

## Tough Oil Market Climate Pressures Performance

### Crude Oil Sales Decline Amid Depressed Spell in Global Oil Markets

SEPLAT's Q1:2020 financial performance showed that revenue declined by 13.34% YoY to NGN42.41bn (vs. NGN48.94bn in Q1:2019). The decline was off the back of a slowdown in crude oil sales, which declined by 3.41% to NGN34.90bn (vs. NGN36.21bn in Q1:2020), and a 41.38% reduction in Gas sales at NGN7.51bn. SEPLAT's working interest production in Q1:2020 came in at 48,491bpd; within its guidance of 47,000bpd – 57,000bpd for the period. The production figures consist of 33,368bpd of liquid volumes (a YoY increase of 52.47%) and 88MMscfd of gas (a YoY decrease of 38.46%). Liquid volumes were fueled by the increase (+242.35% YoY) in production at OML 53 and an additional contribution (+10,056bpd) from OML 40 which was acquired from Eland Oil & Gas. However, despite the increased volumes, the weaker oil sales reflected the reduced global oil demand due to the COVID-19 pandemic, alongside the oil price war between Saudi Arabia and Russia, which saw oil prices (Brent) average USD50.82pb in Q1:2020 (falling to an unprecedented low of USD22.74 in the period), compared to an average of USD63.83pb in Q1:2019. Similarly, gas revenue was impaired by both lower gas prices averaging USD2.89/Mscf (vs. USD3.24/Mscf in Q1:2019) and lower volumes sold, which was further exacerbated by the 15-day turnaround maintenance at the Oben Gas Plant in March.

### No Quick Fix to Demand Problem

The prospects for Seplat's gas business look bright over the medium term as the completion of the 300MMscfd capacity ANOH gas plant by Q4:2021 is expected to support topline and contribute to the company's segment diversification goals. *With Nigeria expected to slash oil output to the range of 1.41MMbpd - 1.58MMbpd as part of the OPEC+ April agreement to cut supply, we expect the company's crude volumes to drop in subsequent periods.* The outlook for prices does not look bullish either; the lingering COVID-19 pandemic will keep crude oil demand and prices very low. Although the company has 60% of its 2020 production hedged at price of USD45pb from Q1 to Q3 of 2020, *we still expect a 26.01% drop in revenue by 2020FY at NGN158.48bn (vs. NGN214.16 in 2019FY).*

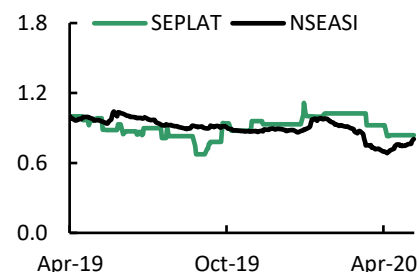
### Bearish Outlook on Oil Prices Induces Impairment Loss

Cost-to-Sales worsened in Q1:2020 to 74.63% (vs. 48.95% in Q1:2019) with total cost of sales at NGN31.65bn (vs. NGN23.96bn in Q1:2019). Gross margin thereby declined sharply to 25.37% (vs. 51.05% in Q1:2019). This is in contrast with the trend in the last 4 years during which gross margin has expanded at a CAGR of 12.84%. *This reflects the impact of COVID-19 on crude oil demand and an early indication that maintaining its margins will be a major challenge for the company during this period.* An impairment loss of NGN47.46bn (due to anticipated lower crude prices) dragged EBIT by 351.02% YoY to a loss of NGN25.04bn. Net finance costs also rose higher, resulting in the NGN34.63bn loss after tax. However, despite the turmoil in the crude oil market, the company's liquidity position improved slightly YoY, with current and quick ratios ticking up to 1.75x and 1.59x respectively (vs. 1.51x and 1.36x in 2019FY), while Operating Cash flow to sales marginally improved to 0.55x (vs. 0.50x in Q1:2019).

### Outlook and Recommendation

We project an EBITDA of NGN73.09bn for 2020, with earnings expected to drop to NGN25.48bn (-68.54% YoY) under our base case scenario of average crude prices between USD28pb – USD35pb for the rest of the year. However, with the pandemic expected to persist for longer, risks are tilted further to the downside and earnings could drop much deeper, to a loss of NGN8.29bn in our worst case. We adopted a target EV/EBITDA of 5.83x and adjusted for its net debt of NGN140.11bn to arrive at our 2020FY target price of NGN500.06. This implies an upside potential of 4.97% from its current price, thus we recommend a **HOLD**.

Company	SEPLAT
<b>Valuation</b>	
Trailing EPS	69.84
BVPS	1,061.81
P/E	7.08x
P/BV	0.47x
Target EV/EBITDA	5.83x
Dec-2020 Exp. EBITDA	73.09bn
Dec 2020 Target price	<b>500.06</b>
Current Price	476.40
Up/Downside Potential	4.97%
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROAE	6.91%
ROAA	3.82%
Net margin	-81.65%
Asset Turnover	0.04x
Leverage	1.81
Yr Hi	605.00
Yr Lo	476.40
YTD return	-27.58%
Beta	0.66
Adjusted Beta	0.77
Shares outstanding	572.00bn
Market cap [NGN]	<b>272.50bn</b>
Financial year end	Dec
Most Recent Period (MRP)	Q1:2020



