

## Oil & Gas: Set to take another step forward in 2022

*We expect the oil and gas sector to leap forward in 2022, aided by progress across the upstream, midstream, and downstream sub-sectors. In the upstream, oil production is likely to be positively impacted by increased drilling activities and sturdy oil prices. Refinery projects are also slated to reach key milestones in the midstream, headlined by the expected launch of Dangote Refinery in mid-2022. Elsewhere, the likely extension of PMS price regulation could keep margins mostly flat for downstream marketers. Thus, players in unregulated petroleum product markets are likely to remain clear winners.*

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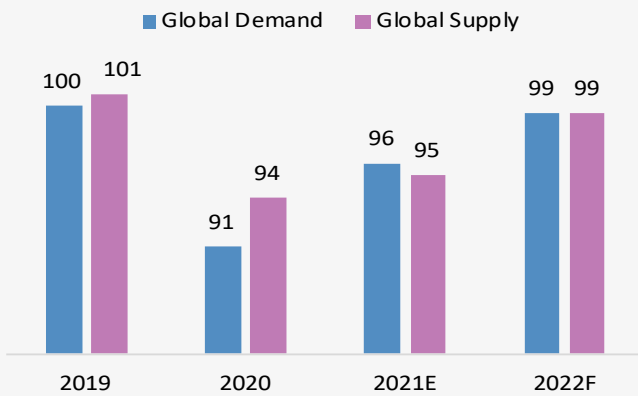
### Upstream

#### Oil price – Journey to a century dollars?

The short answer is that a \$100/bbl looks unlikely in the near term while the longer answer lies in an assessment of primary drivers of global demand and supply. We believe the upside to oil price is capped by the emergence of the COVID-19 Omicron variant and expected increases in global supply, particularly from the US and other non-OPEC countries. According to IEA, US oil output is projected to rebound from Q4'21, wherein Hurricane Ida hampered oil production between August and September 2021. US supply could also be boosted by the 50 million barrels of crude oil released from the Strategic Petroleum Reserve (SPR) to drive prices lower. This move will effectively add 416.7 kb/d monthly between January and April 2022. The supply addition will also be higher than the 400kb/d monthly output easing planned by OPEC+ for the same period.

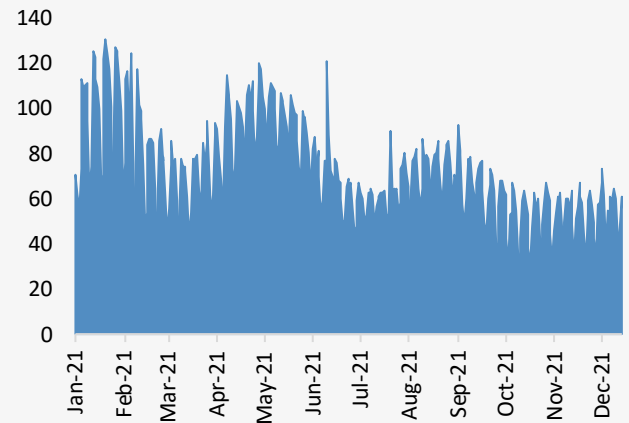
That said, the downside to current oil prices may also be limited in the near term, primarily because a large part of the current demand pressures could extend into 2022. The view on sustained demand is strengthened by news that the Omicron variant is not as deadly as first feared and the increasing switch to diesel due to global LNG shortages. There are also talks that OPEC+ may backtrack from its current easing schedule in the wake of the US's plan to release oil from its crude reserves. Overall, we expect growth in global supply to outpace the rise in oil consumption, leading to a moderation in Brent prices to an annual average of \$70/bbl in 2022. Our base case is mostly aligned with EIA's \$71/bbl forecast.

Figure 1: Supply is likely to match demand in 2022



Source: IEA; CardinalStone Research

Figure 2: Global COVID cases ('thousands) are below 2021 peak level despite Omicron concerns

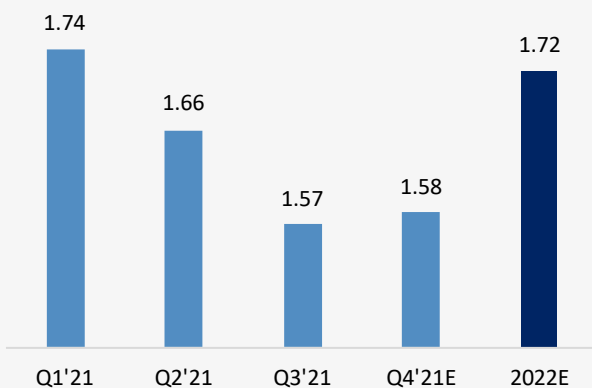


Source: Center for Systems Science and Engineering (CSSE) at Johns Hopkins University ; CardinalStone Research

