

## Optimistic Outlook Amidst Impediments

### Higher Oil Prices Makes the Difference

In 2022FY, **SEPLAT** recorded a 29.82% YoY growth in revenue to NGN951.80mn and crude oil sales remained the major growth driver (contributing 98.42% to growth). Crude oil sales increased by 35.73% YoY to USD839.34mn, attributable to the significant rise in average oil prices to USD101.67/bbl (vs USD70.54/bbl in 2021FY). Oil production on the other hand declined by c.27% to 24,735bopd, causing total production to fall to an average of 44,104boepd (vs. 47,693boepd in 2021FY). The shutdown of key infrastructure such as the Bonny and Trans Forcados terminals in Q3:2022 (due to persisting challenges in the oil and gas industry) dragged production volumes during the year. In contrast, gas sales dropped by 2.06% YoY to settle at USD112.45mn, notwithstanding the increase in gas production (+4.08% YoY to 112.30MMScfd). The decline in gas sales was driven by lower average price of gas (USD2.82/Mscf in 2022FY vs USD2.85/Mscf in 2021FY). **In 2023, we expect oil production to improve as the government intensifies efforts to combat the challenges in the industry with the integrated use of technology and security personnels. Also, the commencement of commercial operations at the Amukpe-Escravos pipeline in Q3:2022 should increase uptime in 2023FY. Thus, we project a 9.71% YoY increase in oil production to 27,151bopd and an average oil price of USD85/bbl. Furthermore, we expect total production at 47,806boepd in 2023FY (+10.01% YoY). Hence, we forecast a 3.17% YoY growth in revenue to USD982.01mn in 2023FY (NGN441.91bn in 2023FY vs NGN403.91bn in 2022FY).**

### Tax Liability Suppresses PAT

**SEPLAT's** cost of sales increased by 8.72% YoY during the period due to higher royalties (+39.23% YoY). However, the faster growth in revenue propelled a moderation in the cost to sales ratio to 51.17% (from 61.10% in the prior year). Consequently, gross margin rose to 48.83% (vs 38.90% in 2021FY). The prevailing inflationary environment during the year pressured the firm's general and administrative expenses as employee benefits (26.76% YoY), consulting fees (174.63% YoY), rent and other general expenses (1176.24% YoY) recorded significant growth. This in turn negatively impacted operating margin (operating margin declined by 532bps to 28.87%). The firm's profit before tax increased by 15.24% YoY to USD204.38mn on the back of outstanding topline performance and reduced finance costs (-10.57% YoY to USD68.14mn). However, higher tax obligations during the period (+65.65% YoY) stifled profitability as profit after tax declined by 10.64% YoY to USD104.71mn in 2022FY. **We envisage an increase in cost of sales and administrative expenses by 5.90% YoY and 14.50% YoY respectively, as oil prices and inflation remain elevated. Also, we project a 0.63% YoY growth in finance cost, as the company has sustained old financing terms. Thus, we anticipate a bottom-line growth of 22.81% YoY to USD128.59mn (equivalent to NGN60.44bn).**

### Complying with PIA 2021

In compliance with the Petroleum Industry Act (PIA 2021), the company announced the spin-off of its midstream business. Consequently, a 12-to-18-month implementation timeline for the spin-off has been devised, pending regulatory approval and stakeholder involvement. **We expect this to create additional value for the business and boost returns for stakeholders as the separation would enable the business to export its processed gas once it has met its domestic obligations. This is a good development given that the ANOH Gas Processing Plant is anticipated to begin operations in Q4:2023. Furthermore, it provides an opportunity to take advantage of tax incentives and exemptions.**

### Recommendation and Outlook

Based on the updated forecast, we project an EPS of NGN102.09. We adopted a target P/E of 12.43x to arrive at our price target of **NGN1,268.86** which presents an upside potential of 5.74% from the current price as of 7th March 2023. Thus, we recommend a **HOLD** on the ticker.

Company	SEPLAT
<b>Valuation</b>	
EPS	NGN74.80
BVPS	NGN1324.74
P/E	16.04x
P/BV	0.91x
Target PE	12.43x
Dec-2023 Exp. EPS	NGN102.09
Dec 2023 Target price	<b>1,268.86</b>
Current Price	1,200.00
Up/Downside Potential	<b>5.74%</b>
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROE	5.95%
Net margin	11.00%
Asset Turnover	0.27x
Leverage	2.01x
Yr Hi	1,325.00
Yr Lo	1,100.00
YTD return	9.09%
Beta	0.42
Adjusted Beta	0.62
Dividend declared	NGN66.76
Shares outstanding	0.59bn
Market cap [NGN]	<b>712.80bn</b>
Financial year end	December
Most Recent Period (MRP)	2022FY

