

SEPLAT's Revenue Hits Historic Height

Higher Production Sustains Revenue Ascent

In 2023FY, **SEPLAT** achieved a significant milestone as its revenue surpassed USD1.00bn for the first time since its inception. The indigenous energy company recorded a 11.50% YoY growth in topline to USD1.06bn (vs USD0.95bn in 2022FY) propelled by expansion in both oil revenue (+11.74% YoY) and gas revenue (+9.70% YoY). The development of new wells, the operational availability of the Amukpe-Escravos Pipeline (AEP) and the improved efficiency of the Forcados Oil Terminal (FOT) sustained the increment in oil working interest production (+13.55% YoY to 28,087 boepd), which mitigated the impact of sharp decline in realized oil price during the year (17.98% to USD83.39/bbl from USD101.67/bbl in 2022). In the same vein, gas revenue thrived on the back of marginal revision in average realized gas price (USD2.90/Mscf from USD2.82 in 2022) and a rise in volume sold (+6.67% to 42,537 boepd). **Looking ahead to 2024FY, we anticipate a sustained ascent in revenue hinged on the expected increase in production as the company intensifies its efforts to optimize its drilling program pipeline availability (specifically Trans-Niger) and explore alternative evacuation routes. Moreover, amidst the backdrop of escalating geopolitical tensions, a marginal uptick in oil prices is expected. Furthermore, with the mechanical completion of the ANOH Gas Plant and the first scheduled output in Q3:2024, we anticipate a boost in gas revenue for the year. Ultimately, we project SEPLAT's revenue to reach USD1.21bn in 2024FY.**

Lower Tax Expense Drives Bottomline Growth

SEPLAT's cost of production grew at a slower pace (+8.67% YoY) than volume produced, leading to a decrease in the unit cost per barrel to USD11.08 from USD11.21 in 2022FY. This growth was primarily driven by an increase in crude handling fees (+34.92%) and royalties (+1.44%), which was partially offset by a decline in operational and maintenance expenses (-10.78%). Consequently, gross profit rose by 14.47%, bringing the gross margin to its highest in four years at 50.13%. On the other hand, general and administrative expenses surged by 4.50% YoY due to professional fees (related to litigation costs from legal cases and the Mobil Producing Nigeria Unlimited transaction). The company also recorded other losses of USD121.93mn from overlifts and FX losses incurred during the period. As a result, EBITDA declined by 9.24% to USD249.36mn, compared to USD274.74mn in 2022FY. On a positive note, net finance costs were reduced by 10.96% YoY, supported by a rise in finance income and the company's move to refinance its debt. Thus, the interest coverage ratio improved marginally to 4.02x from 3.97x in 2022FY. Although profit before tax declined by 6.45% YoY, lower taxation resulting from a change in the applicable tax rate on the Elcrest assets supported bottom-line performance. As a result, profit after tax grew at its fastest rate in 4 years by 18.30% YoY to USD123.87mn as compared to USD104.71mn in 2022FY. Gleaning from this, the company's profitability ratios improved: net margin and return on equity expanded to 11.67% and 6.91% vs 11.00% and 5.95%, respectively, in 2022FY. **We anticipate sustained cost pressures on the production front, particularly with expected rises in both oil price and production, as well as the move to explore alternative evacuation routes, which will likely contribute to higher crude handling fees. Additionally, we expect an uptrend in professional & consulting fees amid unresolved corporate governance issues. On a balance of factors, we forecast SEPLAT to end 2024FY with an after-tax profit of USD155.70mn translated to NGN215.14bn.**

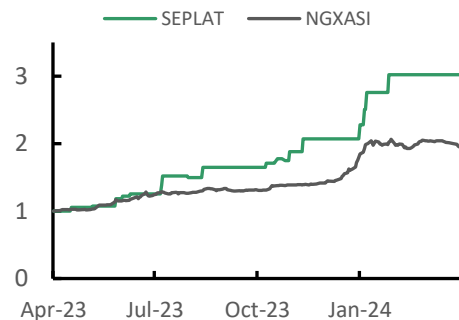
SEPLAT Focused on Environment-Conscious Initiatives

As ESG compliance gains prominence, **SEPLAT**, in line with its climate strategy of achieving carbon neutrality by 2050, has signaled its intention to eradicate routine flares across its production lines by 2025. This goal will be pursued by accelerating the conclusion of its Flares Out Projects. **By capturing and monetizing the gas that would otherwise be flared, we believe the company is positioned to establish an additional revenue stream which holds the potential to enhance its financial performance in the long term.**

Recommendation

Based on our forecasts, we revised our 2024FY EPS upward to NGN365.61 and adopted a target P/E of 9.70x to arrive at our 2024FY target price of **NGN3,544.90**. This presents an upside potential of 5.19% from the current price as of NGN3,370.00 as of 17th April 2024. Thus, we recommend a **HOLD** on the ticker.

