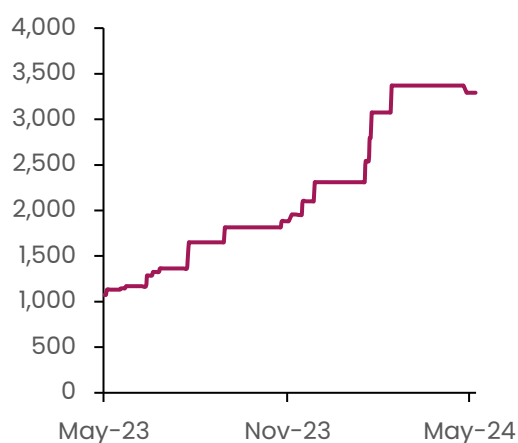




Seplat | Oil & Gas | Q1:2024

Price	NGN3,291.40
	NGN3342.21-
52-week range	NGN1147.44
TP	NGN3,790.80
Rating	OVERWEIGHT
Market Cap	NGN1,743.1bn



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Seplat Energy (Seplat)

Earnings Note: Q1:2024

Elevated Tax Expense Drives Net Loss

In Q1:2024, Seplat Energy's revenue grew by a remarkable 76.73% year-on-year (YoY) to reach NGN268.62bn. This exceptional performance was fueled by substantial growth in both crude oil (up 64.72% YoY) and gas (up 184.84 % YoY) revenue streams. Average production slowed down by 4.8% YoY to 49,258 barrels of oil and equivalent per day (boepd) compared to 51,720 boepd. However, higher oil (USD86.17pb in Q1:2024 vs USD82.32pb in Q1:2023) and gas (USD3.11/Mscf in Q1:2023 vs. USD2.88/Mscf in Q1:2024) prices over the period supported the surge observed in total earnings.

Operating profit remained strong during the period, experiencing a robust growth of 156.86% YoY to reach NGN122.38bn. This was primarily driven by a strong revenue performance over the period, offsetting a significant increase in administrative expenses which increased by 281.27% YoY, totaling NGN359.31bn. Furthermore, Other income came in at NGN97.17bn in Q1:2024 (compared to a loss of NGN33.87bn in Q1:2023), which further bolstered Operating profits. Net finance costs increased by 184.25% YoY to NGN23.04bn. Despite these challenges, profit before tax (PBT) showed strong growth as it rose by 161.90% YoY to NGN103.51bn. However, profit after tax (PAT) for the period came in negative as it declined by 110.88% YoY noting a loss at NGN2.87bn. This was driven by a substantial surge in the company's Income Tax expense (+712.11% to NGN106.39bn).

We remain positive on the prospects of Seplat. The signing of an Executive Order in March 2024 offering fiscal incentives for gas and midstream businesses, coupled with the Nigerian Midstream and Downstream Petroleum Regulatory Agency (NMDPRA's) upward revision of domestic gas prices to USD2.42/Mscf, are expected to boost Seplat's revenue generation, overall business efficiency, and growth trajectory. Further bolstering our optimism, the long-awaited approval of Seplat's acquisition of Exxon Mobil's share capital in Mobil Producing Nigeria Unlimited (MPNU) appears to be imminent. This acquisition is expected to expand Seplat's production capacity and market share. Consequently, we maintain our target price of NGN3,790.80, representing a 12.49% upside potential from the current closing price of NGN3,370 as of May 7th, 2024. Consequently, we maintain an Overweight rating on this stock.

Input Costs Challenge Profitability Despite Production Gains

In Q1:2024, cost of sales surged by a staggering 236.08% YoY to NGN204.81bn (from NGN60.94bn in Q1:2023). This increase was driven by increases across all subcomponents. Most worthy of note is the surge in Royalties (+248.29% to NGN75.88bn), depletion, depreciation & amortization (+272.5% to NGN61.90bn), and crude handling fees (+258.65% to NGN28.29bn) subcomponents. We attribute this to the company's asset acquisition, and increased productivity, despite persistent inflationary pressures that have plagued the country post the Covid-19 pandemic.

