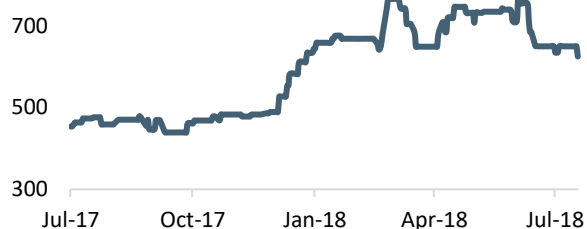


Rating	<b>STRONG BUY</b>
Price	<del>₦</del> 625.00
FVE	<b>₦975.27</b>
52-week range	<del>₦</del> 450- <del>₦</del> 785
Market Cap. (₦'bn)	367.8
1-month Avg. Vol	79,165
Curr. PE	2.91x

#### SEPLAT:NL - Share Price Trend



#### Analyst(s)

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## Seplat Plc. (SEPLAT.NL)

### Initial View

#### *Higher downtime in Q2 offset by lower finance charge*

- Earlier today, Seplat Petroleum Development Company Plc (Seplat) published its half-year 2018 results, posting PAT of \$48.5 million relative to loss after tax of \$27.6 million in the corresponding period of 2017. In terms of drivers, working interest production stood at 51.1kbpod (H1 17: 26.4kbpod) on the back of higher crude oil and gas volumes of 25.3kbpd and 155MMscfd respectively. Also, average realized crude oil and gas prices stood at \$69.1/bbl. and \$3.04/Mscf respectively (H2 17: \$45.0/bbl. and \$2.97/Mscf). Net cash flow from operations of \$245 million against capex of \$21 million.

#### *Higher downtime in Q2 miffed production volumes*

In the second quarter alone, volumes declined by 9.3% QoQ to 48.6kbpod reflecting lower oil (-15% QoQ to 23.3kbpod) and gas volumes (-4% QoQ to 152MMscfd). Parsing through the details reveals downtime increased to 24% (Q1 18: 16%). However, management noted that the downtime was one-off and production volumes are likely to revert to prior levels. To add, while crude oil price contracted to \$54.28/bbl. (Q1 18: \$56.76/bbl.), gas prices increased to \$3.27/Mscf (Q1 18: \$2.75/Mscf). Consequently, while gas revenue increased 16% QoQ to \$45.8 million, the decline in oil revenue (17.5% QoQ to \$116.3 million), drove a 10% QoQ decline in overall revenue to \$162 million. Overall, production margin contracted by 1.2pps QoQ to 50.3% reflecting the faster decline in revenue relative to cost (-8.1% QoQ to \$80.6 million).

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- **Higher expenses further compress margins** Further stoking margins at the operating level was the marked increase in general and admin expenses (64% QoQ to \$22.9 million) reflecting a 240% QoQ increase in other general expenses and professional fees (+23% QoQ). The foregoing alongside weaker sales drove a 7.6pps contraction in EBIT margin to 36.1%.
  - **Lower finance charges offset weak topline** Despite the weaker margin up till operating level, net finance cost was sizably lower (-52% QoQ) to offset weak margins and drive strong growth in PAT (+36% QoQ to \$28 million). In terms of the specifics, reflecting strong cash position (operating cash flow of \$245 million), Seplat reported strong finance income of \$2.9 million (+104% QoQ). Elsewhere, finance charges moderated by 43% QoQ to \$12.1 million, mirroring the company's refinancing plans in Q1 2018.
  - **Management Update** At the conference call this morning, management gave the following update.
    - **Oben Hub.** Commissioning phase of the 459MW Azura-Edo IPP expected to be completed in Q3 2018 after which deliveries will move to the contracted level of 116 MMscfd under take-or-pay terms, which is expected to take contracted gas sales to a sustained level of 400 MMscfd gross.
    - **Escravos pipeline and ANOH project.** Slower than expected progress has led to revised timeline for delivery of the Amukpe Escravos pipeline and FID at the ANOH project. Now expected in Q4 2018 (previously Q3 2018).
    - **Upstream Activities.** OML's 4, 38, 41 - Drilling of one new gas production well at Oben and one gas well workover. OML 53 - Re-entry and completion of two Ohaji South oil wells, one oil well workover at Jisike and flowline installation.
  - **More Analysis to Follow.**
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## Summary of Results and Forecasts - Naira (₦)

Income statement – (\$'000)	Q2 18	Q1 18	Q2 17	YoY growth	QoQ growth	H1 18	H1 17
Oil production (bbl/d)	23.3	27.3	14.0			25.3	9.5
Gas production (mmscfd)	152	158.0	108.7			155	101.3
Total volume (boed)	48.6	53.6	32.1			51.1	26
Avg. realized price	36.2	37.0	28.9			36.6	27
<b>Revenue</b>	162,088	180,588	84,515	91.8%	-10.2%	342,676	131,814
Production cost	(80,636)	(87,728)	(50,003)	61.3%	-8.1%	(168,364)	(78,187)
Gross profit	81,452	92,860	34,512	136.0%	-12.3%	174,312	53,627
SGA	(22,860)	(13,892)	(19,556)	16.9%	64.6%	(36,752)	(36,315)
Operating profit	58,592	78,968	14,956	291.8%	-25.8%	165,301	17,312
Net interest expense	(12,107)	(24,966)	(16,719)	-27.6%	-51.5%	(37,073)	(33,690)
PBT	62,487	58,810	(8,136)	-	6.3%	121,297	(26,454)
<b>PAT</b>	27,987	20,557	(8,436)	-	36.1%	48,544	(27,573)

Source: Company Financials, ARM Research

Key Ratios	Q2 18	Q1 18	Change(pps)	H1 18	H2 17	Change QoQ (pps)
<b>Gross margin</b>	50.3%	51.4%	(1.17)	50.87%	40.7%	10.18
<b>EBIT margin</b>	36.1%	43.7%	(7.58)	48.24%	13.1%	35.10
<b>PBT margin</b>	38.6%	32.6%	5.99	35.40%	0.0%	
<b>PAT margin</b>	17.3%	11.4%	5.88	14.17%	0.0%	
<b>Effective tax rates</b>	55.2%	65.0%	(9.83)	60.0%	4.2%	55.75

Source: Company Financials, ARM Research

## ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio
<b>RESTRICTED</b>	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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