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Ecopetrol: Too Much Value To Give Up, Too Many Doubts To Enter

May 19, 2025 12:47 AM ET | **Ecopetrol S.A. (EC) Stock** | EC | 7 Comments



Eliana Scialabba

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Summary

- Ecopetrol** trades at historically low multiples, reflecting political risk and weak growth expectations.
- Despite challenges, EC generates strong cash flow and maintains solid operational margins.
- Dividend yield remains exceptionally high, offering income stability in a volatile environment.
- With limited visibility, holding the position allows time for macro and strategic clarity.



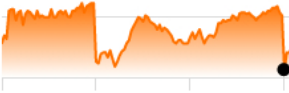
anamejia18

Investment Thesis

Ecopetrol (NYSE:EC) is a complex company in an even more complex context. In the midst of 2025, with an energy transition advancing unabated and increasingly strong political pressure from the Colombian government, the company walks a fine line between adapting to the new paradigm and defending its structural role as an oil and gas producer.

The official narrative speaks of green hydrogen, carbon credits, and biofuels for jets. And although these initiatives exist and are advancing, the reality is that **Ecopetrol** remains,

About EC Stock

| Symbol | Last Price | % Chg |
|---|------------|--------|
| EC | 8.52 | -0.93% |
| <div><div>1D</div><div>5D</div><div>1M</div><div>6M</div><div>1Y</div><div>5Y</div><div>10Y</div><div>📉</div></div> | | |
| | | 8.8 |
|  | | |
| May 14 | May 15 | May 16 |
| May 19 | | 8.4 |
| Market Cap | \$17.79B | |
| PE (FWD) | 4.38 | |
| Yield | 20.81% | |
| Rev Growth (YoY) | -1.58% | |
| Short Interest | - | |
| Prev. Close | \$8.60 | |

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above all, a hydrocarbon company that depends on margins, wells, transportation, and refineries. And in that, it remains efficient, profitable, and operationally sound.

The problem lies in what is not so easily seen in the financial statements: the constant tension between business strategy and public policy. Conflicts over fracking, the threat of tax increases, and the official rhetoric pushing to "de-petrolize" the country generate uncertainty. This uncertainty translates into very low multiples—much lower than those of the sector—and a latent mistrust that no dividend, no matter how high, can completely erase.

Even so, selling now doesn't seem reasonable. **Ecopetrol** generates a lot of cash, maintains stable production levels, has a manageable balance sheet and consistently returns value to the shareholders. Its dividend is one of the highest in the global energy market and acts as a good shield against volatility.

The value is there, but the timing isn't helping. Therefore, the best decision today is to **hold** the position. Those already invested can continue collecting dividends and wait for a future recovery if the environment stabilizes. But for those not in, this is not the time to gain exposure: there are too many political, fiscal, and strategic issues at stake.

Overview

Ecopetrol is going through a 2025 full of tensions, adjustments and key definitions. In a world where the energy transition is no longer just a speech but a concrete roadmap, Colombia's largest company is in the midst of reconfiguring. On the one hand, it reaffirms its central role in the country's energy matrix; on the other, it deals with internal tensions, regulatory disputes and the new political climate that pushes to redefine what it means to be an oil company in this decade.

One of the focuses of greatest public discussion this year was the pressure from Gustavo Petro's government for **Ecopetrol** to divest itself of its **fracking assets in the US**. The president argued that these resources should be channeled towards clean energy, in line with his decarbonization plan. The proposal unleashed controversy and generated uncertainty in the market, revealing the tension between climate goals and the company's strategic needs.

But beyond the political noise, **Ecopetrol** keeps an active agenda. The investment plan for this year remains focused on consolidating its role in the **energy transition**: expansion of the use of natural gas, development of solar projects and pioneering initiatives such as green hydrogen at the Cartagena refinery. Also highlighted is the production of sustainable fuels for aviation in alliance with LATAM, and the commercialization of carbon credits to cover environmental taxes.



