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

Fitch Ratings-Chicago-07 December 2017: 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 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, associated capex plan and cash flow generation ability are considered adequate for the company's credit quality. Ecopetrol is expected to maintain a financial and credit profile supportive of its standalone (SA) credit profile, which Fitch sees in line with a 'BBB-'. The SA credit profile assumes the company's 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 has also relied on the receipt of funds from the Colombian government in the past 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 2017, in line with Fitch's expectations, to a Fitch calculated gross leverage, as measured by total debt to EBITDA, of 2.2x as of the LTM ended Sept. 30, 2017 from 3.2x at year-end 2016. The improving credit profile is the result of modestly improving global prices as well the company's revised business plan, which lowered capex and reduced external financing needs. 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 solidified Fitch's view of Ecopetrol's SA credit profile of 'BBB-', which continues to be constrained by the company's relatively short reserve life and high debt-to-proved reserves.

During the LTM ended Sept. 30, 2017, Ecopetrol's capex amounted to approximately USD2 billion, down from an annual average of approximately USD6.9 billion during 2013 to 2015; the company also declared lower dividends of approximately USD550 million during the same period, down from an annual average of approximately USD5.4 billion during 2013 to 2015. During the LTM ended Sept. 30, 2017, Ecopetrol reported an EBITDA of approximately USD6.8 billion, up from USD5.3 billion in 2016. Total debt as of September 2017 decreased to approximately USD15.2 billion from USD17.4 billion as a result of debt repayments.

Manageable Capex Plan: Ecopetrol plans to fund its approximately USD13 billion capex program for 2017-2020 using internal cash flow generation. The company's low reserve life of approximately 6.8 years will mean that the company will have to focus its investment plan on building up its reserve base, which is in line with the company's capex announcement in November 2017. Ecopetrol's FCF is expected to be neutral to marginally negative 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 has weakened to approximately 6.8 years during 2017, which assumes the reserve replacement ratio for 2017 is 100%. Ecopetrol's leverage, as measured by total debt/proved reserves, marginally improved to USD8.2 per boe as of September 2017 from USD9.4 per boe in 2016 as a result of the decrease in debt. Full cycle costs decreased to USD35.2 per barrel in 2016 from USD37.9 per barrel in 2015 as a result of the company's initiative to reduce operating costs to mitigate the decrease in revenues since the decrease in oil prices toward the end of 2014.

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 (BBB+ IDR), Petrobras (BB IDR), PDVSA (RD IDR), PetroPeru (BBB+ IDR) and Enap (A IDR). 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 credit profile commensurate with a 'BBB-' rating, which is three 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 Sept. 2017 of 2.2x Petrobras' gross leverage was 4.1x vs 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 deleveraged capital structure vs. 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 by 2020. In contrast, Pemex's crude production has been declining in recent years and is expected to stabilize at around 1.85 MM bbls/d to 2.0 MM bbl/s by 2020. This production trajectories further support the notching differential between the two companies' stand alone credit profiles.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:

--Ecopetrol remains majority owned by the Republic of Colombia;
--Brent crude prices average USD55 per barrel in 2017, USD52.5 in 2018 and USD55 per barrel in 2019, trending to USD57.5 per barrel in the long term;
--Stable production, trending towards 750,000 barrels of oil equivalent per day by 2020;
--Aggregate Capex of approximately USD13 billion between 2017 and 2020;
--Dividends in line with company policy of 40%.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action
An upgrade of Colombia's sovereign ratings
Future Developments That May, Individually or Collectively, Lead to Negative Rating Action

--A downgrade of Colombia's sovereign ratings;
--A material and sustained increase in leverage beyond Fitch's expectations that lower the company's standalone credit profile to four notches below that of the sovereign; coupled with:
--A significant weakening of the company's linkage with the government and a lower government incentive to support.

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, 2017, Ecopetrol reported USD3.6 billion of cash on hand compared to USD1.7 billion of short-term debt and USD15.2 billion of total debt.

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 neutral to marginally negative FCF.

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 issuance program at 'AAA(col)';
--COP3 trillion commercial paper program at 'F1+(col)'.

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Summary of Financial Statement Adjustments - Dividends received from minority interest were added to Operating EBITDA after Associates and Minorities.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Corporate Rating Criteria (pub. 07 Aug 2017)
https://www.fitchratings.com/site/re/901296
National Scale Ratings Criteria (pub. 07 Mar 2017)
https://www.fitchratings.com/site/re/895106
Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016)
https://www.fitchratings.com/site/re/886557