# Ecopetrol: Colombia’s Energy Giant at a Political Crossroads

An Investment Analysis of Intrinsic Value vs. Sovereign Risk

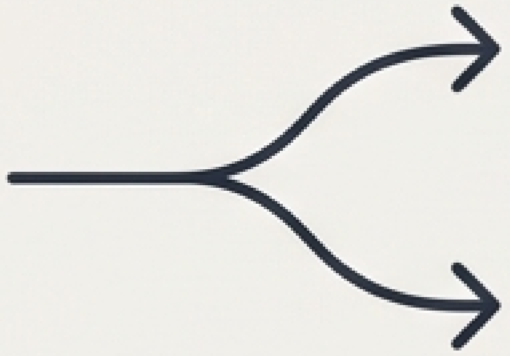
# The Investment Thesis: A Powerhouse Constrained by its Owner

## A Valuable Enterprise

Ecopetrol is Colombia's largest corporation, a highly profitable, integrated energy leader with a dominant market position and a portfolio of world-class assets. (Source: 1, 6)

## The Political Overhang

The company's long-term viability is severely threatened by the anti-exploration policy of its majority shareholder, the Colombian government (88.49% owner), creating a structural conflict between national fiscal needs and corporate health. (Source: 6, 9)



## A Binary Outcome

This creates a high-risk, high-reward investment case that hinges almost entirely on the future of Colombian energy policy, offering either a substantial re-rating or a path of managed decline.

# A Tale of Two Companies in One

## The Hydrocarbon Engine

Upstream (E&P), Midstream (Cenit), Downstream (Refining).

- High profitability and operating leverage to commodity prices.
- Dominant domestic position (>60% of national production).
- Cyclical, volatile, and exposed to security risks.
- Critically, has a finite life due to dwindling reserves.

## The Diversified Foundation

Transmission (ISA) & Toll Roads.

- Stable, predictable, utility-like regulated cash flows.
- Geographically diversified across Latin America.
- Revenues are largely U.S. dollar-denominated.
- Provides a long-term hedge against oil price volatility and Colombian political risk. (Source: 21)

# The Engine is Firing on All Cylinders

A dashboard of key metrics demonstrates top-tier operational execution.

## 746 kboed

### Record Production

The highest average production level in nine years, exceeding company targets. (Source: 4, 5)

## >1.1 Million bpd

### Midstream Dominance

Cenit's pipeline network consistently transports over 1.1 million barrels per day, functioning as a critical toll-taker for the entire industry. (Source: 5)

## 414 kbd

### Refining Excellence

High refinery throughput with 94.5% operational availability, ensuring domestic fuel supply. (Source: 5)

> Operationally, the company is performing at its peak.
> The challenge is not execution, but strategy.

# The Foundation Provides a Margin of Safety

The ISA acquisition created a bedrock of stable, diversified, non-hydrocarbon cash flow.

## A Continental Leader

ISA is the largest power transmission company in Latin America, with operations in Colombia, Brazil, Peru, and Chile. (Source: 21)

## A Powerful Hedge

The assets generate predictable, USD-denominated revenues from long-term concessions, insulating a significant portion of cash flow from:

