Proshare **Confidential**

Oil & Gas: Working The New Normal In The Time Of A Pandemic

January 2021

1602 - 8842 Vol. 1 No. 257

proshare MARKETS

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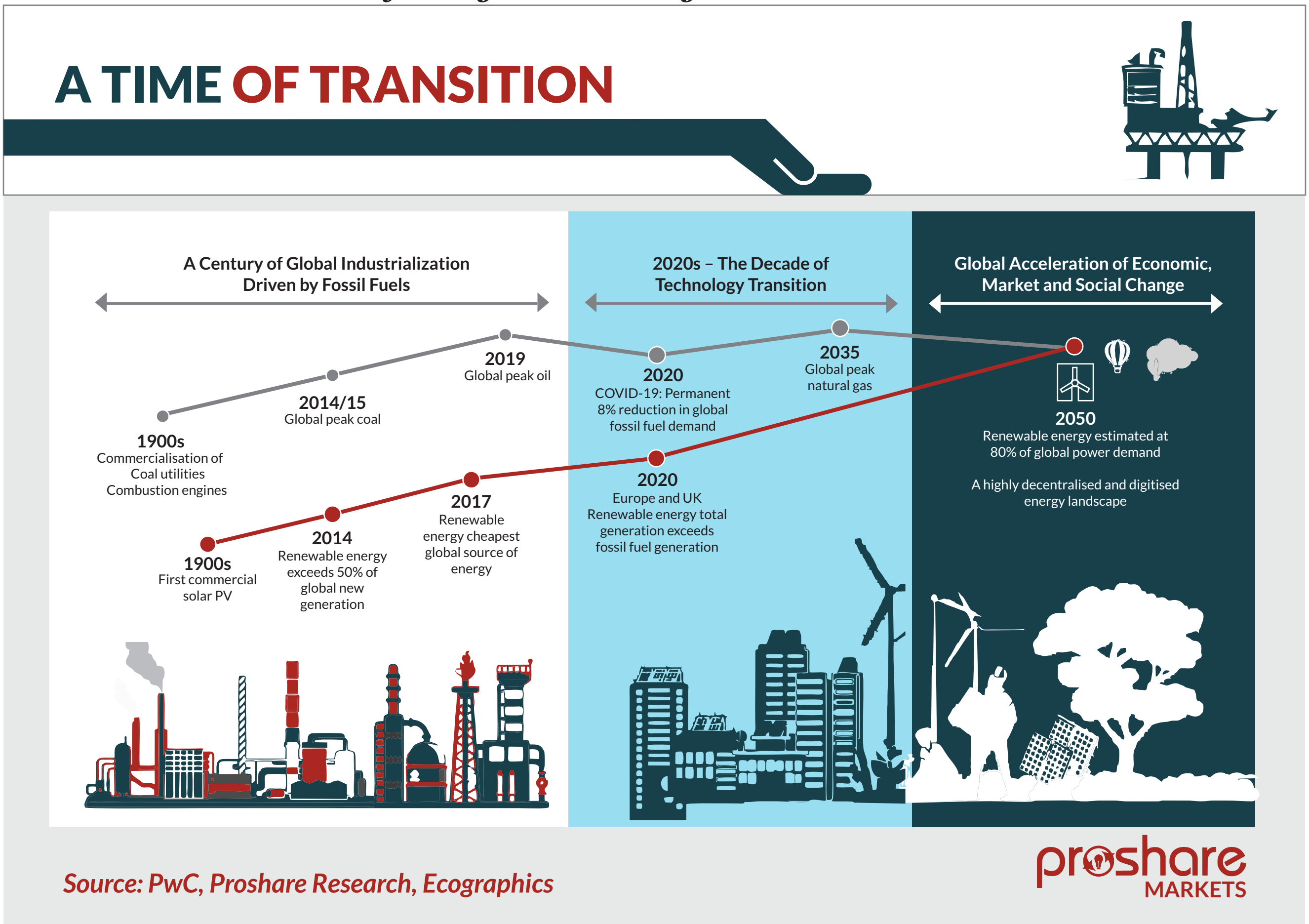
Executive Summary - O&G: Managing a Transition Mindset

Always expect the unexpected. The oil and gas industry is terrible at predicting anything. Always have a back-up plan. ***-David Dixon***

The O&G business is in a period of transition as executives of various companies in the sector begin to reimagine, rethink, and strategize their models. Sustainability will no longer be just about wellheads and sales volumes but about technology adoption, cost minimization, and adaption to new market expectations (*see illustration 1 below*).

Illustration 1 O&G: A Time of Change and Challenge



In 2020, the oil market became frenetic as forward prices crashed to negative values as storage capacity disappeared and oil sellers had to pay buyers for picking up excess quantities of fuel in the absence of storage capacity. The anomaly corrected itself, but not before Saudi Arabia, a leading member of the organisation of petroleum exporting countries (OPEC), entered into price and production cut agreements with close competitor Russia, the leader of the so-called OPEC-Plus bloc of countries. The agreement worked as it slowly mopped up excess crude supplies, reversed previous deep discounts, and restored stability to the international price discovery process as American shale producers saw their rig-head counts eviscerated by tumbling prices.

Oil analysts' expectations for crude prices in 2021 fall between a floor of US$48 per barrel and a ceiling of US$51 per barrel (even though in the first week of the year Brent crude oil breached the ceiling by reaching US$54.3 per barrel). The average price of crude in 2021, according to analysts' opinions sampled, would settle at US$49 per barrel. For oil-dependent countries like Nigeria, the economic prospects are mixed as a rise in the price of crude oil would bolster fiscal revenues, but it would also increase the domestic retail pump price of petrol, leaving the country squeezed between improved fiscal revenue and increased domestic cost of transportation which would feed into higher domestic food and other retail prices.

Nigeria's inflation rate is already a cause for worry for many analysts as the headline inflation rate has sprinted ahead from 12.13% in January 2020 to 14.89% in November. Food inflation rose from 14.67% in January 2020 to 18.3% in November. The enthusiastic rise in the country's average price level indicates that every hundred naira in the pocket of the average Nigerian would be worth approximately fifty naira in a matter of just five years.

A rise in the retail pump price of petrol and a jump in the cost of domestic electricity would pummel both individual and corporate citizens in 2021, leaving households worse off than they have ever been. The international oil market in 2021 will not only shape the direction of the Nigerian economy, but it would also determine the life and livelihoods of its citizens (*see Table 1 below*).

***Table 1* Nigerian Households, Riding a Carousel**

NIGERIAN HOUSEHOLDS: RIDING A CAROUSAL

Factors	Low Income Earners	Middle Income Earners	High Income Earners
Inflation • Headline Inflation e.g 14.89% Nov'2020 ↑ • Food Inflation e.g 18.3% Nov'2020 ↑	**Severe Impact** • Reduction in real income. • Increase in misery level. • Decline in standard of living.	**Less Severe Impact** • Reduction in real income.	**Little/No Effect Impact** • Reduction in returns on investment.
Devaluation of the exchange rate. • N307/$1 to N360/$1 - March 20, 2020. ↓ • N360/$1 to N380/$1 August 6, 2020. ↓	**Severe Impact** • Increase in cost of living. • Decline in purchasing power.	**Severe Impact** • Increase in the cost of living.	**Severe Impact** • Decline in purchasing power e.g., luxury goods imported becomes more expensive.

PMS Increase ↑	**Severe Impact** Increase in cost of transportation. Rise in cost of goods and services would cause a decline in standard of living.	**Less Severe Impact** Increase in cost of mobility. Rise in cost of goods and services (marginal impact on income).	**Little/No Effect Impact** Increase in the cost of mobility. Rise in cost of goods but no severe impact on standard of living.
Service Reflective Tariff ↑	**Severe Impact** Increased burden and cost of living.	**Less Severe Impact** Rising but smaller adverse effect on income.	**Little/No Effect Impact** Minimal impact on disposable income.
Lockdown	**Severe Impact** Decline in income sources. Further impoverished.	**Severe Impact** Decline in income.	**Less Severe Impact** Built enough buffers.
VAT Increase From 5% to 7.5% ↑	**Severe Impact** Decline in purchasing power.	**Severe Impact** Decline in purchasing power with lower severity.	**Less Severe Impact** High earning capacity helps withstand VAT increase.

Source: Proshare Research, Ecographics

However, beyond oil, households, and the economy, the industry itself is at the cusp of being reimagined. The change in international macroeconomic perspectives with a greater emphasis on environment, society, and corporate governance (ESG), means businesses must rework their earlier operational modes of existence and set new targets for pursuing emerging paths and engaging in fresh activities.

