

Rating	<b>OVERWEIGHT</b>
Price	₦596.40
FVE	<b>₦663.85</b>
52-week range	₦336 - ₦596
Market Cap. (₦mn)	336,038
1-month Avg. Vol	32,443
Curr. P.E	N/A

	Risked (US\$ mln)	NAV/share
<b>2P</b>		
Oil and gas	1,374.10	2.48
<b>2C</b>		
Oil and gas	246.21	0.44
NAV value of reserves and resources	1,620.31	
Net debt	(\$402)	
	<b>1,020.31</b>	<b>1.84</b>
USDNGN		360.00
<b>Share price (₦)</b>		<b>663.85</b>

### SEPLAT.NL - Share Price Trend



### Analyst(s)

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## Seplat Plc. (SEPLAT:NL)

### Stock Report

#### Will the Bulls Crossover?

- Following our last note ***Seplat Plc – Revision to Forecast*** published on Nov 7th, Seplat has returned 20.5% with YTD return of 57%. Much of the early gains was underpinned by the lifting of *force majeure* on the Trans-Forcados Pipeline (TFP) which drove a marked rebound in performance in the third quarter of 2017 with the company posting profit after tax (PAT) of \$22.3million, after realizing losses in six consecutive quarters. Particularly, oil revenue at \$115million almost doubled from the prior quarter, anchored by higher production of 26.4kbpd while gas sales remained resilient posting \$31.5 million (+7.5% QoQ) as gross daily gas output touched a high of 352Mscfd (working interest: 111Mscfd).
- At the latter, it was a play of cheap valuation and bargain hunting. In sync with our investment case for Seplat which tilts towards 2018 wherein we had projected a substantial upside in earnings hinged on balance sheet deleveraging as well as improved and more stable P&L. Our view was premised on the company's return to past production levels and de-risked earnings via the addition of a new export route to existing two routes. Consequently, we had earlier forecasted 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 (2017E: \$19.4 million). In line with this adjustment, Seplat remained well positioned to relatively outperform its larger peers, trading 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. As it stands, the stock is currently trading at a premium of 130bps to our last communicated FVE of ₦588.11.

***So how does it look from here?***

### *This Bull Still Has Legs*

- Beyond our earlier views on higher production, lower all-in cost, balance sheet deleveraging and deceleration in Capex which should drive cash-flow and ROE improvement, the recent rally in crude oil prices (Brent) and Seplat's tax allowance provision (estimate: \$98 million) provides fresh upside to earnings.
- ***Riding the oil price upswing.*** As a pure E&P play, Seplat's earnings are more sensitive to oil prices. Consequently, we run a scenario analysis of 2018 key financial metrics at varying crude oil prices while keeping our production forecast intact. From our analysis, every \$5/bbl. increase in Brent crude prices could lift 2018 earnings by ~25%; while every \$5/bbl. increase in long-term oil price could raise our FVE by about ₦45/share or 8%. We have now raised our 2018 earnings by 26% in FY 2018, in line with the accelerated rebalancing in the crude oil market and house views on 2018 Brent price (base case of \$60/bbl.). However, crude oil prices below \$40/bbl. and a reappearance of insecurity in the Niger delta may trigger a downward review to earnings.