1. Oil price volatility.
2. Colombian Peso (COP) fluctuations.
3. The policy decisions of its own majority shareholder.

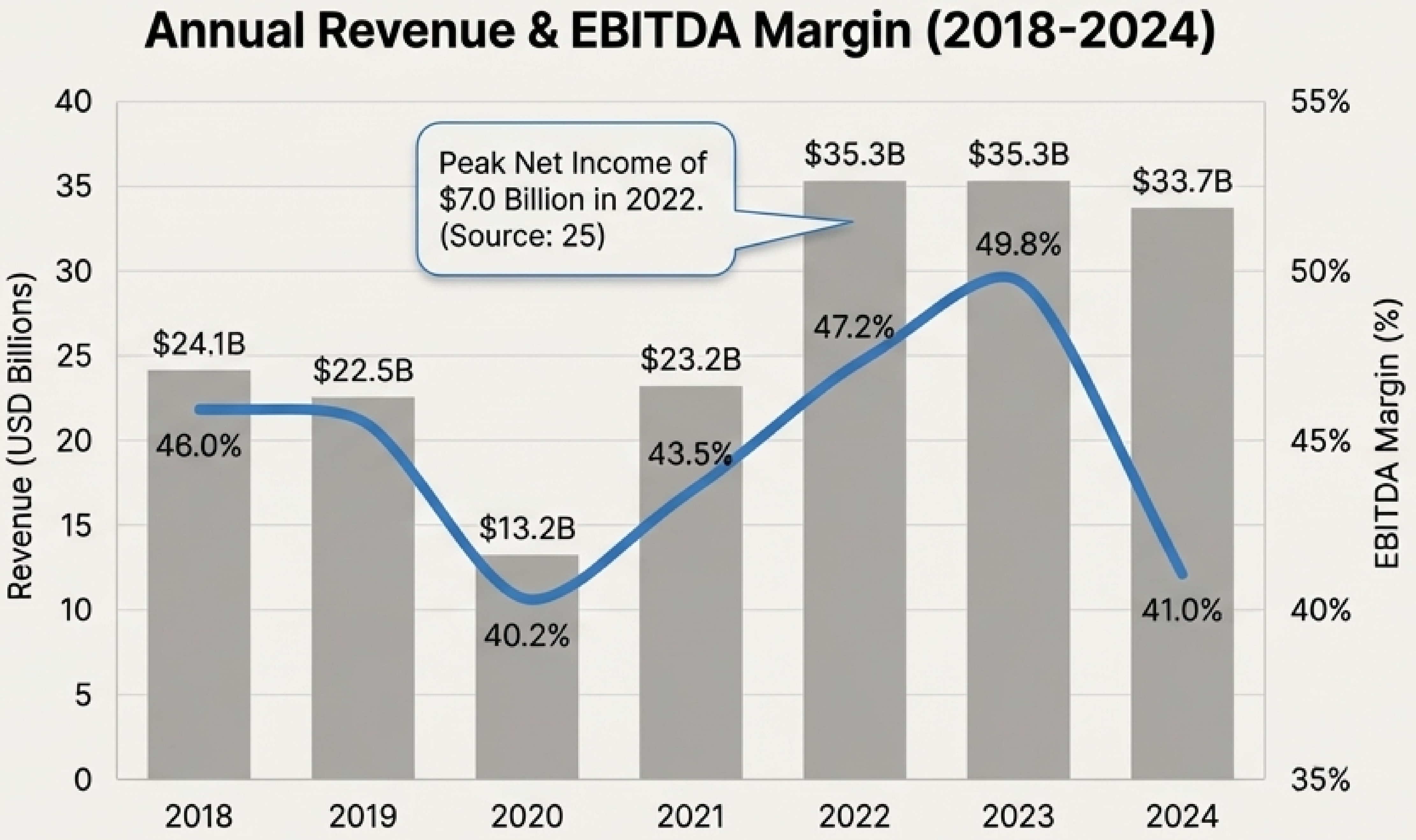
# A Proven History of Profitability and Cash Generation

## Robust Profitability

Maintained strong EBITDA margins, reaching 47.2% in 2022 and remaining a healthy 41% in 2024. (Source: 5, 25)

## Strong Returns

Delivered exceptional Return on Equity (ROE), peaking at 34.7% in 2022 and moderating to a still-strong 18.7% in 2024. (Source: 52)



