

# Unravelling Nigeria's Oil & Gas Tapestry

---

Nigerian Oil and Gas Sector report 2024



# Executive Summary

Nigeria, a member of OPEC since 1971, boasts of substantial crude oil reserves of 37.1 billion barrels at the start of 2023, with a production capacity of 2.5 million barrels per day.

The country heavily relies on crude oil production as a cornerstone of its economy, constituting a significant source of foreign exchange. Nigeria primarily exports light low-sulphur (sweet) crude oil, with 79.63% of total exports in Q1:2023 attributed to crude oil.

The Nigerian Oil and Gas industry comprises three main sectors: Upstream, Downstream, and Midstream. The Upstream sector, primarily led by international oil giants such as Shell, Chevron, and Total, accounts for over 80% of global crude oil production.

Meanwhile, the Downstream and Midstream sectors are predominantly controlled by

domestic companies like Ardova, Conoil, Eterna, and MRS. Noteworthy efforts, including those by the Nigerian Content Development and Monitoring Board, have resulted in a notable surge in local involvement in Upstream activities.

Since the early days of Exploration in the Niger Delta region, Nigeria has faced challenges of crude oil theft and pipeline vandalism, leading to disruptions in production. These issues have significantly impacted Nigeria's ability to produce crude oil to its maximum potential, resulting in consecutive contractions in the sector's growth rate.

Despite being the 13th largest crude oil producer in the world, Nigeria's downstream sector faces challenges including mispriced products, security concerns, and dilapidated



# Executive Summary Cont'd

infrastructure. Efforts by the government to revitalize this sector involve removing PMS subsidies, deregulating the downstream sector, and implementing progressive regulatory and taxation frameworks through the PIA.

Nigeria's refining capacity, although substantial, has been hindered by outdated infrastructure and mismanagement. Recent efforts to establish modular refineries have increased refining capacity, but it still falls short of meeting domestic demand. The commissioning of the Dangote Refinery with a capacity of 650,000 bpd presents a significant milestone, potentially transforming the downstream sector.

Nigeria holds vast natural gas reserves, yet significant quantities are either flared or re-injected due to lack of infrastructure and demand constraints.

Through its Gas Master Plan, the government aims to become a Liquefied Natural Gas (LNG) export hub in Africa, with plans to expand infrastructure, including the Ajaokuta-Kaduna-Kano pipeline, to increase natural gas exports.

The PIA, enacted in 2021, aims to overhaul the petroleum sector in Nigeria. It establishes new regulatory bodies, commercializes the NNPC, and introduces a fresh tax system. The Act addresses tensions with host communities, emphasizing community development, and introduces a national grid system for land rights.

The global energy transition towards renewable sources is impacting Nigeria's oil and gas sector. Major companies are divesting from fossil fuels, prompting questions about the sector's attractiveness amid the transition. The Nigerian government has enacted long-term policies towards energy transition, with commitments to reduce emissions and ambitious plans for renewable energy generation.

In conclusion, Nigeria's oil and gas industry stands at a critical juncture, with challenges and opportunities intersecting, amid a rapidly changing global energy landscape. Adapting to this transition will require strategic policies, technological innovation, and collaborative efforts from stakeholders across the sector.



Despite being the 13th largest crude oil producer in the world, Nigeria's downstream sector faces challenges including mispriced products, security concerns, and dilapidated infrastructure.

Efforts by the government to revitalize this sector involve removing PMS subsidies, deregulating the downstream sector, and implementing progressive regulatory and taxation frameworks through the PIA.



# Table of Contents

<b>Executive Summary</b>	<b>2</b>
<b>The Global Oil Market</b>	<b>5</b>
Industry Landscape: OPEC, Reserves, and Geopolitical Dynamics	5
Oil Price Rollercoaster: The Impact of Russia-Ukraine Conflict and OPEC Decisions	6
<b>Nigerian Crude Oil Sector:</b>	<b>8</b>
Brief History	8
Upstream sector dominated by IOC's	10
Nigeria Oil and Gas Sector Marred by Crude oil Theft and Vandalism	11
Downstream Oil and Gas Sector	12
A New Dawn for Local Refining	13
Natural Gas: Tapping into Industry Potentials	15
Nigeria's LNG Export Ambitions: Expanding Infrastructure	15
<b>Industry Regulatory Framework</b>	<b>17</b>
Key Provisions of the Act	18
The Fiscal Implications of the Petroleum Industry Act (PIA) of Nigeria	19
<b>Energy Transitioning</b>	<b>20</b>
<b>Company Analysis</b>	<b>22</b>
A Mixed Bag of Revenue Growth and Profit Declines	22
Cost Of Sales: Inventory Accumulation Drives Up Cost	23
Operating Profit Eroded by FX Revaluation	23
Net Finance Costs Soar as Naira Devaluation and Monetary Policy Bite	24
Bottom Line Remains Resilient Amidst Elevated Cost	25
Cost of Sales Surges Amidst Asset Acquisitions and Inflation	26
Surging Expenses Offset Production Gains	26
Surge In Net Finance Costs Driven by High Interest Rates	27
<b>ARM Ratings and Recommendations</b>	<b>28</b>





# The Global Oil Market

## Industry Landscape: OPEC, Reserves, and Geopolitical Dynamics

In the intricate tapestry of the global oil market, the Organization of the Petroleum Exporting Countries (OPEC) and its collaborative alliance, OPEC+, stand as pivotal players.

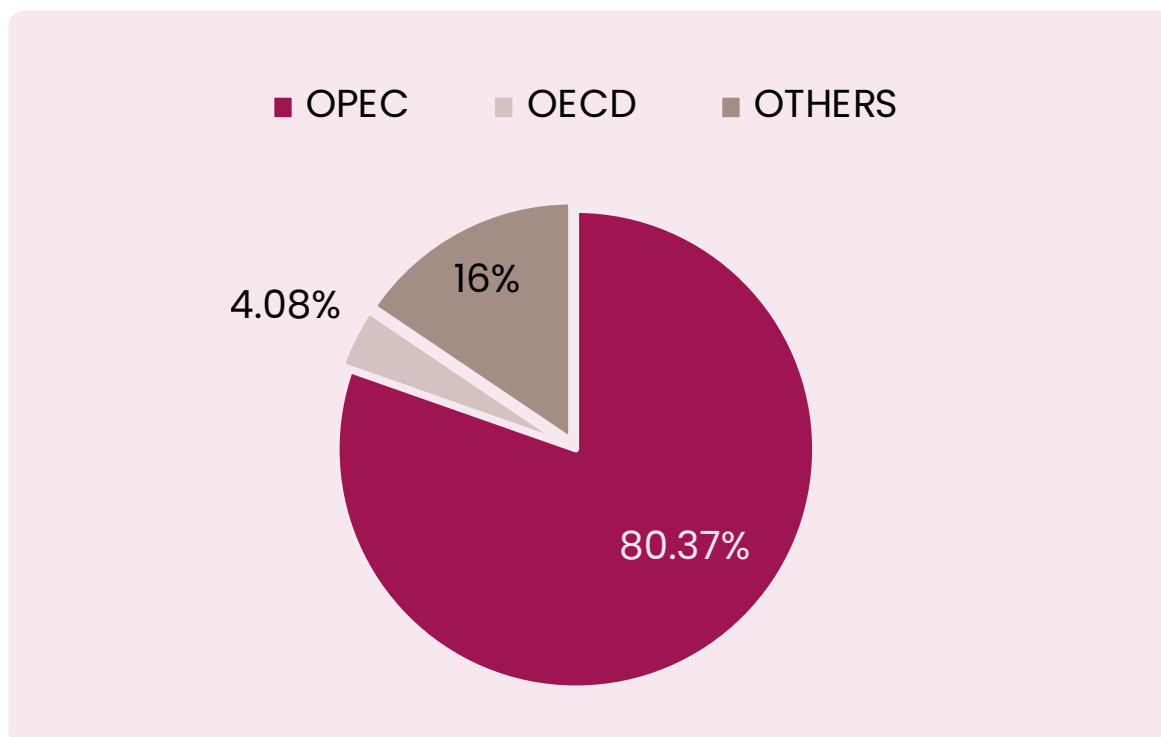
These entities, comprising thirteen major oil-exporting nations including Nigeria, exert substantial control over global oil supply and pricing dynamics.

