Seplat Petroleum Development Company

Brighter days ahead

United Capital
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Equity Research | Earnings Update

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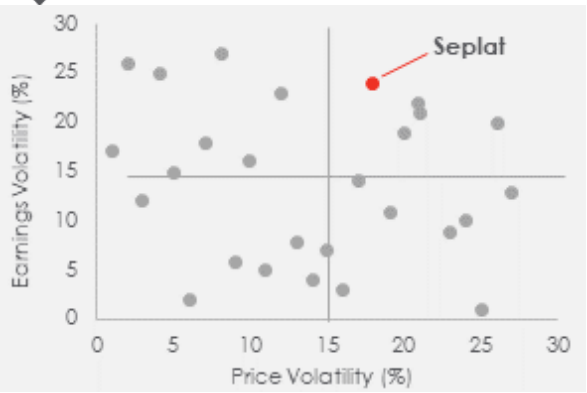
Stock Rating	Target Price	Upside
BUY	Old: 571.1 New: 636.4	**14.3%**

*Note: excluding expected dividend yield

Risk Rating: Medium

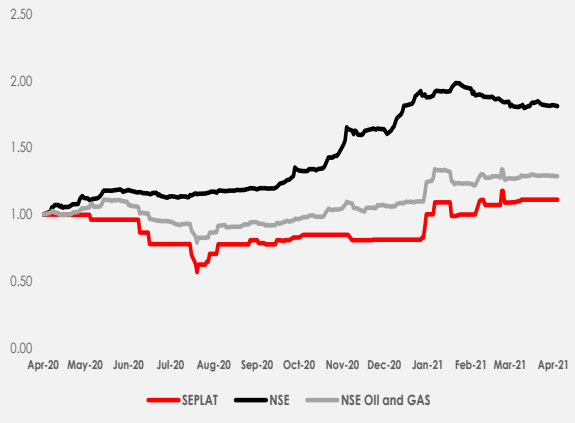


Note: Refer to appendix for complete description of risk rating

Key Data

Last Price (₦)	550.0
52 week High/Low (₦)	583.00/282.0
1M Price Change (%)	+1.85
3M Price Change (%)	+1.85
6M Price Change (%)	+30.9
YTD Change (%)	+36.7
Beta	0.5
Market Capitalization (₦'m)	322,664.5
Shares Outstanding. (Units'mn)	588.4
Float (%)	48.5
Dividend Yield (%) ($)	1.3

Price Performance Chart



Sources: Bloomberg, United Capital Research

Earlier, Major indigenous upstream player Petroleum Development Company ('SEPLAT' or 'The Company') released its FY-2020 financials, recording a basic loss per share from continuing operations of -$0.13 in FY-2020 vs $0.19 in FY-2019. Recall that demand and supply shocks in the energy market, triggered by Covid-19, affected crude and gas prices in 2020. As such, total revenue declined by 24.8% y/y to $530.6mn. The company's working interest in production increased by 10.1% y/y to 51.1kbpdoe primarily due to its newly acquired assets from Eland. However, increased production was unable to compensate for lower average prices (down 46.4% to $39.5pb). Furthermore, Gross and operating profit declined by 68.2% y/y and 110.2% y/y, respectively. Consequently, SEPLAT reported a Loss before tax and loss after tax of $80.2bn and $85.3bn, respectively. Looking forward, recent rebound in prices of crude oil, bodes well for the company in 2021. Below we take a critical look at the company's performance and present our outlook.

Weaker revenue across business segments: Gross Revenue for FY-2020 settled at $530.6mn, a decrease of 24.8% y/y compared to $697.7mn reported in the corresponding period in 2019. The drop in revenue was directly linked to the drop in realized price from $64 to $39.5. The rise in working production (which measures total liquid and gas production converted to oil equivalent) increased by 10.1% to 51.kbpdoe, following maiden contribution from newly acquired assets from Eland was not enough to compensate for the stack drop in price.

