



NIGERIA | EQUITIES | OIL & GAS | SEPLAT PETROLEUM

Seplat announced on the 13th of March 2018 that it had successfully refinanced its existing US\$300million revolving credit facility with a new four year Revolving Credit Facility (RCF) under the same terms carrying an initial interest of LIBOR plus 6% payable semi-annually.

The company also issued a US\$350m 9.25% senior notes due 2023, cheaper than the previous seven year term loan (LIBOR plus 8.75%), and envisaged its gross-debt to be US\$550m. All proceeds from the notes and RCF will be used to pay off existing indebtedness while the residuals would be invested in general core group purposes.

This is expected to strengthen the company's liquidity position, allow it to focus on its growth strategy and could be supportive of bottom line performance in the near term given the reduction in debt and the negative impact of further interest rate hikes by the developed economies may have had on floating rate debt.

Seplat's pioneer tax incentive for a period of three years (extendable to five years) elapsed in 2015. As such, the company has applied for an extension of the pioneer status award on the back of meeting the specified conditions required by the NIPC. The company recorded c.N67 billion in FY2017 in tax credits which increased overall profit after tax to N81 billion.

Share data

Bloomberg	SEPLAT.NL
Reuters	SEPLAT.LG
Industry	Oil & Gas
Rating - New	NR
Rating - Old	NR
Price (10 Apr 2018)	N665.1
Price Target - New	NR
Price Target - Old	NR
Upside/Downside	N/A
Market Cap. (Nmillion)	391,374.5
Avg. Daily Value Traded (Nmillion)	52.5
Shares Outstanding (Million)	588.4
Free Float	50.9%

Price Movement Relative to NSE-ASI



Historic Performance against NSE-ASI

Performance Over	1M	3M	6M	12M	YTD
Absolute	-15.27%	0.77%	40.76%	68.38%	6.21%
Relative to NSE-ASI	-9.09%	3.92%	30.64%	10.34%	0.31%

Source: Bloomberg, Reuters, Investment One Research

Contacts:

Ayodeji Dawodu
Ayodeji.Dawodu@Investment-One.com

Moses Hammed
Moses.Hammed@Investment-one.com

Olayemi Olamofe
Olayemi.Olamofe@Investment-one.com

Douye Mac-Yoroki
Intern2@Investment-One.com

Ikenna Ihebuzor
Intern3@Investment-One.com

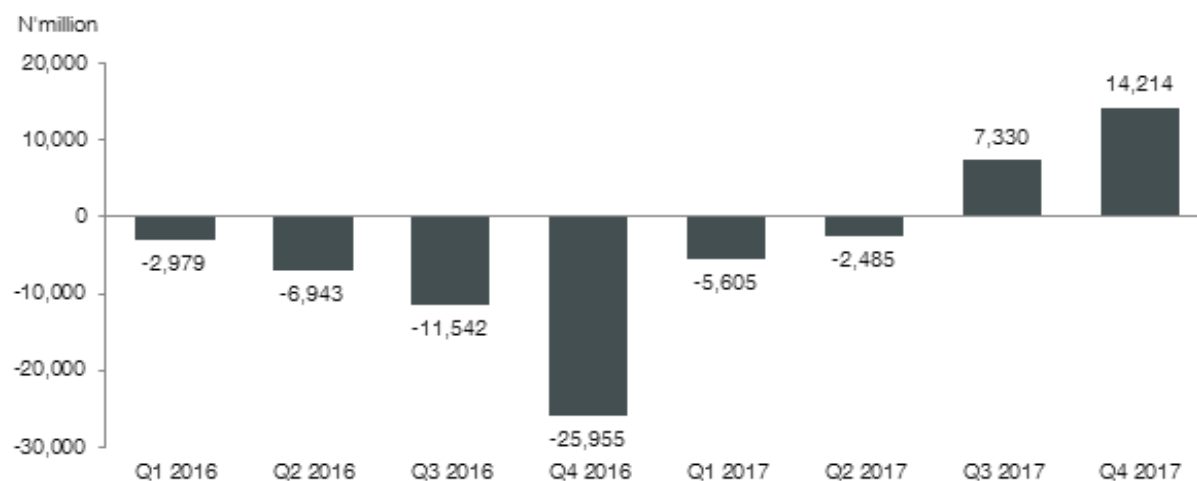
The Recovery Story

The company posted a profit before tax (PBT) of N7.33billion in Q3 2017 and N14.21billion in Q4 2017, following a loss before tax in the previous six quarters.