**Domestic production to rise by 4.9% YoY in 2022**

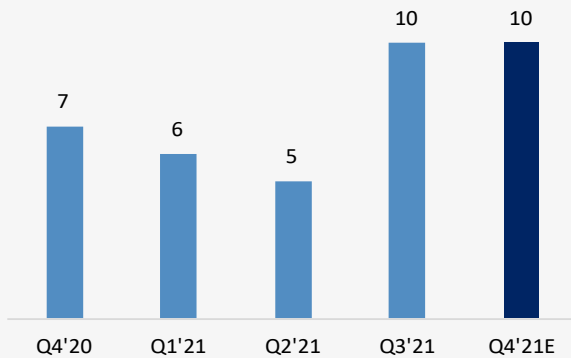
We expect Nigeria's crude oil production to gradually recover from the setbacks experienced in the first nine months of 2021, reaching 2021 and 2022 average production (incl. condensates) of 1.64 mb/d (-10.7%) and 1.72 mb/d (+4.9%), respectively. Domestic oil output has notably been hit by several production challenges ranging from power failure on several terminals, pipeline downtime due to vandalism and prolonged repairs, as well as industrial actions over non-payment of salaries. In Shell's last annual report, its management highlighted domestic security issues affecting the safety of its people and operations, including sabotage, theft, and its weakening ability to enforce existing contractual rights.

Figure 3: Oil production (mb/d) to grow by 4.9% YoY in 2022



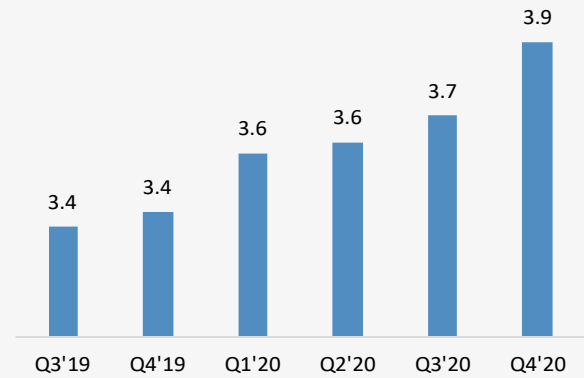
Source: DPR; CardinalStone Research

Figure 4: Improving domestic oil rig count



Source: OPEC; CardinalStone Research

Figure 5: Increasing bank credits to Oil and Gas sector (N'trillion)



Source: NBS; CardinalStone Research

Production has also been affected by the lagging effect of the 2020 oil price crash that saw a few marginal players (such as Lekoil) suspend drilling activities when they became economically unviable. Nonetheless, we expect the sector to rebound in 2022. This view is premised on the expected impact of elevated oil prices, which is incentivizing drilling activities across board as evinced by the gradual increase in rig count since the end of June 2021. Our optimism is also strengthened by the improving bank credit allocation to oil and gas sector<sup>1</sup>.

Elsewhere, the imminent launch of the 160,000 bpd Amukpe-Escravos export terminal could support production as it offers an alternative to the inefficient Trans Forcados pipeline, which had a 74.0% uptime in the first nine months of 2021. According to Seplat Energy, the construction of the entire pipeline system is effectively complete, and hydrocarbons lifting through the pipeline should commence soon.

**Climate change – should we be worried?**

The growing global consciousness around the effects of fossil fuels and CO<sub>2</sub> emission on the environment is undeniably a threat to the long-term prospects of crude oil. Several countries, including the US, UK, and Germany, have set net-zero carbon emission targets for 2050.

The recently concluded COP 26 (United Nations Climate Change Conference) held in November 2021 saw some countries commit to new greenhouse gas emissions targets by the end of 2022, three years earlier than originally agreed in the 2015 Paris Accord. Costa Rica, the US and 22 other countries also pledged to end public finance for new fossil fuel exploration and production overseas by 2022. These twists suggest that oil producers in emerging markets may start facing the negative fall-outs of the climate-friendly tune as early as this year.

<sup>1</sup>Domestic banks' exposure to the oil and gas sector printed at N3.9 trillion in Q4'20 – the highest in at least 12 quarters.

In Nigeria, there's a strong likelihood that local consumption of fossil fuels may remain unchanged in the interim, given the slow adoption of climate friendly policies. Still, the case for climate-friendly energy sources is beginning to gain traction and could become even more material in the medium to long term. Industries and households are increasingly adopting natural gas and LPG instead of "dirtier" fuels such as coal, petrol & diesel. We have also seen several international E&Ps divest from their Nigerian oil assets based on emission concerns. For instance, Shell attributed its decision to launch a sale of its Nigerian subsidiary to its renewed focus on climate-friendly solutions with plans to achieve net-zero carbon emissions by 2050.

Several companies have recently changed names to reflect their growing focus on cleaner energy products. For example, Seplat Energy Plc (formerly Seplat Petroleum Development Company Plc) changed its name to capture its desire to lead Nigeria's lower carbon and renewable energy transition. Total Nigeria Plc transformed to TotalEnergies Marketing Plc to reflect its parent's renewed focus on cleaner energy solutions. Overall, near-term threats of renewable energy to the Nigerian oil market appears minimal. Yet, companies that successfully pivot into climate-friendly energy products will likely dominate the energy market in the long term.

## Midstream

### Refinery projects set to pick up steam in 2022

In our view, FG's concerted efforts towards private & public refinery infrastructure is putting the country well on course to boosting refinery capacity. We are also constructive on NNPC's decision to acquire a 20.0% stake in Dangote Refinery's 600 kb/d facility because the associated proceeds (worth \$2.76 billion) may facilitate execution of outstanding capital expenditure and increase the likelihood of meeting the H1'22 launch target. In addition to this effort, FG' Refinery Rehabilitation Program – targeted at rehabilitating the NNPC refineries — has also recorded major milestones. In April 2021, FEC signed a \$1.5 billion contract with a subsidiary of Maire Tecnimont SPA for the major rehabilitation of the Port Harcourt refining complex. Rehabilitation contracts for the Warri and Kaduna refineries were also signed off in August 2021. We expect these contracts to kickstart these facilities' rehabilitation and, aided by the launch of Dangote Refinery, tilt the country closer to self-sufficiency in refined petroleum products.

