

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings expects to rate Ecopetrol S.A.'s (Ecopetrol) proposed issuance of up to USD2.5 billion notes 'BBB-'. The company expects to use the proceeds from the issuance for general corporate purposes, including capital expenditures. The notes are expected to have between 5-year to 30-year terms. The expected rating of the notes is at the same level of the entity's long-term Issuer Default Rating (IDR) of 'BBB-'.

KEY RATING DRIVERS

Linkage to Sovereign

Ecopetrol's ratings are linked to the credit profile of the Republic of Colombia (local and foreign currency IDRs of 'BBB' and 'BBB-', respectively), which owns 88.5% of the company's total capital. The company is also linked closely with the Colombian government through its reliance upon the receipt of the price difference from selling fuel in the local market instead of the export market. The company generates approximately 20% of government revenues and is of great strategic importance to the country.

Aggressive Growth Strategy

Ecopetrol's growth strategy is aggressive and could be challenging for the company. The company plans to increase production to 1.3 million barrels of oil equivalent per day (boepd) by 2020, from 785,000 boepd of consolidated production during the first half of 2013. It also intends to increase refining capacity to 420,000 barrels per day (bpd) from 335,000 bpd. These aggressive goals increase both business and event risk. Fitch believes that Ecopetrol will face challenges in meeting these goals.

Improving Operating Metrics

The company's operating metrics have been improving during recent years and are

now considered somewhat in line with the assigned rating category. Nonetheless, Ecopetrol's reserve life has been declining during recent years, and as of 2012, the company reserve life, including natural gas, stood at 8.1 years. The company will need to maintain its average Reserve Replacement Ratio (RRR) at or above 164% in order to maintain or increase its reserve life profile while still reaching its 2020 production target.

Strong Financial Profile

Ecopetrol maintains a strong financial profile with USD15.3 billion of EBITDA and USD7.9 billion of debt as of the latest 12 months (LTM) ended June 2013. The company reported moderate leverage (measured as total proven reserves to total debt, of approximately USD4.2 per barrel), sizable reserves, and increasing production levels. These factors, plus its dominant domestic market share, allow the company to generate consistently strong cash flows from operations and meet its obligations in a timely manner. Liquidity is strong with USD4.3 billion of consolidated cash and equivalents as of June 30, 2013.

Aggressive Capex Plan

Ecopetrol plans to finance its USD75 billion capital expenditure program for 2013-2020 using internal cash flow generation and debt issuances, as well as, possibly, additional primary-equity offerings. These could increase Ecopetrol's total floating capital to as much as 20%. Due to the high dividend policy and aggressive capital expenditure plan, free cash flow (FCF) is expected to be under pressure in the foreseeable future. In addition, debt could continue rising, while leverage is expected to remain within the assigned rating category.

RATING SENSITIVITY

An upgrade could result from an upgrade of Colombia's ratings coupled with continued strong operating and financial performance.

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Written by Australian Business

A downgrade could occur following a downgrade of Colombia's sovereign ratings, an increase in leverage beyond Fitch's expectations (e.g. above 3.0x), weak operating performance resulting in a sustained production-to-reserves level below five years, and/or a sharp and extended commodity price downturn.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Aug. 5, 2013);

--'Parent and Subsidiary Rating Linkage' (Aug. 5, 2013).

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Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139

Parent and Subsidiary Rating Linkage Fitch's Approach to Rating Entities within a Corporate Group Structure

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=714476

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Subsidiary Linkage

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Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=801662

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