

## Resurgent Oil Prices Save the Day

### Improved Oil Price Drives Topline Growth

After a bumpy performance last year, **SEPLAT** bounced back to deliver an impressive topline growth. From its Q1:2021 scorecard, revenue improved by 16.82% YoY to USD152.45mn, which in Naira terms implied a growth of 36.60% YoY to NGN57.93bn. A burgeoning oil price, averaging USD60.76pb in Q1:2021 (vs. USD49.85pd for Q1:2020), buoyed growth in crude sales by 15.55% YoY to USD124.08mn (NGN47.15bn), even though crude lifted (volume sold) fell by 4.76% YoY to 2.0MMbbls. Having set a production guidance of 48,000boepd – 55,000boepd (*reflective of OPEC+ tight production cuts*), the company stayed within limits, attaining production levels up to 48,239boepd for the quarter. However, liquid production was dragged lower by 13.20% YoY to 28,541bopd, due to the explosion at the OML 40 facility which occurred in November. This halted production in the block for much of the quarter till March, when activity resumed on the facility. **Therefore, as production begins to stabilize, alongside the prospects of an ease in production cuts by OPEC+, our outlook is for liquid volumes to increase significantly in 2021.**

### Gas Production Holds the Fort

Gas production climbed by 30% YoY to 19,698boepd (114MMscfd), the highest level attained in a single quarter. This lifted its contribution to total production to 41%, compared to 32% attained in Q1:2020. **We attribute this to additional gas wells drilled at the Oben plant (OML 4), as gas output from the ANOH project is still in view till H1:2022.** Gas volumes sold soared by 30.38% YoY (10.3Bcf), triggering a revenue growth of 22.77% YoY to USD28.36mn (NGN10.78bn) for the segment, despite gas prices dipping to USD2.76/Mscf (vs. USD2.89/Mscf in Q1:2020). **Our outlook for gas remains positive as production continues to achieve milestone volumes quarter-on-quarter. Based on these factors, we still maintain our forecast for revenue at NGN255.19bn, up 33.66% YoY (USD622.44mn, +17.33% YoY) for 2021FY.**

### Gas Receivables Inches Higher Year-on-Year

SEPLAT supplies 100% of its gas produced to the Nigeria market. However, trade receivables from gas sales continues to grow sharply year on year. For the quarter, receivables from the segment increased by 22.82% QoQ making up 45.75% of trade receivables (vs. 41.17% for crude) However, impairment loss on gas remain insignificant, posing no threat to asset quality.

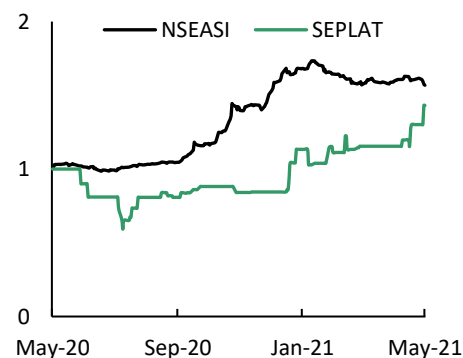
### A Rebound in Net Earnings

While there was a significant increase in production OPEX by 66.06%YoY (USD22,96mn), royalty and crude handling fees declined by 11.24% YoY and 38.22% YoY respectively, thus edging direct costs only marginally higher by 2.33% YoY to USD99.66mn (+19.65%, NGN37.87bn). This came on the back of lower crude production volume realized during the quarter, consequently impacting economies of scale and crude lifted for the period. **For 2021FY, we expect cost to fall mildly as operation efficiency takes full effect in OML 40.** Other cost items including Administrative expense (-43.05%YoY), impairment losses (99.51%YoY) and finance cost (21.28%YoY) fell significantly as expected, thereby causing earnings to rebound at USD24.86mn, up 123.33%YoY (NGN9.45bn, 127.29%YoY).

### Recommendation

Given our 2021 average oil price forecast of USD60/barrel, we project an EBITDA of USD409.29mn (NGN167.81bn) and bottom line of USD190.08mn. We adopted a target EV/EBITDA of 4.30x and adjusted for its net debt of USD568.88mn, to arrive at our price target of **NGN681.55**. Thus, we recommend a **HOLD** on the counter.

Company	SEPLAT
<b>Valuation</b>	
Trailing EBITDA [NGN]	96.71bn
EV/EBITDA	4.0x
Net Debt [NGN]	267.67bn
P/BV	0.50x
Target EV/EBITDA	4.3x
Exp. EBITDA [NGN]	167.81bn
Dec 2021 Target price	<b>681.55</b>
Current Price	682.00
Up/Downside Potential	0.00%
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROE	-4.92%
ROA	-2.54%
Net margin	-16.09%
Asset Turnover	0.15
Leverage	2.07
Yr Hi	682.00
Yr Lo	402.30
YTD return	+69.53%
Beta	0.28
Adjusted Beta	0.52
52-wk average volume	134,414
Shares outstanding	0.59bn
Market cap [NGN]	401.32bn
Financial year end	December
Most Recent Period (MRP)	Q1:2021



**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) Q1:2021 Financial Results**

<b>Profit &amp; Loss Account</b>	<b>Q1:2021</b>	<b>Q1:2020</b>	<b>y/y Growth</b>
Revenue	57.93	42.41	36.60%
Cost of Sales	37.87	31.65	19.65%
Gross Profit	20.06	10.76	86.43%
OPEX	6.92	10.40	-33.46%
Operating Profit	16.88	-25.04	167.41%
Other Income	5.78	15.65	-63.07%
Net Finance Charges	-6.39	-6.60	3.18%
PBT	10.65	-31.11	134.23%
PAT	9.45	-34.63	127.29%
<b>Balance Sheet</b>	<b>Q1:2021</b>	<b>Q1:2020</b>	<b>y/y Growth</b>
Oil and Gas properties	609.90	609.48	0.07%
Other property, plant and equipment	4.81	5.33	-9.76%
Inventories	28.64	28.34	1.06%
Trade and Other Receivables	108.15	96.77	11.76%
Cash and Cash Equivalents	89.78	98.32	-8.69%
Other Assets	472.59	477.94	-1.12%
<b>Total Assets</b>	<b>1,313.87</b>	<b>1,310.84</b>	<b>0.23%</b>
Shareholders' fund	641.62	632.34	1.47%
Retained earnings	225.39	211.79	6.42%
Trade and Other Payables	122.72	130.47	-5.94%
Interest bearing loans and borrowings	21.27	35.52	-40.12%
Total Liabilities	672.25	678.50	-0.92%

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**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
21-May-2021	682.00	681.55	681.55	BUY	HOLD
08-March-2021	539.9	500.06	681.55	HOLD	BUY

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