Moody's



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Ecopetrol Report - Q1 2025

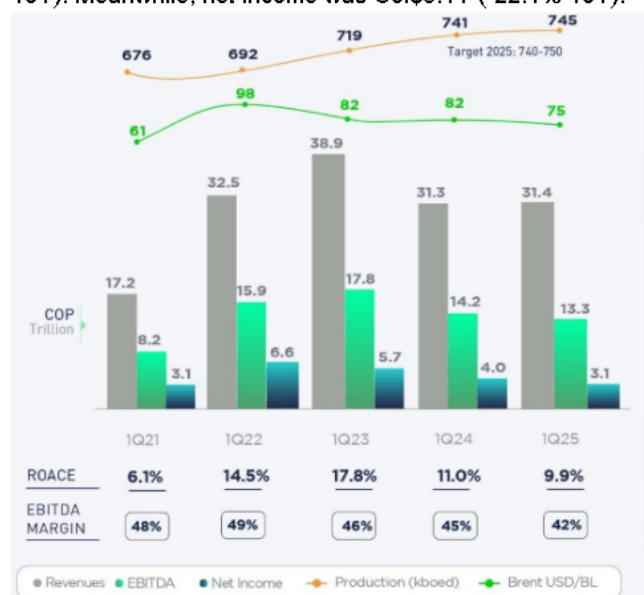
In parallel, EC faces a dispute with the DIAN (Colombia's Tax Office), which **demands the payment** of a million-dollar sum for taxes on imported gasoline between 2022 and 2024. This situation generated unrest within the company and raised alarm bells about the tax treatment of key state companies.

At a sector level, 2025 is being a pivotal year for energy companies. Global demand for oil remains the same, but pressure to migrate towards cleaner energy is intensifying, especially in markets such as Europe and Asia. Big oil companies can no longer talk only about barrels: they have to talk about carbon, circularity and resilience. **Ecopetrol** knows this, and although it continues to produce, transport, and refine hydrocarbons, it is beginning to show clear signs that it is thinking about its future beyond crude oil.

In this delicate balance between continuity and change, the company seeks its own narrative: neither falling behind the world nor cutting off its structural role in the Colombian economy. Its challenge is no small one, but it is clear that it is no longer just about extracting oil, but about building energy legitimacy for what lies ahead.

Q1 2025

During 1Q 2025, **Ecopetrol** had revenues of Col\$ 31.4B (+0.2% YoY), while EBITDA reached Col\$ 13.3B (-6.9% YoY). Meanwhile, net income was Col\$3.1T (-22.1% YoY).



Ecopetrol Report - Q1 2025

EBITDA margin was 42.3% (vs. 45.5% in Q1 2024), and ROACE was 9.9%. The slight improvement in income was explained by a positive effect of the exchange rate, which partially offset the drop in average sales prices, with a crude oil basket that decreased 6.5% YoY, to \$68.7/bl.

Furthermore, EC paid more than Col\$5.5 T in dividends, while cash flow remained at Col\$17 T, albeit with a slight decrease of 1.8% YoY. Leverage remained at prudent levels, with a Net Debt/EBITDA ratio of 2.2x (vs. the 2.5x threshold) and a Debt/Equity ratio of 1.1x.

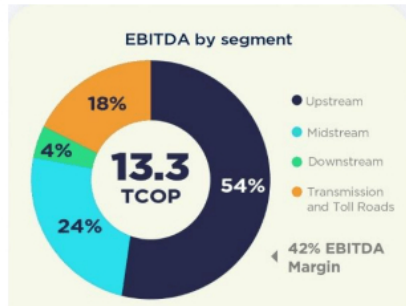
Production was 745.4 kboed (+0.6% YoY), with a very good improvement in the Permian (+13.4% YoY). Lifting costs decreased 7% YoY, to \$11.25/bbl. EC completed 114 development wells and reaffirmed its annual production target of between 740 and 750 kboed, despite blockages and infrastructure attacks that caused a cumulative loss of 1.4 MM barrels in the four-month period.