**Table 1: Scenario Analysis of crude oil prices to key financial metrics**

\$'000 (Unless otherwise stated)						
	<b>Base</b>					
<b>Brent (\$/bbl.)</b>	<b>45</b>	<b>50</b>	<b>55</b>	<b>60</b>	<b>65</b>	<b>70</b>
Oil Production (Kbpd)	23.9	23.9	23.9	23.9	23.9	23.9
<b>Oil Revenue</b>	<b>393,210</b>	<b>436,900</b>	<b>480,590</b>	<b>524,280</b>	<b>567,970</b>	<b>611,660</b>
Gas Revenue	138,644	138,644	138,644	138,644	138,644	138,644
<b>Total Revenue</b>	<b>531,854</b>	<b>575,544</b>	<b>619,234</b>	<b>662,924</b>	<b>706,614</b>	<b>750,304</b>
<b>EBIT</b>	<b>125,753</b>	<b>159,991</b>	<b>194,229</b>	<b>228,467</b>	<b>262,705</b>	<b>296,943</b>
<b>PAT</b>	<b>61,191</b>	<b>86,267</b>	<b>111,343</b>	<b>136,418</b>	<b>161,494</b>	<b>186,569</b>
<b>Free cash flow</b>	<b>203,954</b>	<b>242,770</b>	<b>281,585</b>	<b>320,401</b>	<b>359,216</b>	<b>398,032</b>
<b>ROE</b>	<b>4.70%</b>	<b>6.50%</b>	<b>8.30%</b>	<b>10.10%</b>	<b>11.80%</b>	<b>13.60%</b>
<b>EPS (\$/share)</b>	<b>0.11</b>	<b>0.15</b>	<b>0.20</b>	<b>0.24</b>	<b>0.29</b>	<b>0.33</b>

- ***Balance sheet should de-leverage significantly.*** We think net debt to free cash flow will fall sizably from the current level of 1.7x to 1.2x by FY 18. Seplat is expected to rake in stronger operating cash flows of c.\$300million over 2018 well above capital spending (estimate: \$20 million capex). 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. Furthermore, while Seplat has no explicit dividend policy, we find that full-year dividend per share (DPS) has displayed strong correlation to its operating

cash flow per share. Thus, with earnings and operating cash flow expected to rebound in FY 2018 on higher oil prices and production, we assume that DPS in FY 2018 will be \$0.05.

- **Key Risks.** Lower-than-expected oil prices and production are the key risks. The most apparent near-term driver for such a scenario would be an increase in US crude oil supply as well as the risk of OPEC falling apart. Upside risk would stem from the contrary, if oil prices increase above projected levels. Also, return of security concerns in the Niger Delta in the run-up to election is another key risk to earnings. However, with three alternative export routes, Seplat is in a better position than prior year.
- **Valuation is more compelling.** We raise our FVE from ₦588.11 to **₦663.85** after reviewing our model and considering the possibility of higher crude oil prices. Our revised target equates to 2018 P/E and P/CF of 5.0x and 1.4x compared with African peers of 14.4x and 3.5x respectively.

### Summary of Results and Forecast

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

Seplat - Summary of Financial Statements										
(\$ in Thousands Except Per Share Data)										
December 31,	Historical					Projected				
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue:</b>										
Gas & Natural Gas	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Liquids:	26,245	18,078	27,360	76,997	105,460	157,474	138,644	142,495	141,997	142,495
Oil & Condensate:	598,301	862,149	747,659	493,480	148,757	210,000	480,590	517,990	498,270	499,970
<b>Total Revenue:</b>	<b>624,546</b>	<b>880,227</b>	<b>775,019</b>	<b>570,477</b>	<b>254,217</b>	<b>367,474</b>	<b>619,234</b>	<b>660,485</b>	<b>640,267</b>	<b>642,465</b>
<b>Net Income:</b>	<b>\$</b>									
	107,320	549,864	254,503	50,096	(166,094)	19,378	111,343	133,317	96,654	79,797
Earnings Per Basic Share:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
	0.27	0.99	0.45	0.09	(0.29)	0.03	0.20	0.24	0.17	0.14
Cash Flow from Operations:	114,369	563,491	267,826	58,648	(166,084)	24,363	120,560	142,854	106,032	89,193
Cash Flow from Investing:	(35,626)	(38,536)	(61,568)	(69,762)	(66,286)	(46,258)	(76,474)	(74,639)	(77,717)	(77,698)
Cash Flow from Financing:	806	180	3,701	7,796	(1,913)	(283,242)	(283,312)	(100,901)	(28,314)	(11,495)
Total Assets:	89,414	617,574	833,575	849,564	613,298	353,816	190,870	232,220	309,258	386,315
Total Debt:	3,109	3,451	6,320	11,959	10,487	8,530	6,757	187,649	441,382	712,189
Shareholders' Equity:	4,209	5,865	7,941	17,347	17,326	(244,581)	(414,777)	(563,254)	(748,648)	(951,153)
<b>EBITDA:</b>	<b>381,418</b>	<b>562,887</b>	<b>470,530</b>	<b>257,268</b>	<b>72,065</b>	<b>191,580</b>	<b>322,277</b>	<b>376,072</b>	<b>359,142</b>	<b>359,677</b>

