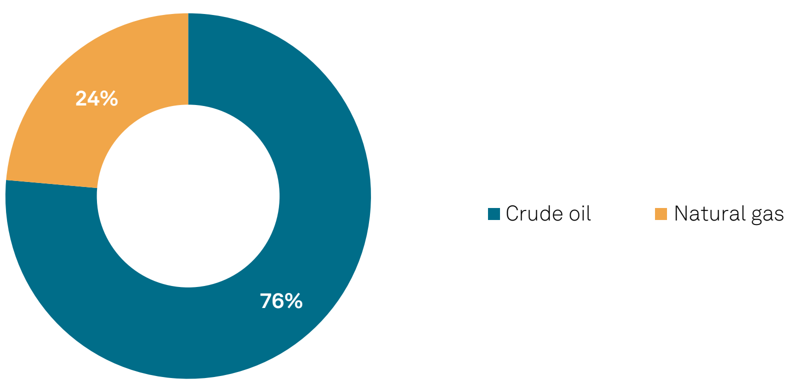
Business Risk

Ecopetrol continues to strengthen its business in the face of the energy transition and expects tangible results before 2040. The new administration in Colombia is pushing decarbonization to help address the climate crisis worldwide. We believe this directly affects Ecopetrol's business operations since it's a large player in oil and gas production in the country. Therefore, Ecopetrol has strengthened its initiatives to align with the country's and the industry's transition, mainly by setting tangible decarbonization goals for 2030-2040. These targets include a 30.0% gas share of total production, 10.0% electric energy efficiency, CO2 capture and storage, 3-4 gigawatts of renewable energies, and the production of hydrogen fuel alternatives.

We expect that if Ecopetrol meets these targets, low-emission businesses would account for about 30%-50% of EBITDA generation. We believe the company is on track to reduce any compliance and regulatory risks that could impair its business risk profile.

Ecopetrol--total gross production diversification

As of Dec. 31, 2022



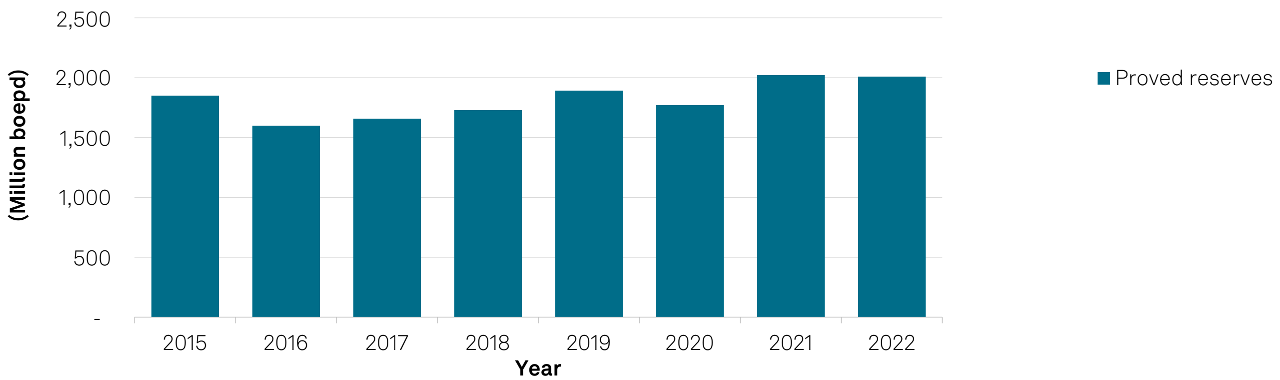
Source: Ecopetrol S.A.

By the end of 2022, Ecopetrol reached historical oil and gas reserves, which are commensurate with its current business scale. We believe Ecopetrol continues to expand its exploration activities in Colombia through the most recent wells of Gorgon and Uchuva, as well as other offshore block opportunities with high-level gas production expected. The company's 1P reserves totaled 2.0 billion barrels of oil equivalent (boe) as of Dec. 31, 2022 (versus 1.7 billion in 2020) and 2P about 2.5 billion boe. They're located 89.0% in Colombia and 11.0% in North America.

