

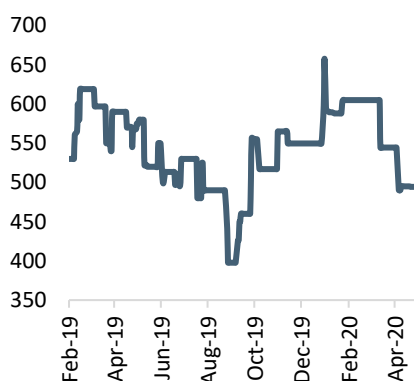
Seplat Petroleum Development Company Plc. (SEPLAT.NL)

Rating	BUY
Price	₦494.4
FVE	₦828.90
	₦397.7 -
52-week range	₦657.80
Market Cap. (₦bn)	204.60
1-month Avg. Vol	23,361
Curr. PE	5.32

Initial View

Impairment Charge and Low revenue erodes Q1 earnings

SEPLAT.NL - Share Price Trend



Analyst

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- Seplat released Q1 2020 numbers earlier today, showing a devastating post-tax loss of \$107 million, compared to profit of \$33 million in Q1 last year. The major driver of the loss reported was a \$146 million impairment loss incurred upon revaluation of the company's assets in light of uncertainties surrounding the COVID-19 pandemic (in line with IAS 36). This magnified the already weak top line and increased costs which eroded gross margins. As a result, the company incurred an operating loss of -\$77 million (Q1 19: \$33 million).
- Interestingly, excluding the impact of the impairment loss, the company would have reported higher operating profit of \$68 million (+103% YoY) and PAT of \$39 million (+22% YoY) in the quarter. An under-lift of \$48 million in the quarter (vs Q1 19: -\$16 million) and mark to market gain of \$19 million (vs -\$12 million) earned on the company's \$45/bbl hedge would have supported the company's earnings.
- The decline in revenue (-18% YoY to \$130 million) stemmed from drop in both oil (-8% YoY to \$107 million) and gas (-45% YoY to \$23 million) components. Average working interest oil production was up 52% YoY to 33.4kbpd, largely reflecting impact of the 10kbpd contribution from newly acquired Eland OML 40 asset as well as 2kbpd increase from the OML53. However, this was offset by the 19% YoY drop in average realized oil prices to \$49.85. On the other hand, the decline in gas revenue was due to dual impact of a plunge in gas volume (-38% YoY to 143MMscfd) – owing to third party downtime and 15-day turnaround maintenance shut down – and gas prices of \$2.89/MMscfd (\$3.24).
- Seplat's gross margin plunged 25ppts YoY to 25%, as the decline in revenue was met with an increase in cost (+24% YoY to \$97 million). The increased volumes resulted in increased royalties and crude handling fees, which in addition to fixed depreciation charges increased pressure on cost. Thus, production cost per barrel of oil increased to \$7.7/boe from \$6.2/boe last year.
- The Seplat reported an increase in finance cost by 20% YoY, largely reflecting the increase in the company's debts to \$794 million from \$341 million in Q1 19. This largely reflects impact of the \$350 million RCF facility taken up to finance the acquisition of Eland in

December. Meanwhile, the company's cash position dropped from \$644 million in Q1 19 to \$336 million in the quarter, putting the company in a net debt position of \$458 million from net cash of \$308 million in Q1 19. Furthermore, a lower CFO and higher capex put pressure on FCF for the quarter which printed at \$18.6 million (Q1 19: \$63.6 million). Overall, we view the result as negative and depicting a grim outlook going into the year, amid impact of the COVID-19 pandemic. We currently have a FVE of N828.90 on Seplat. However, an update to our estimate will be released soon.

Summary of Results

Income statement – (\$'million)	Q1 20	Q1 19	YoY growth	Q4 19	QoQ growth
Production					
Oil (bpd)	33,368	21,885	52%	24,766	35%
Gas (mmscfd)	88	143	-38%	116	-24%
Total (boepd)	48,491	46,581	4%	46,583	4%
Prices					
Oil (\$/bbl.)	49.85	69.73	-29%	64.94	-23%
Gas (\$/mmscfd)	2.89	3.24	-11%	3.1	-7%
Oil Revenue	107.39	117.77		172.27	
Gas Revenue	23.10	41.75		30.63	
Revenue	130.49	159.52	-18%	202.90	-36%
Cost of sales	97.39	78.08	25%	71.82	36%
Gross profit	33.11	81.44	-59%	131.08	-75%
OPEX	31.99	20.45	56%	16.06	99%
Operating profit	(77.04)	32.51	-337%	100.78	-176%
Net interest expense	(20.30)	(13.09)	55%	7.06	-388%
PBT	(95.73)	19.43	-593%	108.16	-189%
Tax	(10.82)	13.25	-182%	(0.03)	41947%
PAT	(106.55)	32.68	-426%	82.43	-229%
EPS	(0.19)	0.06	-417%	0.14	-236%

Key Ratios	Q1 20	Q1 19	Change(pps)	Q4 19	Change(pps)
Gross margin	25%	51%	-26%	65%	-39%
EBIT margin	-59%	20%	-79%	50%	-109%
PBT margin	-73%	12%	-86%	53%	-127%
PAT margin	-82%	20%	-102%	41%	-122%
Effective tax rate	-11%	-68%	57%	24%	-35%

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