

Economic Report | Oil

Heads Up on Forcados Terminal

Economic Snapshot

September 2016 Inflation Data/Indices			
	MoM	YoY	Prev YoY
Headline	0.8%	17.9%	17.6%
Food	0.8%	16.6%	16.4%
All Items Less Farm	0.9%	17.6%	17.2%
Imported food	0.9%	20.8%	20.7%
Energy	1.4%	31.6%	30.4%
Currency Markets			
	Latest	Daily Chg	YTD
USDNGN	309.50	1.74%	-55.3%
EURNGN	354.94	0.67%	-60.0%
GBPNGN	382.93	0.80%	-30.2%
JPYNGN	302.00	0.66%	-88.0%
Monetary Aggregates – August 2016			
	(₦'bn)	MoM	YoY
M2	21,647	-2.4%	17.1%
CPS	22,664	1.3%	21.6%
NCG	3,291	18.2%	19.2%
NFA	7,623	0.8%	38.6%
NDC	25,955	3.2%	21.3%
External Position			
	Latest	QoQ	YoY
Trade Balance (\$'mn)	-1,292	165%	131%
External Reserves (\$'mn)			
	24,188	-5.9%	-18.0%
Foreign Debt (\$'mn)	10,718	0.9%	10.4%
Growth Data – Q2 2016			
	(₦'bn)	% of total	YoY
Real GDP	16,102	100%	-2.2%
Agriculture	3,636	22.6%	4.5%
Oil	1,332	8.3%	-17.5%
Services	6,003	37.3%	-1.8%
Wholesale and Trade	2,834	17.6%	0.0%
Manufacturing	1,602	10.0%	-3.4%

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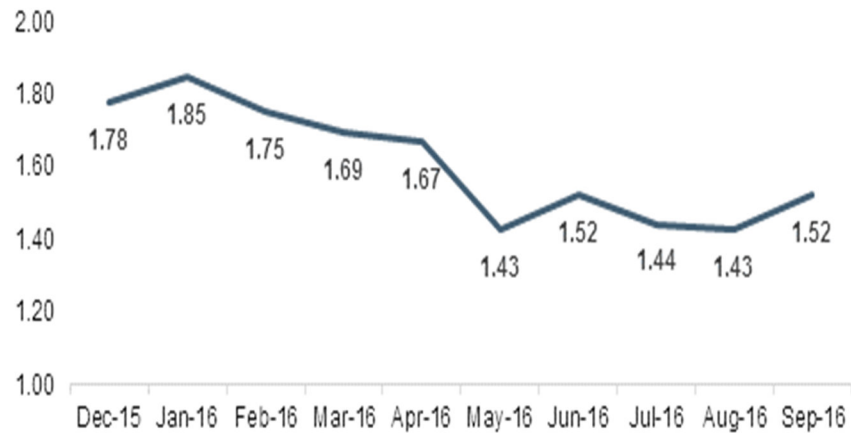
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Some days back, the Presidency announced the resumption of crude exports from the 250-300kbpd Trans-Forcados Pipeline (TFP) terminal in the Niger Delta region following completion of repairs after a militant attack in February. As reported by Reuters, after the meeting between the Presidency and a director in SPDC, Mr. Andrew Brown, SPDC informed the President of the resumption of oil exploration through the Forcados terminal following its restoration. **To add, information which filtered into the market suggest Royal Dutch Shell in partnership with other two companies (Axion Energy Argentina SA and Pampa Energia SA) have purchased circa 1 million/bbl. of Forcados crude grade set for delivery in November.**

Bit of cheer for oil revenues

The removal of the Forcados force majeure should boost oil production from multi-year trough of 1.6mbpd in H1 16 to circa 1.9mbpd. In the event that current security arrangements hold firm, the development allows Nigeria to benefit from the recent recovery in Brent crude which should boost fiscal coffers by 18% by our estimates. In H1 16, lower oil production and prices drove oil revenues lower by 41% YoY to ₦1.2 trillion, leading to a 30% YoY decline in Gross fiscal receipts to ₦2.4 trillion—, 48% lower than budget estimates by. Assisted by higher conversion of export petrodollars, following the over 50% NGN depreciation, we see a rebound in fiscal receipts over Q4 16.