In terms of growth prospects, it maintains 1P reserve life index (RLI) of 8.4 years and a 130% average replacement rate as of 2022. With this, the production of Ecopetrol represents 68.0% of total Colombian crude production and 70.0% of total natural gas production, which strengthens its scale and position against regional peers. As of Dec. 31, 2022, Ecopetrol maintained a gross production of 542,000 boepd of crude oil and 168,000 boepd in natural gas.

Ecopetrol--proved reserves (1P)

As of Dec. 31



Source: Ecopetrol S.A.

With more than a full year of operation under its operating strategy, the company has demonstrated its progress in power transmission through ISA. The revenue coming from the company's power transmission and toll road concessions represents about 8.4% as of Dec. 31, 2022. We believe that revenue generation for ISA continues to be very predictable and without risk to demand, given its business model.

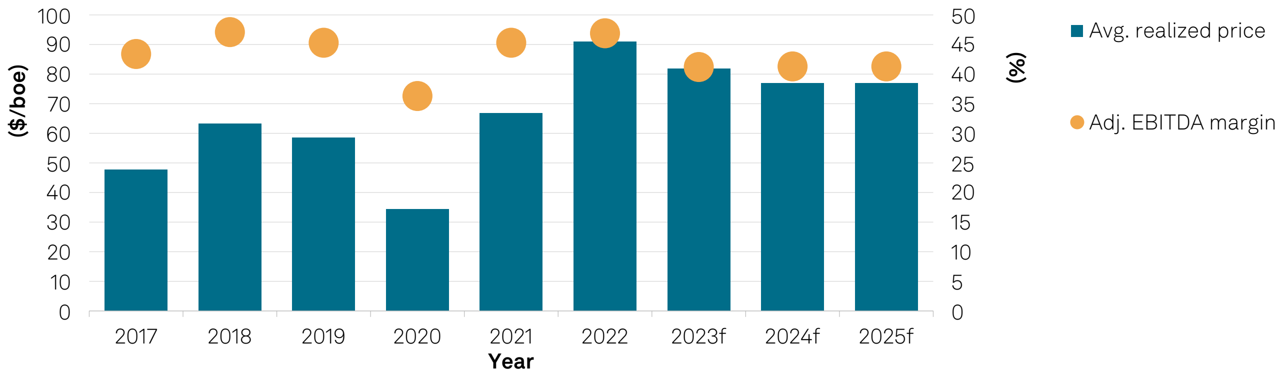
With a presence in Colombia, Peru, Brazil, and Chile, the company maintains approximately $14 billion in power transmission solutions opportunities, as well as a growing rate of profitability return to 84.0%. We believe the acquisition of the 51.4% stake in ISA also is a milestone for Ecopetrol in its strategy to strengthen the business with initiatives related to energy transformation.

Average EBITDA margins remain steady based on the company’s business model. Ecopetrol reached 46.9% in adjusted EBITDA margins by the end of 2022, versus 45.3% in 2021. Lifting costs increased by 11.0% to 2022, mainly related to the company's efforts to strengthen its production levels as prices rose, maintaining constant profitability per barrel throughout the year. On the other hand, costs related to diluents increased by 32.6% to 2022, reaching historical unit levels mainly because of imports and the depreciation of the Colombian peso against the U.S. dollar. However, the production of lighter crude oil in Cartagena will likely to lead to a reduction in diluent import volumes in the following years.

Both increases in operating costs were mitigated by the approximate 36.0% rise in net realized prices the company reported for the year. As a result, we continue to expect average profitability compared with industry peers.

Ecopetrol--profitability margins

As of Dec. 31



Source: Adjusted figures by S&P Global.