# The Existential Threat: A Government at Odds With Its Greatest Asset

### The Policy

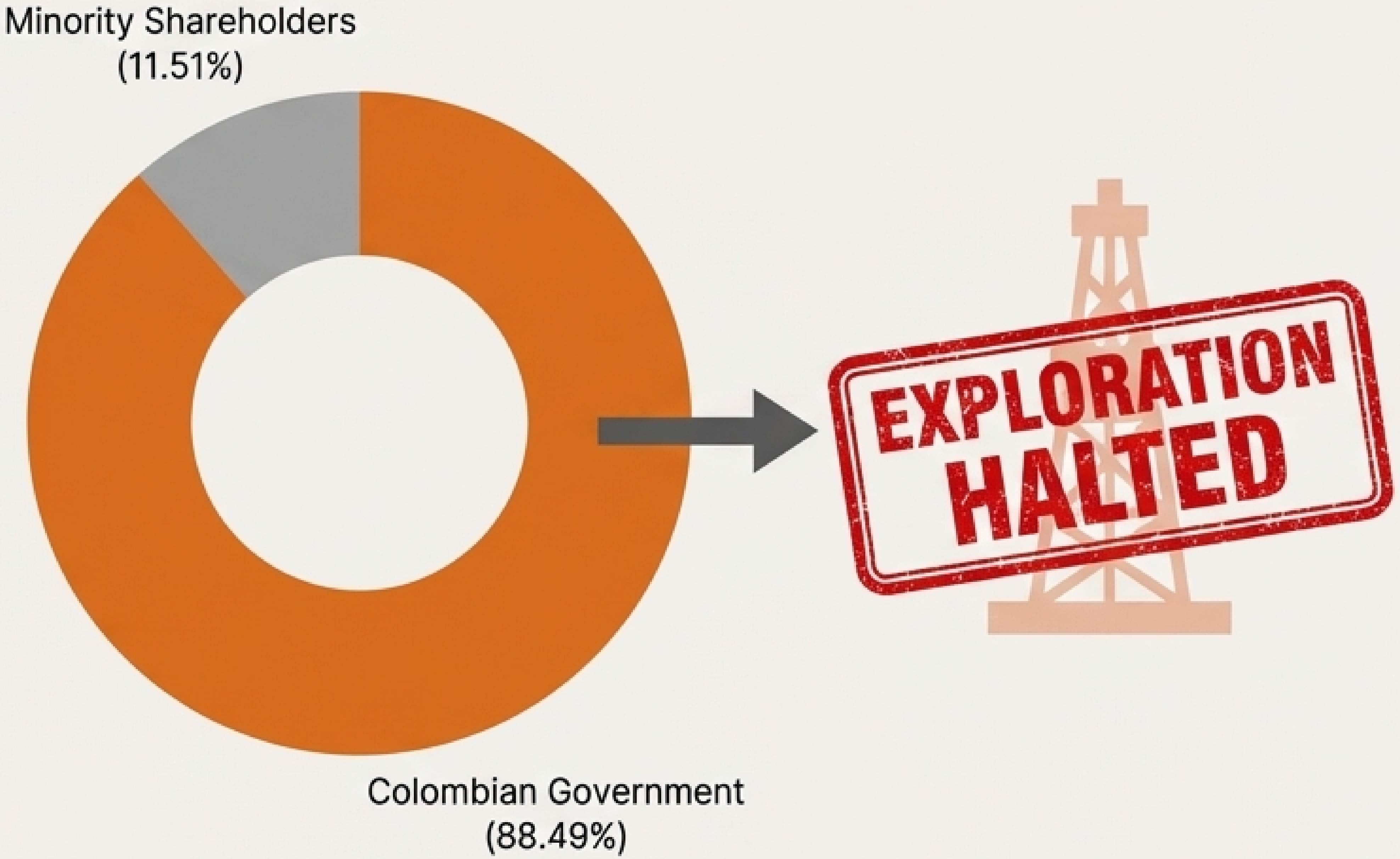
- The Colombian government, Ecopetrol's 88.49% owner, has halted the issuance of all new oil and gas exploration licenses. (Source: 6, 9)

### The Impact

This policy directly threatens Ecopetrol's ability to replace its reserves, undermining its long-term survival as a hydrocarbon producer.

### The Paradox

The government is crippling the very industry that funds over 10% of its budget and is the primary source of revenue for its own desired energy transition. (Source: 37)




