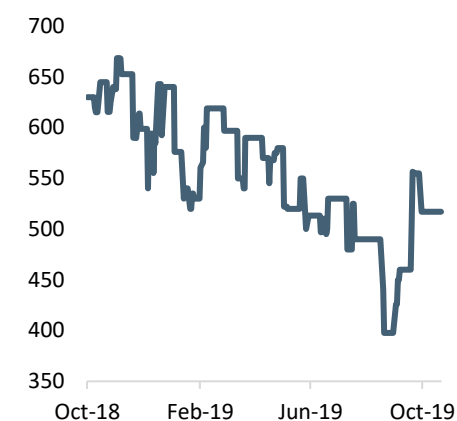


Price	₦517.00
52-week range	₦397.70-700.00
Market Cap. (₦bn)	197,152
1-month Avg. Vol	19,605
Curr. PE	3.2x

SEPLAT.NL - Share Price Trend



Analyst

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Seplat Petroleum Development Co Plc. (SEPLAT.NL)

Initial View

Weak Q3 19 performance...but in line with estimates

- Earlier today, Seplat published Q3 19 result which showed a decline in EPS by 44% YoY to \$0.11 (in line with our estimate of \$0.10). The lower earnings stemmed largely from 38% YoY decline in revenue, following lower production and average prices. However, cumulative 9M 19 EPS expanded 98% YoY to \$0.31, thanks to significantly lower effective tax charge.
- **The lower revenue stemmed from decline in both oil (-42% YoY to \$107 million) and gas (-21% YoY to \$33 million) segments.** Total working interest production printed lower by 10% YoY to 45,483boepd, with most of the decline stemming from gas (-18% YoY to 118mscfd) while oil production was 6% lower YoY at 25,028bopd. That said, Seplat's improved capex spend on drilling activities (especially in the OML 53 Eastern asset) led to increased oil production by 4% QoQ, while gas production (-20% QoQ) was lower following the postponed gas capex plan, particularly the Oben booster compression project. Over 9M 19, production is down 7% YoY to 47,163boepd. It is worthy of note that management revised its FY 19 production guidance lower to 45-48,000boepd (prev. 49-55,000 boepd). On the other hand, average realised price was 30% lower YoY at \$34.3/boe, with oil prices dropping 18% YoY to \$62.3/bbl as gas increasing 15%YoY to \$3.68/mmscfd.
- **Mirroring impact of the lower realised prices, gross margin contracted** 17ppts YoY to 41.2% in the quarter. This offset impact of Seplat's improved cost efficiency which drove cost/boe lower to \$20.2/boe in Q319 compared to \$20.5/boe in Q3 18. Operating profit was 32% lower YoY, despite a 25% YoY decline in operating expenses, while EBIT margins contracted 1ppts YoY to 32%. Seplat also posted lower net finance cost (-42% YoY to \$8.2 million) reflecting impact of the repayment of the RCF facility, which leaves only the \$350 million 2023 Eurobond in the loan book.
- **Seplat's performance in the quarter left significant imprints on the cashflow position,** as Q3 19 CFO dropped 64% YoY and 70% QoQ to \$51 million, while CFO margin contracted 26ppts YoY and 53ppts QoQ to 37%. FCF/s also declined significantly by 88% YoY to \$0.03, fuelled by higher capex. Over 9M 19, FCF/s prints 61% lower YoY at \$0.24. Overall, Seplat's cash as at 9M 19 printed at \$449 million, which, although

prints 29% lower YoY, is more than enough to fund the \$29 million interim dividend (\$0.05/s) declared. The company still has \$225 million headroom in its 2022 RCF facility and recently secured a \$350 million bridge facility to finance the £382 million (\$493 million) Eland Oil & Gas acquisition.

- Seplat's Q3 19 performance was weak, but largely in line with our forecast. That said, Seplat continues to trade at significant discount, with forward P/E and P/FCF of 4.4x and 5.4x compared to MENA peer average of 12.6x and 6.1x. We also think Seplat's cheap pricing is quite unjustified, more so considering the potential upsides stemming from the ANOH Gas project as well as the recent acquisition of Eland Oil & Gas Plc (See our note: *Seplat acquires Eland Oil & Gas – It only gets better*). Our FVE on Seplat of ₦828.90 holds 58% upside from market price of ₦517.

Summary of Results

Income statement – (N'million)	Q3 19	Q3 18	YoY growth	QoQ growth	9M 19	9M 18	YoY growth
Production							
Oil (bpd)	25,028	26,516	-6%	4%	23,658	25,696	-8%
Gas (mmscfd)	117,652	143,000	-18%	-20%	136,000	151,000	-10%
Total (boepd)	45,483	50,304	-10%	-8%	47,163	50,834	-7%
Prices							
Oil (\$/bbl.)	62.26	76.07	-18%	-9%	64.22	71.14	-10%
Gas (\$/mmscfd)	3.68	3.21	15%	63%	3.06	3.06	0%
Average	34.28	49.18	-30%	-35%	39.27	40.78	-4%
Revenue	139,794	225,280	-38%	-29%	494,880	567,956	-13%
Cost of sales	82,165	93,854	12%	-17%	230,218	262,218	-12%
Gross profit	57,629	131,426	-56%	-54%	264,662	305,738	-13%
OPEX	12,472	18,404	-32%	-42%	54,556	55,156	-1%
Operating profit	72,111	105,695	-32%	-32%	210,106	271,045	-22%
Net interest expense	8,232	14,287	-42%	42%	27,126	51,360	-47%
PBT	63,879	91,408	-30%	-37%	184,810	212,705	-13%
PAT	61,911	42,910	44%	-28%	181,416	91,454	98%
EPS	0.11	0.07	44%	-28%	0.31	0.16	98%

Key Ratios	Q3 19	Q3 18	Change(pps)	9M 19	9M 18	Change(pps)
Gross margin	41.22%	58.34%	-17.11%	53.48%	53.83%	-0.35%
EBIT margin	51.58%	46.92%	4.67%	42.46%	47.72%	-5.27%
PBT margin	45.70%	40.58%	5.12%	37.34%	37.45%	-0.11%
PAT margin	44.29%	19.05%	25.24%	36.66%	16.10%	20.56%
Effective tax rate	-3.08%	-53.06%	49.98%	-1.84%	-57.00%	55.17%
ROE				10.27%	5.84%	4.44%
ROA				7.14%	3.61%	3.53%
CFO margin				36.52%	62.56%	-26.04%
FCF/s (\$)				0.03	0.23	-88.47%
FCF yield				1.92%	12.96%	-11.04%

Source: ARM Research *unless otherwise stated

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
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reas portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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