

Price	₦544.5
52-week range	₦397.70-657.80
Market Cap. (₦'bn)	288,397
1-month Avg. Vol	55,535
Curr. PE	3.96x

SEPLAT.NL - Share Price Trend



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Seplat Petroleum Development Co Plc. (SEPLAT.NL)

Initial View

Lower cost and tax savings secure earnings growth over FY 19

- Before market open, Seplat released FY 19 result which showed growth in EPS from \$0.26 in FY 18 to \$0.46. This was largely attributable to well-managed cost lines, as the top line was depressed across both the oil and gas segments. PBT was up 11% YoY to \$293 million, while a lower effective tax rate of 10% (vs. 44%) – owing to a 2-year extended tax holiday -- supported a faster growth in PAT by 80% to \$264 million. Meanwhile, a final dividend of \$0.05 was declared which, based on a ₦306 exchange rate translates to yield of 3% on current pricing of ₦544.5.
- Lower volumes and realised prices in both oil and gas businesses put immense pressure on the top line growth. As a result, revenue was down 6% YoY to \$698 million. However, revenue would have dropped lower by 15% YoY to \$631 billion, save for the one-off gas tolling revenue from NPDC of \$67 million which was recognised in Q2 19. That said, oil revenues dropped 16% YoY to ₦495 million. Average oil volume dropped to 23.9kbpd over FY 19 (FY 18: 25.7kbpd) following delays to capex projects in H2 19 while realised oil prices also printed lower to \$64.4 from \$70.13. Gas revenue also printed lower by 13% to \$136 million. The delayed gas projects in 2019 also put pressure on gas volumes which dropped to 131mmscfd from 145MMcfd in 2018, while gas price was down to \$2.84/Mscf from \$2.94.
- Meanwhile, gross margins edged higher by 428bps YoY to 56.7% owing to a faster decline in cost (-15% YoY) than revenue. However, excluding the gas-toll revenue, gross margin was down 30 bps to 52.1%. Admin cost was down 11% YoY to \$71 million, owing largely to lower costs incurred on office maintenance and logistics. Regardless, operating cost/boe printed higher to \$6.2 from \$5.77 in the previous year. Further down, EBIT rose 1% YoY to \$313 million, with related margin up 300bps to 45%.
- Away from the operating lines, we also noted a significant decline in net finance cost by 57% to \$20 million. This was supported by a higher finance income (+36% YoY to \$13 million) and lower finance cost (-41% YoY to \$33.5 million). Lower borrowing cost over the period reflected the pay down of its expensive bank loans in 2018.

However, Seplat's total borrowings increased to \$789 million from \$446 million in 2018, after taking on additional \$350 million RCF in Q4 19 to support its acquisition of Eland Oil & Gas valued at \$451 million.

- Seplat's cash dropped to \$326 million from \$581 million in 2018. The company's intense capex spend for the year – increased Oil and gas investments (\$114 million), Eland acquisition (\$451 million), investment in ANOH JV (\$103 million) and deconsolidation of the ANOH cash (\$154 million) – placed significant pressure on the company's cash during the period. As a result, the company's FCF/share turned negative to -\$0.51 from \$0.70 in 2018.
- Going forward, Seplat is faced with challenging times following the plunge in oil prices (Brent: -60%% YtD). However, hedged revenues are likely to lend some support to the top line. For context, over the first three quarters of 2020, 1.5MMbbl/quarter has been hedged at \$45/bbl. (2018: \$50). Meanwhile, other key highlights over the conference call include;
 - Seplat is expected take on a protective mode and scale down on capex plans for 2020, amid the plunge in oil prices. Management guided to lower capex of \$100 million (of which \$50 million has been expended in Q1 20) in 2020 compared to \$125 million in 2019. Production guidance of 41-47kboepd for Legacy Seplat and 6-10kbopd for Eland largely reflects impact of the reduced capex. Particularly, the gas business (99-110MMscfd) is expected to take a hit, with only the Oben-48 well to come on board, as opposed to the three wells previously scheduled to come on board in 2020. It is worth stating, that the guidance was described as flexible, pending a significant recovery in price.
 - As part of the benefits from the 100% Eland acquisition, Seplat acquired the right to be repaid \$414 million from Westport over the next four years till 2024. Until the loan is repaid, Eland will hold a 45% WI in OML 40, after which it will revert to 20.25%.

Summary of Results

Income statement – (N'million)	Q4 19	Q4 18	YoY growth	QoQ growth	FY 19	FY 18	YoY growth
Production							
Oil (bpd)	24,766	25,588			23,935	25,669	
Gas (mmscfd)	116,000	127,000			131,000	145,000	
Total (boepd)	44,503	46,966			46,498	49,867	
Prices							
Oil (\$/bbl.)	64.94	66.98			64.4	70.13	
Gas (\$/mmscfd)	2.18	2.58			2.84	2.94	
Revenue	202,897	178,184	14%	45%	697,777	746,140	-6%
Cost of sales	71,821	92,708	-23%	-13%	302,039	354,926	-15%
Gross profit	131,076	85,476	53%	127%	395,738	391,214	1%
OPEX	16,061	24,555	-35%	29%	70,617	79,711	-11%
Operating profit	101,099	128,515	-21%	40%	313,035	309,901	1%
Net interest expense	7,058	4,773	48%	-186%	20,068	46,587	-57%
PBT	108,157	133,288	-19%	69%	292,967	263,314	11%

PAT	82,426	137,751	-40%	33%	263,842	146,526	80%
EPS	0.14	0.23	-40%	33%	0.45	0.25	80%

Key Ratios	Q4 19	Q4 18	Change(pps)	FY 19	FY 18	Change(pps)
Gross margin	65%	48%	17%	57%	52%	4%
EBIT margin	50%	72%	-22%	45%	42%	3%
PBT margin	53%	75%	-21%	42%	35%	7%
PAT margin	41%	77%	-37%	38%	20%	18%
Effective tax rate	24%	-3%	27%	10%	44%	-34%

Source: ARM Research *unless otherwise stated

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