NotebookLM

# The Ticking Clock: Dwindling Reserves

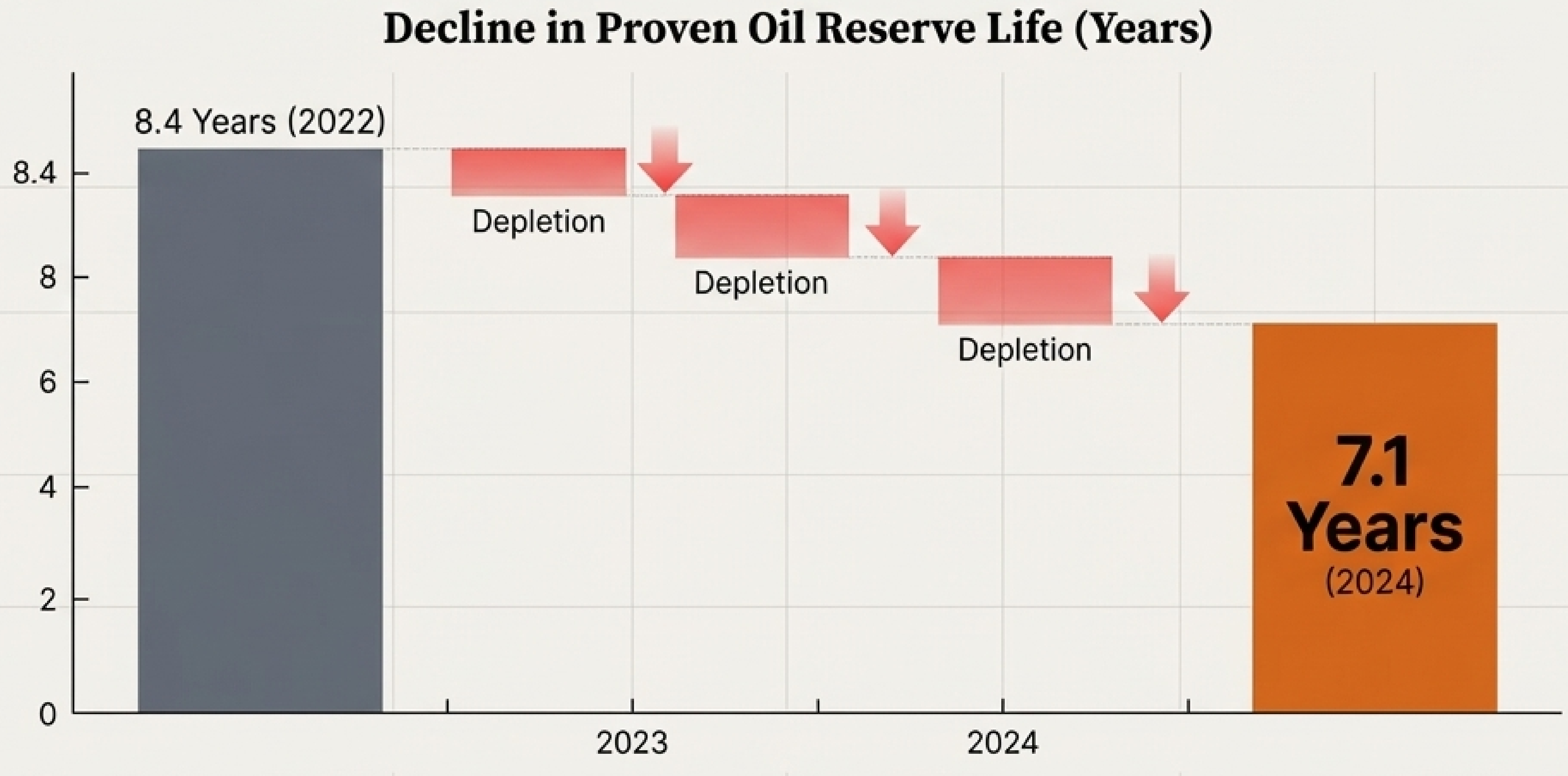
With no new exploration, the company is liquidating its core asset.

### The Critical Metric

The company's reserve life—the time until reserves run out at current production rates—has fallen from 8.4 years in 2022 to a critically low ~7.1 years for oil. (Source: 25, 26)

### An Unsustainable Strategy

Reserve replacement is currently being achieved only through revisions and enhanced recovery from existing fields, not new discoveries. This is not a viable long-term solution. (Source: 5)



