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Colombia



Ecopetrol: The Rerating Story Is Over

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Summary

- **Ecopetrol** is facing declining profits despite stable production, driven by taxes, policy pressures, and governance concerns.
- EC's recent rally has pushed its valuation to 11x forward earnings, but fundamentals have not improved, and earnings remain flat.
- Heavy fiscal obligations, a COP5.3T tax claim, and governance risks are squeezing cash flows and undermining dividend reliability.
- I assign EC a Sell rating, as the rerating is complete and downside risk outweighs upside without earnings acceleration or policy relief.





Andreas/iStock via Getty Images

Elevator Thesis

I have been exploring the energy sector lately and I am going to break down **Ecopetrol** S.A. (EC) in this piece.

Ecopetrol is an oil and gas producer. Basically, it refines crude into fuels, transports energy through pipelines and also operates power assets.

Interestingly, **Ecopetrol** checks the right boxes on paper.

It generates steady production and plans to pay a generous dividend of COP110 per share in FY 26. After a strong rally (currently close to its 52-week high), the stock still trades at roughly 11x forward earnings, which makes it look inexpensive at first glance.

However, this appeal fades once we examine numbers.

In Q4 FY 25, revenue and net profit dipped 18% and 61% YOY, respectively. Meanwhile, earnings also dropped 40% to COP9.03T for the full year.

Its profits are declining despite stable production. This points to an external pressure. Yes, the Brent crude oil prices were moving somewhere around the \$70 range in FY 25, but the policy is hitting hard now.

To take this into perspective, taxes, including “conmoción” levies and a COP5.3T tax claim, are slashing earnings. Even more uncertainty is created by the CEO-related governance issues.

To be honest, all of this is hard to ignore.

Indeed, the dividend may look tempting, but it remains uncertain and tied to future payout decisions. In addition, cash flows are under pressure already.

Therefore, considering everything, I assign EC stock a Sell rating right now.

Stable Production but Profits Are Falling

Stable Production but Profits Are Falling

From the outside, **Ecopetrol** seems to be doing exactly what it should do, but a quick assessment of its earnings completely flips the story.

Metric	Q4 2025 Value	Change (%)
Revenue	COP 28.5T	↓ 18%
EBITDA	COP 9.96T	↓ 16.2%
EBITDA Margin	34.5%	↑ ~1.2%
Net Income (Q4)	COP 1.5T	↓ over 60%
Full-Year Profit	COP 9.03T	↓ ~40%
Production	~745 kbpd	No change

EC Financial Metrics (Author generated)

Ecopetrol's revenue fell 18% to COP28.5T, and I would particularly attribute that to the lower oil prices. EBITDA went down 16.2% to COP9.96T, but its margins clocked in at around 34.5%. It tells us that the cost structure remains tight, but then net income falls more than 60% to COP1.5T.

That decline can't go unnoticed. Alongside, full-year profit is down almost 40% to COP9.03T, despite production remaining unchanged at around 745 kbpd.

This disconnect between profit and production is the whole point, and it raises a simple question: If operations are stable, what is pulling earnings down this hard?

Well, here's the answer. New taxes, particularly the "conmoción interior" levy, and higher provisions have a direct impact on profits. On top of that, debt has climbed to COP109T, which means higher financial expenses. If we mentally remove these, pretax earnings appear more resilient. It tells us that this is more of a structural than an operational issue.

Hands down, this was a strong quarter operationally. Output was steady, domestic production was at a multiyear high, and refinery throughput set a new record of 430 kbpd. In a normal price environment, that would definitely have resulted in higher earnings. That said, international oil prices being cheaper than FY 24 and weak refining margins wiped out the benefit.

Looking forward, expectations are that EPS may barely budge. I think that is optimistic. It assumes stability in both oil prices and policy, neither of which has been stable.

That is the problem because the pressure on earnings looks like it would be permanent.

Politics, Taxes and Governance Are Weighing on Ecopetrol's Profits



CEO Ricardo Roa (portafolio.co)

Ecopetrol is in a setting where politics and business go hand in hand. The more I think of it, the more it seems like policy affects, as well as drives, returns.

For example, take state ownership. This is not passive ownership. It comes with fiscal obligations. On one hand, the company has already paid COP0.6T in “conmoción interior” taxes in 2025.

On the other hand, the budget for 2026 requires approximately COP34.6T in dividends and royalties. What I see when I put the two side by side is the cash flow squeeze from both directions.

Ecopetrol has always paid high dividends, including special payouts in strong oil cycles, which illustrates how distributions are linked to the fiscal needs.