Operating Income Offsets Elevated Cost

Operating profit (+156.86% YoY to NGN163.72bn) came in stronger during the period amidst increases in operating expenses (OPEX). This is attributed to a strong top line performance in Q1:2024. The rise in OPEX was primarily on the back of a surge in administrative expenses, which went up by 281.27% YoY, to reach NGN359.31bn. This was driven by a significant uptick in employee benefits (+296.31% to NGN24.07bn), Professional and consulting fees (+228.60% to

NGN33.32bn), Depreciation (+753.80% to NGN26.98bn), and Executive and non-Executive Director's emoluments (+233.49% to NGN36.35bn). However, the surge in operating costs was offset by "Other Income" incurred from operating activities which came in at NGN97.17bn in Q1:2024 compared to a loss of NGN33.87bn in Q1:2023. Higher "Other income" was on the on the back of a production underlift amounting to NGN84.30bn, as well as gains on foreign exchange revaluation at NGN8.97bn alluded to the lower value of the Naira against the US Dollar. It is worth noting that, underlifts although being a shortfall of crude oil lifted below the company's share of production, is accounted for as receivables and is recognized on the income statement as "other Income" according to accounting standards (OT02190).

Elevated Interest Rate Environment Puts Pressure on Finance Cost

Net Finance cost over the period rose by 184.25% YoY, reaching NGN23.04bn. This increase is primarily attributed to a 239.25% YoY surge in Finance cost offsetting significant gains in Finance income (+833.73% to NGN7.00bn). The growth in Finance cost was on the back of a 218.93% YoY surge in interest paid on bank loans, reaching NGN27.60bn within the period. This upsurge may be attributed to the hawkish policies implemented by the Central Bank of Nigeria's (CBN) Monetary Policy Committee (MPC) to combat inflation.

Surging Tax Expense Erodes Profits

In Q1:2024, Profit before tax was positive as it grew by 161.90% YoY to NGN103.51bn despite elevated costs. However, a surge in Income Tax expense (+712.11% to NGN106.39bn) eroded these gains leading to a net loss over the period. The surge in tax expense was majorly on the back of higher non-cash deferred taxes incurred. This led to an upsurge in the effective tax rate for the period to 103% (vs. 33% in Q1:2023). Consequently, Profit after Tax declined by 110.88% YoY noting a loss at NGN2.87bn.

Overview of Financials Q1:2024FY

Income Statement (NGN'Million)	Q1:2023	Q1:2024	YoY
Revenue from contracts with customers	151,991	268,618.	76.73%
Cost of sales	(60,939)	(204,805.)	236.08%
Gross profit	91,052	63,813.	-29.92%
Other (loss)/income	(33,874)	97,166.	-386.85%
General and administrative expenses	(9,424)	(35,931.)	281.27%
Impairment reversal/(loss) on financial assets	412.	972.	135.92%
Fair value loss	523.	(3,643.)	-796.56%
Operating profit	47,643	122,377.	156.86%
Finance income	750.	7,003.	833.73%
Finance cost	(8,857)	(30,047.)	239.25%
Finance cost-net	(8,107)	(23,044.)	184.25%
Share of profit from joint venture accounted for using the equity method	12.	4,180.	34733.33%
Profit before taxation	39,524	103,513.	161.90%
Income tax (expense)/credit	(13,100)	(106,387.)	712.11%
Profit for the period	26,424.	(2,874.)	-110.88%
Basic earnings/(loss) per share ₦	45.38	2.67	-94.12%
Balance sheet Extract (NGN'Million)	Q1:2023	Q1:2024	QoQ
Total Assets	1,660,973	4,595,160	176.65%
Shareholders' Equity	838,380	2,512,049	199.63%
Current Liability	290,510	782,392	169.32%
Non-Current Liability	532,083	1,300,719	144.46%
Balance sheet Extract (NGN'Million)	Q1:2023	Q1:2024	QoQ
Gross Profit margin	59.91%	23.76%	-36.15%
Operating profit/loss margin	31.35%	45.56%	14.21%
Liquidity Ratio: Current Ratio	149.10%	149.37%	0.27%
Solvency Ratio: Debt to Equity Ratio	52.66%	56.10%	3.44%
ROA	1.59%	-0.06%	-1.65%
ROE	3.15%	-0.11%	-3.27%

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 otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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