Ecopetrol Report - Q1 2025

In exploration, the final investment decision (FID) was approved for the Gato do Mato project in Brazil, which will allow for the incorporation of reserves in 2025 and the start of production in 2029. The Sirius-2 delineation well was also successfully drilled in the Caribbean, confirming the presence of gas, and the Buena Suerte-1 well, 11 km north of the Sirius discovery, was spudded.

Transported volume reduced 2.4% YoY to 1,091.7 kb/d, affected by attacks on key pipelines. The cost per transported barrel increased 4.1% YoY to \$3.03, pressured by inflation, the exchange rate and lower volume operated. Despite these challenges, EC managed to evacuate the crude oil thanks to alternative routes, such as the contingent use of the Bicentenario pipeline. The EBITDA margin of the transportation segment was 78.4%, just 0.5 pp below Q1 2024.



Ecopetrol Report - Q1 2025

In refining, the consolidated gross margin was \$10.9/bl (vs. \$14.8/bl in 2024), reflecting falls in gasoline, diesel and jet fuel differentials, and lower charges for scheduled maintenance. Total cargo was 396 kbd (-7.6% YoY) and the segment's EBITDA drop 66.7% YoY to Col\$ 482B, with a margin of 2.8%.

Total investments for Q1 2025 were \$1.215B, a 7.4% YoY

decreased. 63% was allocated to Colombia, and the remainder mainly to the US and Brazil.

With a net margin of 10% and solid operating cash generation (Col\$6.1B), the company has financial flexibility. Despite the rise in prices and costs, the 2025 savings plan seeks to exceed Col\$ 1T.

Valuation

In a market where many energy companies are still trading above their historical average, **Ecopetrol** stands out for one unusual characteristic: it's cheap. And not just a little, but at discounts that are hard to ignore, even if one is skeptical about exposure to emerging markets or Colombian political risk.

EC's P/E FWD is around 4.65x, representing a 59% discount to the global energy sector average and 51% below its own 5-year average. This is no coincidence: the market is strongly pricing in local noise (regulation, taxes, tensions with the government) and an expectation of a drop in earnings. Even so, the level of punishment seems excessive given the company's continued cash generation power.

EC Valuation Grade **A+**

| | Sector Relative Grade | EC | Sector Median | % Diff. to Sector | EC 5Y Avg. | % Diff. to 5Y Avg. |
|---------------------|-----------------------|------|---------------|-------------------|------------|--------------------|
| P/E Non-GAAP (TTM) | A | 4.84 | 10.70 | -54.79% | 14.46 | -66.55% |
| P/E Non-GAAP (FWD) | A+ | 4.65 | 11.26 | -58.70% | 9.42 | -50.66% |
| P/E GAAP (TTM) | A | 4.97 | 12.44 | -60.08% | - | - |
| P/E GAAP (FWD) | A | 4.94 | 11.63 | -58.25% | 11.07 | -55.38% |
| PEG GAAP (TTM) | - | NM | 0.60 | NM | - | - |
| PEG Non-GAAP (FWD) | - | NM | 1.00 | NM | - | NM |
| EV / Sales (TTM) | B- | 1.49 | 1.95 | -19.68% | 1.93 | -22.43% |
| EV / Sales (FWD) | C+ | 1.64 | 1.78 | -8.08% | 1.83 | -10.72% |
| EV / EBITDA (TTM) | B+ | 3.79 | 6.13 | -38.22% | 4.78 | -20.80% |
| EV / EBITDA (FWD) | B+ | 3.83 | 5.99 | -31.41% | 4.38 | -12.60% |
| EV / EBIT (TTM) | A | 6.54 | 11.01 | -49.70% | 7.89 | -29.81% |
| EV / EBIT (FWD) | A | 6.27 | 10.25 | -47.59% | 6.66 | -19.38% |
| Price / Sales (TTM) | B+ | 0.52 | 1.19 | -55.88% | - | - |
| Price / Sales (FWD) | B+ | 0.57 | 1.27 | -54.79% | 915.36 | -99.94% |
| Price / Book (TTM) | B+ | 0.83 | 1.28 | -34.89% | - | - |
| Price / Book (FWD) | B+ | 0.82 | 1.38 | -40.43% | 1.37 | -39.90% |

