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Q2'26 Earnings | SEPLAT: Operational recovery, expanding gas production and elevated investment position Seplat for a stronger H2 2026.

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Rating	BUY
NGX Ticker	SEPLAT
Bloomberg Ticker	SEPLAT NL
LSE Ticker	SEPL
Target Price	₦14,212.34
Company statistics (H1'26)	
Return on Average Asset	2.72%
Net Profit Margin	9.01%
Debt to equity ratio	17.18%
Market cap	₦6.82 trillion

Seplat Energy delivered a resilient operational performance during H1 2026, with group working interest production averaging 139.5 kboepd, up 4% YoY from 134.5 kboepd in H1 2025 and comfortably within management's FY2026 production guidance of 135–155 kboepd. Although production declined to 129.8 kboepd in Q1 2026 (Q1 2025: 131.7 kboepd) following approximately 38 days of unplanned downtime on the third-party operated Forcados export pipeline, we do not believe this was the primary driver of H1 performance. Instead, the more significant operational headwind remained the continued production shortfall from the Yoho field following the Q4 2025 fire incident, which removed approximately 10 kbopd of production from the system and continued to weigh on offshore oil volumes throughout H1 2026 while restoration activities remained underway. Management responded by accelerating operational execution through elevated development capex ($109.8m Q2 2026 vs $95.5m Q2 2025), continued production optimisation, the successful commissioning of first gas at ANOH, and an aggressive offshore idle well restoration programme, laying the foundation for a strong operational turnaround in Q2 2026. Consequently, group production increased to 149.1 kboepd in Q2, representing a 15% QoQ increase from 129.8 kboepd in Q1 and a 9% YoY improvement over 137.2 kboepd, more than offsetting the weak first quarter and keeping H1 production firmly within guidance. We estimate that, absent the temporary Forcados disruption and the prolonged Yoho outage, H1 production could have averaged approximately 142.0 kboepd, underscoring the underlying strength and resilience of Seplat's asset base.

Growth during the period was further supported by the successful commissioning of the ANOH Gas Plant, which achieved first gas in January 2026 and contributed 17.0 MMscfd of working interest gas volumes during H1 2026. The gradual ramp-up of ANOH, alongside sustained domestic gas demand and stronger NGLs (Natural Gas Liquids) production, strengthened Seplat's transition towards a more gas-oriented production mix, helping cushion weaker crude oil volumes arising from operational disruptions. Overall, H1 working interest production comprised 99,518 bopd of liquids and 182.9 MMscfd of gas, reinforcing the growing importance of gas within the company's long-term production profile and demonstrating how the company's increasingly diversified production base continues to enhance operational resilience.

Idle well restoration offsets Yoho losses despite moderating well productivity

Operational execution also remained strong across the offshore portfolio through Seplat's idle well restoration programme. During Q1 2026, the company restored 8 idle wells, adding approximately 10 kbopd of gross JV (Joint Venture) production capacity, equivalent to an average productivity of 1,250 boepd per restored well. By the end of H1 2026, the programme had expanded to 24 restored wells, contributing a cumulative 26 kboepd of gross JV production capacity. This implies that the additional 16 wells restored during Q2 2026 contributed approximately 16 kboepd, or an average of roughly 1,000 boepd per well, indicating lower incremental productivity / yield than the initial restoration campaign despite improved idle well count. We believe this moderation reflects the progressively lower quality of remaining idle wells, reservoir maturity and natural field depletion as the programme advances. Based on management's disclosures, Seplat's working interest equates to approximately 40% of this additional production capacity, implying attributable restored well productivity of roughly 400–500 boepd per well. Consequently, we estimate newly drilled development wells are likely to deliver materially higher initial productivity of approximately 1,000 – 1,300 boepd, supported by elevated development capital expenditure and improved reservoir access.

