

A Year to Remember...

Highest Revenue Despite Production Disruption

After setting production guidance of 48,000 – 55,000 boepd in 2021, **SEPLAT** missed its lower limit target by 0.64% with working interest production coming in at 47,693boepd (*Liquid: 29,091bopd, -13.71%YoY; Gas: 18,602boepd, +6.48%YoY*). However, Bonny light gaining more than 70% in the year raised revenue from oil and gas to USD733.19mn (+38.22%YoY), the highest sales recorded since inception. In Naira terms, this amount translated to NGN293.63bn (53.80%YoY) based on an exchange rate of NGN400.48/USD. The operational challenges experienced at the Forcados oil terminal managed by Shell has been a bane to liquid production activities. This, so far, has impacted crude lifting (volume sold) which dropped from its all-time high of 10.46MMbbls achieved in 2020FY to 8.8MMbbls. **As a result, SEPLAT has taken giant steps to curtail losses occurring during crude evacuation as reconciliation loss keeps edging higher, now at 14.5% from 10% recorded in 2020. The launch of the underground Amukpe-Escravos Pipeline (40,000 bopd transport capacity) expected on stream in March would steer dependency away from the frequently vandalized Trans Forcados Pipeline (TFP). Hence, we expect a better output volume in 2022 propelled further by the 17,500bopd new wells drilled at Gbetiokun and the gradual return of pre-pandemic OPEC+ quota. On this note, crude oil revenue is expected at USD905.12mn (up 46.37%YoY) for 2022FY based on crude lifting forecast of 10.40MMbbls and projected average oil price of USD87/bbl.**

Gas Prices Tone Down Production Gains

SEPLAT continues to gain traction in its gas business as gas output has maintained a yearly average increase of c.17% since 2015. Additional gas wells drilled at the Oben gas plant (23,000boepd) is a significant factor that has contributed to volume growth. However, the government attempt to support domestic consumption has led to a down trend in local gas prices - now at USD2.85/Mscf from USD2.87/Mscf seen the previous year. Hence, gas sales expanded slightly by 2.03% to USD114.81mn in 2021FY despite a 6.20% increase in volume sold. **Interestingly, SEPLAT's mid-term strategy is to begin exporting globally. This informed the Sapele gas project (45% completion) and potential acquisition of the Mobil Producing Nigeria Unlimited (MPNU). For 2022, our outlook is positive despite the delay to ANOH first gas extended to H1:2023. Driven by improved export lines and increased oil and gas wells, we project total revenue (oil and gas) of USD1.06bn (44.05%YoY).**

SEPLAT Saves Cost on its Eland Asset

Higher oil prices beget higher royalties given the new PIA which calculates charges based on oil price and production. Accounting for 30% of **SEPLAT's** total cost, this brought cost of sales up by 10.37%YoY to USD448.00mn in 2021FY. However, cost to sales ratio decreased to 61.10% from 76.52% owing to the lower barging and trucking cost incurred from the Gbetiokun and Ubima fields (acquired Eland asset). Other positives recorded was the reversal of 86% impairment charges recorded in 2020. Consequently, EBITDA rose by 283.76%YoY to USD401.44mn, implying a margin of 54.75% from 19.72%. Profit after tax was higher by 237.33%YoY (USD117.18mn) reversing the loss realized in 2020FY. **For 2022FY, we project a net earnings of USD125.16mn driven by improvement in topline. In Naira terms amounting to NGN51.14bn while adopting an exchange rate of NGN406/USD.**

Recommendation and Outlook

Based on projected earnings, this presents an Earnings per share of 86.38. We adopted a target P/E of 13.14x to arrive at our price target of **NGN1,134.94**, presenting an upside potential of 14.64% from current price as of 10th March 2022. Thus, we recommend a **BUY** on the counter.

Company	SEPLAT
Valuation	
Trailing EPS	NGN78.54
BVPS	NGN1,188
P/E	12.60x
P/BV	0.83x
Target PE	13.14x
Dec-2021 Exp. EPS	NGN86.38
Dec 2021 Target price	1,134.94
Current Price	990.00
Up/Downside Potential	14.64%
Ratings	BUY
Key metrics	
ROE	6.95%
ROA	3.19%
Net margin	15.98%
Asset Turnover	0.20
Leverage	1.28
Yr Hi	1,034.00
Yr Lo	650.00
YTD return	52.31%
Beta	0.88
Adjusted Beta	0.92
Dividend proposed	NGN10.40
Shares outstanding	0.59bn
Market cap [NGN]	582.56bn
Financial year end	December
Most Recent Period (MRP)	2021FY