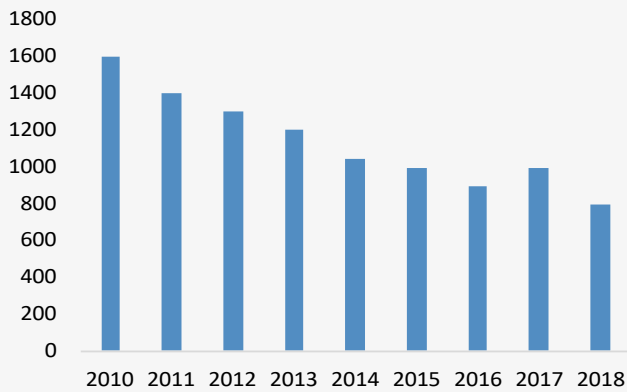
### "Decade of Gas" may be more than a slogan

"Untapped", "Underutilized", and "Unrealized" are words that have been used to describe Nigeria's gas potential. These negative assessments were despite the country's vast gas 'reserves' that has been ranked 8th in the world. The sector is notably ridden with inadequate infrastructures such as gas pipelines and processing facilities needed to harness the resources and compete globally. In addition to the infrastructure challenges, gas flaring<sup>2</sup> has historically limited local gas production and processing. Although the country remains a net exporter of natural gas, the local supply of LPG (cooking gas) barely serves half of the domestic demand.

<sup>2</sup>The wasteful burning of natural gas associated with oil extraction

To address these challenges, the President has declared 2021 – 2030 as the decade of gas for Nigeria. In our view, this declaration may be more than a mere catchphrase given the slew of government's efforts aimed at improving the sector's current state. Firstly, we like the government's tight regulations around gas flaring that are carried out primarily through the introduction of fines and penalties. The gas flaring fine is set at \$2 per 1,000 scf for companies that produce over 10 kboe/d and \$0.5 per 1,000 scf for companies pushing out less than 10 kboe/d.

Figure 6: Gas flaring (mmscf/d) significantly reduced between 2010 and 2018



Source: NLNG; CardinalStone Research

**The new Petroleum Industry Act (PIA) gas pricing regime** could also be another positive driver for gas production and development in the medium term. The PIA specifies a base gas price of \$3.2/mmbtu for the power sector (vs \$2.5/mmbtu previously) with provision for yearly reviews. The floor price for other industries was also adjusted to \$3.2/mmbtu from \$1.5/mmbtu previously. Similarly, the PIA establishes the Midstream Gas Infrastructure Fund (MGIF) - designed to take responsibility for the government's equity investment in infrastructure related to the midstream gas operations. The MGIF will be funded by a levy of 0.5% derived from the wholesale price of petroleum products and natural gas sold in Nigeria.

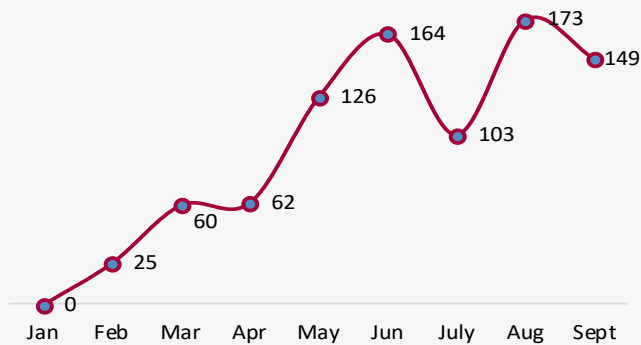
Other projects like the NLNG's Train 7 project and AGPC's ANOH gas processing facility are likely to deepen gas usage and exports. The NLNG Train 7 received Final Investment Decision (FID) in 2020, with a 2025 completion target, while the 300 Mscfd ANOH gas facility is expected to be completed in the first half of 2022.

## Downstream

### PMS subsidy likely to subsist in 2022

We are mindful of FG's plans to halt fuel subsidies by mid-2022 in favour of monthly N5,000 transport grants to 40 million Nigerians. The proposed program translates to N200 billion monthly, higher than our current subsidy estimates. For us, we believe the political weight of the issue, public sentiments, and the potential knock-on effect on the cost of living are likely to dissuade the FG from pulling the plug. Instead, the government may be more likely to opt for a partial increase in prices to around N208.0 per litre levels. Given this estimate, annual subsidy could moderate to c.N750.0 billion in 2022 compared to approximately N1.0 trillion (c.57.4% of FG 2020 CAPEX) in 2021.