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Although offshore assets remained Seplat's largest production contributor during H1 2026, averaging 78.8 kboepd or approximately 56% of group production, the onshore portfolio emerged as the clear operational outperformer. Onshore working interest production increased 11% YoY to 60.7 kboepd (H1 2025: 54.8 kboepd), despite the approximately 38-day unplanned downtime on the third-party operated Forcados export pipeline during Q1 2026. The recovery was driven by improved pipeline availability in Q2 2026, lower security and logistics disruptions, and, more importantly, the continued ramp-up of domestic gas production from ANOH, the Western Assets and Eastern Assets. While Seplat has increasingly shifted production towards its offshore portfolio following the SEPNU acquisition, H1 2026 demonstrated the resilience of its legacy onshore assets, where growing gas volumes more than compensated for temporary crude evacuation constraints. Consequently, we believe Seplat's expanding domestic gas business is becoming an increasingly important stabiliser of group production, reducing reliance on offshore crude volumes and enhancing the resilience of its overall production profile.

Crude prices and gas volumes drive earnings growth

Seplat delivered another strong revenue performance in Q2 2026, with revenue increasing 16.5% QoQ to $979.3 million from $840.7 million in Q1 2026, supported by a favourable oil price environment. Brent averaged $86.66/bbl during H1 2026, up 23% YoY, while Seplat's realised crude oil price increased 30% YoY to $94.13/bbl, reflecting strong demand for Nigerian crude and favourable cargo timing. Pricing remained supportive across the portfolio, with realised NGL and dry gas prices increasing 3.13% and 3.15% YoY (H1 2026 vs H1 2025) respectively, providing a strong backdrop for earnings growth.

Crude oil and condensate revenue increased to $888.9 million in Q2 2026, contributing 90.8% of total revenue (Q1 2026: 88.6%). Although crude lifting volumes remained broadly unchanged QoQ at 8.70 MMbbls (up 10.1% YoY), realised crude prices increased to $102.59/bbl from $86.16/bbl in Q1 2026, making revenue growth predominantly price-driven. On a half-year basis, crude liftings declined 3.3% YoY to 17.4 MMbbls from 18.0 MMbbls, reflecting lower offshore oil production following the Yoho outage despite the idle well restoration programme.

Gas revenue improved during the quarter, driven primarily by stronger lifting volumes rather than pricing. Gas volumes lifted increased 16.4% QoQ to 14.9 Bscf from 12.8 Bscf, while realised gas prices remained broadly unchanged at $3.10/mscf. The improvement reflects the strong operational recovery across Seplat's onshore assets during Q2 2026, with improved pipeline availability and stronger domestic gas supply from the Western and Eastern Assets supporting gas sales.

NGLs performance moderated sequentially but remained the fastest-growing segment over H1 2026. NGL liftings declined to 900 kbbls in Q2 2026 from 1,146 kbbls in Q1 2026, while realised prices fell to $37.60/bbl from $44.44/bbl, resulting in a 21.47% QoQ decline in revenue. Nevertheless, H1 2026 NGL volumes surged 630.19% YoY to approximately 2.0 MMbbls, driving revenue up 843% YoY to $83.4 million and increasing NGLs contribution to group revenue to average 4.6%, highlighting the growing importance of Seplat's gas processing business.

Yoho restoration lifts costs while efficiency improves

Although production costs increased during H1 2026, we believe earnings quality remained intact as the higher cost base primarily reflected strategic investments rather than structural cost inflation. Production costs rose 30% YoY to $398.0 million (H1 2025: $305.2 million), driven largely by Yoho restoration activities and continued offshore asset integrity investments, lifting unit production costs to $15.8/boe from $12.5/boe. Excluding Yoho-related expenditure, underlying unit operating costs would have been approximately $14.0/boe. Encouragingly, stronger Q2 2026 production

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improved operating leverage, reducing unit operating costs 14% QoQ to $14.6/boe. While management revised FY2026 unit cost guidance to $14.5–15.5/boe to reflect higher Yoho restoration costs, structural cost efficiencies continued to emerge, with gas flare fees declining 39% YoY to $16.3 million following completion of the End of Routine Flaring (EORF) programme.