Riding the Technology Tsunami

A global shock wave related to both the COVID-19 pandemic and disruptions to market demand and supply were only the first in a series of expected disruptions in the O&G industry. Other dislocations that could emerge include, a shift in technology deployment and the move towards unlearning old ways, learning new ways, and relearning what was forgotten in the fog of previous corporate execution. The technology-supported corporate governance framework of the industry would also be expected to change as governance expectations tighten.

Oil and Gas experts concede that going forward, the required skills expected of workers would be dictated by a different approach to meeting fluid consumer expectations and preferred user-experiences (*see table below*). The alternative energy market that emerges may quietly but surely displace the demand for high carbon-emission sources of power. The new low-carbon energy alternatives would lean heavily on international oil prices and unhinge the collaborative price mechanism created by the OPEC and OPEC-Plus partnership. With wellheads gradually closing and oil rigs nodding to a stop, the new kings of power will be the old or new corporations that take a ten-year view of continued oil production and a declaration of purpose towards cleaner energy activities such as Solar, Battery, Hydro, and Windfarm technology.

Table 2: ***The New Job Imperatives for O&G Companies***

'INS" AND "OUTS": CHANGING WORKPLACE SKILLS REQUIREMENT

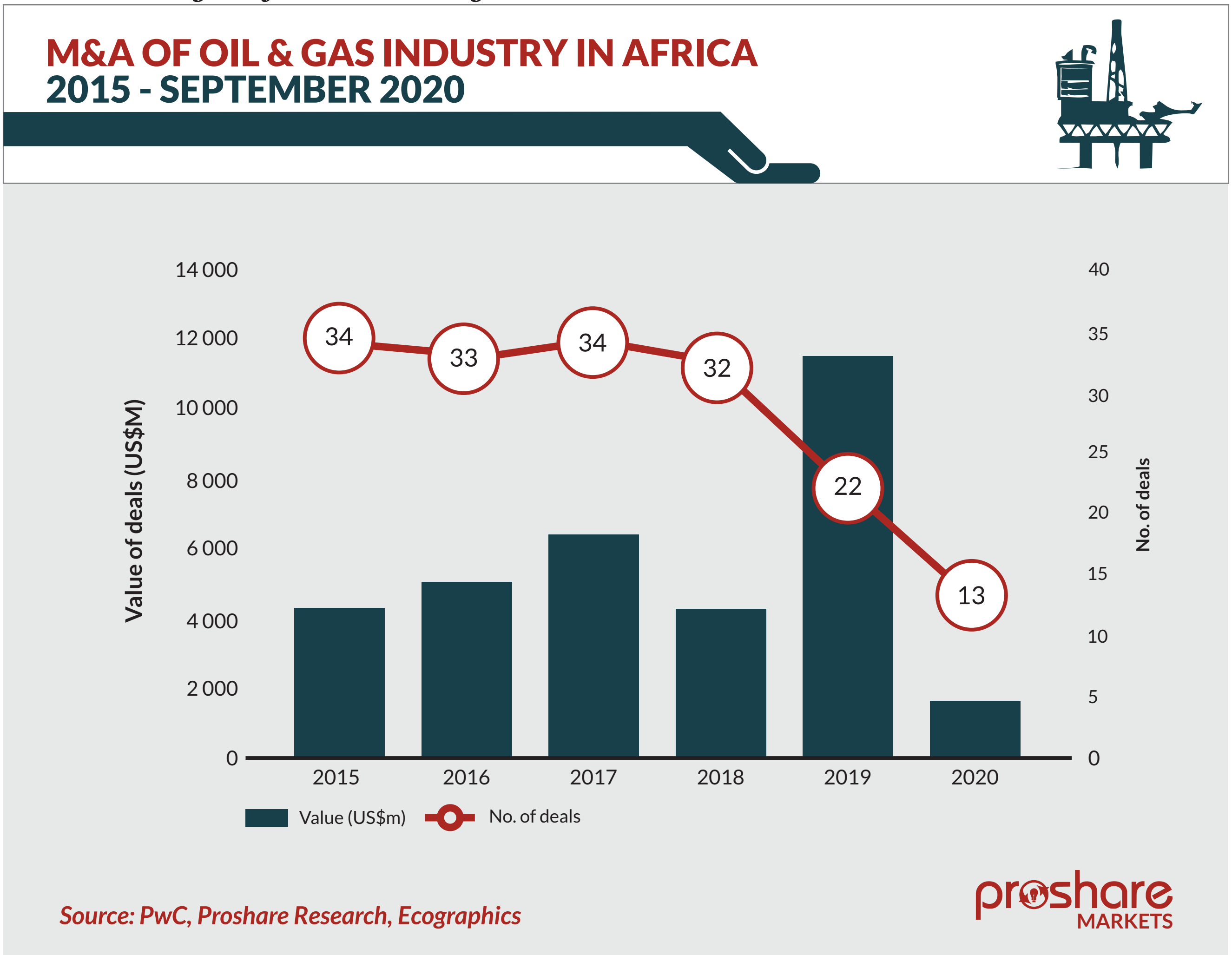
The demand for some jobs will rise over the next five years, while for others it will shrink

	Increasing Demand		Decreasing Demand
1	Data Analyst And Scientists	1	Data Entry Clerks
2	Ai And Machine Learning Specialists	2	Administrative And Executive Secretaries
3	Big Data Specialists	3	Accounting, Bookkeeping, And Payroll Clerks
4	Digital Marketing And Strategy Specialists	4	Accounting And Auditors
5	Proscess Automation Specialists	5	Assembly And Factory Workers
6	Business Development Professionals	6	Business Services And Administation Managers
7	Digital Transformation Specialists	7	Client Information And Customer Service Workers
8	Information Security Analysts	8	General And Perations Managers
9	Software And Applications Developers	9	Mechanics And Machinery Repairers
10	Internet Of Things Specialists	10	Material-recording And Stock-keeping Clerks
11	Project Managers	11	Financial Analysts
12	Business Services And Administration Managers	12	Postal Services Clerks
13	Database And Network Professionals	13	Sales rep., wholesale and manufacturing, technical and scientific products
14	Robotics Engineers	14	Relationship Managers
15	Strategic Advisors	15	Bank Tellers And Related Clerks
16	Management And Organization Analysts	16	Door-to-door Sales, News, And Street Vendors
17	FinTech Engineers	17	Electronics And Telecoms Installers And Repairers
18	Mechanics And Machinery Repairers	18	Human Resources Specialists
19	Organizational Development Specialists	19	Trainings And Development Specialists
20	Risk Management Specialists	20	Construction Laborers

Source: Future of Jobs Survey: World Economic Forum, Proshare Research, Ecographics

Research and Development (R&D) must become an integral part of the corporation's reason for being, as O&G companies find new ways of providing economically competitive sources of energy. Some developments that are likely to occur in 2021 and 2022 are the collapse or mergers of a few O&G companies and a reclassification of the business purpose of others (merger activities in the O&G industry have declined steadily across Africa between 2015 and 2019) (*see chart 1 below*). Companies that are unable to keep up with emerging technology and the requirements of adaptive service or product delivery pipelines may disappear.

Chart 1: ***Gazing at African O&G Mergers***



Breaking Down Numbers and Dredging up Opportunities

The report takes a helicopter view of the state of the O&G sector globally and in Nigeria and explains the powerful trends that will bring about change in the sector from 2021. **Section 1** of the report new corporate visioning, governance standards, and profit margins based on existing realities and prospects.

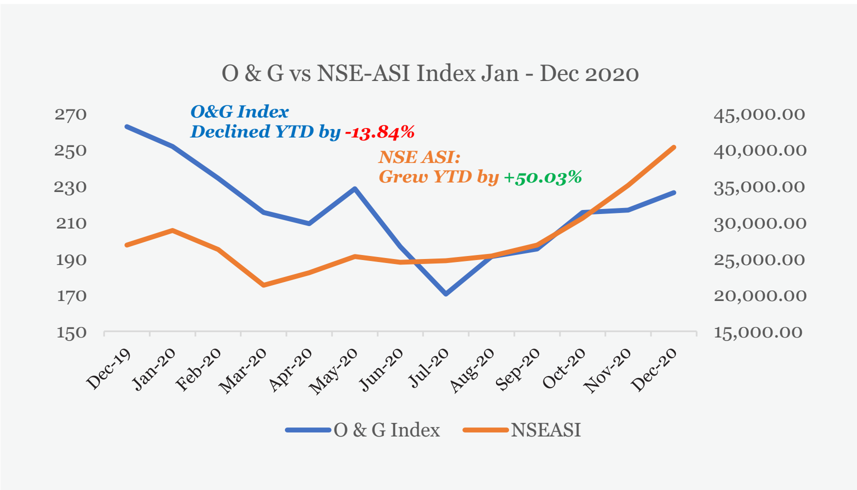
Section 2 of the report looks at the link between the financial service sector and the O&G sector and points out the significance of the sector to the quality of bank's statement of financial position and the size of their bottom lines. It draws attention to the anomalous state where banks thrive as O&G companies' pine. If O&G companies represent a significant proportion of bank books, then their fortunes and misfortunes should reflect in bank profitability contrary to recently published deposit money bank (DMB) results up to 9 months 2020.