The recovery in bottom line performance was largely due to the lifting of the force majeure on the Forcados terminal at the end of H1 2017, leading to higher production levels, and the resurgence in Brent oil prices (up 20% year-on-year).

Specifically, we highlight that the growth in gas sales was a contributing factor to the company's PBT performance in Q4 2017. Gas sales, which surged 36% year-on-year (y/y) and 21% quarter-on-quarter (q/q) to N11.65billion, is seen as a long term hedge to volatilities in global oil prices which should support growth.

Profit Before Tax Performance



Source: Company Financials, Investment One Research

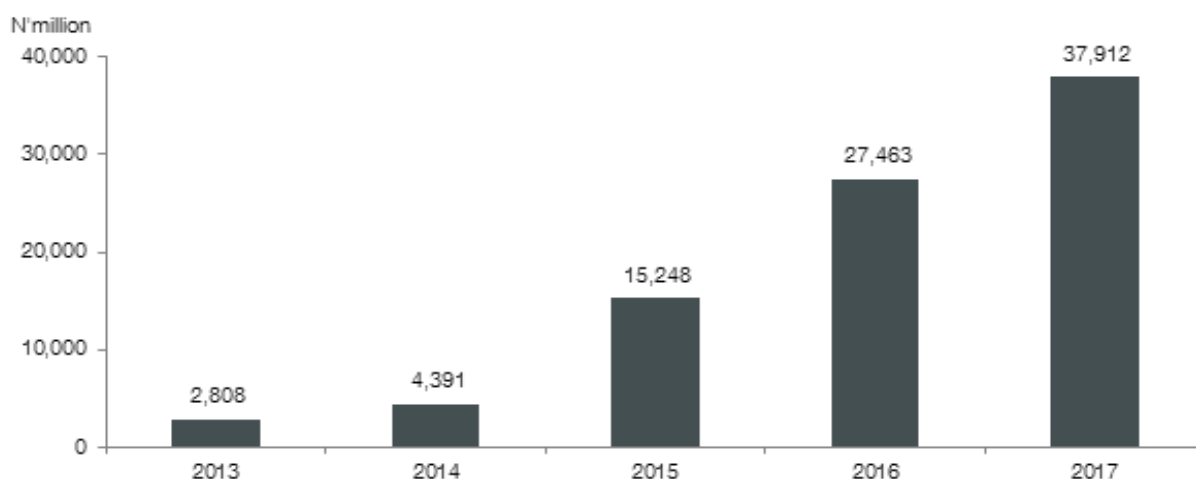
Gas Is The Future

The company has consistently grown its gas business (revenues have increased from N4.39billion in 2014 to N37.91billion in 2017) to cater to the growing local demand with the most recent development being the commencement of the delivery of gas to 450MegaWatts (MW) Azura Power Plant in December 2017.

We should see its gas business continue to improve with the soon to be completed Assa North – Ohaji South (ANOH) hub, which is strategically placed to take large scale gas reserves to Nigeria’s main demand centres via the Oben hub. The company is also working towards a joint venture relationship with the government to construct a 120kilometer pipeline in 2018 that would link both the ANOH and Oben gas processing plants.