Strong pricing sustains margin resilience

Despite the temporary increase in restoration-related expenditure, Seplat continued to demonstrate strong margin resilience as revenue growth outpaced increased cost. Adjusted gross margin improved to 60.6% in Q2 2026 from 60.1% in Q1'26, bringing the H1 2026 gross profit margin average to 60.3%, compared with 57.5% in H1 2025. While royalties increased 68.6% YoY to $286.1 million, raising their contribution to adjusted cost of sales to 39.7% from 29.2% in H1 2025, the impact was more than offset by stronger realised crude prices, improved production volumes and a favourable sales mix. Consequently, Seplat sustained gross margins above the 60% level despite elevated Yoho restoration costs, highlighting the strength of its operating leverage and pricing environment.

Stronger cash generation supports higher shareholder returns

Reflecting confidence in the company's operational execution and earnings outlook, the Board approved a Q2 2026 dividend of $12.0 cents per share, comprising the quarterly base dividend of $5.0 cents and a $7.0 cents special dividend, representing a 161% YoY increase. Management also increased its FY2026 shareholder distribution target to $45.0 cents per share (approximately $$270 million), excluding any additional transaction-related distribution from the proposed sale of a 10% interest in the NNPCL-SEPNU JV. The higher payout underscores confidence in sustained cash generation despite ongoing investment across the asset base.

Strategic stake sale strengthens balance sheet and shareholder returns

Subsequent to the quarter, Seplat announced the signing of a legally binding Heads of Agreement with NNPC Limited for the sale of a 10% working interest in the NNPCL-SEPNU Joint Venture for a headline consideration of $281.6 million, representing approximately 25% of the gross acquisition consideration paid for the SEPNU acquisition. The transaction, which has an effective date of 1st April 2026 and is expected to complete during H2 2026, will reduce Seplat's working interest in the JV from 40% to 30%, while the company maintains operatorship of the assets. Management intends to allocate 50% of the proceeds towards gross debt reduction, with the remaining 50% to be returned to shareholders through a US$140 million ($23.3 cents/share) transaction dividend. Combined with the previously announced ordinary dividends, total shareholder distributions for FY2026 are now expected to reach $$410 million ($68.3 cents/share).

The transaction has limited implications for FY2026 production guidance, as the disposal is effective from April 2026 and management maintained its 135–155 kboepd production guidance. However, longer-term attributable production will reduce, with Seplat's 2030 net working interest production target revised to 170 kboepd from 200 kboepd, reflecting the lower ownership interest. Similarly, 2P reserves are expected to decline by approximately 13% to 872.9 MMboe following completion. Despite the lower attributable reserves, we view the transaction as broadly value-accretive given the strengthened balance sheet, lower leverage and enhanced capital allocation flexibility. We have updated our valuation model to reflect the lower working interest, revised reserve base, expected debt reduction, and additional shareholder distributions associated with the transaction.

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H2 2026: Operational recovery and balance sheet strength support our bullish outlook

Management maintained its FY2026 production guidance of 135–155 kboepd, with production tracking towards the midpoint of the range, while reaffirming capex guidance of $360–440 million, with spending expected to remain weighted towards H2 2026. Unit operating cost guidance was revised upward to $14.5–15.5/boe, reflecting higher restoration costs associated with the Yoho project. We have incorporated the announced transaction into our model, reducing Seplat's offshore working interest from 40% to 30% upon completion while retaining operatorship of the assets.

Despite the reduction in offshore working interest, we remain constructive on Seplat's operational outlook. We forecast FY2026 average group production of 150.5 kboepd, representing a 14.4% YoY increase from 131.5 kboepd in FY2025 and modestly above the midpoint of management's guidance. Our outlook is supported by elevated H2 2026 capital expenditure, the expected restart of the Yoho field in H2 2026, continued ramp-up of the ANOH Gas Plant, sustained domestic gas demand, and additional production from ongoing development drilling. Nevertheless, we remain cautious on production reaching the upper end of management's guidance, as Q1 2026 operational disruptions continue to weigh on the annual average, while the productivity of restored offshore wells has moderated from approximately 1,250 boepd per well during Q1 2026 to around 1,000 boepd in Q2 2026. Furthermore, following completion of the NNPCL transaction, we estimate attributable production from restored wells will decline from approximately 400 boepd to around 300 boepd per well as Seplat's working interest falls to 30%.