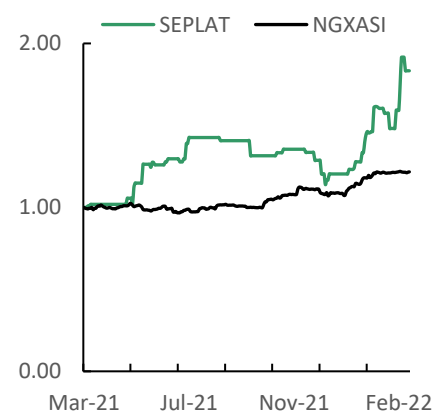


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2022FY Target Price to key model inputs						Min	1,116.37
EPS						Max	1,149.23
		86.28	86.33	86.38	86.43	86.48	
Target PE	12.9x	1,116.37	1,117.02	1,117.67	1,118.31	1,118.96	
	13.0x	1,125.00	1,125.65	1,126.31	1,126.96	1,127.61	
	13.1x	1,133.63	1,134.29	1,134.94	1,135.60	1,136.26	
	13.2x	1,142.26	1,142.92	1,143.58	1,144.24	1,144.91	
	13.3x	1,146.57	1,147.24	1,147.90	1,148.57	1,149.23	

Financial Highlights and Forecasts (USD million)

<i>Profit & Loss Account</i>	2020FY	2021FY	2022F	2023F	2024F	2025F	2026F
Revenue	530.47	733.19	1,056.13	1,090.11	1,043.10	1,025.49	992.93
Cost of sales	405.89	448.00	651.62	667.02	668.66	654.08	633.83
Gross Profit	124.58	285.19	404.51	423.09	374.44	371.41	359.09
OPEX	76.05	80.09	141.16	146.18	144.62	143.01	139.46
Other Income	83.86	20.12	31.68	32.70	31.29	30.76	29.79
Operating Profit	(31.72)	250.69	272.64	286.78	238.89	237.17	227.85
Finance Cost	51.83	76.20	90.05	90.23	82.80	84.31	85.48
PBT	(80.21)	177.35	184.06	198.30	157.75	154.50	143.96
PAT	(85.32)	117.18	125.96	134.84	107.27	105.06	97.89

<i>Balance Sheet</i>	2020FY	2021FY	2021F	2022F	2023F	2024F	2025F
Oil and Gas properties	1,603.89	1,604.03	1,666.24	1,648.50	1,735.07	1,813.26	1,793.64
Total Debt	704.39	770.19	900.55	902.26	828.03	843.05	854.81
Total Assets	3,449.57	3,892.73	4,097.65	4,192.40	4,172.69	4,233.22	4,279.02
Total Equity	1,664.05	1,707.49	1,739.85	1,801.35	1,835.28	1,867.00	1,891.55
Total Current Liabilities	471.45	480.91	535.28	556.97	560.71	564.52	563.08
Non-Current Liabilities	1,314.08	1,704.34	1,822.52	1,834.08	1,776.70	1,801.70	1,824.39
Total Liabilities	1,785.53	2,185.25	2,357.80	2,391.05	2,337.41	2,366.22	2,387.47

<i>Financial Ratios</i>	2020FY	2021FY	2021F	2022F	2023F	2024F	2025F
Gross Margin	23.48%	38.90%	38.30%	38.81%	35.90%	36.22%	23.48%
Operating Margin	-5.98%	34.19%	25.81%	26.31%	22.90%	23.13%	-5.98%
Net Margin	-16.08%	15.98%	11.93%	12.37%	10.28%	10.25%	-16.08%
Return on Asset	-2.54%	3.19%	3.15%	3.25%	2.56%	2.50%	-2.54%
Return on Equity	-4.92%	6.95%	7.31%	7.62%	5.90%	5.68%	-4.92%
Return on Invested Capital	-2.47%	3.01%	3.07%	3.22%	2.57%	2.48%	-2.47%
Earnings/Loss Per Share (USD)	-23.00x	31.47x	33.82x	36.21x	28.81x	28.21x	-23.00x
Asset Turnover	0.16x	0.20x	0.26x	0.26x	0.25x	0.24x	0.16x
Financial Leverage	1.07x	1.28x	1.36x	1.33x	1.27x	1.27x	1.07x
Debt to Asset Ratio	0.52x	0.56x	0.58x	0.57x	0.56x	0.56x	0.52x
Debt to EBIT Ratio	56.30x	8.72x	8.65x	8.34x	9.78x	9.98x	56.30x
Current Ratio	1.27x	1.41x	2.20x	1.76x	2.01x	1.46x	1.27x
Quick Ratio	1.11x	1.25x	2.00x	1.57x	1.82x	1.28x	1.11x

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- 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.

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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 Energy Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
11-Mar -2022	990.00	-	1,134.94	-	BUY

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Company	Disclosure
Seplat Energy Plc	

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