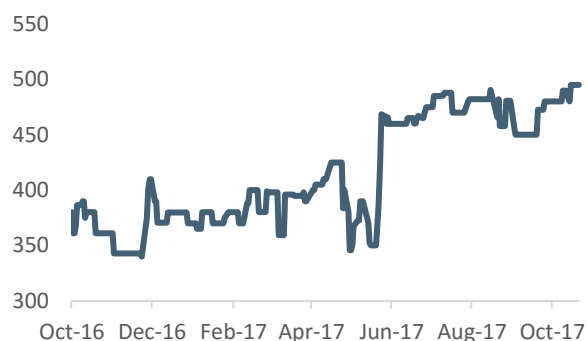


Rating	OVERWEIGHT
Price	₦495.00
FVE	₦588.11
52-week range	₦340 - ₦495
Market Cap. (N'mn)	273,888
1-month Avg. Vol	47,865
Curr. P.E	N/A

	Risked (US\$ mln)	NAV/share
2P		
Oil and gas	1,315.62	2.38
2C		
Oil and gas	238.29	0.43
NAV value of reserves and resources	1,553.91	
Net debt	(\$402)	
	903.91	1.63
USDNGN		360.00
Share price (₦)		588.11

SEPLAT.NL - Share Price Trend



Analyst(s)

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Seplat Plc. (SEPLAT:NL)

Stock Report

Revision to Forecast

- Our deductions from Seplat Petroleum Development Company Plc. (Seplat's) latest financial report as well as recent discussions with management underpins our view on the stock's capacity to close the valuation gap vis-à-vis peers. Although in the near term, aside from pricing in higher crude oil prices, we maintain our stable outlook for the stock, our optimistic outlook for 2018 is reinforced. In line with this adjustment, comes the prospect for Seplat to relatively outperform its larger peers. Seplat trades at a 2018 P/CF of 1.7x compared to African peers' and FTSE 350 Oil & Gas index of 5.5x and 12.05x respectively.
- Investment Case.** Seplat is well-positioned to return to profitability by FY 17 with a sturdy footing for substantial upside in earnings in 2018F. Balance sheet deleveraging and an improving and more stable P&L premised on the company's return to past production levels and de-risked earnings via adding a new export route to existing two routes) should give investors comfort on earnings performance over 2018. With capex also decelerating from peak levels attained between 2014-16, free cash flow is set to expand in 2018+, particularly as management guides to implementing capex plans with the primary aim of maximizing current assets. Therefore, we expect Seplat to resume returning cash to shareholders with dividend projected to grow in line with productive capacity.
- Key catalyst.** Near term catalysts for Seplat includes its operated \$1.3billion ANOH gas and condensate project for which a final investment decision (FID) remains in place for YE 2017 as well as the planned completion of the Escravos pipeline which offers a third export route for the company.

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- However, crude oil prices below \$40/bbl. and a reappearance of insecurity in the Niger delta may trigger a downward review to earnings. That said, we have taken a conservative approach based on the downside risk to our forecast.
 - ***Debate on pioneer status.*** Although Seplat has taken a conservative approach by providing for taxes despite its ongoing deliberation for pioneer tax status, we hold the view that the company is likely to call its tax allowance on capex made during the pioneer tax period, which we estimate at \$98 million.
 - ***Valuation is more compelling.*** We raise our FVE from ₦518.74 to **₦588.11** after reviewing our model and considering recent updates on the company's operations, precisely its Escravos project and tax position. Our revised target equates to 2018 P/E and P/CF of 7.0x and 1.7x compared with African peers' (12.76x and 5.46x) and the FTSE350 Oil & Gas index (22.41x and 12.05x). Against this backdrop, we place an **OVERWEIGHT** rating on the stock.
 - ***Earnings rebound in Q3 17.*** Reflecting higher oil exports, Seplat delivered solid Q3 results. The result showed a marked rebound in performance with the company posting profit after tax (PAT) of \$22.3 million, after six consecutive quarters of losses. Relative to the prior quarter (Q2 17), oil export was higher almost double-fold to \$115 million underpinned by higher production of 26.4kbpd while gas sales remained resilient posting \$31.5 million (+7.5% QoQ) with gross production hitting a peak gross daily output of 352Mscfd (working interest: 111Mscfd). Irrespective, Seplat posted loss after tax of \$5.3 million over the nine-months of 2017(9M 16: \$97.8 million loss after tax). That said, Seplat's balance sheet remained sturdy on the back of improved cash flow with operating cash flow at \$167 million, free cash flow at \$120 million and net debt at \$402 million (free cash flow to net debt at 30%).
 - ***Revision to FY 17 volumes guides lower earnings.*** Third quarter working interest production of 44.8kbopd is in line with management guidance of H2 working interest production of 43–50kbopd (Oil: 25–29kbpd, Gas: 110–130Mscfd), which implies expected FY 17 volumes of 35–38kbopd (Oil: 17–19kbpd, Gas: 105–115Mscfd). On this basis, we revise our FY 17 volumes lower from 39.3kbopd to 37.5kbopd (Oil: 18kbpd, Gas: 118Mscfd), though we see scope for higher volumes in Q4 17. Consequently, FY 17 PAT should print at \$19.4 million compared to loss after tax of \$166 million in FY 16
 - ***Upbeat outlook in 2018 but risk persist.*** Starting off in 2018, we expect the company's exports to rise largely reflecting the planned completion of the Escravos pipeline which offers
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a third export route for the company. Management has indicated that it is working with the FG to complete the Escravos pipeline where it expects to export circa. 160kbpd. Though Seplat expects the new pipeline to be operational in Q1 18, we are less sanguine about the target completion date owing to the government's delayed completion on similar projects, and therefore see H2 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 45.5bopd and over four-fold increase in PAT to \$108.6 million. Farther out (2019-2022F), Seplat's intention to make the Escravos pipeline its primary route guides to lower reconciliation cost. However, we have lowered our crude oil price assumption to \$30/bbl. over the forecast period. On balance, we forecast an average working interest production of 50kbpd and mean PAT of \$95million over our forecast period.