OPEC holds a staggering 80.4% of global crude oil reserves, conferring unparalleled influence over market stability and pricing.

Counterbalancing this influence is the Organization for Economic Co-operation and Development (OECD), a group of thirty-eight advanced economies.

While holding a modest 4% of global reserves, the OECD's impact on consumption patterns and energy policies significantly shapes the market.

Figure 1: OPEC Global Production Share



Source: EIA STEO, ARM Research

## Oil Price Rollercoaster: The Impact of Russia-Ukraine Conflict and OPEC Decisions

Following the COVID-19 pandemic, which led to a drop in Brent Crude, an international benchmark, to an average of USD 41.76 per barrel in the fiscal year (FY) 2020, there was a noteworthy rebound in the fiscal year 2021.

This resurgence occurred as major economies began easing lockdown restrictions and returning to full economic activity, resulting in oil prices reaching an average of USD 70.68pb in 2021.

However, in February 2022, Russia invaded Ukraine. In response to Russia's invasion, the United States, and several European countries imposed trade sanctions on Russia.

These actions significantly hindered Russia's ability to export oil, creating a strain on the global supply chain and causing oil prices to surge to their highest levels since 2012.

In the month following Russia's invasion, crude oil prices skyrocketed to USD117.25pb, the highest figure recorded since April 2012, and reached USD122.71pb by June 2022.

The average oil price for 2022FY stood at USD 100.78pb, representing a significant increase of 42.59% compared to the previous fiscal year.

However, oil prices started to decline in August 2022, eventually reaching USD80.9pb

by December of the same year. This drop in oil prices was primarily attributed to a more hawkish monetary policy stance adopted by major central banks globally, concerns about a global economic recession, and a strengthening US dollar.

In October 2022, the OPEC+ group of nations announced a substantial supply cut of 2.00 million barrels per day (mmbpd), marking their most extensive supply reduction since the onset of the pandemic.

This move was aimed at stimulating a recovery in oil prices or at least stabilizing them amidst the ongoing declines.

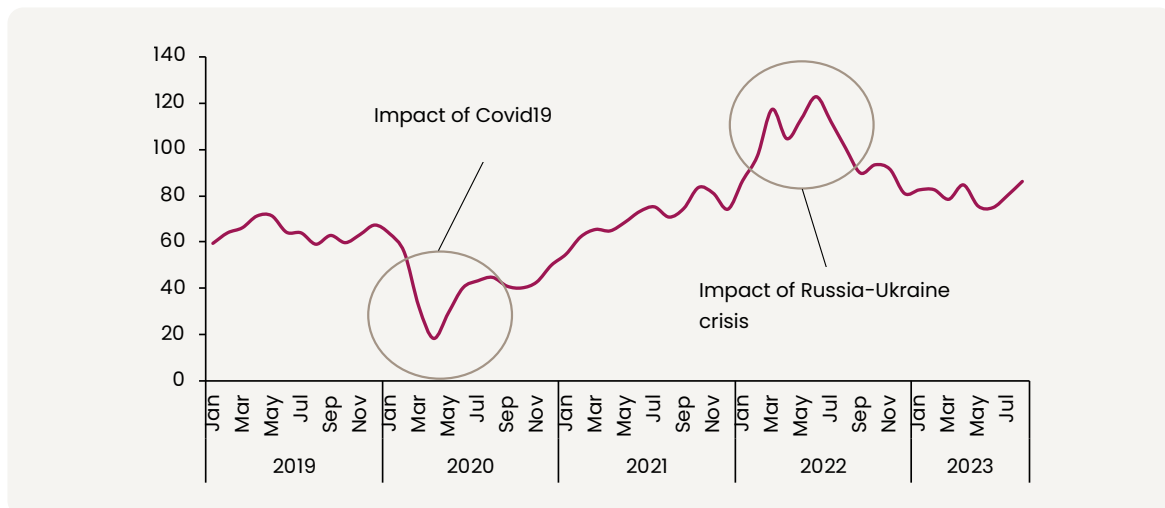
In April 2023, the OPEC group, led by Saudi Arabia, the largest producer within the group, reached an agreement to cut oil supply by

a total of 1.1mmbpd. Russia, an ally of OPEC, also volunteered to reduce production by 500,000bpd until the end of 2024.

More recently, on the 5th of September, 2023, despite a rally in oil prices, Saudi Arabia and Russia, as part of their alliance with OPEC, agreed to implement additional oil production cuts of 1.0mmbpd and 300,000bpd, respectively, until the end of 2023.

These decisions have come much to the dismay of the US, who have been in opposition since the initial cuts in October 2022.

**Figure 2: Crude Oil Price Trend from 2019–2023 (USD)**



Source: EIA, ARM Research



# Nigerian Crude Oil Sector:

## A Strong Hold of The Nigerian Economy

### Brief History

Nigeria entered the ranks of oil-producing nations in 1956 upon discovering its first commercially viable reserve in Oloibiri, Bayelsa State.

This significant finding was attributed to Shell-BP, the sole concessionaire at the time, with a production capacity of 5,100 Barrels per Day (BPD).

The oil uncovered was a high-value light sweet crude, benchmarked against Brent crude.

Notably, it possesses a lower sulfur content than Brent, resulting in a higher pricing. Following this, in the 1960s, licenses for exploration were granted by the Federal Government of Nigeria (FGN) to other non-British firms such as Mobil (1955), Tenneco



(1960), Gulf Oil and Chevron (1961), Agip and Elf (1962).

Nigeria became a member of OPEC in 1971, subsequently establishing the Nigerian National Petroleum Corporation (NNPC) in 1977. In July 2022, this entity transformed into a limited liability company in implementation of the Petroleum Industry Act (PIA).

The NNPC holds the exclusive rights to exploit Nigeria’s oil and gas reserves but can engage in partnerships with multinational and indigenous oil companies for this purpose.

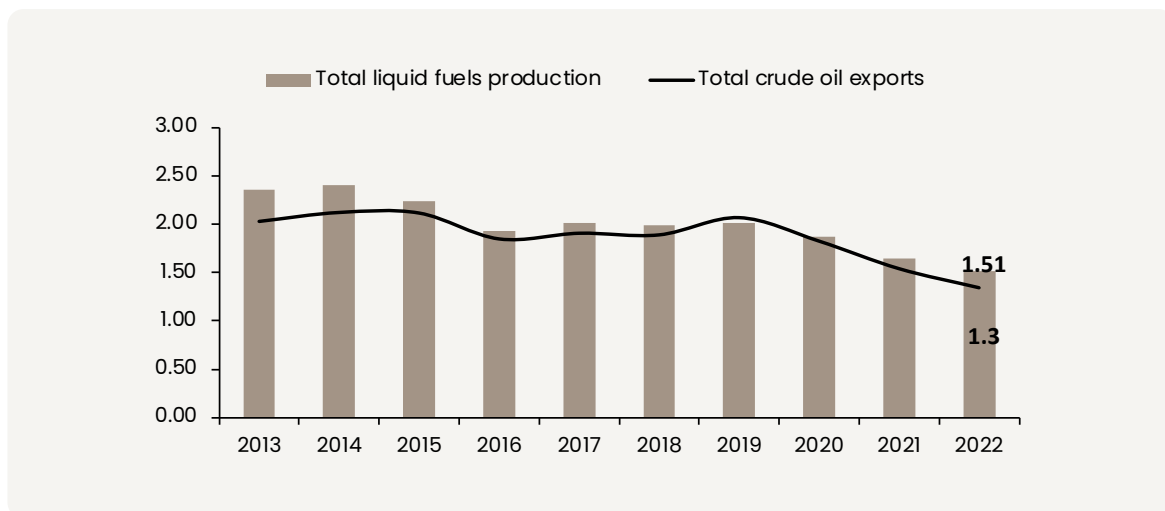
Nigeria has earned its position as the largest hydrocarbons producer in Africa with substantial reserves totaling 37.1 billion

barrels at the outset of 2023 and an estimated production capacity of 2.5 million barrels per day (MMbpd).

