

Seplat Petroleum Development Co Plc. (SEPLAT.NL)

Stock Update

Seplat acquires Eland Oil & Gas – It only gets better!

- Early this morning, Seplat announced the acquisition of the full share capital of Eland Oil & Gas Plc for a consideration of £382 million (USD483 million) which translates to GBP1.66/share -- a 24% premium to Eland's EV estimated at \$391 million and a 32.6% premium to the three-month volume weighted average price per Eland share. According to Seplat, the acquisition will be financed by a blend of cash and debt, a plain sailing in our view, considering the company has a cash balance of \$427 million with capex guidance of \$150 million and a revolving credit facility of \$300 million.
- Following this acquisition, we estimate an increase in 2020 production level to ~50kbpd. For context, our 2020E Seplat standalone production forecast prints at 33kpd (2019E; 24.6kbpd) while Eland has a working interest of 16kbpd (including new production at the Gbetiokun field in August). Seplat's 2P liquids reserves is also estimated to increase by 41mmbbls to 268mmbbls, with its 2P Oil Reserves and 2C Oil Reserves expected to increase by approximately 65MMbbls to 330MMbbls, bringing total oil and gas reserves to 626MMboe.
- The acquisition is scheduled for completion at the end of 2019, after which the two entities will continue to run separately in 2020 (but with consolidated financials) and then a full integration of the entities in 2021. Overall, we see this playing out positively for Seplat's shareholders, given potential boost to EPS on the long term. This, in addition to upcoming ANOH gas project further boosts the upside on our FVE on Seplat of ₦828.90 which is a 69% upside from current pricing. Seplat's forward EV/(2P+2C) prints at 2.3x which is a discount to Tullow Oil of 6.9x. On the downside, the acquisition is likely to place a strain on Seplat's 2019E cashflows and dampens our forecast dividend of \$0.14 and dividend yield of 10%.
- A closer look at Eland's financials shows a healthy balance sheet with a net debt of \$33 million and debt to capital of 16% as at H1 19. This includes \$65 million outstanding loan which is used to finance the 2019 \$80 - \$90 million capex plan. Like Seplat, Eland is in a recovery from the troughs of 2016/2017. Thus, heavy capex plans have weighed on the company's FCF which printed at -\$24 million in H1 19. Furthermore, while Eland's cashflows will give some boost to Seplat's, the lower cashflow margin from Eland (H1 19: 22%) will be a drag on Seplat's (H1 19: 36%).

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