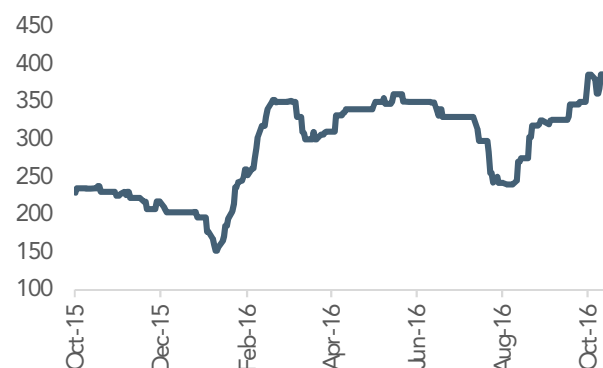


Seplat Petroleum Plc. | Earnings report
Downtime from Forcados shut-in throttles earnings
(SELL - ₦285.25)
Q3 Performance remains stifled by Trans-Forcados Pipeline

- Seplat Petroleum Development Company Plc. (Seplat) released its 9M 2016 numbers wherein earnings remained stifled by lower production volumes, reflecting the impact of force majeure on its major export pipeline route, the third-party operated Trans Forcados System (TFS). Revenue declined 51.7% YoY to \$202.7 million due to a 66% YoY decline in crude revenue after lifting adjustments to \$127 million. Gross profit for the period was 61.5% lower on a year ago basis to \$73.9 million. Thus, as in H1 16, Seplat reported pre-tax and post-tax losses of \$87.6 million and \$97.7 million respectively vs. PBT (\$68.4 million) and PAT (\$68.6 million) over 9M 15.
- However, revenues showed some improvement from Q2 16 numbers due to improved utilization of the alternative evacuation route and increase in gas production and monetization. The 52.7% QoQ increase in gas revenue to \$30.3 million offset the decline in crude oil revenue by 26.1% QoQ to \$29.4 million, leaving revenue flat (+10bps QoQ) to \$59.6 million. The increase in gas revenue was supported by its alternative liquid evacuation route which in turn permitted gas deliveries into the domestic

Income Statement Data (\$'000)			
	2016 – 9M'm	2015 – 9M'm	%chg
Revenue	202,689.00	419,866.00	-51.7%
PBT	(87,645.00)	68,463.00	NA
Tax	(10,129.00)	215.00	NA
PAT	(97,774.00)	68,678.00	NA
Balance Sheet Data (\$'000)			
	2016-9M	2015-Dec	%chg
Inventory	108,625	82,468	31.72%
Receivables	602,708	811,255	-25.71%
Cash	136,546	326,029	-58.12%
Payables	297,152	375,033	-20.77%
Net Assets	1,298	1,413	-8.18%
Stock Data			
Price	₦380.00		
52 week range	₦151.74 – ₦390.00		
Market Cap. (N'b)	213,019		
1-month Avg. Vol	537,982		
Curr. PE	10.0x		
Bloomberg Ticker	SEPLAT:NL		
Seplat Plc - Share Price Trend			


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market in the review period to be de-constrained to a gross rate of 243Mmscf/d. However, gross margin contracted a quarter to 24.6% (Q2 16: 49.7%, Q3 15: 48.4%) as input cost expanded 50.1% QoQ on the back of a three-fold QoQ increase in royalties and crude handling fees to \$11.7 million and \$3.2 million respectively as well as a 51.4% QoQ expansion in DD&A to \$14.5 million.

- Further down, impairment loss of \$7.9 million in Q3 16 –relating to the impairment of NPDC receivables of \$18.5 million –kept back operating expenses at \$27.1 million (Q2 16: \$28.1 million), despite significant decline in general expenses (-71% QoQ) to \$4.3 million. The foregoing combined with foreign exchange loss of \$1.7 million as well as net finance cost of \$15.4 million (net finance income in Q2 16 of \$4.3 million) drove Loss before and after tax to \$30 million and \$37 million respectively.