Nigeria relies heavily on crude oil production as a cornerstone of its economy. Crude oil serves as Nigeria’s primary source of foreign exchange (FX); thus, the country’s economic stability is significantly impacted by price fluctuations and its production capacity.

Nigeria predominantly produces light low-sulfur (sweet) crude oil, much of which is exported to global markets. In Q1: 2023, 79.63% of total exports recorded was from crude oil Export.

**Figure 3: Total Oil Production and Exports (Mbpd)**



Source: EIA, Bloomberg, ARM Research

The Nigerian Oil and Gas Industry is categorized into three major subsectors: Upstream, Downstream, and Midstream.

The upstream sector currently accounts for the highest share of revenue, capital expenditure, and overall economic growth.

With complex infrastructure, and intricate regulatory frameworks, this industry has significantly influenced Nigeria's economic trajectory.

## Upstream sector dominated by IOC's

The oil and gas industry in Nigeria is largely controlled by international oil companies (IOCs), such as Shell, Chevron, Mobil, Agip (Eni), Addax, and Total energies.

These companies account for over 80% of the country's crude oil production. IOCs operate in Nigeria under various contractual arrangements with the Nigerian National Petroleum Corporation (NNPC), including Joint Ventures (JVs) and Production Sharing Contracts (PSCs).

Other contractual arrangements include sole risk contracts and risk service contracts. IOCs also hold more than 90% of Nigeria's oil reserves and operating assets.

However, in recent years, there has been a growing trend of increased local participation in upstream activities in Nigeria.

This is due to a number of factors, including the Nigerian Content Development and Monitoring Board (NCDMB)'s initiatives to promote local content, the recent divestment of assets by IOCs, and the increasing use of technology by Nigerian companies.

The NCDMB has played a key role in driving the increase in local participation in upstream activities. The NCDMB has implemented a number of initiatives, including requiring IOCs to use a certain percentage of Nigerian goods and services in their operations, supporting the development of Nigerian companies through training and capacity building programs, and providing financial assistance to Nigerian companies to bid for and execute oil and gas contracts.

The recent divestment of assets by IOCs has also created opportunities for Nigerian companies to acquire and operate upstream

assets. For example, in 2014, Seplat Petroleum Development Company acquired a 40% stake in four oil and gas blocks from Shell and Total.

This deal made Seplat the largest indigenous oil and gas producer in Nigeria. The increasing use of technology is also helping Nigerian companies to compete more effectively in the upstream sector. For example, Nigerian companies are now using advanced technologies such as three-dimensional seismic imaging and horizontal drilling to explore and produce oil from difficult-to-reach reservoirs.

As a result of these factors, local participation in upstream activities in Nigeria has increased significantly in recent years. In 2010, Nigerian companies accounted for only 5% of oil production in the country.

By 2022, this figure had risen to over 20%. The increase in local participation in upstream activities has a number of benefits for Nigeria. It helps to create jobs, boost the economy, and reduce the country's reliance on foreign oil companies.

It also helps to transfer knowledge and technology to Nigerian companies, which can then be used to develop other sectors of the economy.

However, there are still some challenges that need to be addressed in order to further increase local participation in upstream activities.

## Nigeria Oil and Gas Sector Marred by Crude oil Theft and Vandalism

For many years, more crude oil was produced in Nigeria than in any other country in Africa.

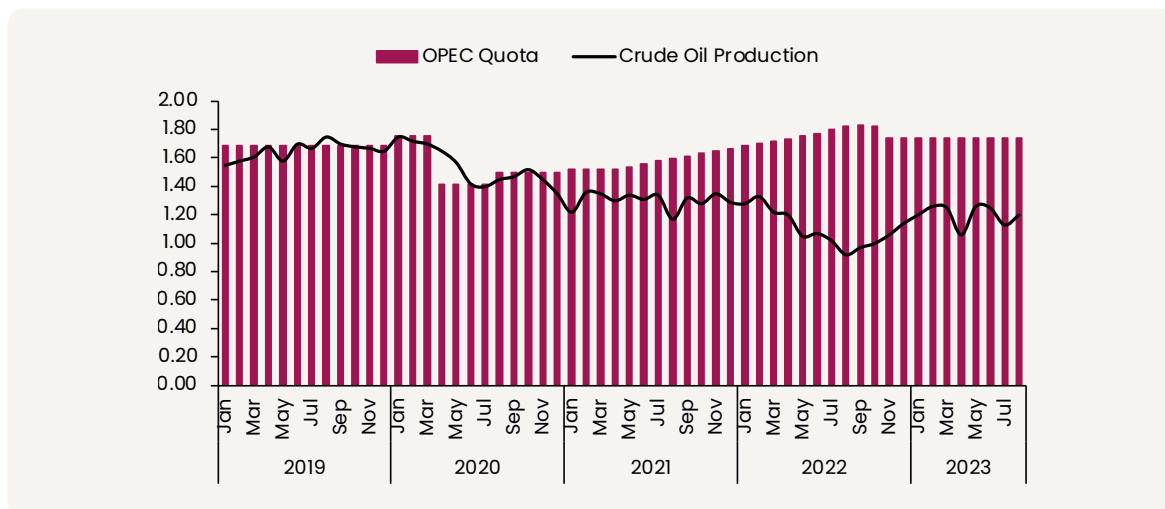
However, unplanned production outages or disruptions in Nigeria have, at times, resulted in its crude oil production falling below that of Angola, the second-highest producing country in Africa.

Currently, Angola produces nearly the same amount of crude oil as Nigeria (at 1.13mbpd

in September 2023) due to short falls in Nigeria’s production, on the back of oil theft and pipeline vandalism.

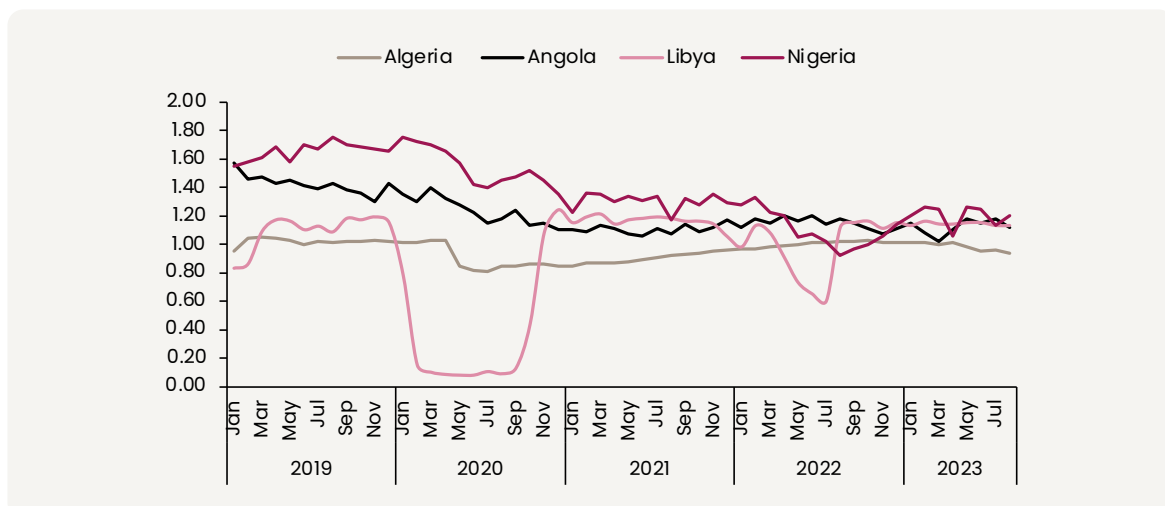
The problem has progressed to the extent that Nigeria is unable to meet its increased OPEC quota at 1.74 million barrels per day (MMbpd). Furthermore, the country has been unable to capitalize on the rising energy prices following Russia’s invasion of Ukraine.