On revenue, we forecast crude oil lifting volumes of 39.5 million barrels in FY2026, compared with 35.4 million barrels in FY2025, supported primarily by improved production during H2 2026 following the expected Yoho restart and continued operational optimisation across the portfolio. We maintain an average realised crude oil price assumption of $85/bbl, although upside risks remain should geopolitical tensions intensify further. Our base case nevertheless assumes a gradual easing in oil prices during H2 2026 as rising U.S. Treasury yields increase the economic cost of sustained conflict for the U.S, while the disruption to an estimated $434 million of daily Iranian oil exports through the Strait of Hormuz forces the incentive for a negotiated de-escalation. Consequently, we forecast crude oil revenue of approximately $3.36 billion. We expect gas volumes to remain resilient at 66.2 Bscf, supported by sustained ANOH production and stable domestic gas demand, while maintaining an average realised gas price of $3.10/mscf, resulting in projected gas revenue of $205.2 million. Meanwhile, NGL production should continue benefiting from higher processing volumes, with lifting volumes forecast at 4.74 million barrels versus 1.17 million barrels in FY2025. Assuming an average realised NGL price of $45/bbl, we forecast NGL revenue of approximately $213.3 million. Overall, we expect FY2026 revenue to reach $3.78 billion.

Although management revised unit operating cost guidance upward to reflect Yoho restoration expenditure, we expect stronger H2 2026 production to improve operating leverage, allowing fixed costs to be spread across a larger production base. Consequently, we forecast FY2026 adjusted gross margins to remain broadly stable at approximately 60.2%, as stronger production and favourable commodity prices continue to offset higher operating costs. We also expect earnings quality to improve further as lower finance costs, insurance recoveries relating to Yoho, and sustained cash generation support profitability and free cash flow through the remainder of the year.

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From a balance sheet perspective, the announced $281.6 million disposal of a 10% working interest in the NNPCL/SEPNU Joint Venture is expected to materially strengthen Seplat's financial profile. Management intends to allocate approximately 50% of the proceeds towards debt reduction, with the remaining 50% distributed to shareholders as a transaction dividend. Accordingly, we forecast the debt-to-equity ratio to improve to 43.5% by FY2026 from 58.2% in FY2025, with leverage already declining to 46.7% as of Q2 2026. The transaction, combined with stronger operating cash flows and Seplat's recent S&P Global Ratings upgrade from B to B+, further reduces financial risk and lowers our equity risk premium, although relatively limited trading liquidity continues to warrant a modest valuation premium.

Reflecting our updated production forecasts, stronger commodity price assumptions, lower leverage following the NNPCL transaction, improved credit quality and enhanced shareholder returns, we revise our target price to **₦14,212.34** per share while maintaining our BUY recommendation. Beyond the regular dividend programme of $45.0 cents per share planned for FY2026, shareholders are also expected to receive an additional $23.3 cents per share on transaction dividend upon completion of the asset sale, bringing potential total shareholder distributions to approximately $68.3 cents per share in 2026. Combined with management's commitment to return at least $1.0 billion to shareholders between 2026 and 2030, we believe Seplat remains well positioned to deliver an attractive combination of earnings growth, balance sheet deleveraging and sustainable cash returns.

Projections	2025A	2026F	2027F	2028F	2029F	2030F
Gross production (boepd)	131,506	150,470	160,649	165,279	169,241	170,225
Oil volume (kbbl)	35,394	39,544	43,142	43,641	44,258	44,219
Gas volume (MMscf)	62,433	66,207	74,667	83,653	89,270	92,051
NGL volume (kbbl)	1,165	4,740	4,338	2,975	3,046	3,064
Oil revenue ($'000)	2,487,819	3,361,203	3,235,643	3,054,896	2,876,764	2,874,223
Gas revenue ($'000)	184,178	205,241	216,534	242,593	258,882	266,948
NGL revenue ($'000)	53,862	213,291	177,622	121,827	128,586	129,333
Revenue ($'000)	2,725,859	3,779,736	3,629,799	3,419,316	3,264,232	3,270,504
Gross profit margin	53.33%	60.20%	59.32%	58.02%	59.33%	59.48%
EBITDA margin	46.80%	50.28%	50.81%	49.02%	50.51%	50.51%
PAT margin	5.84%	12.12%	11.79%	10.71%	10.67%	10.29%

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