

# Seplat Energy

1Q24 results – operations strong, financials skewed

29 April 2024

**Price**

167p

**TICKER**

[SEPL](#)

**Market Cap**

£983m

**Net Debt (31 Mar 2024)**

\$385m

**Free Float**

40%

**3mo Av. Daily Volume**

138k

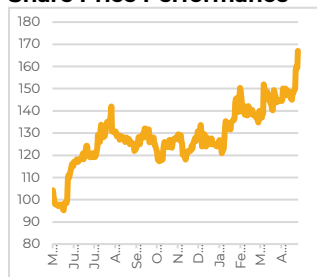
**Brokers**

Citi, Investec Bank

**Index**

FTSE Small Cap

**Share Price Performance**



Source: Bloomberg

Seplat is a leading oil and gas producer in the Niger Delta region. It is now the leading processed gas supplier to the burgeoning Nigerian domestic market with start-up of the large ANOH gas project due this year and the transformational MPNU acquisition pending. The company focuses on onshore & shallow water offshore assets.

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**Nigeria's leading independent energy company**

Seplat delivered an encouraging operating performance in 1Q24 including production of 49.3kboed, towards the upper end of guidance (44-52kboed). All current guidance was maintained but good progress on the ANOH export infrastructure and an earlier than expected resumption of exports through Zone 6 of the Trans Niger Pipeline improve confidence that guidance will be at least met. Financial performance for the quarter was skewed by a substantial underlift, FX effects, and a high deferred tax charge, much of which should rebalance in subsequent quarters; the dividend was maintained at USc 3. We have revised our forecasts to reflect guidance and despite the strong performance of the share price, the rating remains attractive, with debt adjusted cash flow of under 4x for FY24 and falling rapidly. Completion of the MPNU acquisition would approximately halve current ratings, we estimate.

Reported revenue of US\$179.8m was negatively impacted by a US\$56.4m underlift with underlying revenue down 7.6% YoY, despite strong oil and gas price realisations. There was also a negative FX related revaluation of US\$17.3m of the YE23 overlift position. Operating profit of US\$81.9m (1Q23 US\$103.7m) reflected the underlift combined with higher DD&A and G&A expense. Net income was hurt by a high deferred tax charge of US\$57.3m which pushed the tax rate to 102.8% resulting in a net loss for the quarter of US\$1.9m (1Q23 net profit US\$57.5m) and EPS of US\$0.00 (1Q23 US\$0.10). The underlift and FX effects had a significant impact on cash generated from operations which fell to US\$16.8m (1Q23 US\$145.0m) but Seplat received US\$95m in April for volumes lifted in March and cash balances are expected to normalise in the second quarter. Net debt increased to US\$385.4m (YE23 US\$305.6m) but net debt/EBITDA remained well contained at 0.9x (Figure 1).

Production of 49.3kboed fell 4.8% YoY but was 5.7% above production in 4Q23. Production guidance was maintained and Seplat continues to maintain guidance of first gas from ANOH in 3Q24 and capex guidance of US\$170m-US\$200m. Seplat is working with NNPC and the government to conclude the MPNU acquisition and the company remains confident that the transaction will be approved.

Seplat brought the Sibiri-1 well onstream just a few weeks after receiving FDP approval and the drilling programme discovered new hydrocarbons in previously untested deep reservoirs at Sapele-37 and Okporhuru-9. The NMDPRA increased the domestic gas price by 11% to US\$2.42/mcf and there were other positive institutional developments including fiscal incentives and greater autonomy over contracting which continue to speak to the supportive attitude of the government to the oil and gas industry in Nigeria.

We publish updated forecasts which mainly reflect a trimming of our production forecast for FY24 to bring it within guidance (see Summary financial statements). Seplat's share price has been on a tear but valuation, particularly on cash flow based multiples continues to look attractive while completion of the MPNU acquisition would approximately halve current ratings, we estimate.