**Figure 4: Nigerian Crude oil production to OPEC Quota (Mbpd)**



Source: EIA STEO, Bloomberg, ARM research

**Figure 5: Top four Oil Exporters in Africa (Mbpd)**



Source: EIA STEO, ARM Research

Nigeria has faced unprecedented adverse economic challenges stemming from the impact of theft of large volumes of crude oil, pipeline vandalism, and minimal upstream infrastructural development.

These challenges have led to sporadic supply chain disruptions and have greatly affected the country's ability to produce crude oil to its maximum potential.

In the third quarter of 2022, operators of the Trans Niger pipeline and the Forcados export terminal closed their facilities for repairs.

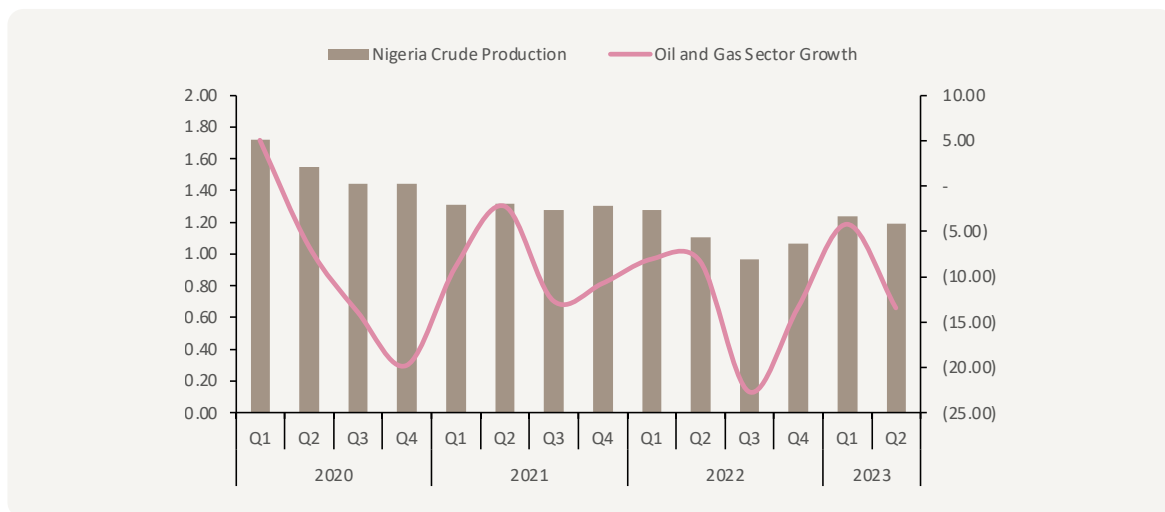
The closure triggered a sharp drop in Nigeria's crude oil output, from an average of 1.11MMbpd in Q2:2022 to below 0.96MMbpd in Q3:2022. Nigeria's production recovered in Q1:2023 to

an average of 1.24MMbpd, but an oil workers' strike disrupted production again in April 2023 driving down production to 1.06MMbpd.

These disruptions reduced production of Nigeria's major crude oil grades, such as Bonny Light, Brass River, and Forcados.

Furthermore, Data released by the National Bureau of Statistics (NBS) show that, the Nigerian crude oil sector has contracted thirteen (13) times consecutively since Q1:2020. In Q2:2023, the oil sector contracted by 13.43% (up from -4.21% in Q1:2023) underpinning lackluster performance of the Oil sector because of persistent disruptions.

**Figure 6: Domestic Oil production (Mbpd) vs. Sector Growth Rate (%)**



Source: NBS, EIA, ARM Research

## Downstream Oil and Gas Sector

The downstream segment of the Oil and Gas industry encompasses activities like refining, marketing, transportation, logistics, distribution, and retailing. This sector is primarily dominated by local enterprises such as Ardova, Conoil, Eterna, and MRS. It's worth noting that Total Energies is the sole

International Oil Company (IOC) operating in Nigeria's downstream sector and holds a significant market share.

Despite being the 13th largest global producer of crude oil, with an estimated daily output of 2 million barrels, one might expect a thriving

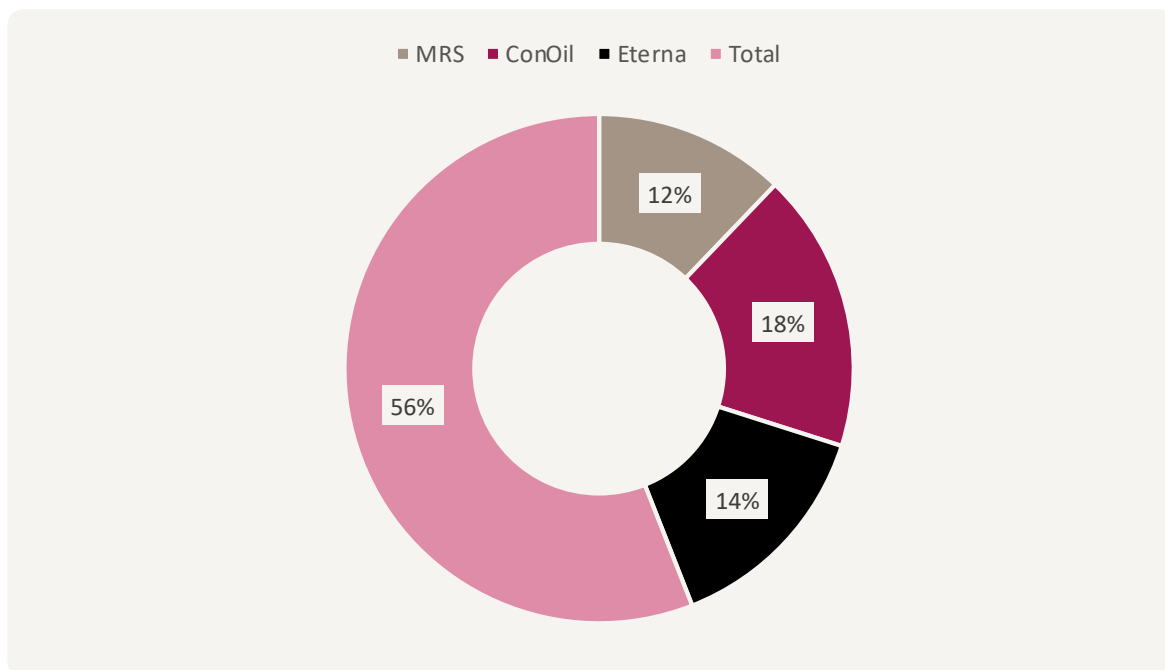


downstream sector in the Nigerian oil and gas industry. Unfortunately, this is not the reality.

The sector grapples with various challenges, including mispriced products, inadequate supply chain, security concerns around pipelines, inconsistent supply due to vandalism, outdated pipeline infrastructure, malfunctioning refineries, and logistics challenges.

However, the current Nigerian government administration has taken decisive steps to revitalize this sector and attract foreign and local investments. These initiatives involve removing PMS Subsidies, deregulating the downstream sector, and establishing a progressive regulatory and taxation framework through the implementation of the PIA.

**Figure 7: Market Share of Down Stream Companies as of June 2023**



Source: NGX ARM Research

## A New Dawn for Local Refining

Refining in Nigeria commenced a decade after the discovery of oil in the oil-rich Niger Delta region in the 1950s. It began in 1965 with an initial refining capacity of 38,000 barrels per day (bpd).

Since then, Nigeria’s refining capacity has grown to be the fourth-largest in Africa. However, the operations of these refineries have been impeded by outdated infrastructure, vandalism, and mismanagement, among other issues.