Company	SEPLAT
Valuation	
Trailing EPS	NGN138.21
BVPS	NGN2,740.51
P/E	24.38x
P/BV	1.23x
Target PE	9.70x
Dec-2024 Exp. EPS	NGN365.61
Dec 2024 Target price	3,544.90
Current Price	3,370.00
Up/Downside Potential	5.19%
Ratings	HOLD
Key metrics	
ROE	6.91%
ROA	7.07%
Net margin	11.67%
Asset Turnover	0.31
Leverage	1.89
Yr Hi	3,370.00
Yr Lo	2,310.00
YTD return	45.89%
Beta	0.77
Adjusted Beta	0.85
Proposed Q4:2023 DPS	USD0.03
Shares outstanding	588.44mn
Market cap [NGN]	1.98trn
Financial year end	December
Most Recent Period	2023FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2024FY Target Price to Key Model Inputs						Min	3,359.01
EPS						Max	3,734.32
		365.11	365.36	365.61	365.86	366.11	
Target PE	9.20	3,359.01	3,361.31	3,363.61	3,365.91	3,368.21	
	9.45	3,450.29	3,452.65	3,455.01	3,457.38	3,459.74	
	9.70	3,541.57	3,543.99	3,544.90	3,548.84	3,551.27	
	9.95	3,632.84	3,635.33	3,637.82	3,640.31	3,642.79	
	10.20	3,724.12	3,726.67	3,729.22	3,731.77	3,734.32	

Financial Highlights and Forecasts (USD million)

<i>Profit & Loss Account</i>	2022FY	2023FY	2024F	2025F	2026F	2027F	2028F
Revenue	951.80	1,061.27	1,209.53	1,152.13	1,111.90	1,068.11	1,030.02
Cost of sales	(487.06)	(529.28)	(630.70)	(587.75)	(567.98)	(541.06)	(525.87)
Gross Profit	464.74	532.00	578.84	564.39	543.93	527.04	504.15
OPEX	(153.94)	(160.71)	(206.88)	(192.07)	(183.68)	(173.08)	(165.76)
Other Income	(36.05)	(121.93)	(60.48)	28.80	27.80	26.70	25.75
Operating Profit	265.98	239.87	304.23	396.41	382.24	374.09	357.19
Net Finance Cost	(66.98)	(59.64)	(70.69)	(71.14)	(72.42)	(71.95)	(76.06)
PBT	204.38	191.20	239.49	330.16	315.12	308.55	287.77
PAT	104.71	123.87	155.67	214.60	204.83	200.56	187.05

<i>Balance Sheet</i>	2022FY	2023FY	2024F	2025F	2026F	2027F	2028F
Oil and Gas Properties	1,657.99	1,629.27	1,696.40	1,632.96	1,654.17	1,646.87	1,635.52
Total Debt	774.23	757.07	794.93	834.67	859.71	885.50	912.07
Total Assets	3,537.26	3,395.02	3,478.37	3,595.93	3,686.77	3,831.48	3,950.15
Total Equity	1,759.88	1,793.03	1,831.94	1,885.59	1,936.80	1,986.94	2,033.70
Total Current Liabilities	597.94	704.59	683.23	698.78	699.02	746.48	773.68
Non-Current Liabilities	1,179.44	897.40	963.20	1,011.55	1,050.95	1,098.05	1,142.77
Total Liabilities	1,777.37	1,601.99	1,646.43	1,710.33	1,749.96	1,844.54	1,916.45

<i>Financial Ratios</i>	2022FY	2023FY	2024F	2025F	2026F	2027F	2028F
Gross Margin	48.83%	50.13%	47.86%	48.99%	48.92%	49.34%	48.95%
Operating Margin	27.94%	22.60%	25.15%	34.41%	34.38%	35.02%	34.68%
Net Margin	11.00%	11.67%	12.87%	18.63%	18.42%	18.78%	18.16%
Return on Asset	7.52%	7.07%	8.75%	11.02%	10.37%	9.76%	9.04%
Return on Equity	5.95%	6.91%	8.50%	11.38%	10.58%	10.09%	9.20%
Earnings Per Share (USD)	0.18	0.21	0.26	0.36	0.35	0.34	0.32
Asset Turnover	0.27x	0.31x	0.35x	0.32x	0.30x	0.28x	0.26x
Financial Leverage	2.01x	1.89x	1.90x	1.91x	1.90x	1.93x	1.94x
Debt to Asset Ratio	0.22	0.22	0.23	0.23	0.23	0.23	0.23
Interest Coverage Ratio	3.97x	4.02x	4.30x	5.57x	5.28x	5.20x	4.70x
Current Ratio	1.48x	1.36x	1.39x	1.61x	1.69x	1.77x	1.85x
Quick Ratio	1.38x	1.29x	1.30x	1.52x	1.61x	1.70x	1.79x
Cash Ratio	0.68x	0.64x	0.55x	0.79x	0.90x	1.04x	0.98x

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Asset allocation: The recommended weighting for equities, cash and fixed-income instruments 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
07-Jan-2024	2,310.00	-	1,883.44	-	SELL
18-Apr-2024	3,370.00	1,883.44	3,544.90	SELL	HOLD

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Seplat Energy Plc	

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