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
<b>Total (boed)</b>	<b>43.3</b>	<b>25.9</b>	<b>38.2</b>	<b>45.5</b>	<b>47.6</b>
Average realised price (\$/boe)	47.9	33.1	46.9	47.8	48.7
<b>Sales</b>	<b>570,477</b>	<b>254,217</b>	<b>367,474</b>	<b>619,234</b>	<b>660,485</b>
<b>Production cost</b>	<b>(321,694)</b>	<b>(182,424)</b>	<b>(181,153)</b>	<b>(305,968)</b>	<b>(294,031)</b>
<b>SGA</b>	<b>(121,474)</b>	<b>(113,832)</b>	<b>(106,956)</b>	<b>(119,037)</b>	<b>(132,386)</b>
<b>EBITDA</b>	<b>200,908</b>	<b>17,831</b>	<b>131,893</b>	<b>264,686</b>	<b>289,828</b>
<b>Operating profit</b>	<b>127,309</b>	<b>-42,039</b>	<b>79,365</b>	<b>194,229</b>	<b>234,068</b>
<b>Net finance cost</b>	<b>(70,786)</b>	<b>(14,883)</b>	<b>(56,239)</b>	<b>(42,203)</b>	<b>(34,529)</b>
<b>PBT</b>	<b>87,079</b>	<b>-172,766</b>	<b>23,126</b>	<b>152,027</b>	<b>199,540</b>
<b>Tax</b>	<b>(21,472)</b>	<b>6,672</b>	<b>(3,748)</b>	<b>(40,684)</b>	<b>(66,223)</b>
<b>PAT</b>	<b>65,607</b>	<b>-166,094</b>	<b>19,378</b>	<b>111,343</b>	<b>133,317</b>
<b>Balance Sheet ('000)</b>					
<b>Assets</b>					
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	52,757	50,699
Trade debtors	746,160	473,064	355,938	267,184	135,307
Cash and other bank balances	434,829	326,029	159,621	278,289	343,835
<b>Total Assets</b>	<b>2,710,864</b>	<b>2,021,121</b>	<b>2,167,949</b>	<b>2,210,942</b>	<b>2,294,872</b>
<b>Liabilities</b>					
Trade Creditors	513,429	203,374	293,980	495,387	528,388
Interest bearing loans & borrowings	574,669	369,789	447,576	216,831	135,840
<b>Total liabilities</b>	<b>1,258,684</b>	<b>757,573</b>	<b>885,023</b>	<b>816,673</b>	<b>767,286</b>
Shareholders' fund	<b>1,452,180</b>	<b>1,263,548</b>	<b>1,282,926</b>	<b>1,394,268</b>	<b>1,527,585</b>
<b>Key Ratios</b>					
<b>Profitability margins</b>					
<b>Gross margin</b>	<b>43.6%</b>	<b>28.2%</b>	<b>50.7%</b>	<b>50.6%</b>	<b>55.5%</b>
<b>EBITDA margin</b>	<b>35.2%</b>	<b>7.0%</b>	<b>35.9%</b>	<b>42.7%</b>	<b>43.9%</b>
<b>Operating margin</b>	<b>22.3%</b>	<b>-16.5%</b>	<b>21.6%</b>	<b>31.4%</b>	<b>35.4%</b>
<b>Net margin</b>	<b>11.5%</b>	<b>-65.3%</b>	<b>5.3%</b>	<b>18.0%</b>	<b>20.2%</b>
<b>Valuation multiples</b>					
<b>EV/BOED</b>	<b>37.6</b>	<b>63.0</b>	<b>42.6</b>	<b>35.8</b>	<b>34.2</b>
<b>EV/EBITDA</b>	<b>7.3</b>	<b>-17.5</b>	<b>12.4</b>	<b>6.2</b>	<b>5.6</b>

Source: ARM Research \*unless otherwise stated

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