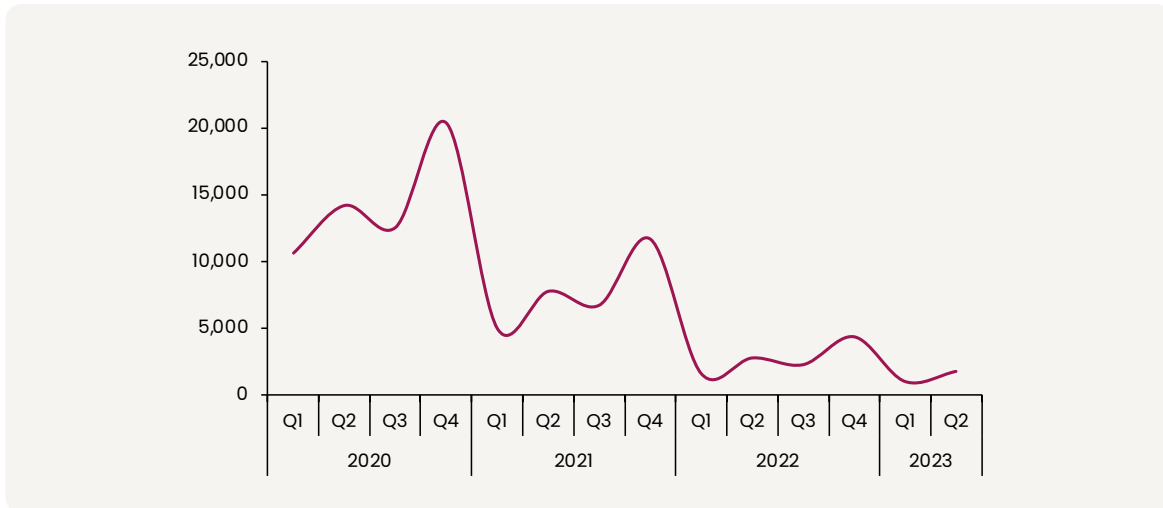
Despite boasting a nameplate capacity of 445,000 bpd spread across four refineries strategically located in Port Harcourt (150,000 & 60,000 bpd), Warri (125,000 bpd), and Kaduna (110,000 bpd), Nigeria has struggled for years to refine enough oil to meet its domestic demands. Over 80% of crude oil refined products consumed in Nigeria is being imported.

As of 2021, Nigerian refineries were completely shut down due to minimal to no output. The

Nigerian government has invested trillions of Naira in revamping these refineries over the years, with little to show for it. A report calling for a forensic audit of government spending

on the revitalization of three dormant refineries revealed an expenditure of about NGN11.35 trillion over the past decade.

**Figure 8: Total Crude Oil Refining**



Source: NBS, ARM Research

Recognizing these challenges, the Department of Petroleum Resources (DPR), under the Nigerian Upstream Regulatory Commission (NUPRC), granted licenses in 2018 for the establishment of modular refineries to 25 investors.

However, only a few were able to bring these projects to fruition. Among them are Niger Delta Petroleum Resources (River state), Niger Delta Refinery (Ogbele), Waltersmith Petroman Oil (Ibigwe), Edo Refinery and Petrochemicals (Benin), Opac Refinery (Kwale), and Azikel Refinery (Obunagha-Gbarain, Bayalsa), with nameplate capacities of 1,000 bpd, 10,000 bpd, 5,000 bpd, 6,000 bpd, 7,000 bpd, and 12,000 bpd, respectively.

The introduction of these new modular refineries marked a positive development, increasing Nigeria’s refining capacity to 486,000 bpd in 2021 from 446,000 bpd in 2019.

However, despite holding a name plate capacity that is capable of meeting Nigeria’s

domestic demand, the country still imports 80% of total petroleum products consumed.

In May 2023, the commissioning of the Dangote Refinery marked a historic milestone in the oil and gas refining sector.

Located in the Lekki Free Zone, the Dangote Refinery boasts a total nameplate capacity of 650,000 bpd, making it the largest single-train refinery in Africa.

It plans to produce 53 million liters of petroleum products a day, which is sufficient to meet domestic consumption and even allow for exports.

This recent development has brought a newfound optimism to the downstream oil and gas sector, presenting the potential for increased productivity and investments.

## Natural Gas: Tapping into Industry Potentials

Nigeria holds the largest natural gas reserves in Africa and is ranked 6th globally among exporters of liquefied Natural gas (LNG).

According to the US Energy Information Administration (EIA), Nigeria held an estimated 206.5 trillion cubic feet (tcf) of proved natural gas reserves at the beginning of 2023 and exported an average of 903.31 billion cubic feet (Bcf) of natural gas from 2012–2021.

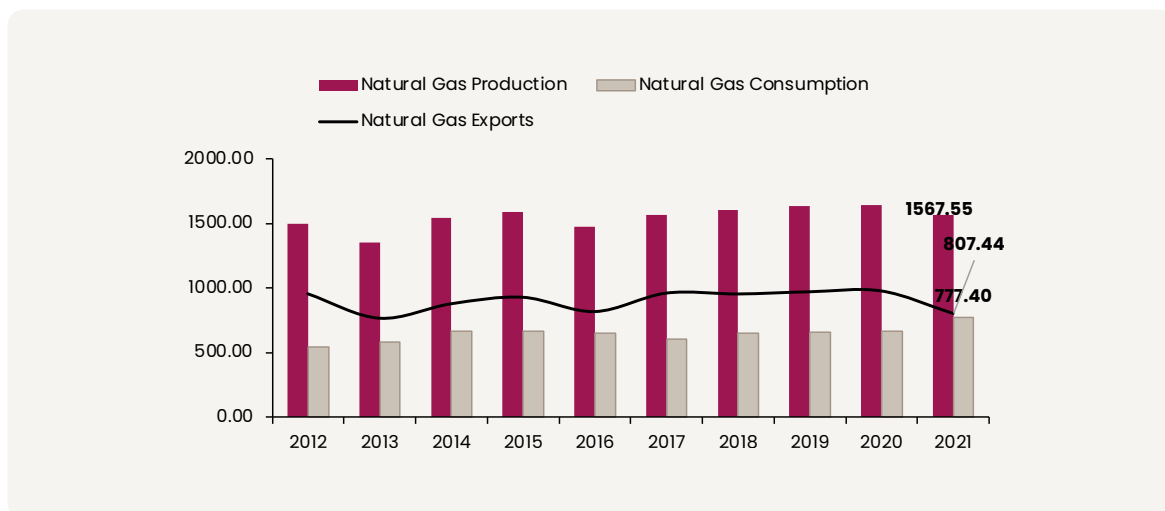
However, it's been observed that significant amounts of Natural Gas produced in Nigeria

which could be exported or used for power generation, is either flared or re-injected.

This is on the back of the lack of infrastructure to capture natural gas produced during oil production alongside demand constraints.

In 2022, Nigeria flared 5.32 billion cubic meters (Bcm) of natural gas, which is equivalent to 188 billion cubic feet (Bcf) making Nigeria the ninth-highest natural gas-flaring country in the world in terms of annual gas flaring volume.

**Figure 9: Nigerian Natural Gas Production (BCF), Consumption and Exports (Mbpd)**



Source: EIA, ARM Research

## Nigeria's LNG Export Ambitions: Expanding Infrastructure

The Nigerian government has indicated its plans to become an export hub for Liquefied Natural Gas (LNG) in Africa by exporting to regional countries and other Asian countries, like India and China. Currently, the country has only one LNG export terminal in operation located at the Bonny Island, which is also a

crude oil export hub. This Nigerian LNG (NLNG) terminal started its operations in 1999 and has six liquefaction trains developed over the years, with a total capacity of 1.10 trillion cubic feet (Tcf) per year.

Construction of the seventh (7) train began in 2021 and is due for completion by 2026.

Other deals like the UTM Offshore partnership with NNPC, which will take feedstock from the Yoho natural gas field owned by ExxonMobil and NNPC, are also in the works, underpinning the government's dedication to growing this sector and achieving its export targets.

Domestic consumption of LNG has also witnessed substantial increase to an average of 649 Bcf between 2012 and 2021.