Figure 7: Monthly subsidy burden (N' billion) in 2021



Source: NNPC; CardinalStone Research

Figure 8: PMS price scenarios for 2022

PMS price template			
Oil price/bbl	\$65	\$70	\$75
Exchange rate (N/\$)	411	440	500
Expected Ex-Coastal Price	195.1	220.5	250.4
Expected Landing Cost	203.7	244.0	291.2
Expected Ex-Depot	220.5	260.8	308.0
Retailers margin	6.2	6.2	6.2
Expected Retail Price	226.7	262.3	292.3
Price differential (N/litre)	64.73	100.3	130.3

Source: PPPRA; CardinalStone Research

Within this regulated environment, downstream marketing companies may have to look beyond PMS sales for operating margin improvement in 2022. Specifically, we see possible value accretion in other white products (AGO, HHK and ATK) and lubricants, whose prices align with domestic supply and demand realities. According to the NBS, local prices of AGO and HHK have risen by 13.2% and 23.9%, respectively, since the start of 2021, as marketers transferred the impact of higher crude oil prices on consumers.

Figure 9: Fuels price movements in 2021 (N/litre)

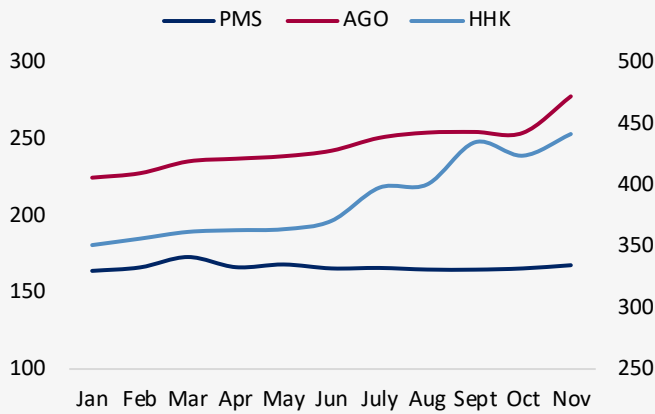
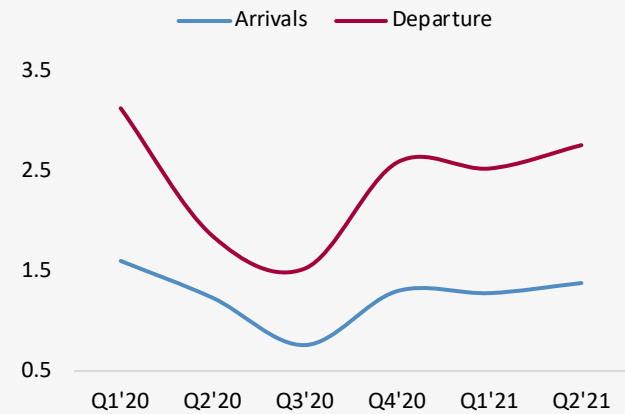


Figure 10: Improving domestic Air travels ('million)



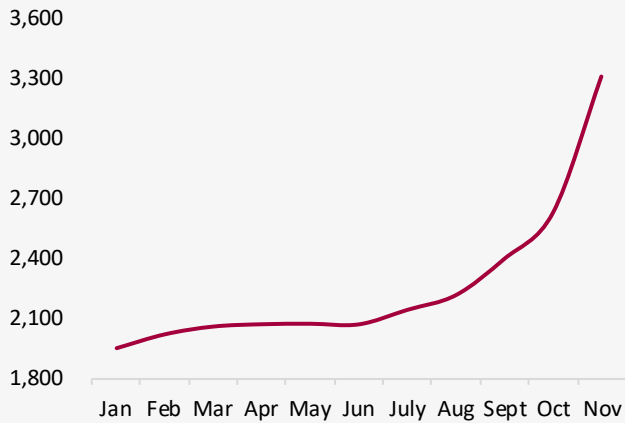
Source: NBS; CardinalStone Research

Beyond ATK price increases, the market has also been bolstered by the gradual rise in air travel. Domestic travels (arrival + departure) increased by 81.6% to 2.8 million in Q2'21, from 1.5 million lows recorded in the third quarter of 2020. We, however, note recent threats from Omicron-related flight restrictions and retaliatory actions.

**Sharp increases in LPG prices may halt product penetration in 2022**

We see the continued surge in cooking gas prices as a potential threat to local LPG consumption. The 12.5kg cooking gas price has increased by 46.0% YtD, notably rising by 36.5% in September 2021. According to the Nigerian Association of Liquefied Petroleum Gas Marketers, prices have been pressured by i) the re-introduction of VAT on the product, ii) the rise in international freight costs (imports contribute about 60.0% of total consumption), and iii) an increase in customs duties.

Figure 11: Uptrend in LPG prices in 2021 (N/5kg)



Source: NBS; CardinalStone Research

In our view, these price shocks could pressure consumers into seeking other alternatives to cooking gas and halt the growing adoption of LPG in major households. On the flip side, the downside to current consumption is capped, considering the price of kerosene - an alternative to LPG - has also skyrocketed over the last year.

Although LPG remains a small part of our coverage companies' revenues, contributing between 1.0% - 3.0% in FY'20, the low LPG adoption rates across households suggests that more can be done to increase LPG sales and penetration. According to *Clean Cooking Alliance*, only 15.0% of Nigeria's 49 million households use LPG as clean cooking fuel, leaving an untapped LPG market of about 36.8 million households – who rely on wood or kerosene.