Seeking Alpha

Other multiples also reinforce this undervaluation thesis: EV/EBITDA FWD of 3.83x (vs. 5.59x sector), EV/EBIT of 5.37x (vs. 10.25x), and a P/B of just 0.82x, less than half that of its peers. This is especially striking in a company that has a ROTC of over 10% and generates operating and cash flow margins that far exceed the sector average.

The market seems to be pricing in a prolonged decline in results. Indeed, estimates point to a contraction in revenue (-7.9%), EBITDA (-7.6%), and operating profit (-13%) for this year. EPS growth is also expected to be negative in the medium term, with a 3-5 year CAGR of -20.5%. This figure is undoubtedly a red flag from a growth perspective and warrants some caution.

EC Growth Grade **F**

| | Sector Relative Grade | EC | Sector Median | % Diff. to Sector | EC 5Y Avg. | % Diff. to 5Y Avg. |
|----------------------|-----------------------|---------|---------------|-------------------|------------|--------------------|
| Revenue Growth (YoY) | C | -1.58% | 2.60% | NM | 20.98% | NM |
| Revenue Growth (FWD) | D- | -7.90% | 2.97% | NM | 9.37% | NM |
| EBITDA Growth (YoY) | C | -4.63% | 1.66% | NM | 24.75% | NM |
| EBITDA Growth (FWD) | D | -7.65% | 2.91% | NM | 8.36% | NM |
| EBIT Growth (YoY) | C+ | -4.26% | -2.84% | NM | 45.30% | NM |
| EBIT Growth (FWD) | D | -12.00% | 0.64% | NM | 13.71% | NM |

| | | | | | | |
|--|----|---------|---------|-----------|--------|----|
| EPS Diluted Growth (YoY) | C | -19.32% | -10.66% | NM | 61.35% | NM |
| EPS Diluted Growth (FWD) | Un | -14.47% | -3.95% | NM | 16.25% | NM |
| EPS GAAP Growth (YoY) | C | -32.69% | -21.95% | NM | - | - |
| EPS GAAP Growth (FWD) | Un | -17.49% | -3.05% | NM | - | - |
| EPS FWD Long Term Growth (3-5Y CAGR) | F | -20.51% | 10.08% | NM | 0.04% | NM |
| Levered FCF Growth (YoY) | Un | 60.13% | 1.55% | 3,775.51% | NM | NM |
| Free Cash Flow Per Share Growth Rate (FWD) | - | NM | -0.29% | NM | 5.60% | NM |

Seeking Alpha

But what the market often underestimates is the strength of its cash flows: leveraged FCF grew 60% YoY, and operating cash flow grew 128%. These are enormous figures, which show that, despite the noise, EC continues to generate cash with remarkable efficiency. The FCF margin is 17.6%, well above the sector average of 6.5%.

And what does a company with excess cash do in a volatile environment? In **Ecopetrol's** case, it returns it to shareholders: the dividend yield exceeds 21%, placing it at the top of the sector in terms of direct return. Even if the payout were to adjust in the coming quarters, the current level is a clear sign of financial discipline and its role as an income vehicle in diversified portfolios.

Of course, there are risks. The drop in capex (-14%) could compromise some future growth. The turmoil with the government regarding fracking, taxes, and the strategic direction also introduces uncertainty that is difficult to quantify. And the growth profile, judging by EPS and EBITDA estimates, doesn't appeal to anyone.