To gain a deeper understanding of how O&G firms have performed in recent times under a variety of situations between 2015 and 2020, **section 3** of the report deconstructs the revenues and profit of companies in the O&G sector listed on the Nigerian Stock Exchange (NSE). The results show a mixed bag of outcomes, upstream companies seem to have been under severe strains in the last two years. A company like SEPLAT Plc has seen revenues dipped from N228.39bn in 2018 to N214.16bn in 2019. However, it must be noted that SPLAT Plc's revenue rose from N138.28bn in 2017 to N228.39bn in 2018, representing a growth of +65.16%. NDEP, listed on the over the counter (OTC) NASD Exchange has also seen its turnover rise steadily despite a disruptive global oil market in the last 36months.

NDEP saw revenue rise from N33.78bn in 2017 to N39.05bn in 2018 and 45.96bn in 2019. NDEP's stable revenue growth has been notable when considered against a frenzied global oil market that was unforgiving in dragging O&G company revenues down. Another O&G company, 11Plc equally saw revenues rise consistently between 2017 and 2019 but its 2020 number could prove to be tricky as the 9month 2020 revenues of the downstream corporation fell by -18.91% from N141.51bn in 9months 2019 to N114.75bn in 9months 2020.

In 2020 the performance of the NSE O&G Industry Index trended upwards in a similar manner as the NSE All Shares Index (ASI). However, the Oil and Gas sector Index movement appears to have been sharper than the ASI. While the ASI saw mild bearishness in the early half of the year the O&G Index showed a more severe orientation up until July 2020. However, both indices showed similar bullishness between August and October with the ASI shooting ahead of the O&G sector between November and December 2020 (*see chart 2 below*).

Chart 2: O&G Industry Index Vs NSE ASI



Source: NSE, Proshare Research

Section 4 of the report picked up a telescope and took a long gaze into what could be considered the O&G industry's future and concluded that the best gambit for firms in the sector was to shift their concentration from crude oil to gas. According to the report, “As white oil products see demand fall and prices drop, O&G companies will increasingly see a rise in demand for gas, hence shifting the dynamics of their businesses. Industry connectivity will be more gas-facing than oil-facing and the industry value chain will pivot away from oil as new gas-related technical skills become more in demand and logistic channels alter to accommodate the new requirements of distribution and delivery".

In this light, **section 5** of the report concludes by giving insights into the emerging gas market and how O&G companies will have to wash out the grime of the past from their eyes and vision a new global gas reality. The authors of the report point out that "The new business mindset would need to address the cost efficiencies that would make cleaner manufacturing and power generation practical and affordable. Therefore, O&G firms will have to drive operational models that cut costs, reduce time to market, and integrate horizontal and vertical value chains to deliver goods in a cheaper, cleaner, and safer manner. This is not impossible, but it is a massive request to ask from companies that are not familiar with such levels of technological innovativeness, operational efficiency, and cost-effectiveness".

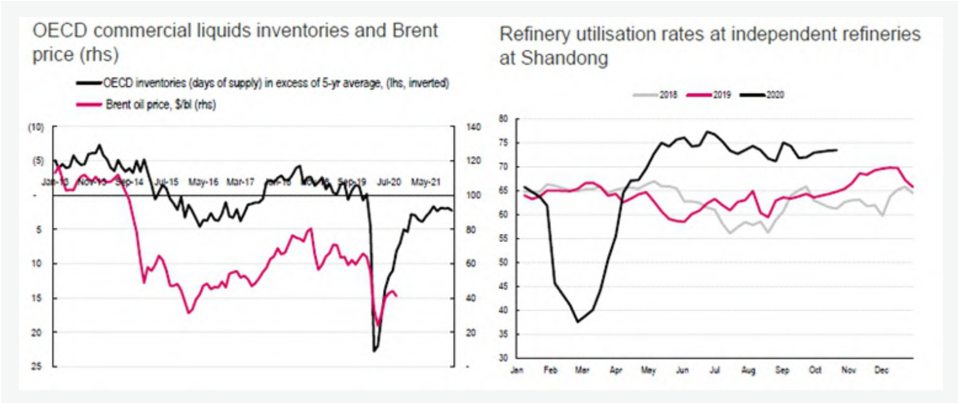
The section also provides readers with all relevant references to issues raised in the report and helps users of the report with comprehensive background information and related articles that enhance the information experience of the reader. It also provides readers with advice on how the report can be used and represents the report's appendices with provides the reader with a list of the charts, tables, and illustrations that were used during the analysis. The last section of the report also gives acknowledgment to those that participated in putting the report together and informs readers on how to contact Proshare or its analysts.

Section One: Taking A Peek At The Pump Well


The Nigeria Capital Market Report 2020
Leveraging A Crisis: The Nigerian Capital Market in 2020
January 2021
1602 - 8842 Vol. 1 No. 254
proshare MARKETS
The Capital Market Service Report
The Nigerian Economy and Financial Markets:

Forecasts from the International Energy Agency (IEA), the Energy Information Administration (EIA) of the US Department of Energy, projects that a strong global supply response to a demand rebound would lead to sharp reductions in oil output. EIA estimates the current supply deficit (stock draw) is approximately 3.4m b/d, while oil inventories may be expected to normalize in July 2021 (*see chart 1 below*).

***Chart 1:* Oil Market Supply; Waiting for A Reprieve**

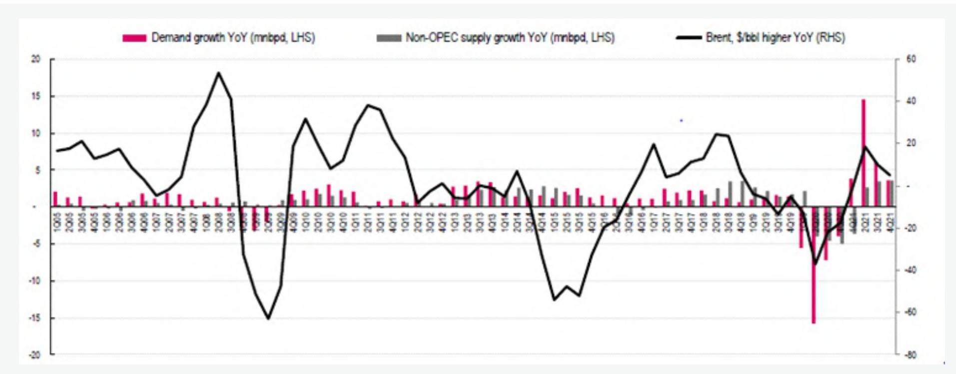


Source: EIA, Bloomberg Finance LP

In the interim as the international oil market tries to rebalance itself, Nigerian upstream companies may still have to struggle with sales and profit margins. The major challenges to be faced by upstream local oil majors would be the slowdown of global economic growth on the back of the Coronavirus pandemic in Q4 2020 which may likely see a reduction in supply to the end of Q2 2021. Also, slow growth could see a drop in global oil demand with a subsequent fall in oil prices.

Analysts observe that Brent oil price tends to rise when demand exceeds non-OPEC supply which also drags up the price of Nigeria's Bonny light crude. The outlook for the market in Q4 2020 till Q2 2021 is that demand may not exceed non-OPEC supply anytime soon as China remains the world's principal buyer of oil and has already stocked up heavily on reserves when oil prices plunged below US$40 per barrel in 2020. Thereby enabling it to average down its cost of crude oil purchase over the next few quarters right into 2021 (*see chart 2 below*).

***Chart 2:* When Demand Growth Takes on Brent Oil Price**



Source: EIA, Bloomberg Finance LP, Renaissance Capital

Section One: Taking A Peek At The Pump Well

Introduction

"To change the current paradigm, the industry will need to dig deep and tap its proud history of bold structural moves, innovation, and safe and profitable operations in the toughest conditions. The winners will be those that use this crisis to boldly reposition their portfolios and transform their operating models. Companies that don't will restructure or inevitably atrophy." ***- by Filipe Barbosa, Giorgio Bresciani, Pat Graham, Scott Nyquist, and Kassia Yanosek. McKinsey & Company 2020***

The opinion of the McKinsey writers above underscores the need for Nigerian oil and gas companies to rub out the original chalk marks laying the perimeters of their businesses and redraw new outlines for their activities with an eye on the future rather than the past.

