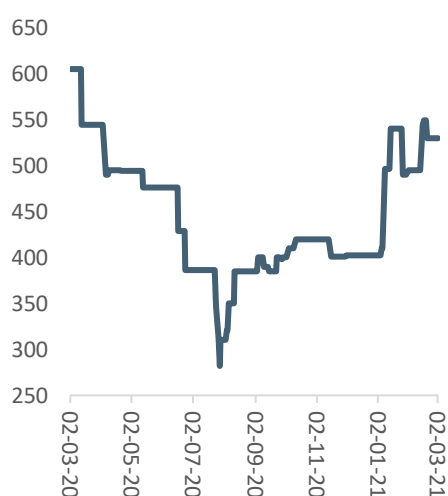


SEPLAT PETROLEUM DEVELOPMENT CO PLC.

Rating	NEUTRAL
Price	₦530.0
TP	₦581.44
52-week range	₦280 - ₦605
Market Cap. (₦'bn)	310.58

SEPLAT .NL – Share Price Trend



Analyst(s)

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Stock Report

Impairment charges pin Seplat in a loss position

- Seplat's numbers were reflective of the low crude demand and low oil price environment, as Liquid and Gas sales took a hit. Despite improved working interest capacity with the Eland assets, working interest rose by only 10.08% YoY to settle at 51,183 bpd – within guidance, but reflects the impact of the OPEC+ quotas and fall in crude oil demand in 2020. Expenses from maintenance and increased Royalties considering the additional blocks weighed on Net income as PAT came in at a loss of ₦30.72 billion. Our 2021 Target price of ₦581.44 reflects expected improved revenue performances but also takes into consideration the risks in the oil market, as well as how OPEC quotas develop.*
- Global oil market realities reflect on Seplat Revenue segments:* Seplat's FY2020 topline declined by 10.85% YoY to print at ₦190.82 billion. This is following a 1.01% fall in Crude oil sales and 2.80% fall in Gas sales. Whilst ₦20.54 billion in Gas processing revenues was realized in 2019, none was realized in 2020. With the addition of the Ubima and OML 40 fields following the Eland acquisition, working interest by 10.08% YoY to settle at 51,183 bpd – within guidance, but reflects the impact of the OPEC+ quotas and fall in crude oil demand in 2020. Gross Profit fell by a notable 63.09% YoY to ₦44.83 billion. This decline was exacerbated by the heightened Cost of sales Seplat incurred in 2020. As expected, due to the Eland assets acquired, Cost of Royalties and Crude handling fees rose by 23.03% and 14.66%, while depreciation and depletion came in at ₦49.07 billion.
- Other income rose by 229.16% YoY to ₦30.18 billion, following Under lift of ₦17.10 billion. This is income gotten from the shortfalls of crude lifted below the share of production. In addition, ₦9.49 billion was gotten from Crude Hedging income. However, General and administrative expenses rose by 26.28% YoY to print at ₦27.37 billion contributing to Seplat's negative EBIT. Impairment on oil and gas properties amidst the struggling oil market deepened Operating loss (₦11.42 billion), as the group recognized impairment loss of \$114.4 million (₦41.1billion) on its non-financial assets. The impairment is primarily because of re-assessment of future cash flows from the Group's oil and gas properties due to significant fall in oil prices. OPEX thereby settled at ₦86.44 billion – a

147.81% YoY increase. However, without impairment losses recorded, OPEX would have fallen by 1.14% YoY.

- Net finance expense rose by 193.10% YoY following the combination of a rise in finance expense (+81.23% YoY) and a fall in finance income (-85.46% YoY) (the rise in finance costs came majorly due to higher interest on bank loans). Finance income which constitutes of interest income from short-term fixed deposits reflects the depletion the in general interest rates environment. The CBN also revised the savings rates (30% of MPR to 10% of MPR). This higher net finance expense dragged Loss before Tax lower by 132.11% YoY to ₦28.87 billion. Subsequently, Loss after Tax declined by 124.2% YoY to ₦30.71 billion.
 - Looking into the balance sheet, liquidity as indicated by the Current Ratio and Quick Ratio fell to 1.27 and 1.09 (from 1.50 and 1.09). This is following a fall in Total current assets by 20.73% YoY to print at ₦227.15 billion - faster than the 6.46% YoY fall in Total Current Liabilities to print at ₦179.151 billion. Of the highlighted assets are Oil & Gas properties which fell by 27.41% YoY to print at ₦609.48 billion. Also, easily noticeable is the 324% YoY rise in Deferred Tax Asset to settle at ₦289.88 billion. Seplat recorded a 92.87% rise in Non-current liabilities, and this was majorly driven by Deferred tax liabilities of ₦202.02 billion recorded.
 - Looking ahead to FY21, we expect improved liquid and gas sales as the global oil market recovers from the depressed state it was in 2020. With a full-year production guidance of 48,000bpd – 55,000bpd, we expect that Seplat will fall within guidance, whilst factors such as OPEC+ quotas limit production reaching the upper band. We expect topline in 2021 to grow by 41.21% YoY to ₦269.60 billion, whilst PAT is forecasted to rise to ₦74.93 billion at the end of the year.
 - With forecasted EBITDA of ₦151.24 billion and 2021 EV/EBITDA set at 3.17, we have a 2021 Target Price of **₦581.44** which based on today's close is a recommendation of a **NEUTRAL** on the stock.
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Summary of Results and Forecasts - ₹Mn

ANNUAL

Income Statement (₹'m) *	2019A	2020A	2021F	2022F	2023F
Revenue	214,157	190,922	269,601	313,627	329,308
COGS	92,698	146,088	135,151	149,186	165,728
Gross Profit	121,459	44,834	134,450	164,441	163,580
Operating Cost	34880	86436	33,243	43,881	37,299
Operating Profit	95,749	-11,418	112,252	134,314	137,778
Net finance Cost	6,160	18,055	20,667	39,197	34,188
PBT	89,914	-28,872	91,585	95,117	103,589
Tax	8,939	1,840	16,659	2,854	5,179
PAT	80,975	-30,712	74,926	92,264	98,410
Balance Sheet (₹ 'Mn)*					
Property, Plant and Equipment	482,732	614,805	676,286	710,100	781,110
Inventories	25,944	28,337	28,589	27,623	28,183
Cash and Cash equivalents	102,240	98,315	126,688	109,081	111,361
Other Assets	393,317	569,380	649,684	930,691	1,212,340
Total Assets	1,004,233	1,310,837	1,481,246	1,777,495	2,132,994
Shareholders' fund	553,808	632,337	707,173	799,252	897,555
Total Liabilities	450,425	678,500	774,073	978,243	1,235,439
Key Ratios					
	2019A	2019F	2020F	2021E	2022E
Net Margin	37.81%	-16.09%	27.79%	29.42%	29.88%
OPEX Ratio	16.29%	45.27%	12.33%	13.99%	11.33%
Financial Leverage	1.81	2.07	2.09	2.22	2.38
Cost-to-Sales	43.29%	76.52%	50.13%	47.57%	50.33%
RoAE	13.65%	-4.59%	9.95%	10.88%	10.44%
RoAA	7.00%	-2.20%	4.60%	4.72%	4.40%
Gross Profit Margin	56.71%	23.48%	49.87%	52.43%	49.67%

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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