## ARDOVA PLC

BLOOMBERG: ARDOVA NL

## Businesses repurposing yielding slow results

**BUY**

Target Price: N18.84

Ref Price: N13.45

Upside/(Downside): 40.1%

ARDOVA's foray into new businesses, highlighted in our previous [publication](#), is yet to have the desired jumpstart effect on the firm's bottom line. Notably, the company's renewable energy business remained 'below the waters' in 9M'21, wherein it recorded a gross loss of N440 million. Its haulage business has also been largely earnings-dilutive and weighed by servicing costs related to trucks acquisition. Lastly, the LPG & Cylinder segment contributed a meagre 0.3% to 9M'21 profits. The company explained the weak contribution with the long gestation period (c.3 years) traditionally required for LPG projects. In addition, it also noted that penetrating the market came at the cost of huge discounts on cooking gas cylinders, which inflated costs. We expect these teething issues to extend into FY'22 but see legroom for medium-to-long-term recovery.

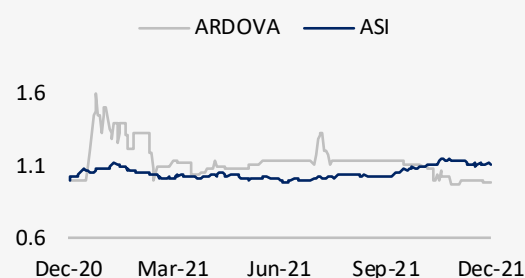
In the short term, earnings will likely be supported by ARDOVA's legacy lines – fuels & lubricants. We project a 16.0% YoY growth in fuels revenues to N194.8 billion in FY'22, largely premised on the expected impact of the ENYO acquisition. ARDOVA finally consummated the ENYO deal in November 2021 and is now set to increase its retail base by c.17.5%. Meanwhile, the CEO's ascension to the head of MOMAN could reduce the likelihood of fuel supply issues from PPMC, akin to that experienced in H1'21. Lubricants revenues are also projected to expand by 15.0% YoY as better trucks' supply drives faster product distribution.

We project a 50 bps YoY operating margin expansion to 3.5% in FY'22, in the absence of the one-off cost (related to ENYO acquisition) that blighted 9M'21 performance. We also see scope for some synergic benefits from the ENYO acquisition such as potential savings in operating expenses (FY'22E OPEX/sales of 5.1% vs FY'21E of 5.2%). We expect the solid operating performance to mask the expected surge in finance expenses following the company's N22.6 billion bond issuance. Overall, we project an 18.4% YoY growth in FY'22 PAT to N2.0 billion.

We retain our **BUY** rating on ARDOVA with a 12-month Target Price (TP) of N18.84. Our TP represents a 40.1% upside to the current market price. ARDOVA trades on an FY'22 EV/EBITDA of 4.2x, compared to its 5-year average of 7.3x. The current mispricing is not justified as our FY'22E ROE of 9.8%, prints higher than its 5-year average ROE of 9.6%.

Market Data	ARDOVA
Market Cap (N'bn)	17.40
Last close price (N)	13.40
52-week high-low price (N)	22.00/13.20
Avg 3M daily volume (N'mn)	0.49

1-year price performance (rebased)



Source: NSE; CardinalStone Research

Income Statement	2019A	2020A	2021E	2022F	2019A	2020A	2021E	2022F
	(N'Mn)				(\$'Mn)			
Revenue	176,551	181,939	191,489	222,596	425	438	461	536
Cost of Sales	(165,269)	(169,808)	(178,276)	(206,346)	(398)	(409)	(430)	(497)
<b>Gross Profit</b>	11,282	12,131	13,213	16,249	27	29	32	39
Distri. And Admin Expenses	(10,674)	(9,466)	(9,766)	(11,241)	(26)	(23)	(24)	(27)
Other Income	4,317	1,472	500	500	10	4	1	1
<b>EBIT</b>	4,924	4,137	3,847	5,508	12	10	9	13
Interest Expense/Income	(270)	(1,231)	(1,151)	(2,545)	(1)	(3)	(3)	(6)
<b>Pre-tax earnings</b>	4,654	2,905	2,503	2,964	11	7	6	7
Taxation	(739)	(1,048)	(826)	(978)	(2)	(3)	(2)	(2)
<b>Profit after tax</b>	3,915	1,858	1,677	1,986	9	4	4	5
Statement of Financial Position	2019A	2020A	2021E	2022F	2019A	2020A	2021E	2022F
<b>Assets</b>								
Fixed assets & Leased assets	12,623	16,701	37,388	45,696	30	40	90	110
Inventory	12,834	14,554	12,211	12,437	31	35	29	30
Trade and other receivables	16,678	28,491	20,985	23,784	40	69	51	57
Other assets	2,899	2,094	2,119	2,093	7	5	5	5
Cash and Bank balances	1,984	3,006	10,591	5,223	5	7	26	13
<b>Total Assets</b>	47,019	64,846	83,294	89,233	113	156	201	215
<b>Liabilities</b>								
Trade and other payables	22,823	35,481	34,190	38,443	55	85	82	93
Borrowings	5,329	8,957	27,448	27,448	13	22	66	66
Other Liabilities	2,703	2,387	2,205	2,126	7	6	5	5
<b>Total Liabilities</b>	30,856	46,825	63,843	68,016	74	113	154	164
<b>Capital and Reserves</b>								
Share capital	655	655	655	655	2	2	2	2
Share premium	8,072	8,072	8,072	8,072	19	19	19	19
Retained Earnings	8,830	10,688	12,117	13,884	21	26	29	33
Others	(1,394)	(1,394)	(1,394)	(1,394)	(3)	(3)	(3)	(3)
<b>Shareholders' funds</b>	16,163	18,021	19,451	21,217	39	43	47	51
Total liabilities and equity	47,019	64,846	83,294	89,233	113	156	201	215
Key Ratios	2019A	2020A	2021E	2022F	2019A	2020A	2021E	2022F
<b>Profitability</b>								
Return on Average Equity	24.2%	10.9%	9.0%	9.8%	24.2%	10.9%	9.0%	9.8%
Return on Average Assets	8.3%	3.3%	2.3%	2.3%	8.3%	3.3%	2.3%	2.3%
Net Profit Margin	2.2%	1.0%	0.9%	0.9%	2.2%	1.0%	0.9%	0.9%
<b>Valuation Multiples</b>								
P/E (x)	4.5	9.4	10.4	8.8	4.5	9.4	10.4	8.8
EV/EBITDA (x)	12.1	8.8	5.9	4.2	12.1	8.8	5.9	4.2
Dividend Yield (%)	8.6%	1.4%	1.3%	1.6%	8.6%	1.4%	1.3%	1.6%

