

Seplat Petroleum Development (SEPLAT.NL)

Rating	STRONG BUY
Price	₦490.00
FVE	₦828.90
52-week range	₦515.10-769.0
Market Cap. (₦'bn)	305.991
1-month Avg. Vol	58,176
Curr. PE	5.65x

SEPLAT:NL - Share Price Trend



Analyst(s)

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Stock Report

Attractive valuation, gaping upside

- Following the release of Seplat Q2 19 result, we revise our FY19E total oil production estimate higher to 50,266 boepd (previous: 49,765boepd) and crude oil price to \$63.9/bbl. (previous: \$60/bbl.). Coupled with a surprise gas toll revenue of \$67 million in Q2, we raised 2019E revenue to \$701 million (previous: \$656 million). Also, we revised our capex for FY19E lower to \$157 million, following postponement of capex plans. Based on the foregoing, our EPS and FCF/s for 2019E were revised higher to \$0.33 and \$0.12, from previous estimate of \$0.31 and -\$0.02, respectively. **Our FVE on the stock is revised higher to ₦828.90 (previous: ₦782.15), translating to a STRONG BUY rating with a 69% upside from current trading price of ₦490. SEPLAT continues to trade at attractive levels, with TTM P/E and P/FCF of 2.2x and 2.6x compared to Bloomberg MEA peers of 12.9x and 7.7x respectively.**
- Beyond 2019E, we increase our revenue forecast for FY20E to \$766 million (previously \$673 million), as we are more optimistic of a boost to production upon completion of capex investments, including workovers in 4 Sapele producing wells, 3 Ovhor wells and Ohaji South 1&2 wells -- adding over 10kbpd in gross production. For gas, the Oben booster compression is expected to be completed next year. As a result, estimated production for 2020E increased to 61.8kboe/d from 57.3kboe/d – oil: 33,330bpd and gas: 165mmscfd.
- Surprises boost Q2 earnings.** Seplat reported EPS growth of 25% YoY to \$0.15 in Q2 19 supported by a surprise bump in top line from gas toll revenue of \$67 million (Ex-toll, revenue would have declined 21% YoY) and lower tax rate (-19ppts), both of which neutered \$40 million impairment charge on NPDC cash calls receivables to support PAT growth of 25% YoY to \$86 million. That said, Seplat reported positive cashflow position, with FCF increasing to \$164 million from \$63 million in Q1 19, but lower than \$181 million in Q2 18. This translated to FCF/share of \$0.29 (Q2 18: \$0.32) while TTM FCF yield printed at 50% (FY 18: 41%).

- That said, we still see upside risks to earnings stemming from the on-going ANOH gas project (See previous report: *Still Cheap Despite Short-Term Drags*) which we are yet to incorporate to our model. On the flip side, downside risks to earnings is a nosedive in oil prices below \$50/bbl. compared to our \$64/bbl. projection over 2019.

Figure 2: Sensitivity Analysis oil price and production vs. 2019E EPS

		Oil Prices				
		43.85	53.85	63.85	73.85	83.85
Oil production	20,604	0.32	0.33	0.33	0.33	0.34
	22,604	0.32	0.33	0.33	0.34	0.34
	24,604	0.32	0.33	0.33	0.34	0.34
	26,604	0.33	0.33	0.34	0.34	0.35
	28,604	0.33	0.33	0.34	0.34	0.35

Summary of Results and Forecasts - \$'000

ANNUAL								
Income Statement (\$'000)	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F
Production								
Oil production (bopd)	9,479	17,900	25,670	24,604	33,330	33,820	33,810	33,800
Gas production (mmscfd)	95.0	114.0	145.0	148.8	165.2	168.5	171.9	175
Totao (boepd)	27,387	36,900	49,768	50,266	61,814	62,874	63,445	64,028
Oil price (\$/bbl.)	40.4	50.4	70.1	63.9	50.0	50.0	50.0	50.0
Gas price (\$/mmscf)	3.0	3.0	2.9	2.9	3.0	3.0	3.0	3.0
Revenue								
Oil	148,757	328,206	590,503	478,326	590,301	597,288	597,111	596,935
Gas	105,460	123,973	155,637	222,270	175,559	178,565	182,136	185,779
	254,217	452,179	746,140	700,596	765,860	775,853	779,247	782,714
COGS	182,424	240,059	354,926	323,375	388,441	394,178	402,047	389,502
Gross Profit	71,793	212,120	391,214	377,221	377,419	381,675	377,200	393,212
Operating Cost	229,676	99,706	81,263	143,937	103,344	107,635	111,372	115,241
Operating Profit	157,883	112,414	309,951	233,284	274,075	274,040	265,828	277,971
Finance Income	59,017	4,335	9,905	10,219	10,932	9,768	8,770	7,795
Finance expense	73,900	72,752	56,492	42,794	24,371	24,281	24,191	16,188
PBT	-172,766	43,997	263,364	200,710	260,636	259,527	250,407	269,579
Tax	6,672	221,233	-116,788	-5,287	-72,125	-67,917	-60,226	-74,739
PAT	166,094	265,230	146,576	195,422	188,511	191,610	190,182	194,839
Balance Sheet (\$'000)	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F
Oil & gas properties	1,224,400	1,286,387	1,301,220	1,496,432	1,643,107	1,789,596	1,918,950	2,039,779
Fixed Assets	1,516,073	1,764,789	1,668,466	1,844,356	1,995,582	2,146,929	2,280,986	2,406,363
Stocks	106,213	100,336	102,554	114,298	124,767	132,967	132,379	129,819
Trade debtors	390,694	310,345	136,393	128,068	139,998	141,824	142,445	143,079
Cash and other bank balances	159,621	437,212	584,723	508,483	468,326	408,698	370,849	372,208
Total Assets	2,179,273	2,614,630	2,526,565	2,615,944	2,749,827	2,851,995	2,948,668	3,073,918
Trade Creditors	261,528	410,593	284,565	267,195	292,086	295,897	297,192	298,514
Non-current Liabilities	463,847	431,407	601,976	519,472	522,861	526,319	529,845	550,942
Total liabilities	945,258	1,111,533	925,680	817,398	847,214	856,096	862,611	886,808
Shareholders' fund	1,234,015	1,503,097	1,600,885	1,798,547	1,902,613	1,995,899	2,086,057	2,187,110
Key Ratios	2016A	2017A	2018A	2019F	2020F	2021F	2022F	2023F
P/E (x)	-3.5	2.3	7.1	6.9	7.2	7.1	7.1	6.9
ROA	-13%	19%	9%	11%	10%	10%	9%	9%
ROE	-8%	10%	6%	7%	7%	7%	6%	6%
Net Margins	-65%	59%	20%	28%	25%	25%	24%	25%
EPS (\$)	-0.29	0.47	0.25	0.33	0.32	0.33	0.32	0.33
EBIT margins	-62%	25%	42%	33%	36%	35%	34%	36%
PBT margins	-68%	10%	35%	29%	34%	33%	32%	34%
Debt to Equity	53.8%	37.9%	27.8%	19.5%	18.4%	17.5%	16.8%	17%
Debt to Assets	30.5%	21.8%	17.6%	13.4%	12.7%	12.3%	11.9%	12%
BVPS (N)	2.2	2.7	2.7	3.1	3.2	3.4	3.5	3.72

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 reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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