



SEPLAT ENERGY PLC

Forcados downtime, increased taxes drag profit

- Q2 oil output falls 42% y/y
- Gas revenue declines 6% y/y
- Target price revised lower to ₦775.14

Early today, Seplat Energy Plc released its 9M'21 results, reporting a 19% y/y rise in revenue to \$460 million, 4% below our estimate. Meanwhile, an elevated tax expense of \$36 million in the third quarter weighed on 9M net profit, which came in at \$35 million, significantly underperforming our estimate of \$61 million. While we note that Seplat recorded a loss in Q3 standalone, the Board, however, declared an interim dividend of 2.5 cents per share, in line with the quarterly dividend payout proposed at the start of the year. In light of the recent global energy crisis and output challenges faced by the company, we have revised our expectations for Seplat and now expect 2021 full-year revenue to come in at \$636 million (+20% y/y), while we lowered our net income estimate to \$54 million (previous: \$89 million). These revised projections give us a 12-month target price of ₦775.14 (previous: ₦799.48); thus, we maintain our HOLD rating on the counter.

In Q3, oil output fell 42% y/y to 1.7 mbbls (excluding underlift) -- the lowest in the last ten quarters. This was due to the halt of export operations from the company's major OMLs, after a force majeure was declared at the Forcados Oil Terminal in August. However, revenue from oil operations only declined slightly (-1% y/y) to \$125 million, as the drop in output was offset by the demand-induced oil price rally during the quarter. A similar trend was observed in the company's gas business where output decreased 6% y/y and 22% q/q to 9.4 Bscf (Vetiva: 12.5 Bscf), even though additional gas wells were completed in the preceding quarter. This brought gas revenue for the quarter to \$27 million (-6% y/y), taking aggregate revenue to \$152 million (Q3'20: \$154 million).

Following a 7% drop y/y in direct costs, Q3 gross margin strengthened 400bps to 38%. In absolute terms, this resulted in a gross profit of \$58 million (Q3'20: \$53 million). Likewise, operating margin for the quarter came in stronger at 32% (Q3'20: 22%), boosted by an underlift income of \$15 million. Despite the gains in margins, Seplat recorded a net loss of \$1 million, as a spike in tax expense completely eroded operating profit for the quarter. As such, 9M net profit weakened to \$35 million, although still an improvement from the loss of \$96 million recorded a year ago.

Looking ahead, we expect to see an improvement in Q4 oil output, given that production has recovered strongly from the shut-in experienced in Q3. We see Q4 oil output increasing 3% q/q to 1.7 mbbls, taking output for the full year to 7.2 mbbls (excluding underlift). Meanwhile, we note that the recent energy crisis in Europe and South-East Asia may continue to lift oil prices in the coming months. Based on these premises, we expect Q4 oil turnover to come in at \$148 million (+32% y/y). Similarly, with force majeure now lifted, we expect gas output to gradually recover to Q2 run rate of 12.1 Bscf. This takes our projection for Q4 gas revenue to \$28 million. Overall, we expect 2021 aggregate revenue to come in at \$636 million (+20% y/y), while we expect net profit to print at \$54 million (2020: net loss of \$85 million).

Equity Research
28 October 2021

HOLD

Target price **₦775.14**

Company Statistics

Price (₦)	731.50
Market Cap (₦'Bn)	430
Total Assets (₦'Bn)	1,422
Debt to Assets	22%
Shares Outstanding (Mn):	588
NSE	SEPLAT
Bloomberg	SEPLAT.NL
Reuters	SEPLAT.LG

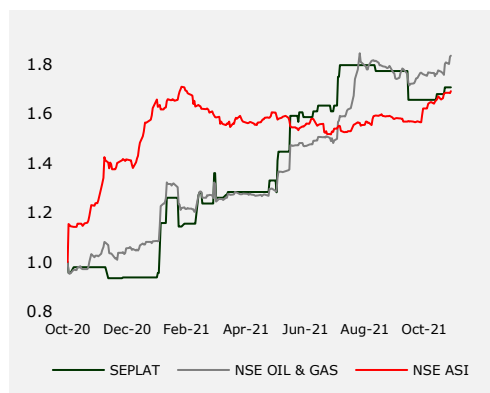
Ownership Structure

MPI	20.46%
Petrolin	13.77%
Others	65.77%

Share Price Performance

30 days	-3.71%
YTD	82.00%
365 days	74.00%

Price Movement (Rebased)



Source: NSE, Vetiva Research

Business Description

SEPLAT is an independent Oil and Gas Exploration and Production (E&P) company in the Niger Delta region of Nigeria. The company has a 45% in OMLs 4, 38, 41 and 40% stake in OML 53 and OPL 283. The company's focus is on maximizing hydrocarbon output from its existing assets and exploring new opportunities in the energy industry.

