Disciplined financial management

The Group benefitted from higher year-on-year oil and gas production volumes and oil price tailwind, the combined effect of which was a sharp increase in both profitability and cash flow generation.

Roger Thompson Brown
Chief Financial Officer; Executive Director

Discretionary investments during the year were primarily directed towards the gas business, which is de-linked from oil prices, while a refinancing of the balance sheet reset the Group's capital structure and enables it now to optimally capture the numerous organic growth opportunities within the existing portfolio in addition to the potentially valuable inorganic acquisition opportunities that exist in the Nigerian oil and gas space.

Revenue

Total revenue for 2018 stood at US$746 million for the full year, up 65% from 2017 at US$452 million. The increase arises principally from higher oil production in 2018, further impacted by higher oil price realisations. Alongside this gas revenue reached a new record of US$156 million, up 26% year-on-year and accounting for 21% of total revenue.

An increased full year uptime of 85% in 2018 resulted in average working interest liquids production of 25,669 bopd, up 44% from 17,853 bopd in 2017, whilst the total volume of crude lifted in the year was 8.4 MMbbls compared to 6.9 MMbbls in 2017. The Group's realised weighted average oil price of US$70.1/bbl in 2018 was up 39% year-on-year (2017: US$50.38/bbl), while the actual Brent oil price averaged US$71/bbl over 2018. Brent remained volatile throughout the year, trading between a low of US$62/bbl in February to a high of US$86/bbl in October before selling off sharply to exit the year at around US$51/bbl.

In 2018, the Group had in place dated Brent put options covering a volume of 6.60 MMbbls to year end at a combined weighted average strike price of US$44.5/bbl. The net cost of these instruments in the year was US$6.4 million. This hedging programme has been continued in 2019 where upfront premium put options at a strike price of US$50.0/bbl were entered into, protecting a volume of 4.0 MMbbls. The Board and management continue to closely monitor prevailing oil market dynamics, and will consider further measures to provide appropriate levels of cash flow assurance in times of oil price weakness and volatility.

The higher year-on-year gas revenue was driven by a 27% increase in production volumes to 145 MMscfd while the average realised gas price remained relatively stable at US$2.94/Mscf (2017: US$2.97/Mscf). The increase in volume is from the benefit of production being fully de-constrained in a full year of normalised production following the lifting of force majeure. Also, the Company initiated supplies of commissioning gas to the Azura Edo independent power plant at the start of the year and full operations commenced in May 2018 at which point gross deliveries stepped up to the contracted 116 MMscfd level on a take-or-pay basis. Management remains in active negotiations with new gas offtake customers to ultimately reach gross production of 400 MMscf on a consistent basis.

Gross profit

Gross profit for the year was US$391 million, an increase of 84% to the prior year (2017: US$212 million). This principally reflects the resumption of a full year of production operations after force majeure was lifted and higher oil price realisations. Direct operating costs which include crude handling fees, rig-related costs and Operations & Maintenance costs amounted to US$105 million in 2018 as against US$80 million in 2017. This increase in cost is as a result of higher crude handling fees corresponding with higher production. On a cost per barrel basis, production opex was slightly lower at US$5.77/boe when compared to prior year of US$5.96/boe and reflects efficiencies generated with an increase of 35% in production volumes in 2018 when compared to 2017. A further improved performance in the overall running and maintenance of the production facility also positively impacted on production costs. Non-production costs primarily consisting of royalties and DD&A were US$250 million compared to US$160 million in the prior year. The DD&A charge for oil and gas assets increased during 2018 to US$119 million (2017: US$82 million) reflecting higher depletion of reserves because of the increased production during the year.

Operating profit

Operating profit for the year was US$310 million compared with a prior year of US$112 million. Impairment adjustments based on IFRS 9 requirements affected prior year numbers and resulted in an increase in G&A expenses for 2017 to US$92 million. Emphasis on careful cost management led to a 13% reduction year-on-year in general and administrative expenses which stood at US$80 million and helped the increased operating profit.

Tax

The pioneer tax incentive granted by the Nigerian Investment Promotion Commission for a three-year period elapsed at the end of 2015. The Company has prepared its 2018 financial statements including the effect of post pioneer tax status which resulted in a tax expense of US$117 million, compared to a net tax credit of US$221 million for the same period in 2017, owing primarily to deferred tax credits of US$224 million.