This demand mainly stems from the power sector although, there has been growing demand from the commercial, residential, and industrial sectors.

The Nigerian government seek to tap into this potential by expanding its gas pipeline capacity country wide and even across borders to increase destination and volumes of natural gas exports.

One of such striking projects, is the Ajaokuta –Kaduna-Kano (AKK) pipeline currently being developed by NNPC.

This is a 614km- long LNG pipeline that will run from Ajaokuta to Kano Nigeria, at an estimated cost of USD2.8bn.

The pipeline project forms phase one of the Trans-Nigeria gas pipeline (TNGP) project which also includes a proposed pipeline that aims to connect the Qua Iboe Terminal on the coast of southern Nigeria to Ajaokuta.

The TNGP initiative is a component of a broader regional natural gas pipeline endeavor known as the Trans-Saharan Gas Pipeline (TSGP) project.

The TSGP's objective is to convey natural gas from Nigeria to Algeria through Niger. This would create an alternative pathway for Nigeria to export natural gas to Europe, utilizing Algeria's established international pipeline network.

The development of gas infrastructure in Nigeria is poised to facilitate the commercialization of currently flared gas while also likely to draw investments towards the untapped gas reserves.



# Industry Regulatory Framework

To overhaul the petroleum sector in Nigeria, the administration led by President Muhamadu Buhari in 2021 signed into law the Petroleum industry Act (PIA).

Despite being a major source of revenue and foreign exchange, the Oil sector performance has been dismal compared to other sectors in terms of GDP contribution (from 13% in 2013 to 5.67% in 2022).

The implementation of the PIA is expected to create a more conducive environment for growth, by attending to legal and fiscal encumbrances as well as attract and create investment opportunities for local and international investors



## Key Provisions of the Act

- PIA dissolves multiple petroleum regulatory agencies into two bodies: NURC and NMDPRA.
- NNPC is commercialized and becomes NNPCCL, a limited liability company.
- Petroleum minister retains power in formulating, monitoring, and administering government policy.
- 30% of NNPC Ltd.'s profits go to Frontier Exploration Fund for basin exploration.
- 10% of revenue from licenses and leases directed to the Frontier Exploration Fund.
- PIA addresses tensions between oil companies and host communities through HCDTF.
- HCDTF aims to provide social and economic benefits to host communities, with existing projects transferred under it.
- Oil license holders must contribute 3% of operating expenditure annually to HCDTF.
- Penalties, including license revocation, for non-compliance with host community obligations.
- Host communities are responsible for protecting oil and gas assets and held accountable for repairs. PIA replaces petroleum profits tax with a hydrocarbon tax, covering various hydrocarbons except deep offshore crude oil.
- Provision in PIA allows only companies with refining licenses or history in crude oil trading to import products during shortages, sparking controversy over potential monopolies.
- PIA imposes fines for gas flaring in midstream operations; proceeds go to Midstream and Downstream Infrastructure Fund for infrastructure investment.
- PIA introduces national grid for land rights management, defining license areas, well locations, and regulatory measures.
- Three new licenses for upstream activities: PEL for exploration, PPL for drilling, and PML for extraction and sales, administered by the Commission.
- PEL granted at Commission's discretion; PPL and PML obtained through competitive bidding.
- Existing OPL or OML holders can convert to PPL or PML, with certain adjustments; conversions finalized within 18 months of Act's effective date.
- Non-converting OPL or OML holders operate under current rules until licenses expire, then new regime applies.
- All existing Marginal Fields receive separate PMLs; Fields declared before Jan 1, 2021, not in production or development, convert to PPLs with Act's terms.

## The Fiscal Implications of the Petroleum Industry Act (PIA) of Nigeria

The new fiscal framework introduced by the Petroleum Industry Act (PIA) of Nigeria has significant implications for the country's oil and gas industry. These implications include:

### **Increased government revenue:**

The PIA is expected to increase government revenue from the oil and gas industry by an average of 30% over the next five years.

This is due to the new royalty regime, the new profit-sharing formula, and the new PIT rate.

The increased revenue will allow the government to invest in infrastructure, education, and healthcare, as well as to provide social safety nets for its citizens.

### **Increased investment:**

The PIA is designed to make Nigeria a more attractive investment destination for the oil and gas industry.

This is due to the new fiscal framework, which is more transparent and predictable than the previous framework. The increased investment will lead to the development of new oil and gas fields and the creation of new jobs.

### **Increased transparency:**

The PIA is intended to increase transparency in the oil and gas industry.

This is due to the new requirements for oil companies to disclose their financial information and to make their contracts with the government public.

The increased transparency will help to ensure that the government is getting a fair share of the profits from the oil and gas industry.

### **More sustainable development:**

The PIA includes several provisions that are designed to promote more sustainable development in the oil and gas industry.

These provisions include requirements for oil companies to invest in local communities, to protect the environment, and to reduce their emissions.

The more sustainable development will help to ensure that the benefits of the oil and gas industry are shared more equitably, and that the environment is protected for future generations.



## Energy Transitioning

The global energy transition is underway, with a shift from fossil fuels to renewable energy sources to mitigate climate change.

This is affecting the oil and gas sector in Nigeria, as major oil and gas companies are reducing investments in fossil fuels and divesting from their onshore assets in Nigeria.

Shell's new strategy, launched in 2021, aims to decrease total oil production by 1-2% annually, with a complete cessation of new frontier exploration investments by 2025.

Shell, responsible for a significant portion of Nigeria's oil and gas production, is aligning its upstream petroleum business to generate funds for the growth of its low-carbon ventures.

The company is divesting entirely from its onshore and shallow water holdings in Nigeria as part of its global strategy to have 55% gas in its portfolio by 2030.

Similarly, other International Oil Companies (IOCs) such as ExxonMobil and, more recently, Eni have expressed their desire to divest their onshore assets in Nigeria.

However, regulatory factors and other encumbrances have hindered progress in this regard.

Notably, the Petroleum Industry Act (PIA), enacted in 2021, primarily revolves around hydrocarbons and does not extensively address the sector's adaptation to the energy transition.



This raises questions about the level of investment Nigeria can attract into the oil and gas sector amid the ongoing energy transition.

However, the Nigerian government have enacted long term policies towards energy transitioning. In 2015, the country committed unconditionally through its Intended Nationally Determined Contribution (INDC), to reduce greenhouse gas emissions by 20% compared to the Business-as-Usual Scenario (BAU) and 45% compared to BAU with international support by 2030.

Furthermore, in its National Renewable Energy and Energy Efficiency Policy, the government envision the generation of 30,000 megawatts (MW) of electricity from renewable sources by 2030, contributing 30% of electricity

generation mix. More recently in its 2022 Energy transition plan, which aims to achieve carbon neutrality by 2060 the government outlines its strategy to reduce its carbon emissions across five key sectors; Power, Cooking, Oil and Gas, Transport and Industry

Nigeria remains one of the most densely populated countries in the world.

In the most recently released demographic statistics by the National Bureau of statistics, we observed that working people represents the bulk of the population. Meaning, the population with the wherewithal to pay for telecommunications service is enormous and with an outlook for a growing population, that can only mean well for patronage of telecommunication services.

# Company Analysis



## A Mixed Bag of Revenue Growth and Profit Declines

Based on Total Energies' unaudited financial results for the fiscal year 2023, the company demonstrated a robust revenue growth of 31.81% year-on-year (YoY), reaching NGN635.95bn.

This marked a significant increase compared to the 41.36% YoY growth to NGN362.73bn in the corresponding period of 2022.

The noteworthy progress was fueled by elevated performance across all revenue streams. Particularly, petroleum products played a pivotal role, contributing the most with a 40.41% YoY increase to NGN509.31bn.