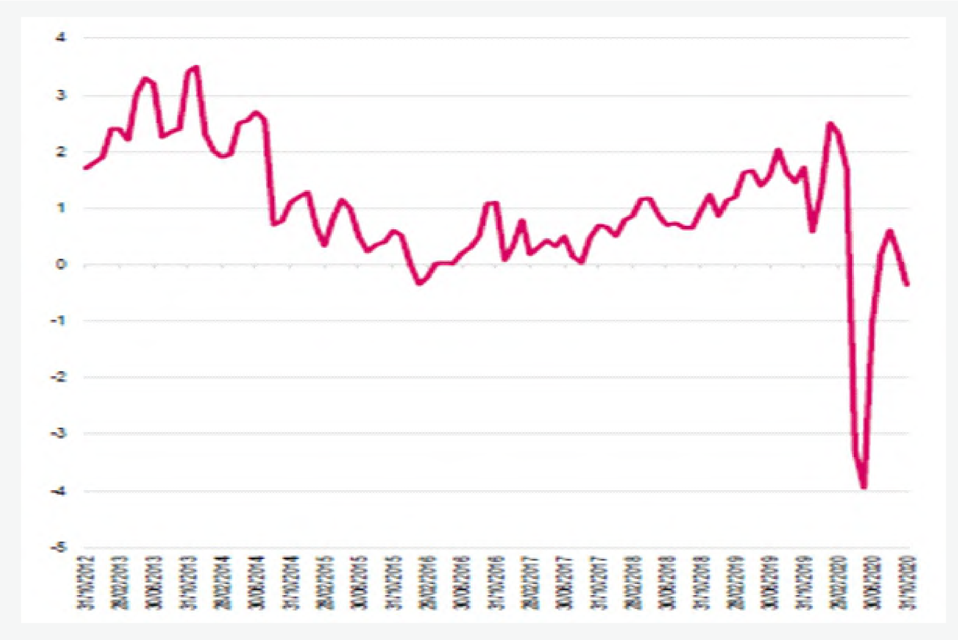
In their foray into new activities, oil and gas companies will need to build models that feed into the contemporary emphasis on environmental, social, and corporate governance (ESG) issues. The greener economic models would provide the basis for stronger, more resilient, and farsighted businesses of the future as communities insist on friendlier mining and drilling environments.

Yesterday's tomorrow is here today and so oil and gas (O&G) firms will need to prepare for the future now. This would mean the following:

- **Corporate visioning** that integrates local communities into the business architecture of the firm in such a way that guarantees stable community relations and business solutions that create win-win outcomes for all parties. For example, in the upstream sector, local Nigerian oil companies may be required to support massive agricultural ventures that power Agro-allied processing factories that use gas as a critical energy input. Also, the ammonia and nitrate output of domestic refineries could supply fertilizer to local farmers and improve farm crop yields. The symbiosis between farming and oil drilling may create the platforms for establishing the basis for smart agrarian communities.
- Strengthened **corporate governance standards.** With tougher internal governance regimes, oil and gas companies would likely see higher operating efficiency with flatter profitability. As efficiency improves corporate top and bottom lines will get better. The chief problems here would be reworking the business architecture to take into account new priorities, upscaling worker competence and learning, unlearning, and relearning new skills. Processes and procedures may create better operational templates but execution will rest on new skills and mindsets. The oil and gas industry can be demanding with high skill requirements in narrow work bands.
- The downstream **operational margin squeeze and upstream output uncertainty** will continue well over the next decade. The margins on white oil retailing will whittle down in a slow burn decline (margins are less than 5% in the domestic Nigerian market) hence requiring business alliances including mergers and acquisitions (M&As) amongst large and perhaps marginal players as economies of scale become a critical factor in business survival. At the upstream end of the market, analysts see a 9% fall in global demand for oil in 2020 and a 7% rebound in 2021. Companies like Seplat and Oando in the local upstream business will likely see gross revenues slide a few notches.

- Upstream businesses have seen revenues put under pressure as international oil market imbalances in April 2020 nudged prices downwards (Brent price dipped below US$ 20 per barrel) as Nigeria saw quick storage fill-ups and large discount requests on official selling price (OSP). Nigeria is believed to have offered steep discounts to offload inventories in Q2 and Q3 2020. Nigeria's sweet crude has often been sold at a premium to Brent but has tracked Brent in movement from 2012. The country's upstream majors have had a torrid time in 2020 as COVID-19-induced output and demand disruptions were worsened by Q2 2020 disagreements and market turf disputes between Russia and Saudi Arabia. Nigeria's Bonny light crude just under US$ 4 per barrel premium over Brent between 2012 and 2014 but this slumped to under US$1 per barrel between 2015 and 2017 before rising to US$3 per barrel in 2019 before tumbling to a massive discount of US$4 per barrel in 2020. October saw a noticeable recovery with a premium of slightly under US$1 per barrel (*see chart 3 below*).

***Chart 3:* Bonny Light Oil Pricing; Dated Brent Anchor, US$ per barrel**

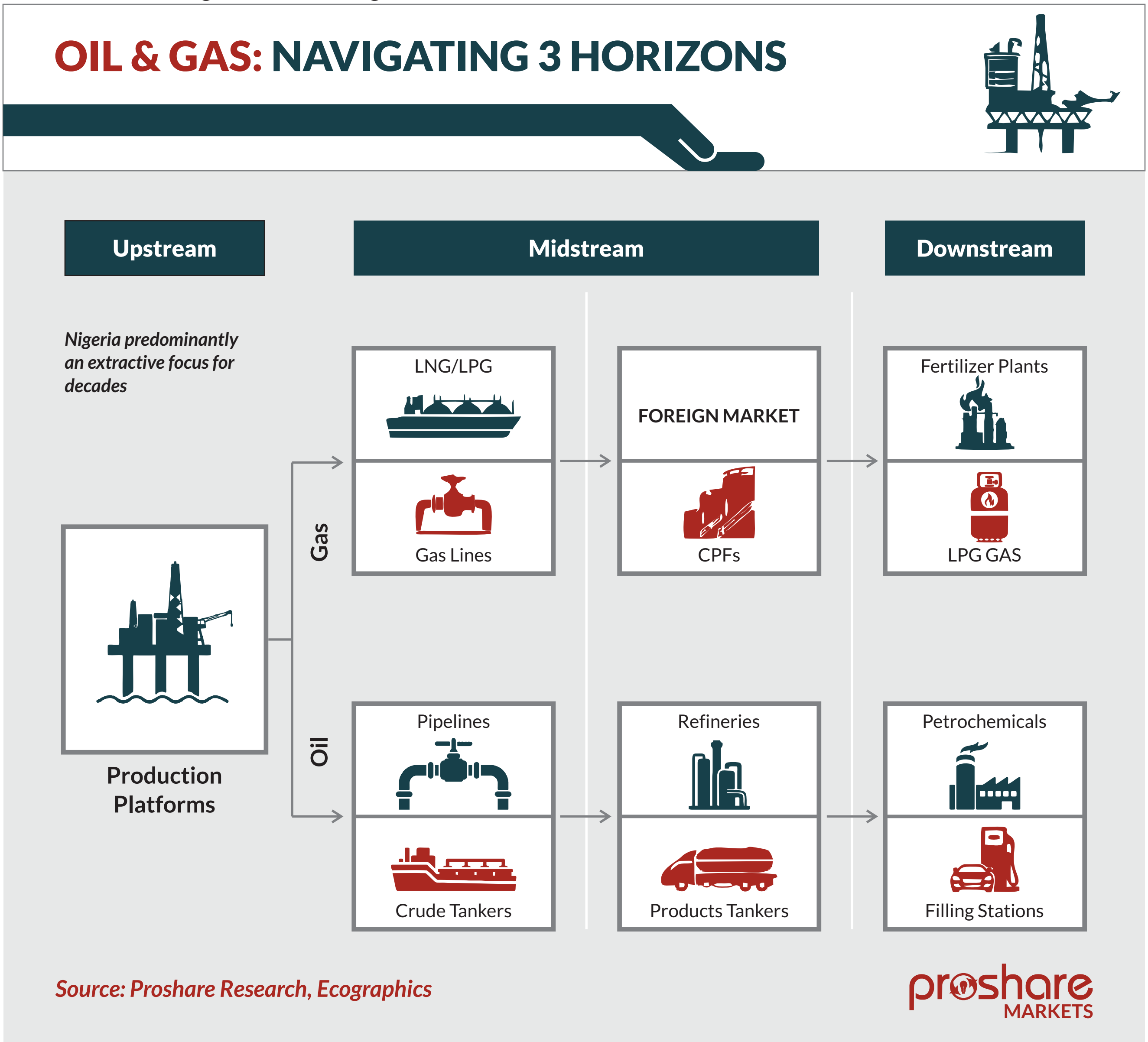


Source: Bloomberg, NNPC

- Midstream activities have been less uncertain as pipeline and transportation activities have been steady with no sharp domestic price changes. But the midstream market is not without challenges. Pipeline vandalization has majorly declined in the Niger Delta but fuel distribution is still fairly inefficient using surface road transportation by way of tankers. COVID-19 did not adversely affect the transportation of white products but the downturn in demand reduced the level of domestic consumption. Furthermore, another midstream activity, storage, suffered problems of inadequate capacity as international sales volumes fell and inventories rose to lead to deep sale discounts. Not much will change in Q4 2020 and Q1 and Q2 2021.