Resumption of Forcados exports raises our production forecast higher

- Seplat's total working interest production for 9M 16 declined 34% YoY to 26,233boepd compared to average working interest production of 52,000boepd prior to shut-in of oil exports at the TFS. Average liquids production is down 61% YoY to 10,701 bbl./d while average gas production increased 22% YoY to 99.2Mmscf/d. Following the lifting of the force majeure at Forcados, we forecast average liquid production to 11,091bbl/d (62% YoY). In addition, following ramp-up over Q3 16, we believe average gas production should rise 29.8% YoY to 111.6Mmscf/d as Seplat pushes higher gas deliveries into the domestic market. Thus, the recovery in oil exports and higher gas production translates to working interest oil production of 31,970boepd which translates to Q4 16E revenues of \$70 million and by extension 2016E sales of \$272 million.
 - The resumption of exports via TFP should reduce the evacuation costs as Seplat pushes lower volumes via the alternative arrangements which informs our view on gross margin of 39.9%. That said, following the pressures over much of 2016, FY 16 gross margin is 39bps lower YoY at 43.2%.
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Debt re-structuring to lessen finance burden

- In its H1 16 earnings call, the company noted that it had commenced discussion with its lenders of the \$700 million 7-year facility to re-align H2 16 and 2017 debt service obligations within the existing tenor. As at 9M 16, Seplat's creditors have approved the deferment of H2 16 and 2017 principal repayment obligations totaling \$150 million to YE 2017, thereby reducing the principal debt service obligations by 65% to \$57 million. The deferred principal obligations will be repayable over a 30-month period between Q1 2018 and Q2 2020 while principal repayments will amount to \$37 million per quarter during this period. From Q2 2020 onwards, the principal payments will return to the original schedule as at the time of the refinancing.

Net adjustment to our model drives FVE higher

- We value Seplat's Oil business at ~~₦~~375 per share (\$1.25 per share) and Gas business at ~~₦~~97.2 per share (\$0.32 per share), having applied risked valuation methodology for contingent resources. Furthermore, we have applied a net debt adjustment of \$571 million. We have attuned our exchange rate assumptions to reflect current market pricing (~~₦~~300/\$). Net adjustment to our models drives our **FVE estimate 21% higher to ₦285.25** (previously ~~₦~~235.4). Our FVE is at a 25% discount to last closing price of ~~₦~~380, hence we rate the stock **SELL**.
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Summary of Results and Forecasts

QUARTERLY					
Income Statement (\$'000)	Q1 2016A	Q2 2016A	Q3 2016A	Q4 2016F	
Volumes (boed)	33,804	17,492	27,027	31,970	
Average realised price (boe)	26.8	37.4	42.8	45.0	
Sales (\$'000)	83,416	59,607	59,666	70,081	
Production cost	(53,780)	(29,962)	(44,985)	(42,130)	
SGA	(21,449)	(28,143)	(27,093)	(24,140)	
EBITDA	28,436	12,506	3,506	18,007	
Operating profit	8,187	1,502	(12,412)	3,811	
Profit before taxation	(14,994)	(89,471)	(30,112)	(12,521)	
Tax	(7,550)	3,918	(6,497)	(37,102)	
Profit after taxation	(22,544)	(85,553)	(36,609)	(49,623)	
ANNUAL					
Income Statement	FY 2014A	FY 2015A	FY 2016F	FY 2017F	FY 2018F
Oil production (Kboed)	217	22.0	119	12.8	13.8
Gas production (MMscf/d)	39.4	86.0	132.3	143.4	308.2
Total (boed)	30.8	43.3	37.6	40.6	69.3
Average realised price (\$/boe)	68.9	47.9	25.4	29.9	27.9
Sales	775,019	570,477	272,770	345,365	550,746
Production cost	(315,590)	(321,694)	(146,518)	(165,570)	(260,635)
SGA	(151,569)	(121,474)	(99,310)	(114,098)	(126,984)
EBITDA	353,161	200,908	72,283	113,952	241,727
Operating profit	307,860	127,309	26,941	65,696	163,127
Net finance cost	(37,323)	(70,786)	(35,887)	(55,186)	(39,651)
PBT	252,253	87,079	-39,946	10,510	123,475
Tax	0	(21,472)	(6,961)	(4,508)	(52,388)
PAT	252,253	65,607	-46,907	6,002	71,088
Balance Sheet ('000)	FY 2014A	FY 2015A	FY 2016F	FY 2017F	FY 2018F
Assets					
Oil & gas properties	843,603	1,321,506	1,399,997	1,431,823	1,530,150
Stocks	54,416	55,468	25,264	28,549	44,940
Trade debtors	1,075,078	746,160	476,865	351,408	253,154
Cash and other bank balances	285,298	582,255	123,395	85,364	55,343
Total Assets	2,409,659	2,858,291	2,176,337	2,046,879	2,034,798
Liabilities					
Trade Creditors	389,103	513,429	136,930	173,373	276,474
Interest bearing loans & borrowings	589,378	893,152	679,680	552,853	389,120
Total liabilities	1,000,548	1,428,649	838,677	748,293	687,662
Shareholders' fund	1,409,111	1,429,642	1,337,659	1,298,586	1,347,135
Key Ratios	FY 2014A	FY 2015A	FY 2016F	FY 2017F	FY 2018F
Profitability margins					
Gross margin	59.3%	43.6%	46.3%	52.1%	52.7%
EBITDA margin	45.6%	35.2%	26.5%	33.0%	43.9%
Operating margin	39.7%	22.3%	9.9%	19.0%	29.6%
Net margin	32.5%	11.5%	-17.2%	1.7%	12.9%
Valuation multiples					
EV/BOED	418	29.8	34.3	318	18.6
EV/EBITDA	312	5.8	312	11.3	5.3

