FITCH AFFIRMS ECOPETROL'S FOREIGN AND LOCAL CURRENCY IDRS AT 'BBB'; OUTLOOK STABLE

Fitch Ratings-Chicago-06 December 2018: Fitch Ratings has affirmed Ecopetrol S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB'. Fitch has also affirmed the company's National Long- and Short-term ratings at 'AAA(col)'/'F1+(col)'. The Rating Outlook is Stable. A complete list of ratings follows at the end of this release.

Ecopetrol's ratings reflect the close linkage with the Republic of Colombia (Foreign and Local Currency IDRs of BBB/Stable), which currently owns 88.5% of the company. Ecopetrol's ratings also reflect the company's strategic importance for the country as well as its ability to maintain a solid financial profile despite the decrease in hydrocarbon prices. Ecopetrol's growth strategy and associated capex plan are considered adequate for the company's credit quality and cash flow generation ability. Ecopetrol is expected to maintain a financial and credit profile supportive of its standalone (SA) credit profile, which in Fitch's view has improved to 'BBB' from the previous assessment of 'BBB-'. The SA credit profile assumes the company is not owned by Colombia and that it will not receive financial support from the Colombian government.

KEY RATING DRIVERS

Linkage to Sovereign: Ecopetrol S.A.'s ratings reflect the strong linkage between the credit profile of the Republic of Colombia, which owns 88.5% of the company's total capital and that of the company. The rating also reflects the very strong incentives the Colombian government has to support Ecopetrol in the event of financial distress given the company's strategic importance to the country as it supplies virtually all liquid fuel demand in Colombia and owns 100% of the country's refining capacity. The company relies on the receipt of funds from the Colombian government to offset the difference from selling fuel in the local market at lower prices versus the export market.

Strong Financial Profile: Ecopetrol's financial profile has strengthened in 2018, in line with Fitch's expectations, to a Fitch calculated gross leverage, as measured by total debt to EBITDA, of 1.3x as of the LTM ended Sept. 30, 2018 from approximately 3.0x at year-end 2016. The improving credit profile is the result of improving global prices as well the company's debt repayments and revised business plan, which lowered capex. The company's declared dividends also decreased to a fraction of historical levels as a result of the decrease in hydrocarbon prices. These improvements have improved Fitch's view of Ecopetrol's SA credit profile to 'BBB' from the previous 'BBB-'.

During the LTM ended Sept. 30, 2018, Ecopetrol's capex amounted to approximately USD2.5 billion, down from an annual average of approximately USD6.9 billion during 2013 to 2015; the company also declared lower dividends of approximately USD1.2 billion during the same period, down from an annual average of approximately USD4.2 billion during 2013 to 2015. During the LTM ended Sept. 30, 2018, Ecopetrol reported an EBITDA of approximately USD10 billion, up from USD7.4 billion in 2017. Total debt as of September 2018 decreased to approximately USD13 billion from USD17.4 billion as of year-end 2016 as a result of debt repayments.

Manageable Capex Plan: Ecopetrol plans to fund its approximately USD13 billion capex program for 2019-2022 using internal cash flow generation. The company marginally improved its reserve life during 2017 as a result of a 126% reserve replacement ratio to 7.1 year from a low of approximately 6.8 years as of 2016. The company requires continuing focusing its investment plan on building up its reserve base, which is in line with the company's capex program. Ecopetrol's FCF is expected to be neutral to marginally positive in the foreseeable future as a result of the revisions to the company's dividend policy and projected capex.

Stable Operating Metrics: Ecopetrol's operating metrics should remain relatively stable and in line with the assigned rating. The company's reserve life improved to 7.5 years during 2017, as a result of 295 million boe of reserve addition, of which 94 million boe were due to price revision and the balance to extension, discoveries and revision to previous estimates. Ecopetrol's leverage, as measured by total debt/proved reserves, marginally improved to USD8.0 per boe as of September 2018 from USD10 per boe in 2016 as a result of the decrease in debt. Fitch's calculated implied pre-tax break even crude oil price for Ecopetrol has remained relatively stable over the past three years at USD39.7/bbl as of year-end 2017.

DERIVATION SUMMARY

Ecopetrol's rating linkage to the Colombian sovereign ratings is in line with the linkage present for most national oil and gas companies (NOCs) in the region; including Pemex (IDR BBB+/Negative), Petrobras (IDR BB-/Stable), PDVSA (IDR RD), PetroPeru (IDR BBB+) and Enap (IDR A). In most cases in the region, NOCs are of significant strategic importance for energy supply to the countries were they operate as is the case in Mexico, Colombia, Venezuela and Brazil. NOCs can also serve as a proxy for federal government funding as in Mexico and Venezuela, and have strong legal ties to governments through their majority ownership, strong control and at times governmental budgetary approvals.

