

A Silver Lining Amidst the Uncertainty

Lower Oil Prices sends Revenue Crashing.

SEPLAT's 2020FY performance ended on a negative note, as topline dipped by 10.85% YoY to NGN190.92bn (vs. 2019FY: NGN214.16bn). Excluding the impact of Naira devaluation, the decline was much worse, as topline fell by 23.98% YoY (2020FY: USD530.47mn, 2019FY: USD697.78mn). The oil industry faced tough headwinds in 2020, with global oil demand cascading to record low levels. Nevertheless, SEPLAT managed to increase crude oil lifted by 36.36% YoY, arriving at a total of 10.5MMbbls from 7.7MMbbls in 2019. Working interest production grew by 10.08%YoY (51,183boepd) and stayed within guidance of 47,000boepd – 57,000boepd set for the period. The uptick in production was due to new additions from OML 40 and Ubima blocks (acquired Eland asset) which contributed 26% of total liquid production in 2020. However, despite selling higher volumes, crude oil revenue plummeted by 15.59% YoY to USD417.94mn (prev. USD495.10mn), on the back of a lower average oil price of USD39.95/barrel realized for 2020, compared to USD64.40/barrel in 2019. Albeit we note that this fall was marginal (-1.01% YoY) in Naira terms (2020FY: NGN150.42bn, vs. 2019FY: NGN151.95bn), due to the positive impact of the currency devaluation on crude sales.

Gas Business Looks Promising for Topline.

In the gas segment, sales plunged by 17.11% YoY to USD112.53mn (-2.80% YoY to NGN40.50bn). This was affected by lower gas demand from off-takers due to the pandemic, which saw working interest production for gas dip by 22.90% YoY to 101 MMscfd. **Nonetheless, we are encouraged by SEPLAT's continued investment in gas production, which bears good prospects for the segment's growth over the medium term.** Gas sales has so far contributed c.21% to topline and the ANOH gas plant development at OML 53 is projected to increase SEPLAT's total gas processing plant capacity by 83.88% to over 825MMscfd. **Thus, our outlook for gas contribution to topline is positive, and is expected to hit c.32% when the ANOH gas project is completed in Q4:2021. For crude oil, an uptick in oil price as well as growing oil demand would prop up sales – also as SEPLAT's working interest production increases due to new additions from acquired assets. Hence, we expect overall topline to uptick by 33.66% to NGN255.19bn (USD622.44mn, +17.33% YoY) for 2021FY.**

Cost of Sales Reach Record Peak.

Increased production from the Eland asset gave rise to an uptick in royalties and crude handling fees, thus lifting cost of sales by 34.38% YoY to USD405.89mn (vs. USD302.04mn in 2019FY). The OPEC+ revised production adjustment also contributed to its increased cost profile, as SEPLAT's production quota was cut to 410,000bbls (on a gross basis), impacting economics of scale. This contributed to the spike (+43.55% YoY) in unit production cost to USD8.90/boe, from USD6.20/boe in 2019. **Nevertheless, we expect to see a reduction in cost of sales by 15.49% in 2021, owing to cost saving projects already in progress at Eland facilities.** The group also witnessed a significant impairment loss on financial and non-financial asset (-USD144.35mn), thus, dragging EBIT to a loss of USD31.72mn (vs. USD311.98mn in 2019FY). **Management attributes this to lower oil price and economic uncertainty which impacted the overall value of oil and gas assets, which we do not expect to recur in 2021.** Also, free cashflow remained negative in 2020 (-USD23.54mn) albeit an improvement over 2019 figures (-USD302.11mn).

Recommendation

We project an EBITDA of USD409.29mn for 2021, with earnings expected to increase to USD190.08mn at an oil price average of USD60/barrel. We adopted a target EV/EBITDA of 4.30x and adjusted for its net debt of USD568.88mn to arrive at a target price of **NGN681.55**. This implies an upside potential of 26.24% from its current price as of 5th March 2021, thus we recommend a **BUY**.

Company	SEPLAT
Valuation	
Trailing EBITDA [NGN]	96.71bn
EV/EBITDA	4.0x
Net Debt [NGN]	267.67bn
P/BV	0.50x
Target EV/EBITDA	4.30x
Exp. EBITDA [NGN]	167.81bn
Dec 2021 Target price	681.55
Current Price	539.90
Up/Downside Potential	+26.24%
Ratings	BUY
Key metrics	
ROE	-4.86%
ROA	-2.34%
Net margin	-16.09%
Asset Turnover	0.15
Leverage	2.07
Yr Hi	583.00
Yr Lo	402.30
YTD return	34.20%
Beta	0.28
Adjusted Beta	0.52
Shares outstanding	0.59bn
Market cap [NGN]	311.88bn
Financial year end	December
Most Recent Period (MRP)	2020FY

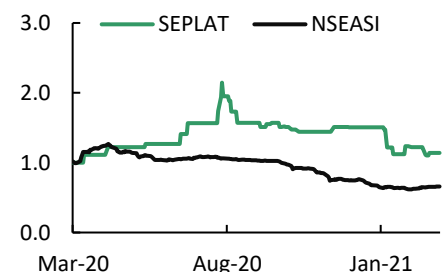


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	665.28
EBITDA per share						Max	697.84
		158.40	158.45	158.50	158.55	158.60	
Target EV/EBITDA	4.20x	665.28	665.49	665.70	665.91	666.12	
	4.25x	673.20	673.41	673.63	673.84	674.05	
	4.30x	681.12	681.34	681.55	681.77	681.98	
	4.35x	689.04	689.26	689.48	689.69	689.91	
	4.40x	696.96	697.18	697.40	697.62	697.84	

Financial Highlights (NGN billion) 2020FY Financial result

Profit & Loss Account	2020FY	2019FY	y/y Growth
Revenue	190.92	214.16	-10.85%
Cost of Sales	146.09	92.70	57.59%
Gross Profit	44.83	121.46	-63.09%
OPEX	79.33	36.59	116.82%
Operating Profit	-11.42	95.75	-111.93%
Other Income	0.60	0.33	84.92%
Net Finance Charges	-18.06	-6.16	-193.18%
PBT	-28.87	89.91	-132.11%
PAT	-30.71	85.02	-136.12%
Balance Sheet	2020FY	2019FY	y/y Growth
Oil and Gas properties	609.48	478.37	27.41%
Other property, plant and equipment	5.33	4.36	22.25%
Inventories	28.34	25.94	9.22%
Trade and Other Receivables	96.77	149.44	-35.24%
Cash and Cash Equivalents	98.32	102.24	-3.84%
Other Assets	477.94	248.24	92.53%
Total Assets	1,310.84	1,004.23	30.53%
Shareholders' fund	632.34	553.81	14.18%
Retained earnings	211.79	259.69	-18.45%
Trade and Other Payables	130.47	143.93	-9.35%
Interest bearing loans and borrowings	35.52	34.49	2.99%
Total Liabilities	678.50	450.43	50.64%

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Company Name: Seplat Petroleum Development Company Plc.

Date	Price (N)	Previous Target Price (N)	New Target Price (N)	Previous Recommendation	New Recommendation
08-March-2021	539.9	500.06	681.55	HOLD	BUY

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Company	Disclosure
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