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	656.04
EBITDA						Max	370.76
		66.45	69.77	73.09	76.74	80.40	
EV/EBITDA	5.30x	370.76	401.52	432.29	466.11	500.02	
	5.57x	402.13	434.46	466.79	502.33	537.97	
	5.83x	432.34	466.17	500.06	537.21	574.52	
	6.12x	466.02	501.54	537.07	576.12	615.28	
	6.41x	499.71	536.92	574.12	615.03	656.04	

**Financial Highlights (NGN billion) SEPLAT PETROLEUM DEVELOPMENT COMPANY PLC**

**Q1:2020 Financial result**

<b>Profit &amp; Loss Account</b>	<b>Q1:2020</b>	<b>Q1:2019</b>	<b>y/y Growth</b>
Revenue	42.41	48.94	-13.35%
Cost of Sales	31.65	23.96	32.13%
Gross Profit	10.76	24.99	-56.95%
OPEX	51.44	9.98	415.38%
Operating Profit	-25.04	9.97	-351.02%
Finance cost	6.94	4.89	42.10%
Other income	15.65	5.03	210.99%
PBT	-31.11	5.96	-622.26%
PAT	-34.63	10.02	-445.51%
<b>Balance Sheet</b>	<b>Q1:2020</b>	<b>FY2019</b>	<b>y/y Growth</b>
Oil and Gas properties	512.26	478.37	7.08%
Other property, plant and equipment	5.69	4.36	30.41%
Inventories	28.57	25.94	10.11%
Trade and Other Receivables	151.23	149.44	1.20%
Cash and cash balances	121.32	102.24	18.66%
Other Assets	3.91	4.04	-3.20%
<b>Total Assets</b>	<b>1,109.04</b>	<b>1,004.23</b>	<b>10.44%</b>
Shareholders' fund	613.73	553.81	10.82%
Trade and Other payables	136.97	143.93	-4.83%
Interest Bearing loans and Borrowings	29.58	34.49	-14.24%
Total Liabilities	495.31	450.43	9.97%

## Contact Information

---

### Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)  
abisoyeoludipe@meristemng.com (+234 708 000 7861)  
contact@meristemng.com

---

### Investment Banking/Corporate Finance

seunlijofi@meristemng.com (+234 808 536 5766)

---

### Wealth Management

damilolahassan@meristemng.com (+234 803 613 9123)  
www.meristemwealth.com  
Tel: +234 01 738 9948

---

### Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)  
martinaosague@meristemregistrars.com (+234 802 303 1783)  
www.meristemregistrars.com  
Tel: +23401-280 9250

---

### Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)  
ifeomaogalue@meristemng.com (+234 802 3942967)

---

### Client Services

omosolapeakinpelu@meristemng.com (+234 803 694 3034)  
blessingogwuche@meristemng.com (+234 706 896 5173)

---

### Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)  
research@meristemng.com

---

**Corporate websites:** [www.meristemng.com](http://www.meristemng.com) [www.meristemwealth.com](http://www.meristemwealth.com) [www.meristemregistrars.com](http://www.meristemregistrars.com)

---

**Meristem Research can also be accessed on the following platforms:**

**Meristem Research portal:** [meristem.com.ng/rhub](http://meristem.com.ng/rhub)

**Bloomberg:** MERI <GO>

**Capital IQ:** [www.capitaliq.com](http://www.capitaliq.com)

**ISI Emerging Markets:** [www.securities.com/ch.html?pc=NG](http://www.securities.com/ch.html?pc=NG)

**Reuters:** [www.thomsonreuters.com](http://www.thomsonreuters.com)

**FactSet:** [www.factset.com](http://www.factset.com)

---

---

## Analyst's Certification and Disclaimer

---

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

**Analysts' Compensation:** The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

---

## Investment Ratings

---

### Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

### Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

### Ratings Specification

- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

## Definitions

**Price Targets:** Price targets reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company's earnings fall short of estimates.

**Asset allocation:** The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

---

## Movements in Price Target

---

**Company Name:** Seplat Petroleum Development Company Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
04-Mar-2020	NGN544.50	NGN698.41	NGN608.24	<b>BUY</b>	<b>BUY</b>
15-May-2020	NGN476.40	NGN608.24	NGN500.06	<b>BUY</b>	<b>HOLD</b>

---

## Company disclosures

---

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
Seplat Petroleum Development Company Plc	

- The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- Meristem beneficially owns 1% or more of the equity securities of the company
- Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- Meristem beneficially holds a major interest in the debt of the company
- Meristem has received compensation for investment banking activities from the company within the last 12 months
- Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- The company is a client of the stock broking division of the Meristem group.
- The company is a client of the investment banking division of the Meristem group.
- Meristem is the registrar to the company.
- The company owns more than 5% of the issued share capital of Meristem
- Meristem has other financial or other material interest in the company.

---

## Conflict of Interest

---

It is the policy of Meristem Securities Limited and its subsidiaries and affiliates (Individually and collectively referred to as “Meristem”) that research analysts may not be involved in activities that suggest that they are representing the interests of Meristem in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured so as to avoid any conflict of interests.

For example, research analysts are not subject to the supervision or control of anyone in Meristem’s Investment Banking or Sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analysts’ published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

---

## Important Disclosure

---

**For U.S. persons only:** This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to “Major Institutional Investors” as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

---

## Legal entity disclosures

---

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars businesses which are regulated by the SEC and ICMR.

Copyright 2020 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Meristem Securities Limited.