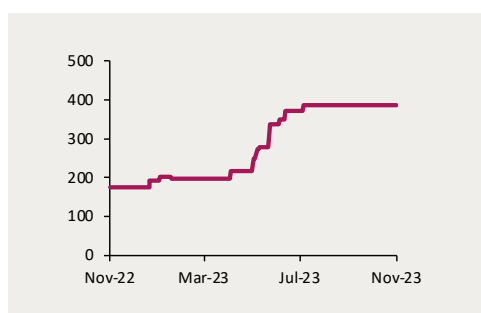
On the other hand, Lubricants and other segments showed a more moderate single-digit growth of 5.00% to reach NGN96.20bn. The surge in petroleum revenue was attributed to the rise in pump prices following the removal of the premium motor spirit (PMS) subsidy in the first half of 2023.

Despite the impressive revenue growth, the operating profit experienced a decline of 13.55% YoY in 2023, in contrast to the growth of 7.35% in 2022. This downturn was primarily driven by a surge in other expenses for the period, totaling NGN11.50bn.

Additionally, administrative expenses witnessed a substantial increase of 37.39% YoY, amounting to NGN44.43bn, while Selling and Distribution costs rose by 80.00% YoY to reach NGN6.66bn. Furthermore, net finance costs also saw a significant uptick, rising by 101.11% YoY to NGN6.31bn.

These cost increases resulted in negative growth for both Profit before tax (PBT) and Profit after tax (PAT) over the period. For the second consecutive year, PBT

Price	NGN346
52-week range	NGN207-395
TP	NGN299.7
Rating	Sell
Market Cap	NGN117,644.3MN



declined by 28.20% to NGN17.61bn, and PAT experienced a 44.34% decrease, reaching NGN12.93bn. Consequently, the net profit margin declined from 3.34% in 2022 to 2.03% in 2023. However, it's noteworthy that the gross profit margin increased to 12.87% in 2023 from 12.47% in 2022.

*Total Energies maintains a robust top line as government policies aimed at stimulating growth within the sector gains traction. However, cost pressures stemming from the current inflationary environment continue to hinder bottom-line performance.*

*Our analysis reveals a lack of concrete measures to address these challenges, particularly the burden of foreign exchange revaluation.*

*Consequently, we've revised our target price down to NGN299.7, representing a potential downside of 13.51% compared to the current closing price of NGN346.5 (as of February 2nd, 2023). Based on our assessment, we assign a SELL recommendation on this stock.*

## Cost Of Sales: Inventory Accumulation Drives Up Cost

Sales costs surged by 31.22% year-on-year (YoY) in 2023FY, a notable increase from the 47.49% YoY in 2022FY, reaching NGN554.13bn.

This uptick was mainly fueled by a significant boost in inventory across all product categories, with net changes soaring by 32.08% YoY to NGN539.59bn.

The mounting expenses can be traced back to persistent disruptions in the supply chain due to the Russia-Ukraine crisis and the heightened volatility in crude oil prices.

These factors have resulted in a substantial accumulation of inventory, consequently exerting upward pressure on the overall cost of sales.

## Operating Profit Eroded by FX Revaluation

Higher expenses took a toll on the operating profit for the period, causing a 13.55% year-on-year decline to NGN23.92bn.

This contrasts with the 7.35% increase to NGN27.67 billion seen in the 2022 fiscal year. The main driver behind this decline was foreign exchange losses recorded as other expenses, attributed to the Naira's downward revaluation after the unification of foreign exchange markets earlier in the year.

Administrative expenses also experienced a significant uptick, rising by 37.39% year-on-year to NGN44.43bn. This increase was fueled by various factors, including a 23.30% year-on-year surge in staff expenses due to an increase in short-term employee benefits, and a whopping 232.27% year-on-year surge in technical assistance and management fees.

Moreover, selling and distribution costs, reflecting the cost of transportation on sales, soared by 80.00% year-on-year to NGN6.66bn during the period, influenced by the country's soaring inflation impacting transportation. For context, inflation rose by a total of 7.58%, reaching 28.92% by the end of the 2023 fiscal year.

On a brighter note, the company experienced a significant expansion in other income sources, with a 24.44% increase to NGN4.33 billion.

This growth was primarily driven by contributions from Minimart stations (Bonjour stores), rent, and vendor management fees. The segment saw substantial growth of 25.65% year-on-year, reaching NGN4.09 billion in the 2023 fiscal year.

Additionally, gains from the disposal of property, plant, and equipment surged by 56.94% year-on-year to NGN241.02 million

during the period. Unfortunately, these gains were not sufficient to offset the elevated expenses.

## Net Finance Costs Soar as Naira Devaluation and Monetary Policy Bite

In 2023FY, there was a notable 101.11% YoY increase in net finance costs, reaching NGN6.31bn.

This contrasts with the 234.03% rise to NGN3.14bn in the same period of 2022. The significant surge was mainly driven by a spike in interest on other loans (129.40% YoY to NGN4.53bn) and interest on lease liabilities (39.80% to NGN94.27mn).

As a result, the overall finance cost experienced an 87.55% YoY uptick, reaching NGN10.11bn (compared to a 204.70% YoY increase to NGN5.39bn in 2022FY).

The substantial rise in net finance costs is attributed to the devaluation of the naira and the consistently high interest rates maintained due to a hawkish monetary policy stance.

*Anticipating a continued environment of persistently high interest rates, we foresee the Net Finance cost to maintain its elevated position.*

*Nevertheless, our expectations point towards a positive bottom-line performance.*

### Total – 2023FY Financial Highlights

N'Millions	9m:2022	9m 2023	YoY
Revenue	482,470,780.	635,951,600.	31.81%
Cost of sales	(422,286,679.)	(554,131,894.)	31.22%
Gross profit	60,184,101.	81,819,706.	35.95%
Other income	3,482,059.	4,333,092.	24.44%
Selling & distribution costs	0.	(11,501,118.)	
Administrative expenses	(32,337,293.)	(44,428,211.)	37.39%
Impairment write-back/ (loss) on financial assets	40,189.	358,570.	792.21%
Operating profit	27,667,540.	23,919,356.	-13.55%
Finance income	2,256,941.	3,807,580.	68.71%
Finance costs	(5,392,201.)	(10,112,925.)	87.55%
Net finance costs	(3,135,260.)	(6,305,345.)	101.11%
Profit before income taxation	24,532,280.	17,614,011.	-28.20%
Income taxation	(8,413,904.)	(4,682,829.)	-44.34%
Profit for the period	16,118,376.	12,931,182.	-19.77%
Basic and diluted earnings per share	47.47	38.09	-19.76%



Balance sheet Extract N'Millions	2022FY	2023FY	YOY
Total Assets	307,815,723	426,583,441	38.58%
Share holders Equity	50,286,810	53,977,551	7.34%
Current Liability	247,960,348	364,510,668	47.00%
Non Current Liability	9,568,565	8,095,222	-15.40%

Balance sheet Extract N'Millions	2022FY	2023FY	YOY
Gross Profit margin	12.47%	12.87%	0.39%
Operating profit/loss margin	5.73%	3.76%	-1.97%
Liquidity Ratio : Current Ratio	103.18%	102.00%	-1.17%
Solvency Ratio: Debt to Equity Ratio	512.12%	779.95%	267.83%
ROA	5.24%	2.62%	-2.62%
ROE	32.05%	23.05%	-9.00%



## Bottom Line Remains Resilient Amidst Elevated Cost

Seplat Energy's revenue surged by an impressive 84.81% year-over-year (YoY) to NGN478.130bn in the first nine months of 2023, compared to a 41.62% YoY increase to NGN258.71bn in the same period of 2022.

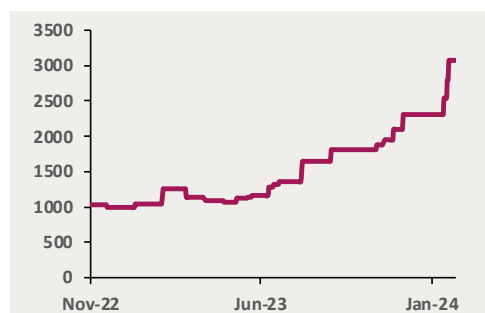
This robust growth was fueled by substantial gains in both crude oil and gas revenue streams, which rose by 88.93% and 58.41%, respectively.