Vetiva Capital Management Limited

Lagos Office: Plot 266B Kofo Abayomi Street | Victoria Island | Lagos | Nigeria | +234-1-4617521-3
Abuja Office: 62, Lobito Crescent | Wuse 2 | Abuja | +234-9-8700686

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	9M'21	9M'20	Y/Y Change	Vetiva Estimate	Deviation
Income statement (\$'000)					
Revenue	460,357	387,775	19%	478,856	-4%
Cost of sales	(313,862)	(297,182)	6%	(322,620)	-3%
Gross profit	146,495	90,593	62%	156,236	-6%
General and administrative expenses	(53,879)	(52,419)	3%	(54,614)	-1%
Other income/(loss)	82,020	42,239	94%	75,750	8%
Impairment (loss)/gain	(6,874)	(179,665)	-96%	(1,967)	NM
Operating profit/(loss)	157,798	(79,341)	NM	164,527	-4%
Net finance charges	(61,034)	(51,800)	18%	(63,557)	-4%
Profit before tax	97,359	(130,072)	NM	100,970	-4%
Taxation	(62,329)	33,752	NM	(39,586)	57%
Profit after tax	35,030	(96,320)	NM	61,384	-43%
Gross margin	32%	23%		33%	
Operating margin	34%	-20%		34%	
Net margin	8%	-25%		13%	

Source: Company Filings, Vetiva Research



Income Statement	2019A	2020A	2021E	2022F	2023F	2019A	2020A	2021E	2022F	2023F
	\$'mil	\$'mil	\$'mil	\$'mil	\$'mil	N'bil	N'bil	N'bil	N'bil	N'bil
Turnover	698	530	636	646	550	214	201	262	265	226
Oil	495	418	518	508	395	152	158	213	209	162
Gas	136	113	119	138	156	42	43	49	57	64
Cost of Sales	(302)	(406)	(423)	(377)	(375)	(93)	(154)	(174)	(155)	(154)
Gross Profit	396	125	213	269	175	121	47	88	111	72
General & Amin Expense	(71)	(76)	(71)	(65)	(58)	(22)	(29)	(29)	(27)	(24)
EBIT	312	(32)	211	196	144	96	(12)	87	80	59
EBITDA	406	101	341	331	284	125	38	140	136	117
Net Interest (Expense)/Income	(20)	(50)	(84)	(82)	(69)	(6)	(19)	(35)	(33)	(28)
Profit Before Tax	293	(80)	129	114	75	90	(30)	53	47	31
Taxation	(29)	(5)	(75)	(34)	(22)	(9)	(2)	(31)	(14)	(9)
Profit After Tax	264	(85)	54	80	52	81	(32)	22	33	22
Balance Sheet	2019A	2020A	2021E	2022F	2023F	2019A	2020A	2021E	2022F	2023F
Oil & Gas Properties	1,558	1,604	1,613	1,529	1,433	478	608	663	628	589
Prepayments	63	62	61	60	59	19	23	25	25	24
Inventories	85	75	87	77	77	26	28	36	32	32
Trade and Other Receivables	487	255	235	221	188	149	97	97	91	77
Cash and Cash Equivalentents	333	259	386	449	461	102	98	159	185	189
Total Assets	3,271	3,450	3,507	3,467	3,297	1,004	1,307	1,442	1,425	1,355
Short Term Borrowings	112	93	63	62	12	34	35	26	26	5
Trade and Other Payables	469	343	336	299	278	144	130	138	123	114
Borrowings	677	605	698	697	657	208	229	287	286	270
Other Liabilities	176	195	202	208	215	54	74	83	86	89
Share Capital	2	2	2	2	2	1	1	1	1	1
Share Premium	504	512	512	512	512	155	194	210	210	210
Capital Contributions	40	40	40	40	40	12	15	16	16	16
Retained Earnings	1,249	1,116	1,112	1,103	1,038	383	423	457	453	427
Shareholders' Funds	1,804	1,664	1,660	1,651	1,586	554	631	682	679	652
Total Equity & Liabilities	3,271	3,450	3,507	3,467	3,297	1,004	1,307	1,442	1,425	1,355
Cash Flows Statement	2019A	2020A	2021E	2022F	2023F	2019A	2020A	2021E	2022F	2023F
Operating Activities	338	309	323	257	301	104	117	133	106	124
Investing Activities	(733)	(204)	(116)	(22)	(14)	(225)	(77)	(48)	(9)	(6)
Financing Activities	145	(217)	(80)	(172)	(277)	45	(82)	(33)	(71)	(114)
Ending Cash and Cash Equivalentents	333	259	386	449	461	102	98	159	185	189

Source: Company Filings, Vetiva Research



GROWTH RATES	2019A	2020A	2021E	2022F	2023F
Turnover growth	-6%	-24%	20%	1%	-15%
Growth in EBITDA	-5%	-75%	238%	-3%	-14%
Growth in EBIT	1%	-110%	NM	-7%	-27%
Growth in PBT	11%	-127%	NM	-12%	-34%
Growth in PAT	80%	-132%	NM	47%	-34%

PROFITABILITY	2019A	2020A	2021E	2022F	2023F
Return on Equity	15%	-5%	3%	5%	3%
Return on Assets	9%	-3%	2%	2%	2%

MARGINS	2019A	2020A	2021E	2022F	2023F
Gross Margin	57%	23%	33%	42%	32%
EBITDA Margin	58%	19%	54%	51%	52%
EBIT Margin	45%	-6%	33%	30%	26%
Pretax Margin	42%	-15%	20%	18%	14%
Net Margin	38%	-16%	9%	12%	10%

PER SHARE DATA	2019A	2020A	2021E	2022F	2023F
Earnings per Share	0.45	(0.14)	0.09	0.14	0.09
Dividend per Share	0.10	0.10	0.10	0.15	0.20
Price-Earnings Ratio	0.0	0.0	0.0	0.0	0.0

Source: Company Filings, Vetiva Research



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