QUARTERLY					
Income Statement (N bin)*	Q1 2016A	Q2 2016A	Q3 2016A	Q4 2016F	
Volumes (boed)	33,804	17,492	27,027	31,970	
Average realised price (boe)	26.8	37.4	42.8	45.0	
Sales	25,025	17,882	17,900	21,024	
Production cost	(16,134)	(8,989)	(13,496)	(12,639)	
SGA	(6,435)	(8,443)	(8,128)	(7,242)	
EBITDA	8,531	3,752	1,052	5,402	
Operating profit	2,456	451	(3,724)	1,143	
Profit before taxation	(4,498)	(26,841)	(9,034)	(3,756)	
Tax	(2,265)	1,175	(1,949)	(11,131)	
Profit after taxation	(6,763)	(25,666)	(10,983)	(14,887)	
ANNUAL					
Income Statement	FY 2014A	FY 2015F	FY 2016F	FY 2017F	FY 2018F
Oil production (boed)	217	22.0	119	12.8	13.8
Gas production (MMscfd)	39.4	86.0	132.3	143.4	308.2
Total (boed)	30.8	43.3	37.6	40.6	69.3
Average realised price (N'000/boe)	20.7	14.4	7.6	9.0	8.4
Sales	232,506	171,143	81,831	103,609	165,224
Production cost	(94,677)	(96,508)	(43,956)	(49,671)	(78,190)
SGA	(45,471)	(36,442)	(29,793)	(34,230)	(38,095)
EBITDA	105,948	60,272	21,685	34,186	72,518
Operating profit	92,358	38,193	8,082	19,709	48,938
Net finance cost	(11,917)	(21,236)	(10,766)	(16,556)	(11,895)
PBT	75,676	26,124	(11,984)	3,153	37,043
Tax	0	(6,442)	(2,088)	(1,352)	(15,716)
PAT	75,676	19,682	(14,072)	1,801	21,326
Balance Sheet ('000)	FY 2014A	FY 2015F	FY 2016F	FY 2017F	FY 2018F
Assets					
Oil & gas properties	253,081	396,452	419,999	429,547	459,045
Stocks	16,325	16,641	7,579	8,565	13,482
Trade debtors	322,523	223,848	143,059	105,422	75,946
Cash and other bank balances	85,589	174,677	37,019	25,609	16,603
Total Assets	722,898	857,487	652,901	614,064	610,439
Liabilities					
Trade Creditors	116,731	154,029	41,079	52,012	82,942
Interest bearing loans & borrowings	176,813	267,946	203,904	165,856	116,736
Total liabilities	300,164	428,595	251,603	224,488	206,298
Shareholders' fund	422,733	428,893	401,298	389,576	404,141
Key Ratios	FY 2014A	FY 2015F	FY 2016F	FY 2017F	FY 2018F
Profitability margins					
Gross margin	59.3%	43.6%	46.3%	52.1%	52.7%
EBITDA margin	45.6%	35.2%	26.5%	33.0%	43.9%
Operating margin	39.7%	22.3%	9.9%	19.0%	29.6%
Net margin	32.5%	11.5%	-17.2%	1.7%	12.9%
Valuation multiples					
EV/BOED	8,368.0	5,371.1	4,996.4	3,166.4	3,193.8
EV/EBITDA	312	5.8	312	11.3	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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