Risks

Ecopetrol's discounted price is no coincidence. The valuation is in line with the risks faced by the company.

The main one is political risk. The Colombian government is the main shareholder of EC and has not only shown a strong intervention but also is hostile towards the industry. From statements questioning fracking to proposals to redirect investments towards clean energy without a clear roadmap, regulatory uncertainty is constant. And this does not have negative effects on the share price, but also on institutional investors' confidence.

To this must be added the fiscal problem. As I mentioned in the overview, Colombia's tax office claims billions of dollars in back taxes on gasoline imports from EC. Although, the biggest problem I see is the double (conflicting) role of the state: on the one hand as owner of part of the company and on the other hand as tax collector, which can influence the decision-making of the company. These signals certainly hold back investors' interest.

In addition to these specific points of the Colombian political context and this dispute with the collection agency, we must not forget that as an emerging market, Colombia is exposed to strong macroeconomic volatility.

Another risk that I detect, although less visible than previous ones, is the stagnation of growth in operations. According to the projections for the next years, we expect a drop in

revenue in revenues, EBITDA, net profit and EPS. In other words, although EC today is profitable and generates cash, this creates a lower attractiveness for those investors looking for long-term exposure.

In short, the action is worth little compared to what it generates by the points analyzed. The "punishment" of the market is justified, so I do not recommend entering in search of growth.

Conclusions

Ecopetrol is very cheap, but not all cheap companies represent a buying opportunity. While the stock trades at historic discounts, both to the sector and itself, and generates a very good cash flow and pays high dividends, I think we should take into account the many current risks. For these reasons, although the price is low today, I do not think it justifies entering or increasing the position.

The political environment in Colombia seems complicated: the tension between the strategic vision of the EC and the interventionist ideology of the government creates an additional level of uncertainty. And this, no doubt, has a price: it worsens expectations and affects interest in action. Added to this is the fact that the revenue, EBITDA and EPS projections are negative for next year.

So you might ask: why keep and not sell? Despite what I have analyzed, I believe that EC still generates cash and has very good margins compared to other companies in the sector. In addition, the dividend yield of 5.9% helps offset risk. If the environment improves, EC could have an attractive potential, which is why I think the best option today is to **hold** the asset.

This article was written by



Eliana Scialabba

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I am an individual investor with over five years of experience in personal investing, holding a PhD in Economics from UCCEM. My investment

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Nice to know that if you fly on a LATAM airplane, you are depending on experimental bio fuel. So, if the fuel fails and the plane crashes, who do the families sue: government or EC or everybody?

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Well, I got to the end in 15 minutes by listening to the article.
A real nice feature that Seeking Alpha now offers.
The next step in the future will be to show the article in a YouTube video, with all the slides, and aerial drone footage.

If I add any more shares, it will be at much lower prices. But at least by owning 10 shares, I can keep a closer eye on it.
Sounds like EC is an inferior stock compared to PBR.

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Well, I was way too busy today watching CABA election videos.
And fortunately Adorni won by over 30%, while Santoro came in 3 point lower.
So I got here one hour late, and so I'm now the second to post.
Now I can read the article before going to bed.
But I already bought a whopping 10 EC shares Friday with cash from dividends I received. Will buy more as I find spare cash.
And when oil drops close to \$50 I will probably back up the truck.

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Excellent analysis. I query your dividend calculations though. It is not 5.9% or 21% as you site. That aside what is your view on next year's election? The incumbent will be gone, I would think.

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[ECOPETROL](#)

Ticker: EC

Annual Dividend Yield 19.29%

Just go to www.adr.com
to find the dividend of any ADR
and the previous dividend payments.
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@River18 this year EC paid a total div of \$1.04 in 2 tranches. That was for last year's earnings. I don't need to go to a link to work out that \$1.04 as a % of \$8.55 is not 19.29%, rather 12.1%. Don't forget withholding is 25% so net about 9%. Much safer to do your own math River.

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