Financial Risk

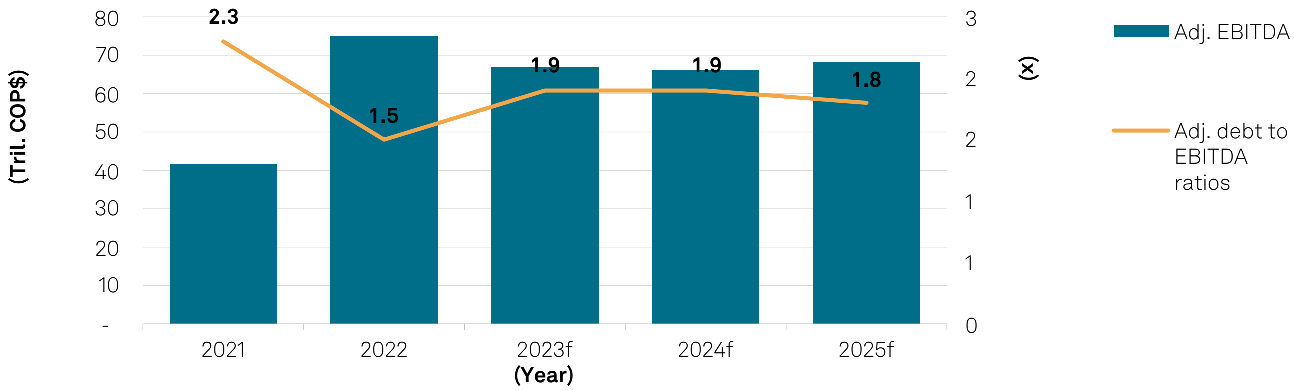
We expect continued debt refinancing to improve Ecopetrol's maturity profile and the company to allocate its expected operating cash generation to capex for growth. We expect capex to increase toward COP27.0 trillion-COP31.0 trillion annually over the next two years, mainly to fund exploration strategies, as well as its plans to address the energy transition. As of March 31, 2023, the company had 109 blocks across Colombia, Brazil, and North America, through which it will seek to allocate its cash flow generation to fund growth plans, as well as drilling campaigns on its 10 active wells in Piedemonte, Llanos, and Colombia Norte.

To this end, we believe the company will continue refinancing upcoming debt repayments through opportunities in financial markets, helping it to preserve available cash for growth. As evidence of this, during January 2023, the company completed the partial refinancing of the debt used for the acquisition of ISA. Also, during June 2023, the company launched an additional senior unsecured bond to strengthen its financing plan for the next couple of years, and for refinancing purposes.

We expect stable leverage metrics for the next two years based on continued growth and consistent profitability. Considering constant crude oil and natural gas prices expected for the industry in the next 12-24 months, we expect Ecopetrol to generate revenue mainly through an assumed annual 2%-3% growth rate in upstream production toward 726,000 boepd in 2023 and 747,000 boepd in 2024. And we expect debt-to-EBITDA ratios between 1.5x and 2.0x and FFO to debt close to 35.0% for the next two years, in line with the current financial risk profile.