- The midstream segment of the oil business has been poorly managed. Domestic refineries have become moribund, oil tankers distressed with unsold crude cargo, and gas throughputs stumbling through falling futures market prices. The midstream market requires massive new investments in refineries (Dangote's 600.000 barrels per day mega plant will prove pivotal), pipelines, gas tankers, and gas processing plants.

Illustration 1: ***Nigeria's Missing Midstream O&G Business***

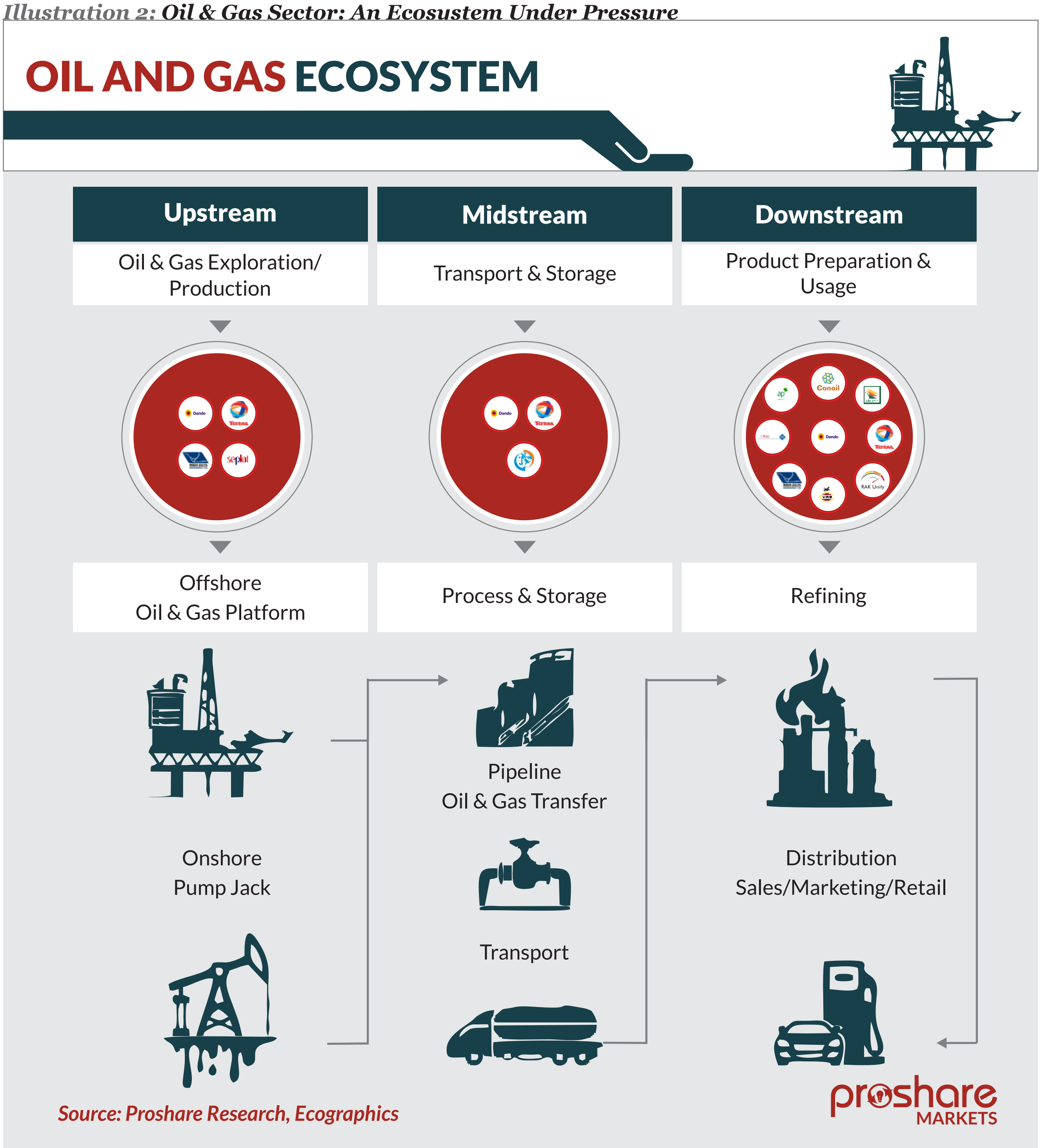


- The downstream industry has in recent times been very lucrative as subsidy payments, nebulous import accounting, and dodgy foreign exchange translation arbitrage more than compensated for the low fixed margins on white oil products, especially premium motor spirit (PMS). With the removal of subsidies and the depreciation of the exchange value of the naira, the distributors of white oil products have found the sale of petrol, diesel, and kerosene significantly less profitable than in the past. This, in part, explains why the Nigerian National Petroleum Corporation (NNPC) remains a monopoly importer of refined oil products. Given the moribund state of all local refineries, the NNPC has become the principal supplier of refined petroleum products with downstream operators serving as distributional channels operating on agreed off-take margins.

The downstream market structure yields very modest commercial economic value with operators barely able to scrape up operating margins of 5%. The government-influenced industry pricing arrangement when adjusted for costs leaves operators with wafer-thin margins that barely cover initial capital outlays beyond the regular operating cash flows that emanate from the business. This explains why most retail pumps are intermittently "tweaked" to provide wider margins per liter sold. Even with the underhand pump meter adjustments margins remain uninspiring. So why do companies stay in the business?

Behavioral economists suggest that individuals and corporations dread the consequences of loss more than they take joy in success, therefore, companies that have invested heavily in the downstream oil and gas (O&G) sector behave very similar to a gambler; they believe that their immediate business losses are only temporary and therefore, on the balance of probabilities, operating success is primed to appear around the corner. Of course, most often than not they are wrong (*see O&G ecosystem below*).

***Illustration 2:* Oil & Gas Sector: An Ecosustem Under Pressure**



Most companies in the O&G downstream business simply want to find a way back from their sub-optimal business margins to recover earlier capital outlays and perhaps pay off bank borrowings. The average fuel station requires a maximum of two days of the sale of 33,000 liters of PMS to breakeven, anything longer than this tilts the fuel purchase and sale into an operating loss. The cost-of-carry wipes away already thin margins.

The Banking Connection

The tough nature of the oil and gas business in Nigeria has required companies to rely heavily on short-term credit offered by local deposit money banks (DMBs). Tier 1 banks have about a fifth of their credit exposures locked in O&G related transactions.

Of course, this has led to some problems for financial groups such as the FBNH group which saw non-performing loans (NPLs) rise steadily in 2016 as the international economy slowed and the oil and gas sector felt the pinch. In 2018 the trend reversed as a recovery from the 2016/2017 recession started to kick in. The sectoral concentration of bank loans to the O&G and Power sectors by financial groups such as FBNH was a gambit that threatened the group's fiscal stability when oil prices dipped in the year and COVID-19 increased the inventory period of downstream operators.

Some other tier 1 banks saw similar large O&G exposures disrupting the quality of their loan books in 2018, 2019, and H1 2020 with potentially high non-performing loans (NPLs).

Banks continue to lend to O&Gs because of their large intraday cashflows (in the case of downstream companies), sizable foreign currency inflows (in the case of up and midstream companies) and huge capital outlays. The O&G business is a drug most big banks find difficult to resist, including the most catholic.

The problem with the O&G business relying heavily on the domestic money rather than the capital market is that there is usually an evergreen mismatch between project duration and the possible lending horizon. If uncertainty and policy disruption is built into the financing model, then the recipe for chaos has been truly formulated. O&Gs should only rely on bank loans to cover short-dated working capital requirements and not long-term strategic growth plans. A reason for the relatively high incidence of NPLs relative to the total banking industry average has been the structure of oil sector financing.

