

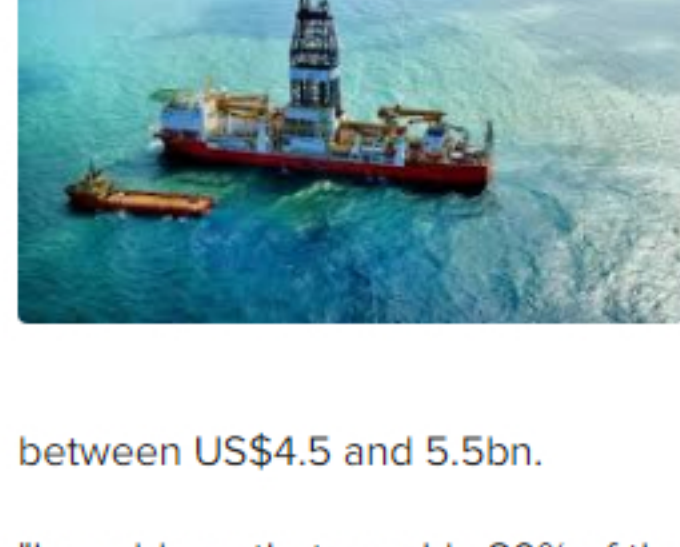
NEWS

Ecopetrol 'protecting' upstream projects amid capex cuts

Bnamericas

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Colombian state oil company **Ecopetrol** will shield its upstream business from the impact of COVID-19 despite sweeping new spending cuts, CEO Felipe Bayón said on Tuesday.

In a quarterly earnings call, the Bogotá-based company said it trimmed its 2020 capital expenditure guidance to US\$2.5 to 3bn, compared to a previous target range of US\$3.3 to 4.3bn set in March. **Ecopetrol** had originally planned to outlay

between US\$4.5 and 5.5bn.

"I would say that roughly 80% of the [revised capex] will go to E&P. We're protecting that part of the business," Bayón said.

Between US\$300 and US\$400mn will be allocated to exploration drilling, though the company stated it was unlikely to meet its target of 30 wells this year.

Projects that have been suspended because of the pandemic are expected to restart operations in the coming weeks, Bayón added.

Ecopetrol earlier reported a 95% year-on-year fall in first-quarter profit to 133bn pesos (US\$34mn), beset by tanking oil prices as the global health crisis cripples energy demand.

The company's oil and gas production outlook was lowered to between 660,000 and 710,000boe/d, down from a previous forecast of 750,000boe/d.

Further adjustments to medium-term production and investment projections are expected to be included in **Ecopetrol**'s new three-year business plan, due for release in the second half of the year.

FRACKING

The Bogotá-based firm suggested that plans to begin pilot fracking projects this year would likely be postponed.

Bayón said unconventional drilling remained a "strategic priority", adding that he was encouraged by progress to implement a regulatory framework for the practice.

"We will continue to assess the timing of when this will be possible given everything that's going on," he said. "But we envisage ourselves moving forward with the pilots in the next year or so."

ExxonMobil, ConocoPhillips, Parex, Drummond are among other companies that have submitted plans for unconventional pilots in the Andean nation.

According to the Colombian Petroleum Association, the projects could eventually produce 450,000b/d and attract US\$5bn in annual investments.

BRAZIL, US

Ecopetrol said it remained committed to its international businesses despite possible delays caused by the price downturn.

In addition to exploration assets in the pre-salt region off Brazil's southeast coast, the company is aiming to boost reserves and production from shale deposits in the US Permian basin as part of a joint venture with Occidental Petroleum.

Bayón said the company slashed its 2020 capital spending target in the Permian to US\$180-200mn from US\$800mn previously.

"That's a significant adjustment, but it's doable because of the short-cycle nature of the business," said Bayón, who added that the consortium now hopes to drill around 22 wells this year, down from a previous target of 90.

Production from the blocks is expected to average 4,000 to 5,000b/d compared to a previous forecast of 7,000 to 9,000b/d.

ASSET SALES, M&As

The company has not ruled out offloading assets or seeking acquisition opportunities as the industry emerges from the crisis, though Bayón said the immediate priority was to preserve cash and guarantee the health of workers.

"There will eventually be opportunities both on the divestment side and acquisition side," the executive said.

"We'll need to see. Crisis normally present themselves with opportunities that otherwise wouldn't be possible. We'll continue to look at that but our priorities are [elsewhere] and we still don't know how much longer this crisis will go on."

PIPELINE RELIEF

In a bid to ease the current strain on operators, **Ecopetrol** said its transport subsidiary, **Cenit**, had temporarily cut pipeline tariffs and offered financing options for pipeline users.

Discounts range from 5.5% to 10% while customers may also tap a financing plan for up to 50% of their transport costs. The initiative currently applies to April and May, but could be extended.

"We are doing this to help [producers] through the worst of the price curve," **Cenit**'s strategy and finance director Milena López said in the call.

REFINERIES

Ecopetrol said it has raised production at its Barrancabermeja refinery by 22% in the past four days as demand slowly recovers.

Output at the facility had fallen to 115,000b/d from almost 230,000b/d because of lockdown measures implemented in late March.

The government began easing the restrictions at the start of the month by allowing the manufacturing and construction sectors to resume activity.