Ecopetrol--adjusted leverage metrics

As of Dec. 31

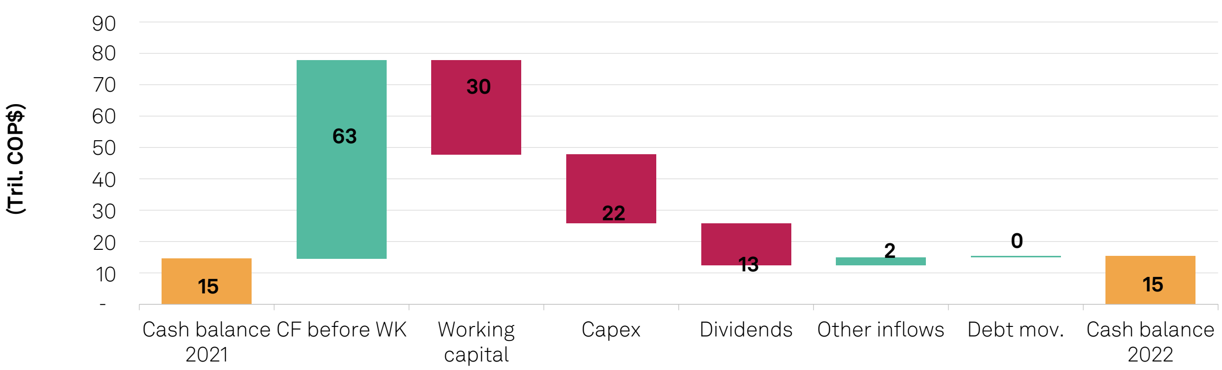


Source: Adjusted figures by S&P Global.

Dividends to the Colombian government do not represent a liquidity or liability risk for the company in the event of stress. As a government-related entity, Ecopetrol maintains 40.0-60.0% of net income as payouts to the Colombian government through dividends. However, since a healthy liquidity position for the company is in the country's interest, these dividends can have flexibility in case of financial distress. For example, in 2020, when low prices hit the industry, Ecopetrol was able to reduce dividend payments and preserve its liquidity position. Therefore, we do not expect additional indebtedness for the company to cover dividend payments, supporting our view of solid and well-distributed cash flows between growth, energy transition, operating improvements, and working capital.

Ecopetrol--cash flow

As of Dec. 31, 2022



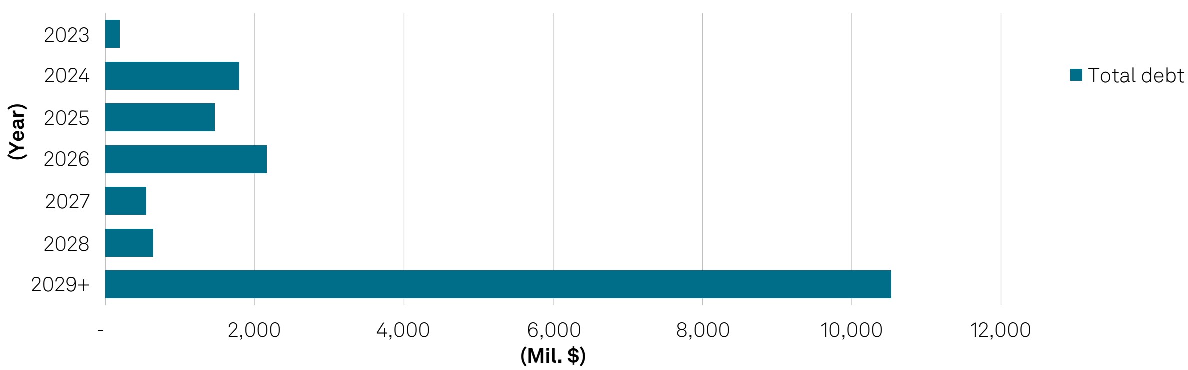
Source: Ecopetrol S.A. reported figures.

Debt maturities

As of March 31, 2023, about 60.0% of the company's total debt had a weighted average maturity of more than five years, with maturities after 2027. Ecopetrol's cash of COP17.7 trillion is approximately 13.3% of total debt and 1.05x its short-term debt maturities. This, coupled with Ecopetrol's active refinancings ahead maturities, leads us to believe that the company will not face any debt repayment risk in the next 12-24 months. As of July 7, 2023, Ecopetrol had almost all its 2023 maturities refinanced, reducing its liquidity risk for the next 12 months.

Ecopetrol--debt maturity schedule

As of July 7, 2023



Source: Ecopetrol S.A.