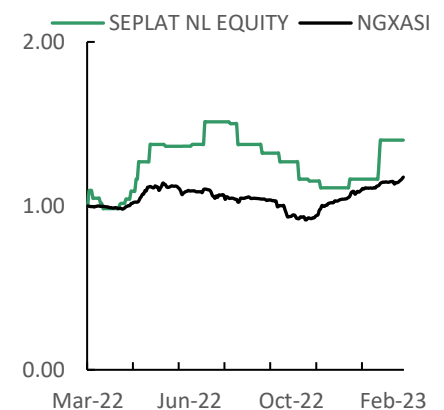


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to key model inputs							Min	1,155.34
							Max	1,384.38
EPS								
	1,268.86	101.09	101.59	102.09	102.59	103.09		
Target PE	11.43x	1,155.34	1,161.05	1,166.77	1,172.48	1,178.20		
	11.93x	1,205.89	1,211.85	1,217.81	1,223.78	1,229.74		
	12.43x	1,256.43	1,262.65	1,268.86	1,275.08	1,281.29		
	12.93x	1,306.98	1,313.44	1,319.91	1,326.37	1,332.84		
	13.43x	1,357.53	1,364.24	1,370.95	1,377.67	1,384.38		

Financial Highlights and Forecasts (USD million)

Profit & Loss Account	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Revenue	733.19	951.80	982.01	1008.37	1005.94	966.79	929.45
Cost of sales	448.00	487.06	515.78	527.30	525.34	506.18	487.89
<b>Gross Profit</b>	<b>285.19</b>	<b>464.74</b>	<b>466.23</b>	<b>481.07</b>	<b>480.60</b>	<b>460.60</b>	<b>441.56</b>
OPEX	80.09	137.39	157.30	162.66	163.56	158.61	152.76
Other Income	20.12	-36.05	9.82	10.08	10.06	9.67	9.29
<b>Operating Profit</b>	<b>250.69</b>	<b>274.74</b>	<b>284.07</b>	<b>293.15</b>	<b>291.83</b>	<b>277.37</b>	<b>264.73</b>
Finance Cost	76.20	68.14	68.57	69.92	71.19	72.18	72.18
<b>PBT</b>	<b>177.35</b>	<b>204.38</b>	<b>217.96</b>	<b>225.75</b>	<b>223.15</b>	<b>207.60</b>	<b>194.87</b>
<b>PAT</b>	<b>117.18</b>	<b>104.71</b>	<b>128.59</b>	<b>133.19</b>	<b>131.66</b>	<b>122.48</b>	<b>114.97</b>

Balance Sheet (USD'mn)	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Oil and Gas Properties	1604.03	1657.99	1687.02	1715.70	1644.70	1654.29	1652.81
Total Debt	770.19	774.23	721.80	736.02	749.38	759.84	759.84
<b>Total Assets</b>	<b>3163.37</b>	<b>3537.26</b>	<b>3446.43</b>	<b>3598.63</b>	<b>3742.33</b>	<b>3860.58</b>	<b>3959.34</b>
<b>Total Equity</b>	<b>1707.49</b>	<b>1759.88</b>	<b>1830.23</b>	<b>1905.63</b>	<b>1979.50</b>	<b>2044.19</b>	<b>2101.37</b>
<b>Total Current Liabilities</b>	<b>480.91</b>	<b>597.94</b>	<b>472.81</b>	<b>562.30</b>	<b>573.08</b>	<b>605.65</b>	<b>635.07</b>
<b>Non-Current Liabilities</b>	<b>974.98</b>	<b>1179.44</b>	<b>1143.39</b>	<b>1166.70</b>	<b>1189.75</b>	<b>1210.75</b>	<b>1222.90</b>
<b>Total Liabilities</b>	<b>1455.88</b>	<b>1777.37</b>	<b>1616.21</b>	<b>1693.00</b>	<b>1762.83</b>	<b>1816.39</b>	<b>1857.97</b>

Financial Ratios	2021FY	2022FY	2023F	2024F	2025F	2026F	2027F
Gross Margin	38.90%	48.83%	47.48%	47.71%	47.78%	47.64%	47.51%
Operating Margin	34.19%	28.87%	28.93%	29.07%	29.01%	28.69%	28.48%
Net Margin	15.98%	11.00%	13.09%	13.21%	13.09%	12.67%	12.37%
Return on Asset	3.70%	2.96%	3.73%	3.70%	3.52%	3.17%	2.90%
Return on Equity	6.86%	5.95%	7.03%	6.99%	6.65%	5.99%	5.47%
Return on Invested Capital	4.37%	3.56%	4.32%	4.34%	4.15%	3.76%	3.46%
Asset Turnover	0.23x	0.27x	0.28x	0.28x	0.27x	0.25x	0.23x
Financial Leverage	1.85x	2.01x	1.88x	1.89x	1.89x	1.89x	1.88x
Debt to Asset Ratio	0.24x	0.22x	0.21x	0.20x	0.20x	0.20x	0.19x
Debt to EBIT Ratio	3.07x	2.82x	2.54x	2.51x	2.57x	2.74x	2.87x
Current Ratio	1.41x	1.48x	2.00x	1.78x	2.28x	2.11x	2.42x
Quick Ratio	1.37x	1.55x	1.73x	2.27x	2.06x	2.38x	0.44x

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### 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.

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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.

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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.

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## Movements in Price Target

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**Company Name:** Seplat Energy Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
07-Mar-2023	1,200	-	1,268.86	-	HOLD

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Company	Disclosure
Seplat Energy Plc	

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