

Seplat Petroleum Development Company Plc. | Company Note
Seplat Plc - In the clear
(OVERWEIGHT: ₦518.74)
Upward Revision to Forecast

- Subsequent to the lifting of the *force majeure* on the Trans-Forcados Pipeline (TFP) alongside upgrade at the alternative route (Warri refinery), we revise our estimates for Seplat and increase our fair value estimate (FVE) to ₦518.74/share (previously ₦346/share). We see substantial upside in earnings in 2018F where we expect weighty ramp-up in exports, benign cost, and earnings de-risk (opening 2 additional evacuation routes) to drive a stellar performance. On basis of valuation, Seplat trades on 2018F P/E of 8.6x which is at 30% discount to its EMEA peers.
- Earlier this month, Seplat's management reported it has received notification from the operator of TPS (SPDC) on the lifting of the force majeure on the pipeline at the end of May 2017. The company further stated that it has successfully reinstated production levels at the OMLs 4, 38 and 41 to net working interest production levels of 56kboep/d. Also, Seplat informed that upgrade at the Warri refinery will be completed by Q2 17.
- Our cautious view with regards to project completion and ramp up in export guides our 180 days downtime forecast for 2017E (previously 280 days). Consequently, we revise working interest production for

	FY 15	FY 16	FY 17E	FY 18F	FY 19F
Volumes (bopd)	43.3	25.9	39.3	44.8	46.9
Revenue (\$'mn)	570.5	254.2	376.6	611.2	652.0
Gross Profit (\$'mn)	248.8	71.8	181.9	296.5	349.7
PBT (\$'mn)	87.1	(172.8)	46.8	167.1	217.9
PAT (\$'mn)	65.6	(166.1)	27.3	84.1	108.1
EPS (\$)	0.1	(0.3)	0.0	0.1	0.2
P/E (x)	11.0	N/A	22.4	8.6	6.7
EV/EBITDA (x)	6.5	(15.5)	11.3	5.9	5.3

Stock Data

Price	₦460.00
52-week range	₦240.00 – ₦468.56
Market Cap. (N'bn)	259.184
1-month Avg. Vol	19,425
Curr. PE	N/A
Bloomberg Ticker	SEPLAT:NL

SEPLAT PLC - Share Price Trend

Analyst(s)

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2017E to 39.27bopd (+52% YoY) to drive revenue 48% higher YoY to \$376.6million – Oil revenue (+50% YoY to \$222.7million) and Gas revenue (+46% YoY to \$153.8million). We recall from our FY 16 earnings update *‘Striking FY 16 loss: is Seplat off the hook?’* where we noted that Seplat will need its working interest production to cross 32kbpd before the company can post a profit. Thus, given the earlier than expected re-opening of TFP to drive higher production, our estimate implies PAT of \$27.3million for FY 17E (2016: loss after tax of \$166million).

Upbeat outlook in 2018 but risk persist

- Beyond 2017, we expect a more improved performance by the company. Starting off in 2018, we expect the company’s exports to rise largely reflecting the planned completion of the Escravos pipeline which offer a third export route for the company. Management has indicated it is working with the FG to complete the Escravos pipeline where it expects to export circa. 160kbpd. Though Seplat expects this to be operational in H2 17, we are less sanguine about the target completion time of the Escravos pipeline owing to government’s delayed completion on similar projects, and therefore see 2018 as a more realistic date for the project. The combination of an upgrade at the Warri refinery as well as fully operational Trans-Forcados and Escravos pipelines drive our forecast of a 90-day downtime in 2018 with working interest production forecast of 44.8bopd (+14% YoY) and over four-fold increase in PAT to \$84.1million.
 - Farther out (2019-2022F), Seplat’s intention to make the Escravos pipeline its primary route guides to lower reconciliation cost. Consequently, we forecast an average working interest production of 50kbpd and mean PAT of \$95million over our forecast period. Another catalyst to earnings is Seplat’s operated \$1.3billion ANOH gas and condensate project which a final investment decision (FID) for the upstream and midstream elements is expected in H2 2017 and should guide a revision to forecast. Irrespective, downside risk to earnings persist. Ongoing national security concerns with recurrent threat by new militant groups in the Niger delta region poses risk to production and export
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volumes from pipeline attacks. To add, oil prices below our \$40/bbl. estimate would result in a downward revision to our estimate.

- The stock currently trades at an FY 17E and FY 18F P/E of 22x and 8.6x compared to 15.4x and 12x for its EMEA peers. We forecast a sturdy 5-year earnings CAGR of 55%. Cumulative impact of the adjustments results in an attractive valuation with NAV per share of its oil and gas assets at \$2.19 and \$0.43 respectively having applied 35% discount to asset values to reflect our risk to future earnings. The foregoing, combined with our exchange rate forecast of ₦360/\$ for 2017, drives our FVE higher to ₦518.74 (previously ₦346). Our FVE is at a 13% premium to the last closing price of ₦460. We have an **OVERWEIGHT** rating on the stock.
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Summary of Results and Forecasts

ANNUAL

Income Statement (\$'000)	FY 2015A	FY 2016A	FY 2017E	FY 2018F	FY 2019F
Oil production (Kboed)	22.0	8.4	12.2	23.6	25.8
Gas production (MMscf/d)	86.0	95.0	146.5	147.0	150.0
Total (boed)	43.3	25.9	39.3	44.8	46.9
Average realised price (\$/boe)	47.9	33.1	46.8	47.9	48.8
Sales	570,477	254,217	376,590	611,228	652,017
Production cost	(321,694)	(182,424)	(194,659)	(314,688)	(302,298)
SGA	(121,474)	(113,832)	(107,025)	(118,989)	(132,325)
EBITDA	200,908	17,831	128,709	247,023	272,392
Operating profit	127,309	-42,039	74,906	177,551	217,393
Net finance cost	(70,786)	(14,883)	(28,128)	(10,484)	495
PBT	87,079	-172,766	46,778	167,067	217,889
Tax	(21,472)	6,672	(19,473)	(82,970)	(109,810)
PAT	65,607	-166,094	27,305	84,097	108,079
Balance Sheet ('000)	FY 2015A	FY 2016A	FY 2017E	FY 2018F	FY 2019F
Assets					
Oil & gas properties	1,321,506	1,351,623	1,354,487	1,395,147	1,438,968
Stocks	55,468	31,455	33,564	54,260	52,124
Trade debtors	746,160	473,064	357,805	265,544	133,572
Cash and other bank balances	604,793	326,029	159,621	159,053	225,977
Total Assets	2,880,829	2,092,912	2,054,822	2,092,974	2,110,505
Liabilities					
Trade Creditors	513,429	127,617	189,048	306,837	327,312
Interest bearing loans & borrowings	722,152	491,388	402,613	278,096	161,902
Total liabilities	1,428,649	829,364	763,968	718,024	627,476
Shareholders' fund	1,452,180	1,263,548	1,290,853	1,374,950	1,483,028
Key Ratios	FY 2015A	FY 2016A	FY 2017E	FY 2018F	FY 2019F
Profitability margins					
Gross margin	43.6%	28.2%	48.3%	48.5%	53.6%
EBITDA margin	35.2%	7.0%	34.2%	40.4%	41.8%
Operating margin	22.3%	-16.5%	19.9%	29.0%	33.3%
Net margin	11.5%	-65.3%	7.3%	13.8%	16.6%
Valuation multiples					
EV/BOED	33.4	56.0	36.9	32.3	30.9
EV/EBITDA	6.5	-15.5	11.3	5.9	5.3

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	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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