Following a significant improvement in the financial position of the Group in 2017, the Group conducted an assessment of the assessable profit based on a five-year business plan in order to determine the possibility of future profit making prospects for 2018 to 2022. The Group reviewed previously unrecognised tax losses and determined that it was now probable that taxable profits will be available against which the tax losses can be utilised. As a result, deferred tax assets of $133 million (2017: US$224 million) were recognised for those losses. This resulted in a deferred tax charge of US$91 million being charged in the year (2017: US$ 224 million credit).

In May 2015, in line with sections of the Companies Income Tax Act which provides incentives to companies that deliver gas utilisation projects, Seplat was granted a tax holiday for three years with a possible extension of two years. In 2018, on review of the performance of the business, the Group provided a notification to the Federal Inland Revenue Service (FIRS) for the extension of claim for the additional two-years-tax holiday.

Net profit

Profit for the period before tax adjustments was US$263 million, up 498% compared to US$44 million in 2017. This profitability was sustained through six consecutive quarters from the third quarter of 2017 when production was unconstrained. Net profit in 2018 was US$147 million (2017: US$265 million). The resultant EPS for 2018 was US$0.26 compared to an EPS of US$0.47 in 2017 when the deferred tax credit increased net profit by US$224 million to US$265 million.

Dividends

Having emerged from a period of weak macro conditions and a disrupted operating environment in 2016 and 2017, where Seplat's key focus was on preservation of liquidity and selective capital allocation to ensure the Company maintained a necessary level of financial flexibility, the Board reinstated the dividend in 2018 with a special dividend of US$0.05 per share in April paid to normalise returns to shareholders after the dividend suspension and an interim dividend of US$0.05 per share declared in October in line with our normal dividend distribution timetable.

Further to this, the Board of Seplat is recommending a final dividend of US$0.05 per share. Subject to approval of shareholders, the dividend will be paid shortly after the AGM which will be held on 16 May 2019 in Lagos, Nigeria.

Cash flows and liquidity

Cash flows from operating activities

Operating cash flow before movements in working capital was US$454 million (2017: US$194 million) Net cash flows from operating activities after movements in working capital are up 12% at US$502 million (2017: US$447 million). The Group has continued to receive the proceeds of gas sales from its partner NPDC in lieu of cash calls for ongoing operations. Tolling fees arising from NPDC's share of processed gas from the Oben Gas Expansion Project, which was financed on a sole risk basis by Seplat, are yet to be settled by NPDC and Seplat is currently in discussions with NPDC to finalise terms.

Cash flows from investing activities

Capital expenditures on oil and gas assets in 2018 stood at US$88 million and includes the licence renewal fee of US$25.6 million, drilling costs for the Oben gas production well, re-entry of two Ohaji South wells and the well workover of Jisike. Gas project costs include the NAG booster compression station at Oben and other costs associated with plans towards ANOH FID.

Having reached agreement in 2016 with partner BelemaOil on a revised commercial arrangement at OML 55, which provides for a discharge sum of US$330 million to be paid to Seplat over a six-year period through allocation of crude oil volumes, the Group received total proceeds of US$48 million in 2018 under this arrangement. Consequently, after adjusting for interest receipts of US$10 million, net cash outflow from investing activities for the full year was US$31 million compared to a net cash inflow in 2017 of US$7 million, reflecting the higher capex spend.

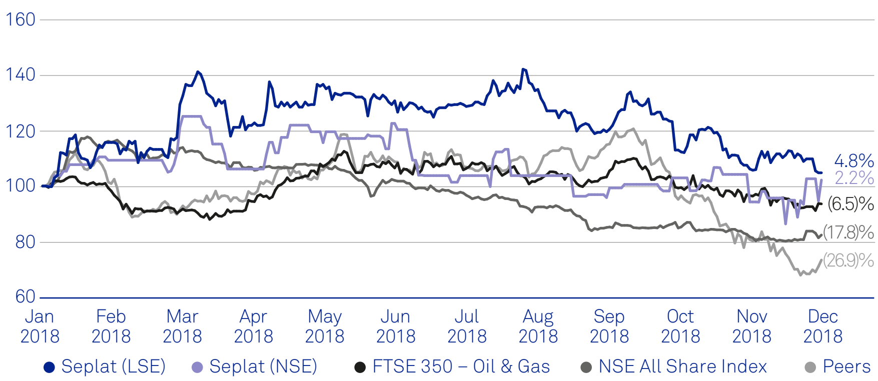
Cash flows from financing activities

Net cash at year-end was US$135 million, compared to a net debt US$141 million at December 2017. Net cash outflows from financing activities were US$329 million (2017: cash outflow US$173 million).

Our relative share price performance vs indices and peers

In 2018, both lines of Seplat's equity on the Nigeria Stock Exchange and the London Stock Exchange outperformed relevant indices and peer average.