"We're seeing some recovery going forward in terms of output at the refineries," Bayón said. "That's a reflection of a demand increase in the market, even though it's only marginal."

The Cartagena refinery is currently producing around 110,000b/d of liquids compared to more than 150,000b/d before the pandemic hit.

Executives said that a problem with one of two hydrogen units at the Cartagena refinery had been fixed and would be operating again later this month.

EXPORTS

Ecopetrol said that production cuts would not impact its commitments with international buyers of its crude oil.

The company said that around 50% of its outbound deliveries are currently going to China with the remainder bound for refineries in the US and India.

"We've been able to successfully place these barrels in those refineries more than a couple of months ahead of time," Bayón said.

"We've looked at our planning for April, May and June to make sure that we can [meet our commitments] and maintain production in Colombia."

GAS MARKET

Bayón expects an imminent rebound in natural gas demand as industries begin to reopen and vehicle use increases.

"In Colombia, we saw a reduction in gas demand of around 25,000boe/d," he said. "But we're starting to see a pick-up again. We've ramped up runs at the Barrancabermeja refinery, which has also increased gas demand."

Figures published by Colombian gas market operator BMC last week showed gas consumption – which had already fallen sharply since March 25 – slid another 3% in the first week of May.

Demand from thermoelectric power generators dipped 10% compared to the previous week while refineries and households decreased consumption by 5% and 3%, respectively.

In a sign of the stress being placed on market participants, BMC has invited buyers and sellers to

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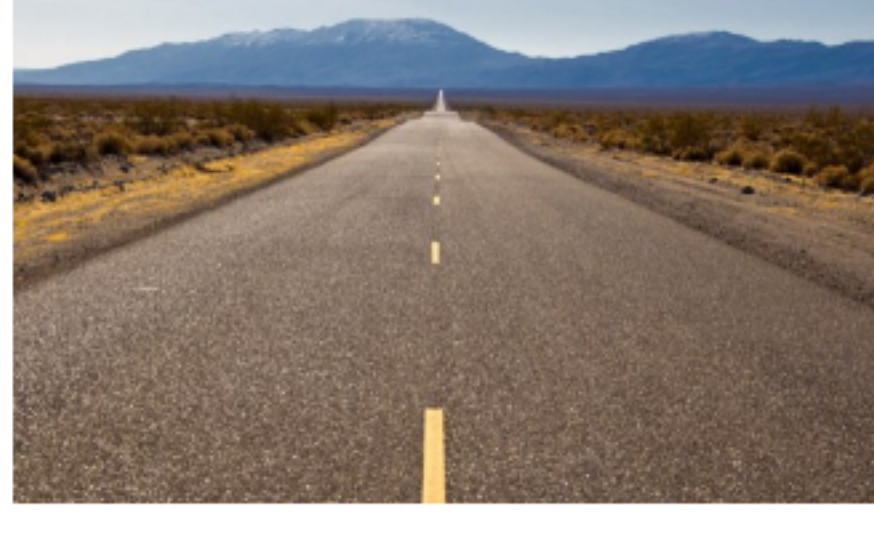
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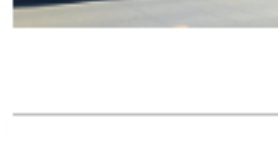
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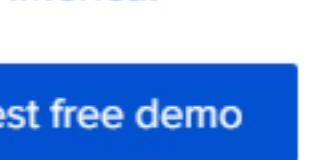
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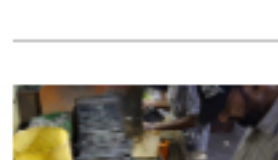
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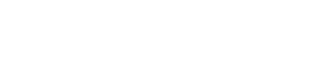
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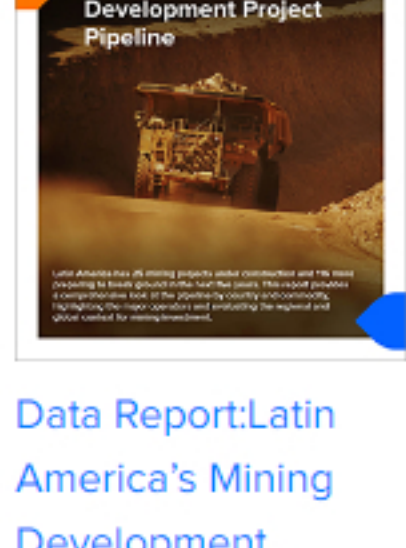
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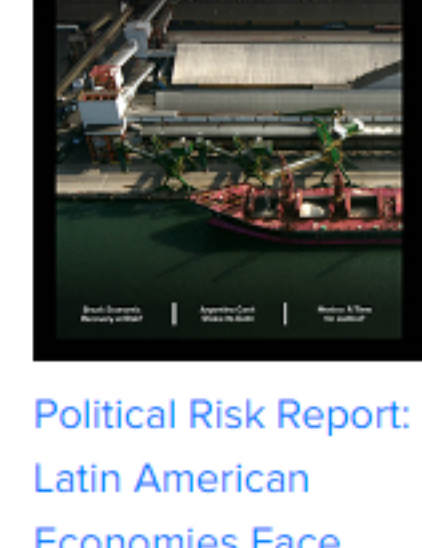
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