## SEPLAT ENERGY PLC

BLOOMBERG: SEPLAT NL

## The worst may be over

**BUY**

Target Price: N840.12

Ref Price: N690.00

Upside/(Downside): 21.8%

We envisage a relatively improved FY'22 for SEPLAT as the company bounces back from the challenges that have plagued its performance in FY'21. SEPLAT has survived two oil price crises in 10 years, navigated through communal unrests in Niger Delta, implemented strong corporate governance and now appears ready to grow. We expect W.I production to expand by 12.0% YoY, aided by higher gas (+15.0% YoY) and oil (+10.0% YoY) volumes. Our gas projection is premised on the expected impact of the 300 MMscfd ANOH gas plant. According to management, the plant's construction is on schedule, and it should have first gas flowing to customers by the end of H1'22. The last phase of the project is a 23-km spur that connects the plant to the Obiafu-Obrikom-Oben (O83) gas export pipeline.

Our optimism on oil production is hinged on i) the likely absence of operational shocks such as the delays in siting a new storage vessel at OML 40, which disrupted production in H1'21 ii) plans to extend robust drilling activities – SEPLAT completed six wells in the first nine months of 2021 and is primed to extend these activities into 2022, and iii) the expected commissioning of the Amukpe-Escravos export pipeline (AEP). The new pipeline is mostly underground and enjoys better security than the TransForcados Pipeline (TFP).

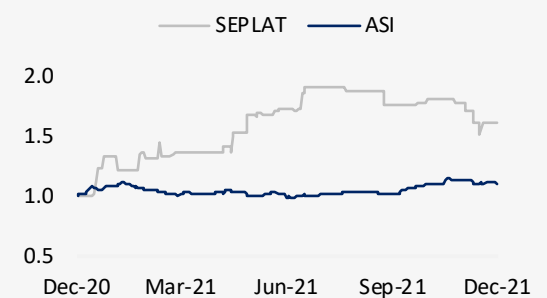
In addition to boosting sector topline, AEP will alleviate downtime and losses in output from OMLs 4, 38 & 41 (which typically contribute over 75% to W.I production). For context, SEPLAT experienced TFP reconciliation losses of 11.3% in 9M'21. Since the AEP is a safer and newer pipeline, we expect these losses to trend southwards to single digits with associated cost savings of up to \$20 million. We, therefore, project FY'22E PAT at \$96.7 million (vs \$48.7 million in FY'21E ).

Elsewhere, the lingering court case capable of disrupting production is being resolved. In particular, the group agreed to acquire rigs of a related party - Cardinal Drilling Services Ltd – for \$36 million, which effectively put an end to the court case between the company and Access Bank Plc. According to management, the case does not have direct recourse to SEPLAT, but it decided to resolve it to avoid potential disruption to its day-to-day operations.

We adjust our 12-month TP lower to N840.12 to reflect our long-term concerns on crude oil prices. On the flip side, we like the company's potential foray into cleaner energy, as stated [here](#). The company also disclosed that it is having competitive discussions to acquire ExxonMobil's Nigerian shallow water business. Early crystallization of these plans could necessitate model adjustments and stock re-rating.

Market Data	SEPLAT
Market Cap (N'bn)	406.0
Last close price (N)	690.00
52-week high-low price (N)	770.00/402.30
Avg 3M daily volume (mm)	0.30

1-year price performance (rebased)