- We estimate cash flow of nearly \$278 million in 2018, well above capital spending (\$20 million capex plans in H2 2017). With the significant deleveraging in the balance sheet based on our estimates there is clear capacity for enhanced shareholder return via resumption of dividend payments in 2018.

Seplat - Unlevered Free Cash Flow Projections (\$'000)					
	2017	2018	2019	2020	2021
Daily Production (MMcfe):	225.0	267.5	279.5	288.7	289.7
Revenue:	\$ 367,474	\$ 614,428	\$ 655,305	\$ 684,613	\$ 686,962
EBITDAX:	211,181	357,317	405,854	422,880	423,529
Operating Income (EBIT):	186,321	309,493	362,387	384,643	385,266
Less: Taxes	21,159	35,147	41,154	43,681	43,752
Plus: DD&A	252	571	615	651	653
Plus: Asset Retirement Accretion	5,002	8,364	8,921	9,320	9,352
Plus: Stock-Based Compensation	-	-	-	-	-
Plus: Dry Hole Expense	28	56	49	41	41
Plus: Deferred Income Tax	-	-	-	-	-
Plus: Non-Cash Derivative Losses	5	5	5	5	5
Plus: Other Non-Cash Items	-	-	-	-	-
Working Capital (Increase) / Decrease:	(303)	154	(129)	(18)	4
Less: Capital Expenditures:	(46,258)	(76,474)	(74,639)	(77,717)	(77,698)
Unlevered Free Cash Flow	\$ 166,207	\$ 277,315	\$ 338,362	\$ 360,606	\$ 361,374
Present Value of Free Cash Flow	\$ 158,472	\$ 240,373	\$ 266,625	\$ 258,320	\$ 235,337

Summary of Results and Forecast

(\$ in thousands Except Per Share Data and Daily Production Figures)

Seplat - Production Profile								
	2015	2016 Historical	2017	2018	2019 Projected	2020	2021	
December 31,	2015	2016	2017	2018	2019	2020	2021	
Days in Year:	365	366	365	365	365	366	365	
Average Daily Production:								
Gas (MMcf):	86.0	95.0	150.0	113.3	113.3	112.9	113.3	
Natural Gas Liquids (MMBbls):	-	-	-	-	-	-	-	
Oil (MMBbls):	29.0	10.1	12.5	25.7	27.7	29.3	29.4	
Total Daily MMcf:	260.0	155.5	225.0	267.5	279.5	288.7	289.7	
Total Annual Production:								
Gas (Bcf):	31.4	34.8	54.7	41.3	41.3	41.3	41.3	
Natural Gas Liquids (MMBbls):	-	-	-	-	-	-	-	
Oil (MMBbls):	10.6	3.7	4.6	9.4	10.1	10.7	10.7	
Total Bcfe:	94.9	56.9	82.1	97.6	102.0	105.7	105.8	
ANNUAL								
Income Statement	FY 2015A		FY 2016A		FY 2017E		FY 2018F	FY 2019F
Oil production (Kboed)	22.0		8.4		11.3		23.9	26.0
Gas production (MMscf/d)	86.0		95.0		150.0		147.0	150.0
Total (boed)	43.3		25.9		38.2		45.5	47.6
Average realised price (\$/boe)	47.9		33.1		46.9		47.4	48.3
Sales	570,477		254,217		367,474		614,428	655,305
Production cost	(321,694)		(182,424)		(181,153)		(304,935)	(292,918)
SGA	(121,474)		(113,832)		(106,956)		(119,029)	(132,373)
EBITDA	200,908		17,831		131,893		260,913	285,761
Operating profit	127,309		-42,039		79,365		190,463	230,014
Net finance cost	(70,786)		(14,883)		(56,239)		(42,203)	(34,529)
PBT	87,079		-172,766		23,126		148,260	195,485
Tax	(21,472)		6,672		(3,748)		(39,676)	(64,877)
PAT	65,607		-166,094		19,378		108,584	130,608
Balance Sheet ('000)	FY 2015A		FY 2016A		FY 2017F		FY 2018F	FY 2019F
Assets								
Oil & gas properties	1,321,506		1,351,623		1,352,675		1,395,116	1,440,698
Stocks	55,468		31,455		31,236		52,579	50,507
Trade debtors	746,160		473,064		355,938		266,200	134,245
Cash and other bank balances	434,829		326,029		159,621		278,289	338,449
Total Assets	2,710,864		2,021,121		2,167,949		2,204,339	2,285,260
Liabilities								
Trade Creditors	513,429		203,374		293,980		491,542	524,244
Interest bearing loans & borrowings	574,669		369,789		447,576		216,831	135,840
Total liabilities	1,258,684		757,573		885,023		812,828	763,142
Shareholders' fund	1,452,180		1,263,548		1,282,926		1,391,510	1,522,118
Key Ratios	FY 2015A		FY 2016A		FY 2017F		FY 2018F	FY 2019F
Profitability margins								
Gross margin	43.6%		28.2%		50.7%		50.4%	55.3%
EBITDA margin	35.2%		7.0%		35.9%		42.5%	43.6%
Operating margin	22.3%		-		21.6%		31.0%	35.1%
Net margin	11.5%		-%		5.3%		17.7%	19.9%
Valuation multiples								
EV/BOED	34.3		57.5		38.9		32.7	31.3
EV/EBITDA	6.7		-		11.3		5.7	5.2

Source: ARM Research *unless otherwise stated

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