# The Market Has Priced in a Deep 'Colombia Discount'

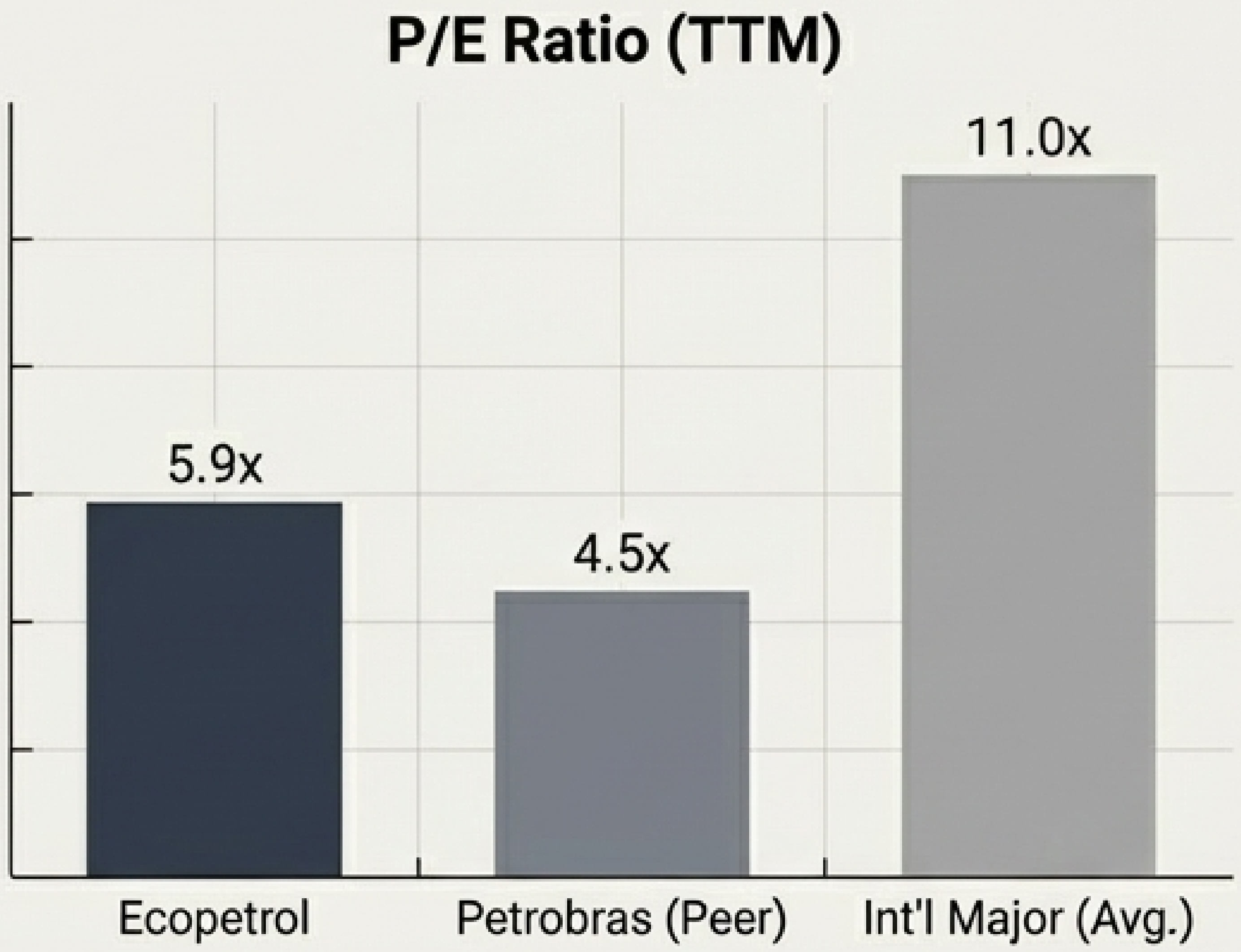
The exceptional political risk is reflected in valuation multiples that are disconnected from the company's operational performance.

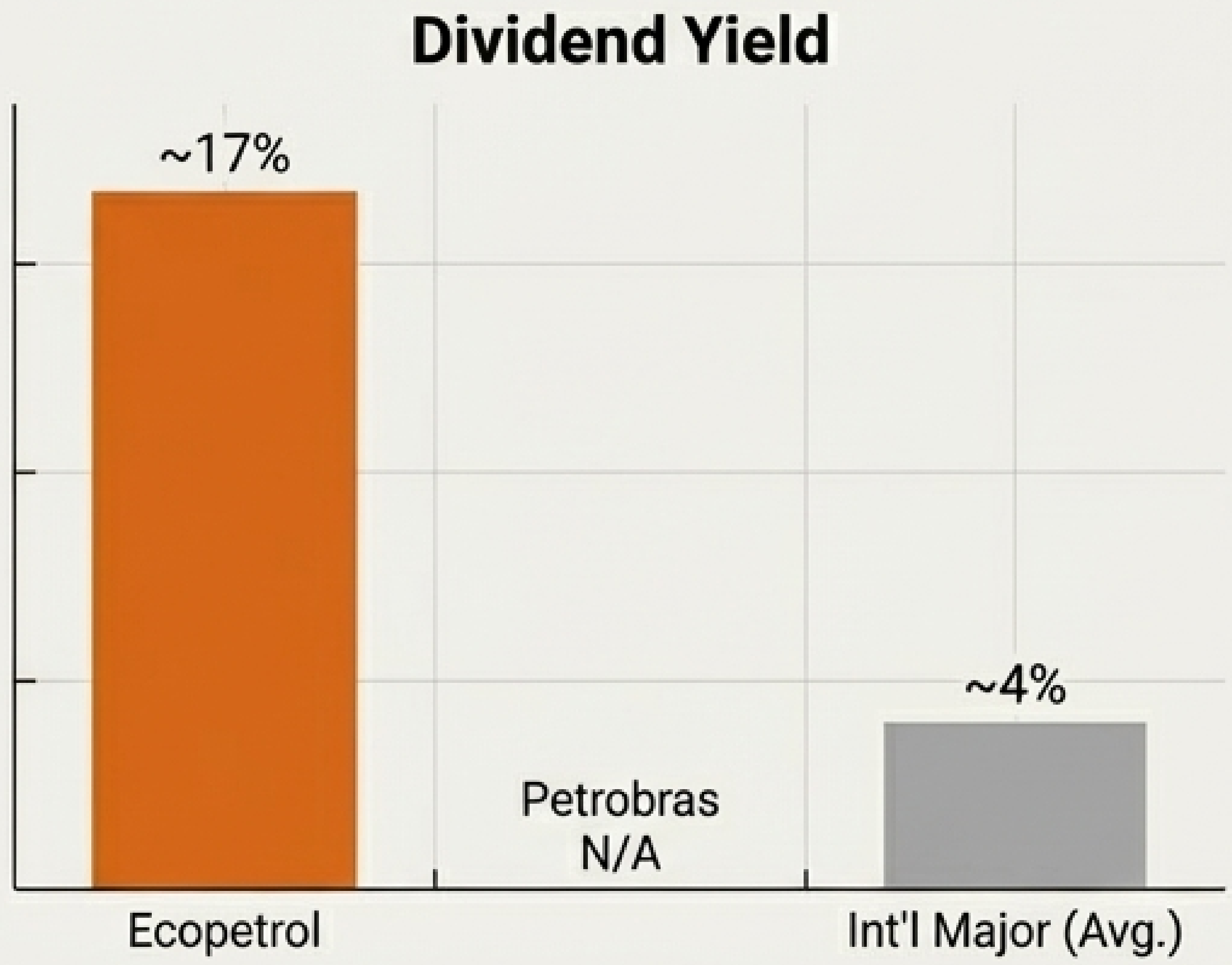
### Low P/E Ratio (~5.9x)

