

Seplat Plc. (SEPLAT.NL)

Initial View

Earnings braced by Tax Credit

- Seplat Petroleum Development Company Plc. (SEPLAT) reported its full-year 2017 result this morning. In contrast to prior year masked by losses, the company returned to profitability, with a robust cash flow position. Much of this recovery reflected the lifting of *force majeure* on the Trans-Forcados pipeline, higher crude oil prices, lower operating cost, and more importantly a sizable tax credit which drove overall profit. For context, while the company reported PBT of \$43.9 million, net deferred tax credit of \$221.2 million supported PAT of \$265.2 million.
- Deferred tax credit amplifies earnings.** In sync with our call based on our last report (**Seplat Plc: Will the Bulls Crossover?**), Seplat reported deferred tax credit of \$221 million relating to previously unrecognized tax losses in FY 2016 and H1 2017. Specifically, given available taxable profits, management of Seplat decided to utilize the tax losses to offset possible taxable profit. Consequently, the company's deferred tax assets of \$224 million was recognized for these losses – out of which \$76 million relates to tax losses of \$71 million and \$47 million in FY 2016 and H1 2017 respectively. In our view, the balance of \$148 million relates to allowances entitled during the pioneer tax period, as during this period, the company was unable to utilize tax allowances, so they were accrued and released when the incentive ended.

Price	₦657.9
FVE (last communicated)	₦663.85
52-week range	₦336.0 – ₦692.6
Market Cap. (₦'mn)	387,138
1-month Avg. Vol	94,434
Curr. PE	3.89x

SEPLAT:NL - Share Price Trend



Analyst(s)

Kayode Omosebi

kayode.omosebi@arm.com.ng

- ***Oil volumes beats estimate.*** Supported by return to normalcy, oil volumes expanded by 77% YoY to 17.9bpd while gas volumes expanded 20% YoY to 114 MMscfd, in line with management guidance. Uptime on the Trans Forcados post lifting of force majeure was 81%, higher than our estimate of 75%.
- Consequently, total working interest production printed at 36.9kbopd (2016: 25.9kbopd). Revenue was up 78% YoY to \$453 million. Oil sales came in at \$328 million (121% YoY) and gas at \$123 million (17.6% YoY). Operating profit of \$130 million and PBT of \$44 million. Cash flow momentum provided further bright spot, with operating cash flow at \$447 million (2016: \$172 million) and net debt of \$141 million (2016: \$516 million). NPDC receivables profile declined to \$34.4 million (2016: \$69.8 million) – as the impairment loss on NPDC receivables were reversed (2016: \$10.3 million impairment loss recognised).
- ***Management Update.*** At the conference call this morning, management gave the following update.
 - I. Successfully concluded the “over-subscribed” one-year extension of revolving credit facility.*** Concluded a one-year extension until 31 December 2018 and amended to amortise the principal balance of \$150 million in five equal instalments commencing Q4 2017
 - II. Escravos alternate export pipeline anticipated to be fully commissioned and operational in Q3 2018.*** Delay is due to HSE certification on the contract. Access to three separate export routes at its western assets and two at its eastern assets providing adequate redundant capacity will significantly de-risk distribution of oil production to market
 - III. ANOH project set to be a major driver of growth for the gas business – FID expected in H1 2018.*** Moving towards FID at large scale ANOH project in alignment with partners
 - IV. Hedging Strategy.*** 2017 hedging of 3.69mmbbls at a combined weighted average strike price of \$48.38/bbl. H1 2018 hedging of 3.6mmbbls at \$40.0/bbl., and H2 2018 hedging of 3.00mmbbls at \$50.0/bbl.

Income statement – (\$'000)	Q4 17	Q3 17	QoQ growth	FY 17	FY 16	FY 17E	YoY growth
YE – Dec							
Oil production (bbl/d)	25.9	26.3		17.9	10.1	16.5	
Gas production (mmscfd)	146	108.2		114	95.0	146.5	
Total volume (boed)	50.2	44		36.9	25.9	43.4	
Avg. realised price (\$/bbl.)	38.0	36.0		33.6	26.9	35.9	
Revenue	173,619	146,746	18.3%	452,179	254,217	426,090	77.9%
Production cost	(86,028)	(75,844)	13.4%	(240,059)	(182,424)	(209,514)	31.6%
Gross profit	87,591	70,902	23.5%	212,120	71,793	216,576	195.5%
SGA	(25,738)	(19,817)	29.9%	(81,870)	(113,832)	(107,252)	-28.1%
Operating profit	61,853	51,085	21.1%	130,250	(42,039)	109,324	NA
Net Finance Cost	(12,708)	(22,019)	-42.3%	(68,417)	(14,883)	(91,785)	359.7%
PBT	46,477	23,974	93.9%	43,997	(172,766)	17,540	NA
PAT	270,523	22,280	1114.2%	265,230	(166,094)	13,796	NA
Source: Company data							

Ratings, Disclosure & Disclaimer – [Click here](#)