Share price performance versus indices and peers (rebased to 100)

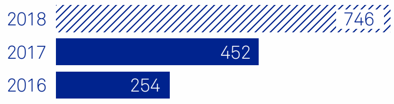


Source: Bloomberg.

2018 highlights

Revenue
(US$m)

+65%

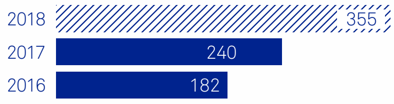


Net cash flow from operations
(US$m)

+12%

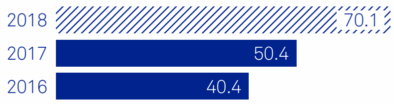
Cost of sales
(US$m)

+48%



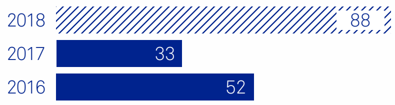
Realised oil price
(US$/bbl)

+39%



Capital expenditure
(US$m)

+167%



G&A
(US$m)

-13%

Gross profit
(US$m)

+84%

Cash position
(US$m)

+34%

Gearing (total debt/total assets)
(%)

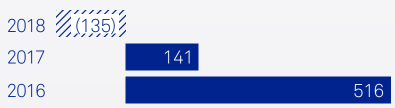
-18%

Net profit/(loss)
(US$m)

-45%

Net debt (cash)
(US$m)

-196%



EBITDAX
(US$m)

117%

Net Cash at 31 December 2018	US$ Million	Coupon	Maturity
Senior Notes	350	9.25%	June 2023
Three-year secured RCF[1]	100	L+6.00%	June 2022
Gross debt at parent	450		
Cash and cash equivalents	585		
Net cash	135		

1. Total commitment under the RCF is US$263 million.

In March the Group successfully refinanced its existing US$300 million revolving credit facility ('RCF') with a new four-year US$300 million RCF at LIBOR + 6% (US$200 million drawn at 30 June 2018) and issued a debut US$350 million bond priced at 9.25%, diversifying the long-term capital base. Proceeds from the re-financing were used to repay and cancel pre-existing indebtedness and also to cash settle crude oil prepayments undertaken during the extended period of force majeure in 2016 and 2017. In October, US$100 million loan repayment in respect of the RCF was settled to reduce the outstanding balance on the facility to US$100 million.

Overall Seplat's aggregate indebtedness at 31 December 2018 stood at US$450 million and cash at bank US$585 million to give a net cash position of US$135 million with US$163 million undrawn headroom on the RCF facility. Post period end, the Company paid down an additional US$100 million against the RCF facility taking its balance to zero and a headroom of US$263 million. This is a significant deleveraging of the balance sheet from its peak levels of US$1 billion in 2015. The Group is well capitalised and fully funded to execute its organic growth plans and therefore well positioned to pursue inorganic growth opportunities in line with its price disciplined approach balanced with a robust dividend yield.

Following the reinstatement of a dividend of US$0.10/share during the year, the Group returned US$58.8 million to shareholders.

Brexit

The Group's activities in the UK are limited to providing capital management, investor relations, business development and other support services to the Nigerian operations. Brexit may result in a change in the financial reporting standards applicable to Seplat UK financial statements which currently reports under IFRS for the EU. However, the Group does not envisage that this would result in a material variance from what is currently reported.

With regards to taxes, including incentives, exemptions and reliefs, there are no uncertain tax positions as a result of Brexit. Changes in accounting treatments and disclosures may also result in changes in taxes. As mentioned, it is not envisaged that there would be any material impact on accounting for transactions in Seplat UK.

Seplat is not exposed to any material financial risk arising from Brexit. It is not exposed to additional market risk, liquidity risk or credit risk from its UK subsidiary.

It is the view of the Board that, given the Group's single country focus on Nigeria, Seplat's business, assets and operations will not be materially affected by Brexit. Seplat also derives most of its income from crude oil, a globally-traded commodity which is priced in US dollars. Furthermore, Seplat's gas revenues are derived solely from sales to the domestic market in Nigeria and therefore are unaffected by international factors. The Board has therefore assessed and concludes that there are no material uncertainties arising from Brexit that would significantly impact Seplat as a result of its UK subsidiary.

Outlook

In 2019 we will retain our price disciplined approach to only allocating capital to the highest cash returning organic and value accretive acquisition growth opportunities. Combined with a robust dividend yield, we aim to ensure that Seplat is the investment of choice in Nigeria to access sub-Sahara Africa's most prolific oil and gas opportunities.

Roger Brown
Chief Financial Officer