Trades at a significant discount to international oil majors, which often trade above 10x, reflecting the perceived sovereign risk. (Source: 4)

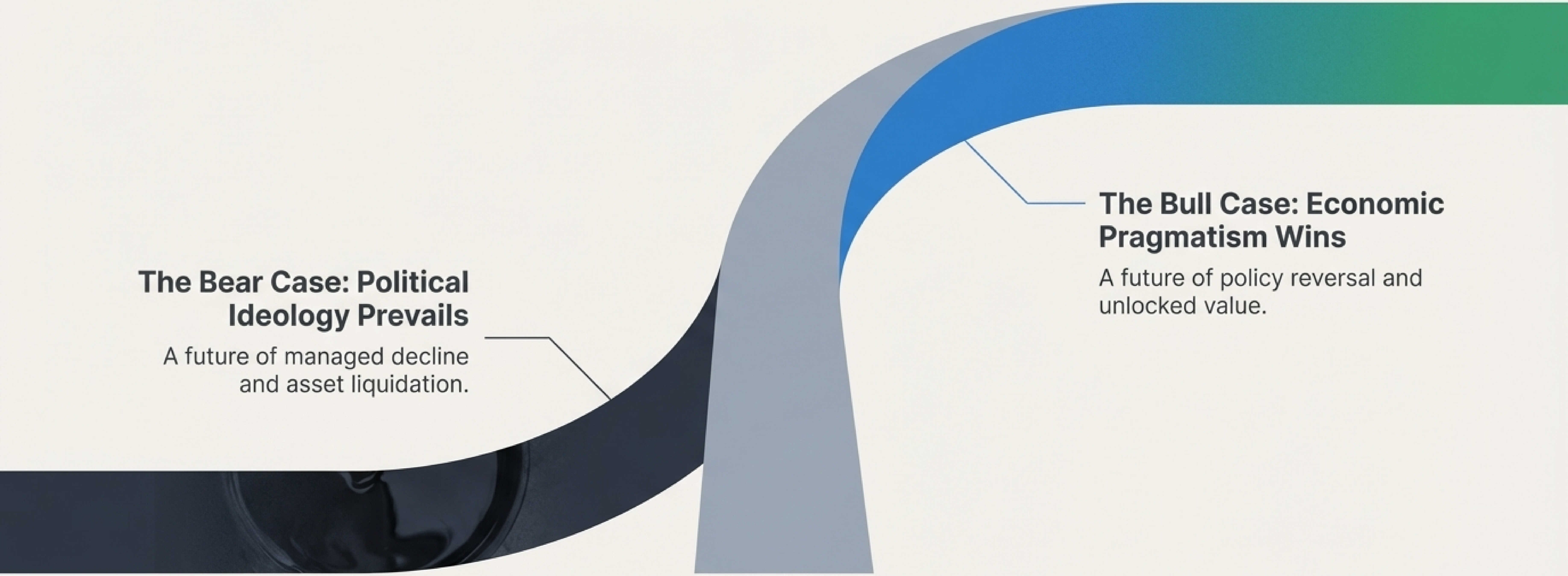
### High Dividend Yield (~17%)