Source: NSE; CardinalStone Research

Income Statement	2019A	2020A	2021E	2022F	2019A	2020A	2021E	2022F
	(US\$'000)				(N'Mn)			
Revenue	697,777	530,467	639,266	847,076	287,484	218,552	263,378	348,995
Cost of Sales	(302,039)	(405,892)	(428,309)	(542,129)	(124,440)	(167,228)	(176,463)	(223,357)
<b>Gross Profit</b>	395,738	124,575	210,958	304,947	163,044	51,325	86,915	125,638
SGA	(70,617)	(76,047)	(73,516)	(84,708)	(29,094)	(31,331)	(30,288)	(34,900)
Other Income	29,876	83,864	110,000	89,000	12,309	34,552	45,320	36,668
Impairment losses	(43,022)	(164,108)	(22,335)	200	(17,725)	(67,612)	(9,202)	82
<b>EBITDA</b>	405,891	104,607	347,234	430,282	167,227	43,098	143,060	177,276
Interest Expense/Income	(19,008)	(48,493)	(89,890)	(67,805)	(7,831)	(19,979)	(37,035)	(27,936)
<b>Pre-tax earnings</b>	292,967	(80,209)	135,218	241,634	120,702	(33,046)	55,710	99,553
Taxation	(29,125)	(5,113)	(86,539)	(144,981)	(12,000)	(2,107)	(35,654)	(59,732)
<b>Profit after tax</b>	263,842	(85,322)	48,678	96,654	108,703	(35,153)	20,055	39,821
<b>Statement of Financial Position</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022F</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022F</b>
<b>Assets</b>								
Oil and Gas properties	1,585,529	1,628,350	1,635,686	1,624,964	653,238	670,880	673,903	669,485
JV assets	161,071	222,741	222,741	222,741	66,361	91,769	91,769	91,769
Trade and other receivables	486,762	254,671	245,198	185,660	200,546	104,924	101,022	76,492
Other assets	704,720	1,085,093	1,093,201	1,121,755	290,345	447,058	450,399	462,163
Cash and Bank balances	333,028	258,718	193,475	268,155	137,208	106,592	79,712	110,480
<b>Total Assets</b>	3,271,110	3,449,573	3,390,301	3,423,275	1,347,697	1,421,224	1,396,804	1,410,389
<b>Liabilities</b>								
Trade and other payables	468,804	343,340	246,424	311,910	193,147	141,456	101,527	128,507
Borrowings	789,408	698,415	728,415	628,415	325,236	287,747	300,107	258,907
Other Liabilities	208,959	743,773	761,081	790,077	86,091	306,434	313,565	325,512
<b>Total Liabilities</b>	1,467,171	1,785,528	1,735,920	1,730,402	604,474	735,638	715,199	712,925
<b>Capital and Reserves</b>								
Share capital	503,742	511,723	511,723	511,723	207,542	210,830	210,830	210,830
Share premium	30,426	27,592	27,592	27,592	12,536	11,368	11,368	11,368
Retained Earnings	1,249,156	1,116,079	1,106,415	1,144,908	514,652	459,825	455,843	471,702
Other Reserve	20,615	8,651	8,651	8,651	8,493	3,564	3,564	3,564
<b>Shareholders' funds</b>	1,803,939	1,664,045	1,654,381	1,692,874	743,223	685,587	681,605	697,464
<b>Total liabilities and equity</b>	3,271,110	3,449,573	3,390,301	3,423,275	1,347,697	1,421,224	1,396,804	1,410,389
<b>Key Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022F</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022F</b>
<b>Profitability</b>								
Return on Average Equity	14.6%	-4.9%	2.9%	5.8%	14.6%	-4.9%	2.9%	5.8%
Return on Average Assets	8.1%	-2.5%	1.4%	2.8%	8.1%	-2.5%	1.4%	2.8%
Net Profit Margin	37.8%	-16.1%	7.6%	11.4%	37.8%	-16.1%	7.6%	11.4%
<b>Valuation Multiples</b>								
P/E (x)	3.7	-11.4	20.0	10.1	3.7	-11.4	20.0	10.1
EV/EBITDA (x)	2.3	8.7	2.6	2.1	2.3	8.7	2.6	2.1
Dividend Yield (%)	5.0%	4.9%	4.9%	4.9%	5.0%	4.9%	4.9%	4.9%

# TOTAL ENERGIES MARKETING PLC

BLOOMBERG: TOTAL NL

## Riding the rebound wave

**BUY**

Target Price: N272.20

Ref Price: N221.90

Upside/(Downside): 22.7%

In our view, TOTAL remains perfectly poised to benefit from the gradual improvement in air travel in FY'22. One of the pillars of the company's turnaround in the first nine months of 2021 was its strong revenue growth in Fuels and Lubricants, driven by higher volumes and prices. We see further legroom for growth in FY'22, considering air travels are still below pre-pandemic levels.<sup>3</sup> TOTAL's historical presence in the Aviation Turbine Kerosene (ATK) market and partnerships with several local and international airline operators should support sustained traction in the Aviation segment.

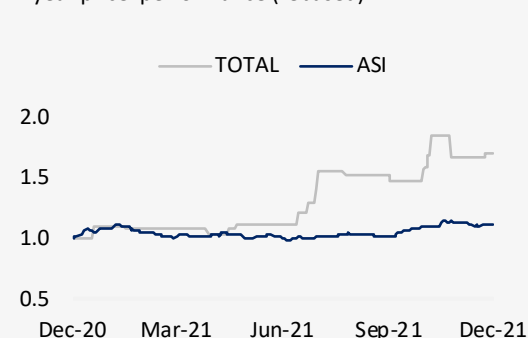
Elsewhere, topline growth could be strengthened by demand for other fuels such as PMS, where it competes neck to neck with ARDOVA for market leadership. We also see sustained upside in lubricant sales, despite the already huge traction in 2021. Akin to the traction in ATK, lubricant sales have been bolstered by the pickup in air travels and ease of mobility restrictions. TOTAL's historically strong presence in lubricants (55.0% market share) alongside its current network infrastructure of 556 retail stations – arguably the single largest network in Nigeria – strengthens our FY'22 optimism. Overall, we forecast a 16.3% YoY growth in FY'22 revenues to N386.0 billion

Our expectations of stronger lubricants revenues could provide ample shield for margins in 2022 and offset the impact of high inflationary pressures. Lubricant margins have historically printed higher than other fuels, hovering around 25.0% (vs 6.5% for fuels). TOTAL's position as the market leader also makes potential price increases favourable. Overall, we expect operating margin to remain flat at 8.4% in FY'22.