True, falling oil and gas prices have taken a toll on revenues of upstream and midstream operators but their vulnerability to global market price and volume movements has been made worse by their high short-term debt-to-equity ratios. High short-term debt-to-equity numbers indicate a relatively high debt service ratio and a weaker ability of O&G companies to increasingly meet debt obligations sustainably.

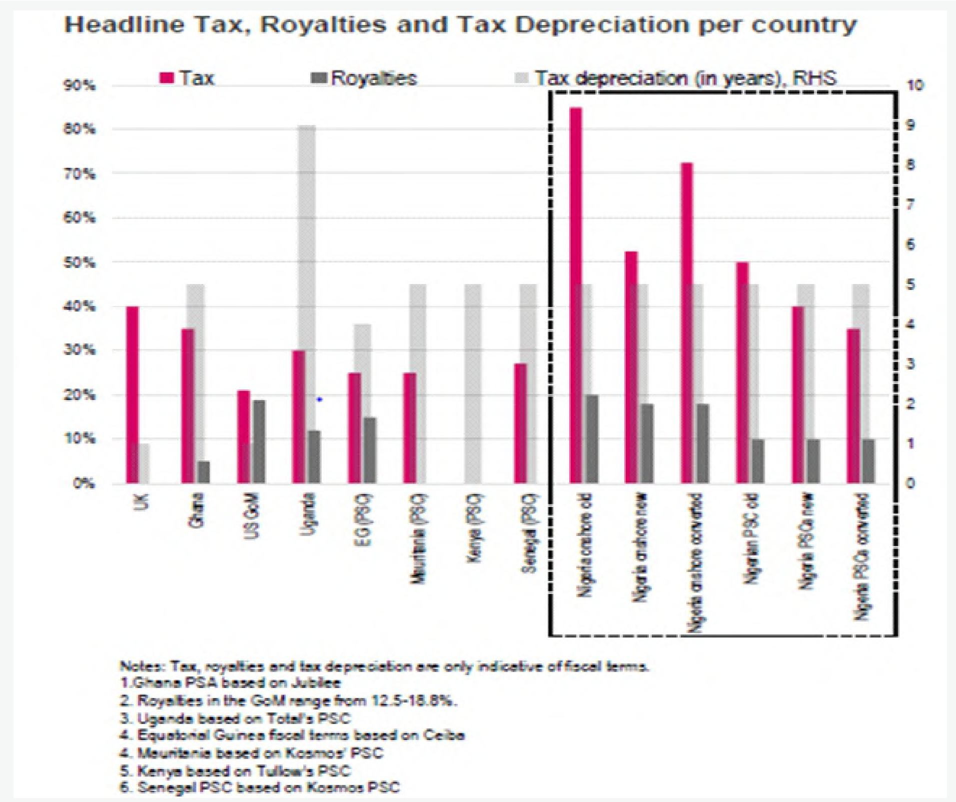
The oil and gas business has typically seen a chiseling down of margins, high and rising capital outlays, and large and recurring cash flows; the character of the O&G business means that optimal financing positions require a careful mix of long and short-term funding. The uncertainty of the fiscal terms built into the industry's recent financing structure has made certain activities such as onshore exploration unattractive and offshore mining less appealing. The Petroleum Industry Bill (PIB) tries to address these problems but leaves yawning funding gaps. Indeed, dwindling prices and thinning margins continue to plague the business and discourage fresh capital inflows.

O&G: Moving the Needle Forward

To improve the O&G sector analysts have called for the adoption of a few initiatives:

- The fiscal terms of the industry must be improved to make the sector more attractive and encourage a larger inflow of private investment.
- Deepwater operations account for about 40% of Nigeria's oil production and many of the country's projects are within the "1993" PSCs and PSAs that expire in 2023-28. Oil majors are reluctant to invest more money in deep offshore exploration contracts, given prevailing fiscal uncertainty. The introduction of royalties to PSCs in 2019 worsened potential private sector investment returns and has thereby discouraged further investments in Nigeria's deep waters. Experts have argued the need for a revision of the fiscal terms to reduce costs and improve operating margins. Renaissance Capital, an investment banking group, recently noted that it carried out modeling of the onshore oil operations of the country under different fiscal terms and observed that ***"...Nigerian onshore fiscal terms are some of the least attractive, with deepwater PSCs being more attractive."*** Oil economists have also noted that the sector's reconciliation losses and tariffs have driven down economic value. To make the sector more attractive for capital investments the fiscal authorities may need to cut down on taxes and royalties (*see chart 4 below*).

Chart 4: ***O&G: A Comparative Look at Taxes, Royalties, and Depreciation***



Source: Renaissance Capital

- The poor Q3 2020 result of Seplat Petroleum Development Company (SPDC) highlights the challenges of the upstream operations of local oil majors. The company posted a loss of N33.7bn which rode on a -10.7% year-on-year (Y-o-Y) decline in gross revenues from N152bn in Q3 2019 to N136bn in Q3 2020. The company's net assets, however, grew by 15.5% from N554bn in Q3 2019 to N640bn in Q3 2020. **Visit** Seplat Petroleum Development Company Plc IR Page in **Proshare MARKETS.**

Seplat's fortunes reflect the difficulties of turning a profit in a global market that has been squeezed by supply gluts and demand downturns. The situation has been worsened by a global health pandemic that could reduce global energy demands and create a fresh market imbalance in 2021 and beyond.

To worsen matters economists at McKinsey Global, recently noted that ***"the rise of shale made it more challenging for OPEC to maintain market share and price discipline. While OPEC cut oil and natural gas liquids production by 5.2m barrels per day (BPD) since 2016, shale added 7.7m BPD over this timeframe, taking share and limiting price increases. When the industry no longer needs a decade to find and develop new resources but can turn on ample supply in a matter of months, it will be hard to repeat the run-up in prices of 2000–2014."***

The new market realities suggest that Nigeria's oil majors may have to wait a while longer before they start to see sustainable improvement in their fortunes. The folks at McKinsey observed that ***"Historically, price wars wipe out poor performers and lead to consolidation. But the capital markets were generous with the oil industry in 2009–2010 and again in 2014–2016. Many investors focused on volume growth funded by debt, rather than operating cash flows and capital discipline, in the belief that prices would continue to rise and an implied "OPEC put" set a floor. It hasn't worked out that way".***

O&G companies in Nigeria may have two revisit their business models and reimagine their future. The global oil market and the rising cost of production in Nigeria will lay siege to operating profitability, thereby requiring companies in the business to step into new territories such as residential, automobile, and industrial piped gas, alternative power production such as wind, solar, and perhaps blue energy which takes power from the boundaries that separate seas from oceans.

The new realities of a shifting and uncertain global market for fossil fuel will call for greater mindfulness of a future without or with minimal carbon-based energy.

The Gas Gambit

With oil set to tumble and perhaps slide permanently over the next decade, the lowest hanging fruit alternative as a foreign exchange earner is gas. Indeed, Nigeria is more of a gas than an oil belt with 187trn cubic feet (Tcf) of proven reserves as of 2017. This represents 3% of the world's total gas reserves of 6,923Tcf. Nigeria's gas reserves are 306 times its annual consumption providing ample headroom for increased domestic consumption and export.

Nigeria has one of the lowest global net electricity generation capacity per capita, leading to, by some estimates, 20,000 MW of off-grid diesel-generated power, costing a few billion dollars of imported generator fuel annually. Increased gas production will be crucial to Nigeria's prosperity as it may reduce FX outflows and upscale domestic household electricity consumption.

Both the upstream and downstream gas sector have difficulties that need to be overcome if the sector is to drive economywide growth and development. The upstream challenges of supply can be more easily handled than the circular debt problems and infrastructural challenges of midstream operations. Part of the domestic problems relates to below cost recovery pricing that makes the domestic supply of gas inefficient and untenable as a business proposition. Gas price is as volatile as oil price and forward contracts to a certain extent temper down the variability of gas contract terms, but demand and supply factors are just as finicky as an oil market (*see chart 5 below*).