The Oben hub has been considerably expanded recently, taking gas processing capacity to the 525 Million standard cubic feet per day (MMscfd) levels with a view to increasing production capacity to the 400 MMscfd level from 254.27MMscfd in 2017. After the completion of the ANOH Hub, total operated capacity will be capable of supporting up to 3,000MW power generation, which should be supportive of the administration’s goal to boost power generation via the Power Sector Recovery plan.

Gas Revenue Growth



Source: Company Financials, Investment One Research

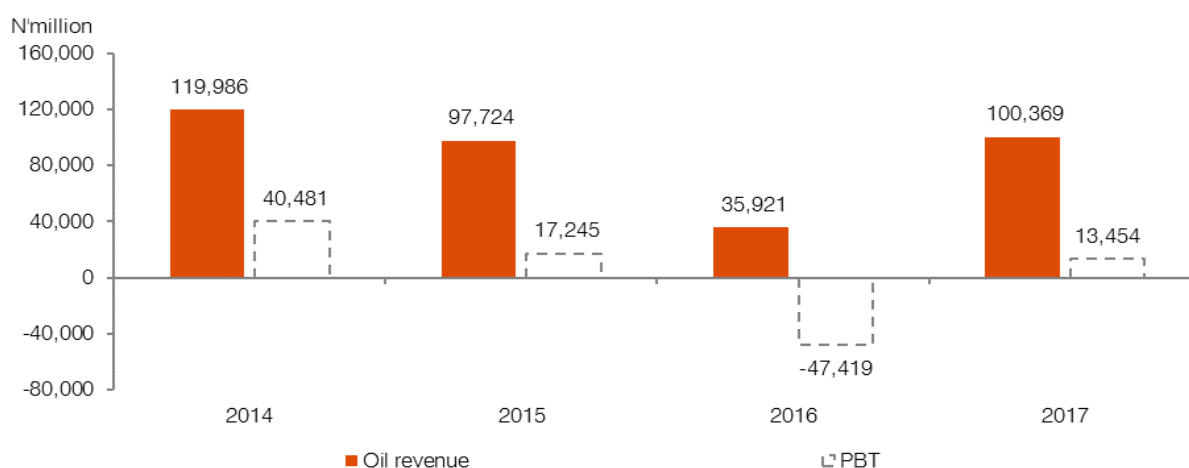
Nonetheless, Seplat remains committed to growing and optimizing its oil business. Following the closure of the Forcados terminal on February 2016, the company recorded six consecutive quarters of losses before tax, further exacerbated by low oil prices.

The company has since made great efforts to de-risking its evacuation routes, despite the lifting of the force majeure at the Forcados terminal, with the Escravos pipeline expected to be completed and fully commissioned in Q3 2018. We highlight this is much later than the original expected completion date (Q1 2018) due to certification complications with Chevron.

Reopening of the Forcados lift FY 2017 Performance

Seplat's FY 2017 performance was indicative of the reopening of the Forcados facility in June 2017, which contributed to the +43% y/y rise in average working interest production to 36,923, and the 21% y/y increase in Brent oil prices to an average of US\$54.75/barrel in 2017. The company's revenues rose by about 118% y/y to N138.3billion while its PBT was N13.45billion in 2017, compared to a loss before tax of N47.42billion in 2016.