Figure 1: Average daily production (mbpd)



Source: OPEC, ARM Research

This expected increase in oil production which has informed our forecast mean output to 1.8mbpd (previously 1.5mbpd) as well as exchange rate depreciation and continued advance in oil prices (Q3 16: \$46.9/bbl. vs \$41.9/bbl. in H1 16) informs our forecast of an 18% increase in gross oil receipts to ₦1.9 trillion. Recent data from OPEC indicates that oil production from Nigeria declined 5.3% QoQ in Q3 16 to 1.46mbpd, though production for the month of September was up 6.6% MoM to 1.52mbpd. When we take our projected average exchange rate and oil prices of ₦262/\$ and \$47/bbl respectively alongside upward revision to oil output of 1.8mbpd, to reflect expected resumption of oil export in Forcados and Qua Iboe, the budget deficit should only contract by ₦3.7 trillion (previously ₦3.9 trillion).

However, the timing of the recovery and the high base in Q4 15 (2.2mbpd) constrains scope for a return to positive growth in oil GDP in Q4 16. That said, the tamer contraction in oil GDP should drive mild pull-back in the overall growth from the 2.2% GDP contraction. We estimate that beyond the near term, the resumption along Forcados raises prospects for lifting of similar force majeure along other oil production platforms, in particular Qua Iboe (300kbpd).

Table 1: 2016 Federation revenue budget vs ARM revised estimate

	2016B	2016E
Oil production (mbpd)	2.2	1.8
Oil price (\$/bbl)	38	47
Exchange rate (N/\$) - Average	197	262
Oil receipts to Federation Account	1,479.2	2,039.7
Non-oil		
VAT	1,475.0	782.4
Corporate taxes, CIT, Stamp duties	1,877.0	695.9
Custom: Import, Excise & Fees	862.4	484.1
Special levies	-	486.2
Deductions	198.1	92.2
To Federation account	4,016.4	2,356.4
Federation account	5,495.6	4,308.6
VAT pool account	1,416.0	751.1
FGN		
FAAC	2,274.7	1,665.2
FG Independent revenue	1,505.9	282.46
Others	75.17	146.66
FGN retained	3,855.7	2,094.3
FGN expenditure	6,077.7	5,775.6
Fiscal deficit	(2,221.9)	(3,652.7)

Source: Budget Office, MTEF (2016 – 2018), ARM Research

Any recovery in Seplat's Production?

For coverage companies, the development is a positive for Seplat (SELL: ₦235.4) which owns 45% of three OMLs (OMLs 4, 38 and 41) that operate along the TFP. That said, the timing of this news is unlikely to be of immediate benefit and we do not expect any significant recovery in production over Q4 16. Currently, we assume working interest production of around 29,490boepd (-32% YoY) in 2016E. We estimate that production from OMLs, 4, 38 & 41 would be around 25,668boepd.

Overall, the imminent restart of the TFP should support the company's interim solution for crude evacuation. The earlier mentioned combined with further plans by Seplat to consolidate on its alternative evacuation route are net positive to us **Seplat is expected to release its 9M 16 results today (Sept 27), Our model and ratings will be updated afterwards.**

Table 2: Seplat's production history and estimate

	FY 14	Q1 15	H1 15	9M 15	FY 15	Q1 16	H1 16	FY 16E
Working Interest Production (boepd)	30,823	35,811	32,580	40,012	43,372	34,179	25,695	29,490
OMLs 4, 38 & 41 (boepd)	30,176	32,063	29,020	36,828	39,830	29,780	22,148	25,668
Average realised oil price (\$/bbl.)	97.2	52.8	53.3	49.3	51.2	35.4	45.8	47.0
Average realised gas price (\$/Mscf)	1.9	2.6	2.8	2.5	2.6	3.0	3.1	3.0

Source: Company Financials, ARM Research

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