Chart 5: The Bumpy Gas Ride; International Gas Price Movement 2016-2020

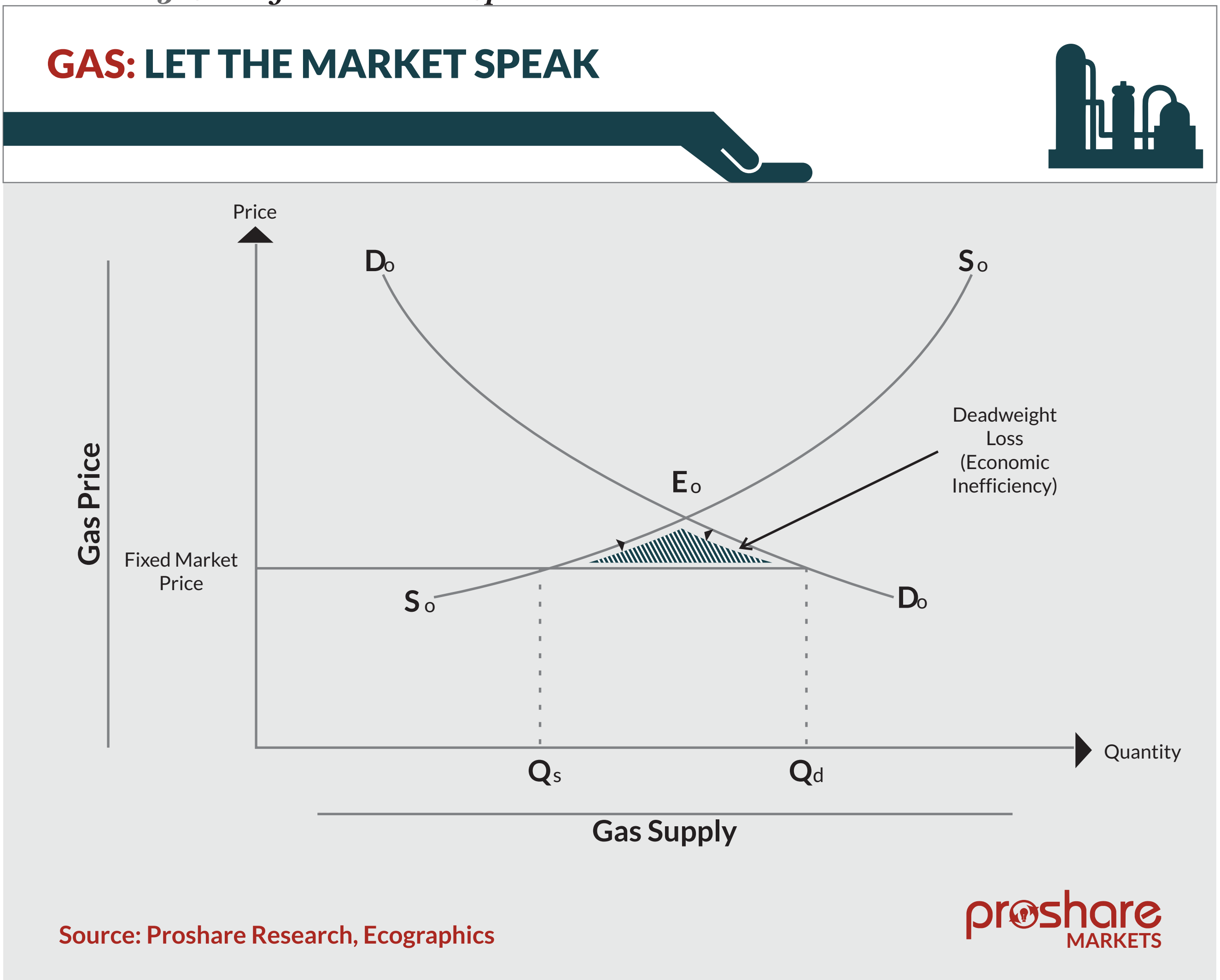
Source: NASDAQ

An upward review of the supply price would lead to a rise in domestic quantities and engineer an improvement in industry economics. With the local price of gas trading lower than its international equivalent, the opportunity cost of investing in domestic gas operations, especially upstream would be high.

In other words, to draw a higher supply of gas to the domestic retail market, retail gas prices must rise. This would choke off demand in the short-run but it would also increase supply, creating a more sustainable market equilibrium (*see illustration 3*).

Illustration 3: Getting the Market to Speak

Illustration 3: ***Getting the Market to Speak***



Section Two: Linking Up The Dots

Section Two: Linking Up The Dots

O&G and Financial Markets

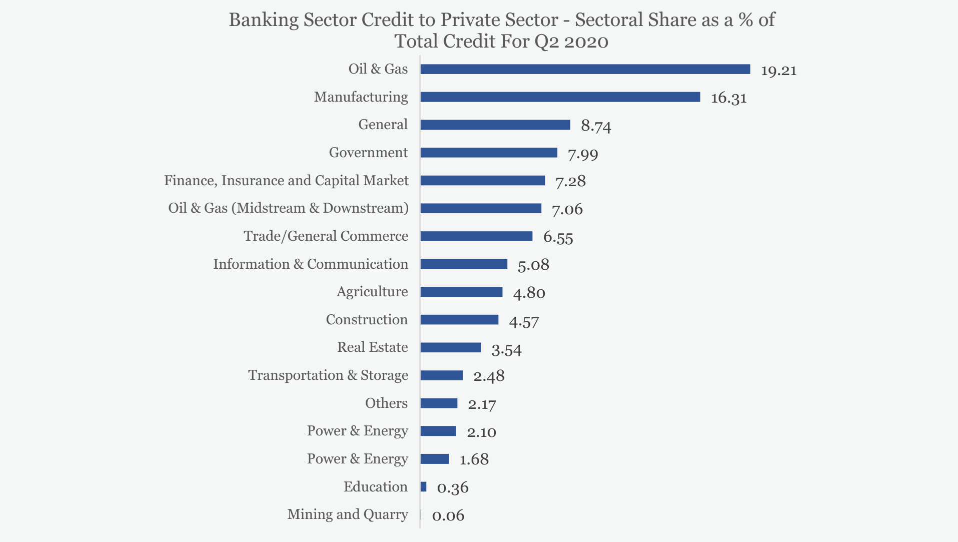
Nigeria's O&G sector has been a key driver of domestic economic growth in the last four decades bringing huge foreign revenues but lacking complementary growth in infrastructural and socio-economic development. The sector contributes less than 10% to gross domestic product (GDP) in contrast to its agriculture sector counterpart which contributes 24%.

The alignment between the oil & gas sector and the financial services sector mirrors an interesting misalignment between the financial services sector and agriculture. While a large slice of loans and advances of deposit money banks (DMBs) flowing to the oil & gas and power sectors, the agriculture sector has had to rely on special lending arrangements supported by the Central Bank of Nigeria (CBN) and its affiliate institutions.

The oil & gas sector has been a poster child for growth in Nigeria but its weak linkages with the rest of the economy have created a bizarre situation where the growth of the sector has increased the size of the wallets of sector participants but has not led to the required multiple benefits to the larger society which wants to see a rise in living standards. Nigeria's oil sector expansion has merely supported an accretion of funds to the Federal Allocation Account (FAAC), which mainly goes into funding rising and bloated recurrent expenditure of the government.

Nevertheless, local banks still favour the oil & gas (upstream) sector as a linchpin of domestic economic growth and allocate about a fifth of their loan book to the sector. Another 7% of bank loans go to the mid and downstream segments of the sector bringing total sectoral lending to 26.27% as of Q2 2020. Trailing the oil & gas sector banks in 2020 have equally batted a favourable eye towards the manufacturing sector despite a downturn in activities as a result of a COVID-19-inspired fall in demand and disruption to local and foreign supply chains. Roughly 16% of total bank credit went to the sector in Q2 2020 (*see chart 6 below*).

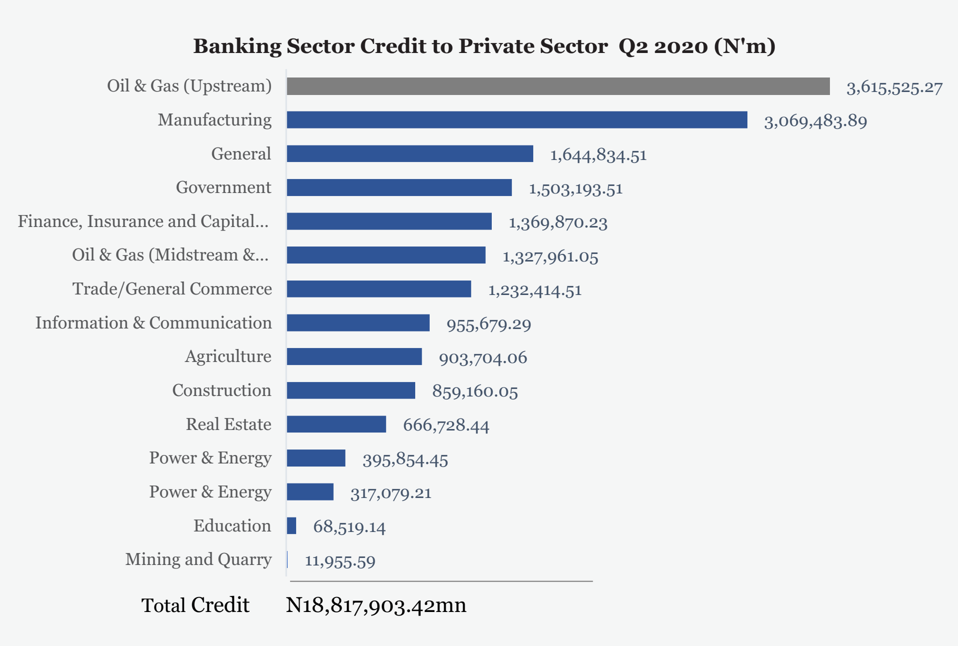
Chart 6:* *Choosing the Right Credit Jar; Nigerian Banks Still Favour Oil



Source: National Bureau of Statistics (NBS), Proshare Research

The agricultural sector was able to muster a comparatively modest 4.8% of total banking sector credit at the end of the second quarter of the year, suggesting that banks have not been overly impressed with the suggestions given by the federal government to increase sectoral credit exposure. The total credit to the agricultural sector was about N903.7m in Q2 2020 as against credit to the oil & gas sector of N3.6trn in Q2 2020 (*see chart 7 below*).