Oil Revenues Vs PBT Performance



Source: Company Financials, Investment One Research

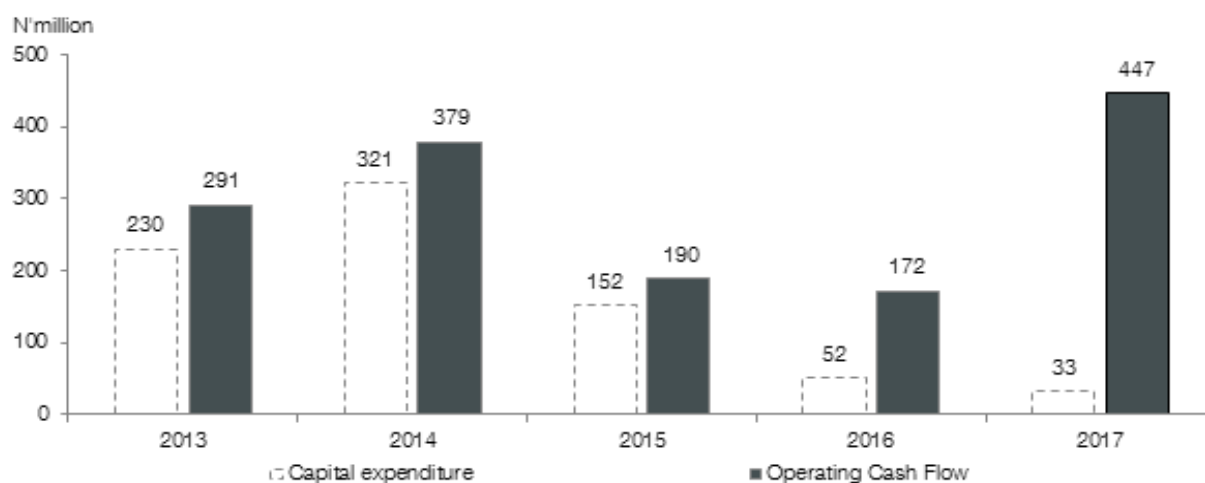
Outlook

Going forward, we expect revenue performance to see support from the stability in Brent oil prices (currently above US\$65/barrel), continued peace in the Niger-Delta, improvements in technical operations and ongoing de-risking of business operations.

Moreover, the company's strong financial position, following the 170% y/y increase in cash and cash equivalents to N133.7billion in 2017 and the recent debt refinancing should be supportive of the company's plans to reinstate dividends at the earliest opportunity as well as its capital expenditure plans. Seplat plans to increase capital expenditure (capex) to US\$98 million in 2018 and US\$150 million in 2019 from US\$33 million in 2017.

The capex spending should sustain the company's growing gas business, with a view of increasing its contribution to revenue to 52%, from about 30% in 2017. The expansion of the Oben hub coupled with the delivery of the ANOH hub development in the near term should further drive the gas business growth into a new phase.

Capital expenditure Vs Operating Cash Flow Performance



Source: Company Financials, Investment One Research

With this said, while the Niger Delta region should remain stable in the near term, given the administration's increased efforts to dialogue with leaders in the region, our concerns are on the medium to longer term outlook for the area.

Also constituting a downside risk is the uncertainty around the possible extension of the OPEC and non-OPEC allies production cap agreement, which elapses at the end of 2018. Although the agreement has largely been partly responsible for the recovery and stability in the global oil market we opine that an end to the agreement may adversely affect the oil prices. In addition to this, the influx of US shale oil into global market also poses a downside risk.

Disclaimer

This publication is for general information only and is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed in this article represent the current, good-faith views of the author(s) at the time of publication.

The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by *INVESTMENT ONE Financial Services* to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy, completeness or otherwise. Opinions expressed are our own unless otherwise stated. *INVESTMENT ONE Financial Services* and its affiliates may trade for their own accounts, the company may decide to take a long or short position on any securities, and/or may take the opposite side of public orders.

Past performance is no guarantee of future results. The inclusion of past performance figures is for illustrative purposes only. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader. This is not in any sense a solicitation or offer of the purchase or sale of securities. Neither *INVESTMENT ONE Financial Services* nor any officer or employee of *INVESTMENT ONE Financial Services* accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents. Investments in general and, equities, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk.

The ratings and company profile assessments reflect the opinion of the individual analyst and are subject to change at any time.

This material has been issued by *Investment One*, which is regulated by the Securities and Exchange Commission. Further information on any security mentioned herein may be obtained by emailing: research@investment-one.com

Address:

Investment Management & Research

INVESTMENT ONE Financial Services Limited

37, Karimu Kotun Street,

Victoria Island, Lagos.

Nigeria

Email: research@investment-one.com

Visit us at: www.investment-one.com