Ecopetrol S.A.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (bil.)	COP	COP	COP	COP	COP	COP
Revenues	55,954	68,604	71,489	50,223	91,881	159,611
EBITDA	24,274	32,292	32,392	18,221	41,625	74,876
Funds from operations (FFO)	15,991	21,624	24,567	9,729	31,629	59,111
Interest expense	3,165	3,222	2,659	3,265	4,046	6,530
Cash interest paid	2,723	2,630	1,766	2,346	3,334	5,492
Operating cash flow (OCF)	15,121	20,479	26,616	7,298	19,675	33,179
Capital expenditure	5,966	8,460	13,979	11,117	13,295	21,878
Free operating cash flow (FOCF)	9,156	12,019	12,637	(3,819)	6,380	11,302
Discretionary cash flow (DCF)	7,651	7,591	(1,230)	(12,554)	3,608	(2,055)
Cash and short-term investments	7,849	6,219	6,990	5,071	14,478	15,321
Gross available cash	7,849	6,219	6,990	5,071	14,478	15,321
Debt	44,628	41,770	44,104	56,956	96,787	115,009

Ecopetrol S.A.--Financial Summary

Common equity	49,781	57,108	58,232	53,499	90,584	113,903
Adjusted ratios						
EBITDA margin (%)	43.4	47.1	45.3	36.3	45.3	46.9
Return on capital (%)	17.2	24.1	22.0	7.5	20.9	30.1
EBITDA interest coverage (x)	7.7	10.0	12.2	5.6	10.3	11.5
FFO cash interest coverage (x)	6.9	9.2	14.9	5.1	10.5	11.8
Debt/EBITDA (x)	1.8	1.3	1.4	3.1	2.3	1.5
FFO/debt (%)	35.8	51.8	55.7	17.1	32.7	51.4
OCF/debt (%)	33.9	49.0	60.3	12.8	20.3	28.8
FOCF/debt (%)	20.5	28.8	28.7	(6.7)	6.6	9.8
DCF/debt (%)	17.1	18.2	(2.8)	(22.0)	3.7	(1.8)

Reconciliation Of Ecopetrol S.A. Reported Amounts With S&P Global Adjusted Amounts (Bil. COP)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2022									
Company reported amounts	113,922	86,155	159,611	72,647	60,230	5,517	74,876	36,235	13,357	21,878
Cash taxes paid	-	-	-	-	-	-	(8,761)	-	-	-
Cash interest paid	-	-	-	-	-	-	(5,492)	-	-	-
Lease liabilities	1,212	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	7,739	-	-	114	114	679	-	-	-	-
Accessible cash and liquid investments	(15,321)	-	-	-	-	-	-	-	-	-
Asset-retirement obligations	7,456	-	-	-	-	334	-	-	-	-
Exploration costs	-	-	-	1,512	-	-	(1,512)	-	-	-
Nonoperating income (expense)	-	-	-	-	1,734	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(3,055)	-	-

Reconciliation Of Ecopetrol S.A. Reported Amounts With S&P Global Adjusted Amounts (Bil. COP)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Noncontrolling/ minority interest	-	27,748	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	87	87	-	-	-	-	-
EBITDA: other	-	-	-	516	516	-	-	-	-	-
Total adjustments	1,086	27,748	-	2,230	2,452	1,013	(15,766)	(3,055)	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	115,009	113,903	159,611	74,876	62,682	6,530	59,111	33,179	13,357	21,878

Liquidity

Ecopetrol's access to financial markets and available committed credit facilities, as well as its comfortable debt maturity profile with an average life of debt above nine years, support its liquidity position. We expect its sources of liquidity to exceed uses by 1.2x or more for the next 12 months. In addition, we expect its sources minus uses will remain positive, even if the forecasted EBITDA were to decline 15%.

We also believe that the company benefits from prudent risk management to preserve liquidity, with strategies focused on cost reduction plans, flexible capex investments, added-value growth prospects to strengthen operating cash generation, and solid access to capital and debt markets. As of July 7, 2023, Ecopetrol refinanced most of its 2023 maturities, with $194 million in debt remaining for the year.