A breakdown of the revenue by segment indicated that the Crude Oil segment (which accounts for 78.9% of revenue) tumbled 15.4%y/y to $417.9mn (from $495.1mn in the prior year), dragged by weaker oil prices (average realized price fell 46.4% to $39.5pb) which was triggered by the pandemic in 2020. Nevertheless, production volume, measured by Liquid production (which measures extracts of liquids like crude) grew by 40.9% to 33.7kbopd, spurred by SEPLAT's acquisition of its Eland assets, as it gained working interest control and maiden contributions of OML 40 and its Ubima Wells and higher production from its OML 53 well. Notably, Elland's Wells accounted for 26.7% of SEPLAT's production in 2020.

For the Gas segment, Gas revenue decreased by 17.1% to $112.5mn (2019: $135.8 million) due to lower volumes of 37.1 Bscf compared to 47.8 Bscf in 2019. Interestingly, the average realised price of gas was slightly higher in 2020, settling at $2.87/Mscf (2019: $2.84/Mscf). The weaker gas volumes reflect lower-

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than-expected gas production owing to weak demand due to the impact of the pandemic and delays in completing the Oben-50 gas well, as demand began to rebound later in the year. Also, SEPLAT did not record any gas-processing revenues in the period, compared with the one-off gas-processing revenue of $66.9mn in 2019, a gas plant tolling payment by NPDC. Total gas sales made up 21.1% (vs 19.5% in 2019) of SEPLAT's revenue in 2020.

Higher production level drives cost higher: Cost of sales (COS) increased by 34.4% y/y to $405.80mn in 2020, mainly driven by a surge in operational and maintenance expenses, up 128.9% y/y to $95.6bn and a 40.0% y/y increase in DDA (depletion, depreciation, and amortisation) charges to $127.4bn. The jump in the Cost of Sales was due to increased production capacity as well as additional actual production from acquired assets, pressuring Gross Profit lower. SEPLAT's Gross profit slumped by 63.1% y/y to print at $44.8mn in FY-2020.

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Similarly, operating profit was down 110.2% y/y, largely driven by weaker revenue and a $144.1mn impairment charge booked in the period under review. However, on an adjusted basis, after adding back non-cash impairments and fair value losses, Operating profit was $121.4mn.

The low yield environment in 2020 resulted in a 89.1%y/y decline in SEPLAT finance income. Meanwhile, Net finance cost surged 54.5%y/y to $51.8bn as scheduled coupon repayments on the company's Eurobond program were sustained. This further exacerbated pressure on profitability as pre-tax loss and loss after tax settled at $80.2bn and $85.3 respectively. Notwithstanding the above, the company paid a final dividend of $0.05 in FY-2020, bringing up the total dividend paid to $0.10 in 2020.

CAPEX expansion at $150mn exceeds proposed $120mn spend: Despite the pandemic, the company's CAPEX expansion went largely unaffected as SEPLAT spent $150mn on drilling and completing new gas and oil wells. The majority of the company's CAPEX spend was on its Oben 48, 49, and 50 plants and six development oil wells (Sapele-35, Ovhor-6ST, Ovhor-20, Ohaji South-5, Ohaji South-6 and Gbetiokun-5). Total assets in the period under review expanded by 5.0% y/y. Debt to equity ratio declined marginally to 42.2% in 2020 vs 44.6% in 2019, following its repayment of $100mn on its revolving credit facility in the period under review.

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SEPLAT Cash flow remains strong despite loss.: Net operating cash flows in the period under review remained strong despite declining by 8.6% y/y to $308.7mn. Cash position was boosted mainly by non-cash adjustments and impairment charges of $144.1mn deducted, relatively impressive considering the pandemic and shocks in 2020. As such, cash flow cover improved to 43.8x from 42.3x. Cash flow margin also improved significantly to 58.1% in FY-2020, from 48.2% in 2019.

Outlook– SEPLAT expected to blossom in 2021: Given 2020's performance which was affected by weak oil prices, lower realised prices and OPEC production quotas, we expect 2021's results to be relatively robust. To kick-off, the most recent oil market rally bodes well for SEPLAT. Post Covid-19 recovery, due to reduction in infection rates as well as and increased vaccinations, will continue to support recovery in demand for fossil fuels and gas in 2021.