Following our model adjustments, we raise our 12-month TP to N272.20 from N231.97 previously. Our new TP represents a 19.7% upside to the current market price; thus, we upgrade the ticker to a BUY (vs HOLD previously). TOTAL currently trades at an EV/EBITDA of 1.7x compared to peer average of 5.4x. Naira devaluation remains the biggest risk to our forecast. The company has a \$75 million revolving loan facility extended by its parent and priced at 1 month LIBOR + 6.4%. A potential naira devaluation could drive interest expense pressure in FY'22.

Market Data	TOTAL
Market Cap (N'bn)	75.4
Last close price (N)	221.90
52-week high-low price (N)	240.80/130.00
Avg 3M daily volume (mm)	0.17

1-year price performance (rebased)



Source: NSE; CardinalStone Research

<sup>3</sup>Although the emergence of the COVID-19 omicron variant has stoked renewed concerns over local & international aviation traffic, it appears to have waned. For instance, the UK has removed the 11 countries including Nigeria from its travel red list after re-introducing the measure in late November as a precaution after the emergence of the new variant.

Income Statement	2019A	2020A	2021E	2022F	2019A	2020A	2021E	2022F
	(N'Mn)				(\$'Mn)			
Revenue	292,177	204,721	335,181	389,653	707	496	812	943
Cost of Sales	(173,974)	(279,206)	(324,425)	(342,734)	(421)	(676)	(786)	(830)
<b>Gross Profit</b>	118,203	(74,484)	10,756	46,919	286	(180)	26	114
Distri. And Admin Expenses	(28,567)	(28,249)	(31,842)	(36,082)	(69)	(68)	(77)	(87)
Other Income	3,338	1,040	4,100	3,500	8	3	10	8
EBIT	9,822	3,538	28,233	32,646	24	9	68	79
<b>Interest Expense/Income</b>	(6,751)	(629)	(1,538)	(1,931)	(16)	(2)	(4)	(5)
Pre-tax earnings	3,071	2,909	26,695	30,715	7	7	65	74
<b>Taxation</b>	(792)	(846)	(8,542)	(9,829)	(2)	(2)	(21)	(24)
Profit after tax	2,279	2,063	18,152	20,886	6	5	44	51
Statement of Financial Position	2019A	2020A	2021E	2022F	2019A	2020A	2021E	2022F
<b>Assets</b>								
Fixed assets & Leased assets	35,477	36,208	39,683	43,840	86	88	96	106
Inventory	33,642	21,620	35,953	41,775	81	52	87	101
Trade and other receivables	48,520	43,662	56,507	64,244	117	106	137	156
Other assets	9,159	11,109	11,344	11,561	22	27	27	28
Cash and Bank balances	8,233	31,014	23,058	25,784	20	75	56	62
<b>Total Assets</b>	135,031	143,613	166,543	187,204	327	348	403	453
<b>Liabilities</b>								
Trade and other payables	57,178	73,485	82,889	83,109	138	178	201	201
Borrowings	39,877	32,614	30,053	35,053	97	79	73	85
Other Liabilities	9,655	9,362	9,362	9,362	23	23	23	23
<b>Total Liabilities</b>	106,711	115,462	122,304	127,524	258	280	296	309
<b>Capital and Reserves</b>								
Share capital	170	170	170	170	0	0	0	0
Retained Earnings	28,150	27,981	44,069	59,510	68	68	107	144
Shareholders' funds	28,320	28,151	44,239	59,679	69	68	107	145
Total liabilities and equity	135,031	143,613	166,543	187,204	327	348	403	453
Key Ratios	2019A	2020A	2021E	2022F	2019A	2020A	2021E	2022F
<b>Profitability</b>								
Return on Average Equity	7.72%	7.31%	50.15%	40.20%	7.72%	7.31%	50.15%	40.20%
Return on Average Assets	1.70%	1.48%	11.71%	11.81%	1.70%	1.48%	11.71%	11.81%
Net Profit Margin	0.78%	1.01%	5.42%	5.36%	0.78%	1.01%	5.42%	5.36%
<b>Valuation Multiples</b>								
P/E (x)	33.1	36.5	4.2	3.6	33.1	36.5	4.2	3.6
EV/EBITDA (x)	5.0	8.0	2.3	2.0	5.0	8.0	2.3	2.0
Dividend Yield (%)	3.0%	2.7%	7.2%	8.3%	3.0%	2.7%	7.2%	8.3%

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**Hold** +0.00% to +14.99% expected share price performance

**Sell** < 0.00% expected share price performance

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An **HOLD** rating is given to equities with good fundamentals, which have upside potential within a range of +0.00% and +14.99%,

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