At a Glance (Yr. to Dec)	Production (kboed)	Revenue (US\$m)	EPS (US\$)	DPS** (US\$)	P/E* (x)	Yield* (%)	Debt Adj CF* (x)
FY22A	44.1	952	0.11	0.15	6.5	11.3%	2.1
FY23A	47.8	1,061	0.14	0.15	5.5	10.3%	2.4
FY24E	50.0	843	0.12	0.12	10.8	5.7%	3.8
FY25E	63.5	960	0.17	0.12	8.0	5.7%	3.2
FY26E	65.2	985	0.19	0.12	6.9	5.7%	2.6

Source: Bloomberg, Seplat, CAG Research. \* Uses annual averages for historic share price and EV data. \*\*FY22 and FY23 include special dividend.

**Figure 1: IQ24 highlights**

Item	Unit	1Q24	1Q23	Delta
<b>Reported revenue</b>	US\$m	179.8	331.0	-45.7%
<b>Revenue excluding over/underlift*</b>	US\$m	236.3	255.6	-7.6%
<b>Gross profit</b>	US\$m	42.7	198.3	-78.5%
<b>Adjusted EBITDA</b>	US\$m	123.3	140.2	-12.0%
<b>Operating profit</b>	US\$m	81.9	103.7	-21.0%
<b>Profit before tax</b>	US\$m	69.3	86.1	-19.5%
<b>Net profit</b>	US\$m	-1.9	57.5	-103.4%
<b>Diluted EPS</b>	US\$	0.00	0.10	-100.0%
<b>Dividend</b>	US\$	0.030	0.030	0.0%
<b>Net debt</b>	US\$	385.4	305.6	26.1%
<b>Cash generated from operations</b>	US\$m	16.8	145.0	-88.4%
<b>Working interest production</b>	boed	49,258	51,720	-4.8%
<b>Volumes lifted</b>	mmbbl	1.75	3.58	-51.1%
<b>Average realised oil price</b>	US\$bbl	86.17	82.32	4.7%
<b>Average realised gas price</b>	US\$mcf	3.11	2.88	8.0%

Source: Seplat, CAG Research. \*1Q24 not adjusted for negative US\$17.3m FX related revaluation of overlift volumes brought forward from the prior reporting period.

## Summary financial statements

December year end, US\$m	FY22A	FY23A	FY24E	FY25E	FY26E
Brent price (US\$/bbl)	99.8	82.2	75.0	75.0	75.0
Production (kboed)	44.1	47.8	50.0	63.5	65.2
<b>Profit &amp; loss</b>					
Revenue	951.8	1,061.3	842.9	959.9	985.0
Cost of sales	(487.1)	(529.3)	(487.6)	(553.3)	(570.7)
<b>Gross profit</b>	<b>464.7</b>	<b>532.0</b>	<b>355.3</b>	<b>406.6</b>	<b>414.4</b>
Other (loss)/income	(36.1)	(121.9)	-	-	-
G&A	(137.4)	(143.6)	(105.5)	(112.2)	(115.1)
Impairment/fair value	(16.6)	(17.1)	-	-	-
<b>Operating profit</b>	<b>274.7</b>	<b>249.4</b>	<b>249.8</b>	<b>294.4</b>	<b>299.3</b>
Net finance	(67.0)	(59.6)	(42.5)	(13.0)	25.0
Share of JV	(3.4)	1.5	-	-	-
<b>Profit before taxation</b>	<b>204.4</b>	<b>191.2</b>	<b>207.2</b>	<b>281.4</b>	<b>324.3</b>
Income tax	(99.7)	(67.3)	(103.6)	(140.7)	(162.1)
<b>Net profit (cont ops)</b>	<b>104.7</b>	<b>123.9</b>	<b>103.6</b>	<b>140.7</b>	<b>162.1</b>
Non-controlling interests	42.3	40.7	31.1	42.2	48.6
<b>Attributable profit</b>	<b>62.4</b>	<b>83.1</b>	<b>72.5</b>	<b>98.5</b>	<b>113.5</b>
Basic EPS (US\$)	0.11	0.14	0.12	0.17	0.19
Diluted EPS (US\$)	0.11	0.14	0.12	0.17	0.19
Dividend <sup>1</sup> (US\$)	0.15	0.15	0.12	0.12	0.12

Source: Seplat, CAG Research. 1) FY22 and FY23 includes special dividend.