The exceptionally high yield is both an attraction and a warning signal, suggesting the market views the payout as potentially unsustainable and the stock as high-risk. (Source: 55, 63)



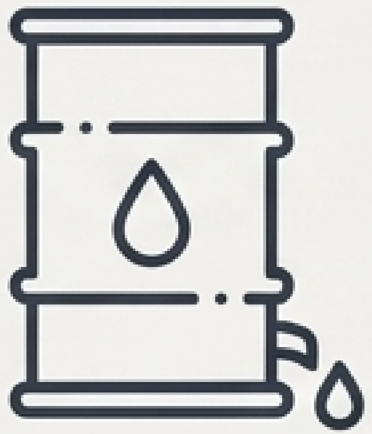
# The Two Paths Forward: An Investment in Ecopetrol is a Bet on Colombia's Future




The following slides will detail these two potential futures for the company and its investors.

# The Bear Case: A Path to Slow Liquidation

If the exploration ban becomes permanent, the company's core earnings engine enters a terminal decline.



## Inevitable Decline

With no new discoveries, reserves and production will begin a steep, structural fall within the next 5-7 years.


## Capital Starvation

Government pressure for high dividends to fund the national budget starves the company of the capital needed for long-term reinvestment in EOR projects and its energy transition.

## Value Destruction

The market continues to apply a deep discount, and Ecopetrol slowly transforms into a smaller, less profitable entity, heavily reliant on its regulated assets.

# The Bull Case: Pragmatism Unlocks Substantial Value

A reversal of the exploration ban, driven by fiscal necessity, could trigger a significant re-rating.

## Policy Reversal

Facing a fiscal crisis and a natural gas deficit, a future (or current) government is forced to adopt a more pragmatic energy policy and resume exploration.

## Operational Leverage Unleashed

The company's proven operational excellence is applied to new fields, replenishing reserves and securing long-term production.

## Multiple Expansion

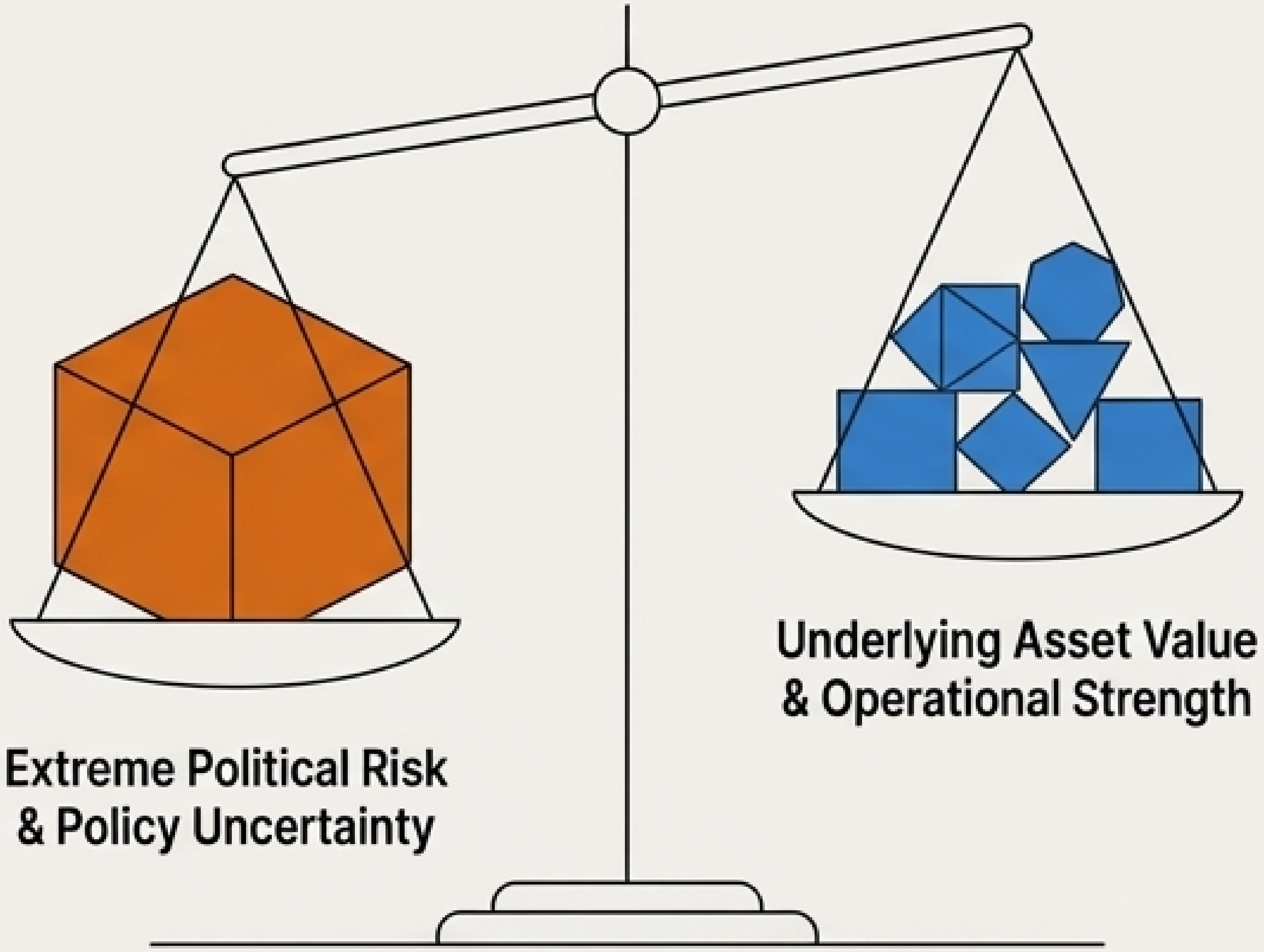
The market re-evaluates the company, narrowing the 'Colombia discount' and properly valuing the stable cash flows of ISA and Cenit, leading to significant share price appreciation.