The strong performance across revenue streams is attributed to improved uptime at the Forcados Oil Terminal and the availability of the Amukpe-Escravos pipeline, which supported robust revenue generation. Consequently, gross earnings soared by 107.20% YoY to NGN245.61 bn, compared to a 103.94% increase to NGN118.54 bn in the first nine months of 2022.

Despite the impressive revenue growth, operating profits declined by 7.42% YoY to NGN91.32bn, compared to a 57.55% increase to NGN98.64bn in the first nine months of 2022.

This decline was primarily driven by substantial increases in administrative expenses, which surged by 85.72% to NGN61.67bn, along with other losses incurred

Price	NGN 3,074.60
52-week range	NGN 1,056.12– 3,382.00
TP	NGN 3,224.00
Rating	BUY
Market Cap	NGN 1,809.2bn



from operating activities. Net finance cost also grew by 33.70% YoY to NGN28.37bn. As a result, profit before tax (PBT) for the period fell by 18.87% YoY to NGN62.85 bn (vs 100.46% to NGN77.47bn), reflecting the impact of higher operating costs.

However, profit after tax (PAT) emerged stronger, posting a 38.60% YoY to NGN46.93bn (vs 143.65% to NGN33.86bn in 9m:2023) increase, driven by the company's deferred tax assets.

*Seplat Energy holds a promising outlook for the future, driven by its acquisition of assets in OML 40. This expansion has significantly bolstered the company's production capacity, paving the way for enhanced revenue generation across all revenue streams.*

*Additionally, increased activity across export lines is poised to further boost Seplat Energy's top-line performance.*

*Considering these positive developments, we have revised our target price to NGN 3224.00, representing a compelling upside potential of 4.86% compared to the current closing price of NGN 3074,60 as of February 2nd, 2023.*

*Given these factors, we assign a Buy rating to Seplat Energy.*

## Cost of Sales Surges Amidst Asset Acquisitions and Inflation

In 9m:2023, Seplat's cost of sales surged by 65.88% year-on-year to NGN232.51bn, compared to a 12.54% increase to NGN140.17bn in 2022.

This surge was primarily driven by increases in royalties (+50.63% to NGN83.30bn), depletion, depreciation, and amortization (+86.49% to NGN68.96bn), crude handling fees (+138.71% to NGN27.55bn), and operational and maintenance expenses (+42.83% to NGN40.63bn).

These increases were attributed to the company's acquisition of new assets, reduction in the IP reserves, increased productivity across revenue streams, and persistent inflationary pressures.

## Surging Expenses Offset Production Gains

Operating profit for the period declined by 7.42% YoY to NGN 91.32 billion in the first nine months of 2023 (compared to a 57.55% increase to NGN 98.64bn in 9m:2023).

This decline was primarily driven by a surge in general and administrative expenses (85.72% increase to NGN 61.67bn) and other expenses arising from operating activities.

The growth in administrative expenses was fueled by a jump in professional and administrative charges (439.32%) and employee benefits (63.72%).

Additionally, the rise in other losses was attributed to a production overlift amounting to NGN 75.43bn and losses on foreign exchange revaluation (NGN 16.38 billion), which stemmed from the unification of the foreign exchange windows.

It's important to note that overlifts, while representing a surplus of crude oil lifted above the share production, are accounted for as deferred revenue, and recognized on the income statement as "other loss" in accordance with accounting standards (OT02190).

*We foresee a resurgence in operating profit for Seplat Energy, fueled by a robust topline performance stemming from increased output across revenue streams and further bolstered by higher crude oil prices as OPEC maintains its commitment to keeping prices above USD80 per barrel.*

## Surge In Net Finance Costs Driven by High Interest Rates

Net finance cost witnessed a substantial 33.70% year-over-year (YoY) hike, reaching NGN28.36bn in 9m:2023 compared to NGN21.22bn in 9m:2022.

This surge was primarily driven by a 49.76% YoY increase in finance cost to NGN32.08bn, which in turn stemmed from a 39.00% YoY increase in interest paid on bank loans to NGN28.61bn.

This significant growth can be attributed to the Central Bank of Nigeria's (CBN) Monetary Policy Committee's (MPC) hawkish stance, which has kept interest rates elevated.

*Looking ahead, we expect interest rates to remain elevated amidst persistent inflationary pressures.*

*Consequently, we anticipate that net finance costs will continue to exert upward pressure. However, we do not expect these increased costs to materially hinder bottom-line performance.*

### SEPLAT- 9M:2023 Financial Highlights

N'Millions	9m:2022	9m 2023	YoY
Revenue from contracts with customers	258,716.	478,130.	84.81%
Cost of sales	(140,173.)	(232,514.)	65.88%
Gross profit	118,543.	245,616.	107.20%
Other (loss)/income	22,279.	(89,762.)	-502.90%
General and administrative expenses	(33,207.)	(61,673.)	85.72%
Impairment reversal/(loss) on financial assets	(1,619.)	(633.)	-60.90%
Impairment loss on non-financial assets	(3,512.)	0.	
Fair value loss	(526.)	(25.)	-95.25%
Operating profit	98,644.	91,321.	-7.42%
Finance income	202.	3,709.	1736.14%
Finance cost	(21,420.)	(32,078.)	49.76%
Finance cost-net	(21,218.)	(28,369.)	33.70%
Share of profit from joint venture accounted for using the equity method	170.	170.	0.00%
Profit before taxation	77,474.	62,854.	-18.87%
Income tax (expense)/credit	(43,616.)	(15,926.)	-63.49%

Profit for the period	33,858.	46,928.	38.60%
Basic earnings/(loss) per share ₦	59.3	40.58	-31.57%
<b>N'Millions</b>	<b>9m:2022</b>	<b>9m 2023</b>	<b>QoQ</b>
Total Assets	1,581,612	2,745,367	73.58%
Share holders Equity	786,894	1,340,592	70.37%
Current Liability	794,718	1,404,775	76.76%
Non Current Liability	527,361	901,984	71.04%
<b>Balance sheet Extract N'Millions</b>	<b>9m 2022</b>	<b>9m 2023</b>	<b>QoQ</b>
Gross Profit margin	45.82%	51.37%	5.55%
Operating profit/loss margin	-0.20%	-0.01%	0.20%
Liquidity Ratio : Current Ratio	49.67%	48.48%	-1.19%
Solvency Ratio: Debt to Equity Ratio	100.99%	104.79%	3.79%
ROA	2.14%	1.71%	-0.43%
ROE	4.30%	3.50%	-0.80%

## 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%	N/A	
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	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

ARM Securities Contact		
Research	234 (1) 270 1653	research@armsecurities.com.ng
Institutional Sales & Trading	234 (1) 448 8833	Trading@armsecurities.com.ng
Customer Service	234 (1) 448 8282	customerservice@armsecurities.com.ng

Analyst	
David Gwatau	David.Gwatau@arm.com.ng
Creative Direction	
Oluwatayo Oshanimi	oluwatayo.oshanimi@arm.com.ng



**Copyright © 2024 Asset & Resource Management Company Limited (“ARM”).**

All rights reserved. Unauthorized use, reproduction, distribution, or disclosure of this document is strictly prohibited. This material has been issued by Asset & Resource Management Company Limited (“ARM”), a Company regulated by the Nigerian Securities and Exchange Commission.

The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARM, and its analysts believe to be reliable. Neither ARM nor any of its Research Analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information.

This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever.

The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies.

This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor.

The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice.

This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARM, its directors, officers, employees, or designated agents.

Members of ARM may act as broker, advisor, or lender, or make a market in any investments or issuers referenced in this report.

Further information on any of the securities discussed herein may be obtained upon request to ARM. By accepting this document, you agree to be bound by the foregoing limitations.



Lagos

1 Mekunwen Road

Off Oyinkan Abayomi Drive

P.O. Box 55765

Ikoyi Lagos, Nigeria

T: 0700CALLARM (0700 2255 276) | + 234 (1) 2715000

[www.arm.com.ng](http://www.arm.com.ng)