Principal liquidity sources

- Available cash and cash equivalents of COP17.7 trillion as of March 31, 2023
- FFO generation of COP 39.8 trillion expected for the next 12 months

Principal liquidity uses

- Short-term debt maturities of around COP16.3 trillion as of March 31, 2023. As of July 7, 2023, Ecopetrol had refinanced most of 2023 maturities, with about COP0.8 trillion remaining for the year.
- Working capital cash outflows expected at around COP8.3 trillion for the next 12 months
- Maintenance capex of COP15.0 trillion for the next 12 months
- Ordinary and extraordinary dividend payments of COP9.1 trillion in the next 12 months

Covenant Analysis

Requirements

As of March 31, 2023, the company does not have any financial covenants on its debt.

Compliance expectations

Financing that Ecopetrol obtains in the capital markets has no guarantees granted or financial covenant restrictions because of the support from the Colombian government through the Ministry of Finance and Public Credit.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	**E-4**	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5
- Climate transition risks					- N/A					- N/A				

N/A—not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are a negative consideration in our credit rating analysis of Ecopetrol because of the environmental risks in the oil and gas industry. However, the company has set specific decarbonization and energy consumption milestones to reduce gas emissions, in line with government plans. Ecopetrol has allocated a higher portion of its capital spending to ensure its competitiveness and expand its decarbonization initiatives. Its acquisition of ISA will enable it to diversify into a regulated and predictable electric transmission business, while taking further steps toward transitioning to renewable energy.

Group Influence

Ecopetrol S.A. is the ultimate parent of the group.

Government Influence

Our rating also reflects our assessment of a very high likelihood of extraordinary support from the Colombian government to Ecopetrol in a timely manner under a financial distress scenario.

- We view Ecopetrol as playing a very important role in Colombia's economy, given its position as the largest company in the country. Ecopetrol has a significant presence in Colombia's oil and gas sector and acts as the main supplier of oil-derived products in the domestic market.
- It has a very strong link with the government, which controls the company and has strategic oversight despite the company's independent management.

Rating Above The Sovereign

Ecopetrol's SACP is 'bbb-'. However, we cap the rating at 'BB+', the same as the sovereign foreign currency rating based on its very high likelihood of government support. In addition, given Ecopetrol's very strong link with the government, we don't consider that we could rate it above the sovereign.

Issue Ratings--Subordination Risk Analysis

Capital structure

- As of March 31, 2023, Ecopetrol’s consolidated debt totals COP115.2 trillion. It consists of several local and international bonds maturing in 2023-2051 and commercial loans.
- The debt at subsidiaries is about COP38.0 trillion ($8,004 million).
- Ecopetrol’s unsecured debt at subsidiaries represents around 33% of the company’s total debt, which is below our priority debt ratio of 50%. With ISA’s acquisition the debt at subsidiaries increased but it still below our threshold.

Analytical conclusions

Since the government owns the company, we believe that all of the subsidiaries will benefit from this support indirectly through Ecopetrol. We believe that the government support will be sufficient to cover subsidiaries’ needs in case of financial distress. Therefore, we do not believe its debt at the subsidiary level is subordinated, and the issue-level rating should remain in line with the issuer credit rating, at ‘BB+'.

Rating Component Scores

Foreign currency issuer credit rating	**BB+/Stable/--**
Local currency issuer credit rating	**BB+/Stable/--**
Business risk	**Satisfactory**
Country risk	Moderately High
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb-**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb-**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of July 18, 2023)*

Ecopetrol S.A.		
Issuer Credit Rating		BB+/Stable/--
Senior Unsecured		BB+
Issuer Credit Ratings History		
20-May-2021	*Foreign Currency*	BB+/Stable/--
26-Mar-2020		BBB-/Negative/--
11-Dec-2017		BBB-/Stable/--
20-May-2021	*Local Currency*	BB+/Stable/--
26-Mar-2020		BBB-/Negative/--
11-Dec-2017		BBB-/Stable/--
Related Entities		
Oleoducto Central, S.A. (OCENSA)		
Issuer Credit Rating		BB+/Stable/--
Senior Unsecured		BB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.