# Balancing Extraordinary Risk with Unique Strengths

| Risk Category | Key Risk | Potential Mitigants |
| --- | --- | --- |
| **Political & Regulatory Risk** | • Government exploration ban leads to terminal decline in reserves. | • Fiscal pressure may force policy reversal; ISA's diversified revenue provides a cushion; focus on enhanced oil recovery can delay the decline. |
| **Operational Risk** | • Frequent sabotage of pipelines and infrastructure by armed groups (e.g., ELN) disrupts production. | • Resilient midstream segment can partially offset upstream losses; long history of managing security issues; investment in surveillance. |
| **Market Risk** | • Sustained downturn in global oil prices severely impacts cash flow and profitability. | • Low production costs provide a margin cushion; stable cash flows from Cenit and ISA act as a powerful financial buffer. |

# A High-Stakes Bet on the Future of Colombian Politics

- **The Downside is Buffered**
  The downside risk is partially protected by the significant, stable value of the ISA and Cenit assets. These utility-like businesses provide a valuation "floor" and a reliable stream of cash flow.




- **The Upside is Substantial**
  The upside potential, currently capped by political uncertainty, is substantial if a more pragmatic energy policy emerges, which could lead to a significant re-rating of the stock.

## The Deciding Factor

An investment in Ecopetrol is less a bet on geology or operational skill, and more a conviction call on the political and economic trajectory of Colombia itself.

# Appendix: Key Data at a Glance

## Table 1: Key Operational Metrics (2022-2024)

| Metric | Unit | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| Average Production | kboed | 709.5 | 737.0 | 746.0 |
| Proven Reserves (1P) | mmboe | 2,011 | 2,020 | 1,890 |
| Reserve Life | Years | 8.4 | 7.6 | 7.1 |
| Midstream Volumes | kbd | 1,070.7 | 1,119.0 | 1,119.0 |
| Refining Throughput | kbd | 357.5 | 439.0 | 414.0 |

(Source: 5, 25, 26)

## Table 2: Historical Financial Summary (Condensed)

| Fiscal Year | Revenue (USD B) | EBITDA Margin (%) | Net Income (USD B) | ROE (%) | Net Debt / EBITDA (x) |
|---|---|---|---|---|---|
| 2024 | 33.7 | 41.0% | 3.8 | 18.7% | 2.2x |
| 2022 | 35.3 | 47.2% | 7.0 | 34.7% | 1.5x |
| 2020 | 13.2 | 40.2% | 0.4 | 6.5% | 2.6x |
| 2015 | 18.2 | 28.0% | -1.2 | -9.2% | 3.3x |

(Source: 5, 25, 51, 52, 61)

Financial figures are based on source materials and may include conversions from COP to USD. Please refer to official company filings for definitive figures.