SEPLAT disclosed its engagements with the NNPC on loosening OPEC production quotas on its wells which we expect to continue to drive improved production in 2021. Against this backdrop, we remain bullish on the firm's production capabilities in 2021. We expect gas revenue to improve in 2021 due to the expected increase in electricity tariffs in 2021. The power sector's shift towards cost-effective will increase SEPLAT's gas supply revenue in the coming calendar year. Our optimism is

Outlook– SEPLAT expected to blossom in 2021

further boosted by the management's drive to adopt cost-cutting measures to reduce OPEX cost around its Eland assets, which were the major drivers of costs in FY-2020 (OPEX cost per barrel was up 43% in FY-2020 to $8.9 from $6.0 in 2020). This is expected to improve our near-term outlook.

We expect ANOH, SEPLAT's gas processing plant, scheduled to resume in H1-2022, to boost its revenue drive and boost its gas expansion business and SEPLAT's gas supply to the Nigerian power grid.

On debt financing, the company recently raised $650.0mn at 7.7% in the Eurobond market maturing in 2026. The proceeds would be used to refinance its $350.0mn Eurobond issued at 9.9% due to mature in 2023. The firm has taken advantage of the low-yield environment for dollar instruments. It also announced it had successfully refinanced its existing US$100.0mnreserve-based lending facility due November 2023, with a new five-year US$100m reserve-based lending facility due March 2026. These free up cash flows in the redemption years for the company's CAPEX and expansion drive while reducing finance costs.

Considering the above and using a blend of our DCF and NAV methodologies whilst also adjusting our country risk premium from our last earnings update. We consider SEPLAT a **BUY** as the stock's current market price of **N550.0** per share presents a 14.3% upside to our year-end price of **N636.7.**

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Financial Highlights (N'Mn)

Earnings Flash |Seplat Petroleum Development Company PLC FY-2020 Audited Result

Financial Highlights (N'Mn)			
Headlines	**FY - 2020**	**FY 2019**	**Change**
Revenue	**190,922**	**214,157**	-10.8%
Cost of Sales	-146,088	-92,698	57.6%
Gross Income	**44,834**	**121,459**	**-63.1%**
Other Income/ Expense	30,184	9,170	229.2%
Operating Expense	-86,436	-34,880	147.8%
Operating Profit	**-11,418**	**95,749**	**-111.9%**
Finance Income	601	4,134	-85.5%
Finance Costs	-18,656	-10,294	81.2%
Profit Before Tax	**-28,872**	**89,914**	-132.1%
Taxation	-1,840	-8,939	NM
Profit After Tax	**-30,712**	**80,975**	-137.9%
	FY - 2020	**FY - 2019**	
Cash and Cash Equivalents	98,315	**102,240**	-3.8%
Trade & Other Receivables	**96,774**	**149,436**	**-35.2%**
Trade & Other Payables	**130,468**	**143,925**	**-9.4%**
Total Debt	**266,756**	**245,178**	**8.8%**
Total Assets	**1,099,339**	**1,004,233**	**9.5%**
Net Assets	632,337	553,808	14.2%
Gross Margin	**23.5%**	**56.7%**	**-33.2%**
Cost to Sales	**76.5%**	**43.3%**	**33.2%**
Net Margin	**-16.1%**	**37.8%**	**-53.9%**
Leverage (Debt/ Equity)	**42.2%**	**44.3%**	**-2.1%**
Leverage (Net Debt/ Equity)	**26.6%**	**25.8%**	**0.8%**
Price(N)	**550.0**		
Price ($)	**1.1**		
12M EPS(N)	**-52.19**		
BVPS(N)	**1074.6**		
12M P/E (x)	**NM**		
P/BV (x)	**0.5**		
12M ROAE	**-5.2%**		
Proposed Final Dividend ($)	**0.05**		
Dividend Yield	**4.5%**		

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Disclosure Appendix

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Buy: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.
Hold: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at 31st December is greater zero but less than the Asymmetric Corridor around the MPR of the Central Bank of Nigeria (which is currently MPR – 500bps; i.e 9%).
Sell: Based on our valuation and subjective view (if any), the expected upside on the stock's close price as at December 31st is less than zero.
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Fidelity Bank Plc	h
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Forte Oil Plc	g
International Breweries Plc	a,h
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Stanbic IBTC Plc	g
Total Nigeria Plc	h
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