This is where the trade-off comes in. It reduces some flexibility and hampers the ability to reinvest. In simple words, it alters how you see long-term growth.

Then there is the tax burden, and this is where the numbers are striking. DIAN (tax authority in Colombia) issued a COP5.3T VAT claim on gasoline imports for FY 22-FY 24 at the start of this year.

It is significant enough to impact a single year's earnings profile compared to FY 25's net profit of COP9.03T. Although it is under court review, the imbalance is evident.

At the same time, governance risk complicates matters. **Ecopetrol** CEO Ricardo Roa, who was associated with President Petro's political campaign, has been charged with influence peddling related to a gasification project.

There are also broader allegations of financial irregularities. This is not merely a legal problem but also creates an operational distraction. The leadership attention is divided, internal alignment weakens, and the decision-making is less clear. Indeed, the associated board tension and union pressure only magnify the effects.

Finally, the credit backdrop brings it all together and illustrates how the market frames the company. The rating ranges from BB to BB+, depending on the agency, and is linked to Colombia's sovereign rating.

What this means is that company risk does not separate from country risk. Even with seemingly solid earnings, sentiment and valuation are very sensitive to political and regulatory developments.

Valuation Discussion



EC Price Chart(Seeking Alpha)

At around \$15, the first thing to notice is how far the price has stretched away from its trend base. The 200-day moving average is at \$10.27. It is not a slight gap but a complete disconnect. Even the 50-day at \$12.96 shows the same thing. The trend has quickly moved up, and that sort of vertical repricing typically does not occur with strengthening fundamentals. It happens when sentiment and positioning get ahead of earnings.

Annual EPS Estimate

Fiscal Period Ending	EPS Estimate	Forward PE	Low	High	# of Analysts
Dec 2026	1.32	11.38	0.05	2.40	7
Dec 2027	1.35	11.08	0.08	2.19	6

Annual Revenue Estimate

Fiscal Period Ending	Revenue Estimate	Forward P/S	Low	High	# of Analysts
Dec 2026	32.40B	19.01	28.78B	39.89B	9
Dec 2027	31.51B	19.55	25.74B	38.33B	10

EC Consensus Estimates(Seeking Alpha)

That is exactly what the snapshot above shows. Earnings are not accelerating as forward EPS estimates sit around \$1.32 for FY 26 and \$1.35 for FY 27. Consensus revenue estimates are also stable to a little lower at around \$32.4 billion in FY 26 to \$31.5 billion in FY 27.

When I look at the bigger picture, there is no growth.

At around 11x forward earnings, the valuation does not look extreme on its own. However, it becomes a different story when the broader context is taken into account. This is a company with sovereign risk, significant fiscal dependency, and governance issues. All of these carry a discount to the market's interpretation of the multiple.

The market is not pricing it as a steady mid-cycle energy company. Rather, it is valuing it as a re-rated stock, but with a cap on the upside. That is why the multiple cannot continue to climb without an improvement in earnings.

Let's be clear on how I see this situation.

My base view is that this move has already captured most of the "good news rerating." The stock has shifted from undervalued to fairly valued at best.

More importantly, it has moved away from fundamentals. When this takes place, price is no longer driven by earnings upgrades but rather by sentiment swings and oil volatility.

That is why the risk is now more weighted to one side.

In a downside scenario, even if not a dramatic shock, a return to the 50- and 200-day averages is structurally expected. Those levels now represent where the last consolidation occurred. That suggests a drift back toward the \$11-\$13 zone where price previously found support.

In simple words, without acceleration in earnings, expansion on the multiple alone cannot take the stock so far.

Takeaway

The stock is saying one thing, but the fundamentals are saying something completely different. The re-rating has already happened, and what's left is a company with flat

announcements. The re-rating has already happened, and that's not a company that has earnings but high expectations. There is no obvious driver to re-accelerate growth or reset sentiment.

If you are here for the dividend, you are taking on policy and tax risk more than business strength. For me, that doesn't warrant staying exposed. I'd be trimming into strength rather than adding here.

For now, the better approach is to avoid until we see that earnings can stabilize and fiscal pressures aren't getting worse. In the meantime, it's best to place capital in companies where growth, cash flow, and stability are all headed in the same direction.

This article was written by



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I'm an ACC-qualified finance professional with a Master's in Audit & Accounting from Istanbul University and certificates in Data Analytics from Coursera. For over two years, I've worked as a Data Scientist

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Erik Poole

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Yesterday, 10:16 PM

[Ecopetro](#) could be a buy if Colombia votes in a centrist or conservative resource sector friendly President this year. That prospect currently looks worse than a coin flip. Risky for now but could look very different by

mid year.