## Summary financial statements (cont)

December year end, US\$m	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow</b>					
Profit before taxation	204.4	191.2	207.2	281.4	324.3
DD&A	132.8	163.2	157.2	165.8	173.5
Depreciation of right of use assets	5.4	4.1	1.5	1.7	1.8
Impairments, net	6.4	12.7	-	-	-
(Profit)/loss on disposal	13.1	-	-	-	-
Net finance	64.6	51.5	42.6	13.1	(24.9)
(Profit)/loss on derivatives	10.1	4.9	-	-	-
FX	1.1	27.5	-	-	-
Share based payments	8.2	11.8	6.0	6.0	6.0
ANOH dividend	-	-	-	12.0	26.0
Other adjustment	7.4	8.2	9.6	9.6	9.6
<b>Net cash from operations before WC</b>	<b>453.5</b>	<b>475.5</b>	<b>424.1</b>	<b>489.6</b>	<b>516.3</b>
Movement in working capital	119.5	44.3	-	-	-
<b>Net cash from operating activities</b>	<b>574.6</b>	<b>519.9</b>	<b>424.1</b>	<b>489.6</b>	<b>516.3</b>
Tax paid	(57.5)	(62.1)	(62.2)	(84.4)	(97.3)
Other adjustment	(14.8)	(10.9)	-	-	-
<b>Net cash from operating activities</b>	<b>498.9</b>	<b>445.1</b>	<b>362.0</b>	<b>405.2</b>	<b>419.0</b>
Acquisition of oil & gas properties	(158.7)	(179.0)	(185.0)	(150.0)	(150.0)
Acquisition of intangible assets	(12.0)	-	-	-	-
Acquisition of other PP&E	(4.6)	(4.9)	(5.0)	(5.0)	(5.0)
Other investment	(128.3)	-	-	-	-
Proceeds from disposals	29.4	15.1	21.3	-	-
Other movements	(6.7)	6.5	-	-	-
<b>Net cash outflow from investing</b>	<b>(280.9)</b>	<b>(162.4)</b>	<b>(168.7)</b>	<b>(155.0)</b>	<b>(155.0)</b>
Dividends paid	(58.8)	(98.8)	(88.3)	(70.6)	(70.6)
Interest and other finance payments	(78.2)	(75.9)	(39.1)	(13.1)	20.6
<b>Net cash outflow, exc debt</b>	<b>(137.0)</b>	<b>(174.7)</b>	<b>(127.3)</b>	<b>(83.7)</b>	<b>(50.0)</b>
<b>Implied delta net debt (IAS 17)</b>	<b>79.8</b>	<b>67.8</b>	<b>65.9</b>	<b>166.4</b>	<b>214.0</b>
<b>Implied delta net debt (IFRS 16)</b>	<b>82.3</b>	<b>69.6</b>	<b>67.6</b>	<b>168.3</b>	<b>216.0</b>

Source: Seplat, CAG Research.

## Summary financial statements (cont)

Balance sheet US\$m (at 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Balance sheet</b>					
Non-current assets	2,449.5	2,436.7	2,478.1	2,474.6	2,457.7
Net assets	1,759.9	1,793.0	1,814.4	1,890.5	1,988.0
Shareholders' equity	1,759.9	1,793.0	1,814.4	1,890.5	1,988.0
Net debt (IAS 17)	365.9	305.6	239.7	73.3	(140.7)
Net debt (IFRS 16)	369.9	307.0	239.3	71.0	(145.0)

Source: Seplat, CAG Research.

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