On a stand-alone (SA) basis, Ecopetrol's credit profile is commensurate with a 'BBB' rating, which is four notches higher than that of Petrobras at 'BB-' given Petrobras' higher leverage level, and despite the significantly higher expected production volumes of 3.1 mm boe by 2020. Ecopetrol's gross leverage as of September 2018 of 1.3x Petrobras' gross leverage was 4.1x as of the same period.

Ecopetrol's credit profile is more than six notches higher than that of Pemex 'B-' SA credit profile as a result of Ecopetrol's deleveraging capital structure versus Pemex increasing leverage trajectory. Furthermore, Ecopetrol has and is expected to continue reporting a stable production, which Fitch expects to stabilize between 700,000 boe/d and 750,000 boe/d. In contrast, Pemex's crude production has been declining in recent years and is not expected to stabilize in the short term. These production trajectories further support the notching differential between the two companies' SA credit profiles.

Ecopetrol's credit profile and capital structure compares favorably to that of Repsol current rating level (BBB/Positive), which as of year-end 2017 had a total debt to EBITDA of 2.0x, net production of 695 mboe/d, 1P reserves of 2,355 mmboe and total debt to 1P of EUR7/boe. Ecopetrol's leverage as of the same period was 1.3x, net production amounted to 715 mboe/d and 1P reserves were 1,659 mmboe. Repsol's refining capacity of approximately 1 mmbbl/d is much larger than that of Ecopetrol's of approximately 371 mm bbl/d. Ecopetrol's credit profile is weaker than that of other international peers such as Eni SpA (A-/Stable) as a result of its smaller production scale although its capital structure is relatively equally strong. Eni SpA's leverage as of year-end 2017 amounted to 2.1x, yet its production was larger and more diversified at 1.8 mmboe/d, larger reserves at approximately 7 bn boe and total debt to 1P of EUR3.8/boe. Furthermore, Eni SpA organic reserve replacement ration has exceeded 100% over the past five years and its reserve live is in excess of 10 years.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer
--Ecopetrol remains majority owned by the Republic of Colombia;
--Brent and WTI oil prices trend towards USD57.5/bbl and USD55/bbl, respectively, in the long term;

--Stable production, trending towards 750,000 barrels of oil equivalent per day by 2021;
--Aggregate Capex of approximately USD13 billion between 2019 and 2022;
--Dividends of 45% of previous year's net income.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action
--An upgrade of Colombia's sovereign ratings.
Developments That May, Individually or Collectively, Lead to Negative Rating Action
--A downgrade of Colombia's sovereign ratings;
--A significant weakening of the company's linkage with the government and a lower government incentive to support couple with a deterioration of its standalone credit profile.

LIQUIDITY

Strong Liquidity: Ecopetrol's strong liquidity profile is supported by cash on hand, positive cash flow generation, strong access to the capital markets and an adequate debt maturity profile. As of Sept. 30, 2018, Ecopetrol reported USD4.9 billion of cash and equivalents on hand compared to roughly USD2.1 billion of short-term debt and USD13 billion of total debt. The company also signed a committed line of credit for USD665 million in September 2018 with Scotiabank and Mizuho Bank.

The company does not face significant financing needs over the foreseeable future as its capex plan and dividend policy is expected to result in a positive cash flow.

FULL LIST OF RATING ACTIONS
Fitch has affirmed Ecopetrol's ratings as follows:

--Long-Term Foreign Currency IDR at 'BBB'; Outlook Stable;
--Long-Term Local Currency IDR at 'BBB'; Outlook Stable;
--Senior unsecured notes outstanding at 'BBB';
--National Short-Term Rating at 'F1+(col)';
--National Long-Term Rating at 'AAA(col)'; Outlook Stable;
--COP1 trillion bond issuance at 'AAA(col)';
--COP3 trillion bond and commercial paper program at 'AAA(col)' and 'F1+(col)'.

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria
Corporate Rating Criteria (pub. 23 Mar 2018)
https://www.fitchratings.com/site/re/10023785
Government-Related Entities Rating Criteria (pub. 25 Oct 2018)
https://www.fitchratings.com/site/re/10047173
National Scale Ratings Criteria (pub. 18 Jul 2018)
https://www.fitchratings.com/site/re/10038626