Chart 7: Nigerian Bank Credit Q2 2020; A Look at The Sectoral Slices



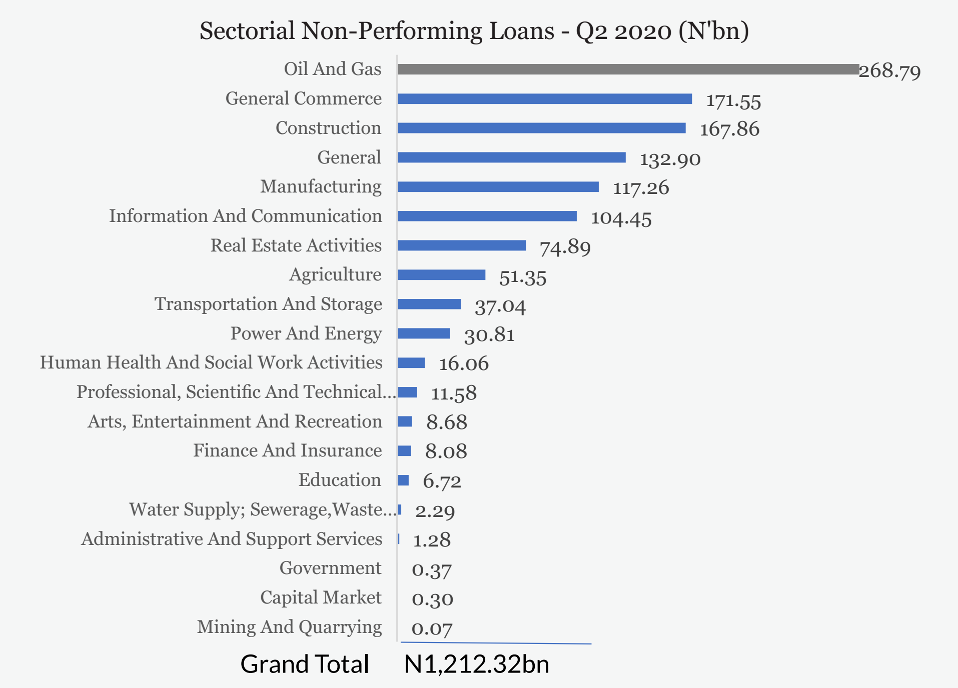
Source: National Bureau of Statistics (NBS), Proshare Research

The reluctance of banks to lend to the agricultural sector in comparison to the oil & gas sector is understandable. The oil & gas sector, especially the down and midstream segments of the sector do not throw up stellar returns (the same is increasingly true of the upstream sector as costs grow steeper and revenues turn flat), but they offer some notion (perhaps false) of stability and predictability. Conversely, the agricultural sector is pepper-sprayed with problems ranging from adverse seasonal weather conditions to poor storage facilities, high transportation costs, lack of standardized contracts (leading to highly variable incomes), and low farmgate margins.

The relative exposure of banks to the two sectors also reflects in the relative proportions of non-performing loans that banks carry on their books reflecting the weight of sectoral lending. As of Q2 2020, the banking sector had a total non-performing loan exposure to the oil & gas sector of N268.79bn. This was followed by general commerce at N171.55bn and then construction at N167.86bn. The fourth was general loans at N132.90bn and the fifth was manufacturing at N117.26bn. The non-performing loans of the agricultural sector were eight at N51.35bn (*see chart 8 below*).

Chart 8: Nigerian Bank Credit Q2 2020;
When Nigerian Bank Loans Go Bad

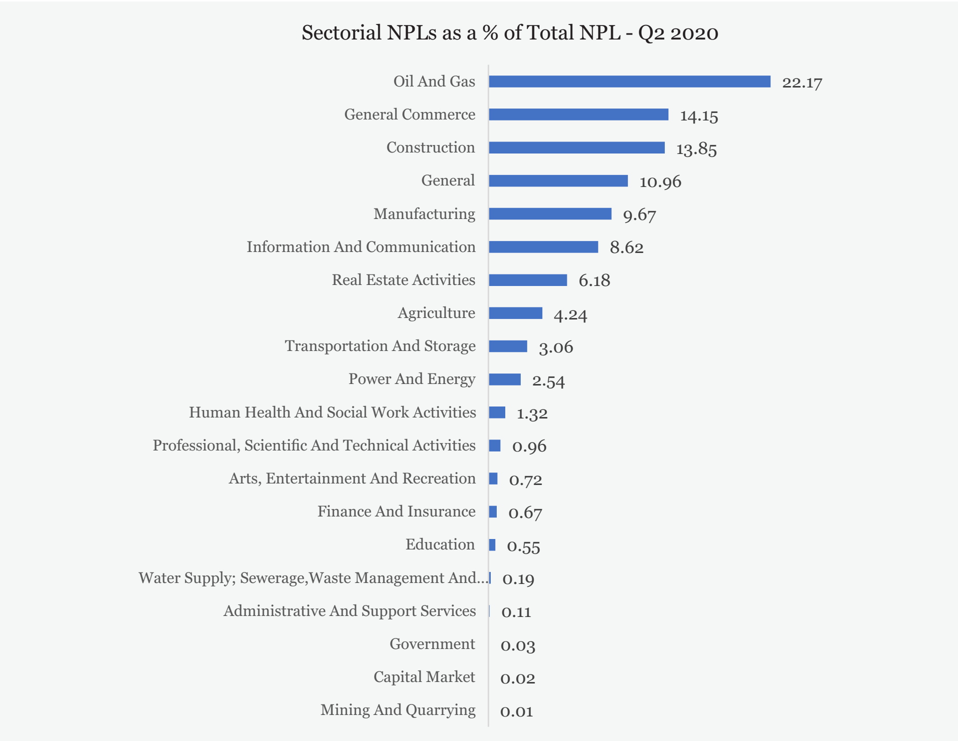
Chart 8: ***Nigerian Bank Credit Q2 2020; When Nigerian Bank Loans Go Bad***



Source: National Bureau of Statistics (NBS), Proshare Research

The total non-performing loans in the banking sector were N1.21trn in Q2 2020 with the oil & gas sector representing 22.17% and the agriculture sector representing 4.24% of bad domestic credit. General commerce represented the second-largest slice of the non-performing loan pie at 14.15% with the construction industry cutting in with a delinquent loan status of 13.85% (*see chart 9 below*).

Chart 9: ***Nigerian Domestic Credit; The Bad Boys of Non-performing Loans (%)***



Source: National Bureau of Statistics (NBS), Proshare Research

Of Banks, Bankers, and Oil & Gas

Banks and bankers have not been able to shrug off the long-term romance with the oil and gas sector that has spanned over five decades. The average banking officer sees it as a stellar breakthrough to bring an oil loan into the bank's current asset ledger. The excitement presumes that oil company revenues are large and stable and would add sizeable value to the bank's profit and loss (P&L) account. Unfortunately, this is usually fiction rather than fact.

The global O&G sector in the last few years has been under intense pressure to remain both stable and profitable. The rising costs of production and falling revenues have squeezed operating margins thereby challenging the sustainability of the sector. The pressure under which O&Gs operate is mirrored in the proportion of non-performing loans (NPLs) associated with the sector on bank loan books (*see table 1 below*).

Table 1: O&G and Banks: The Tangled Relationship

OIL & GAS VS BANK NPLs:
UNDERSTANDING THE KNOT

			Total Proportion of the Bank's NPL to Oil & Gas		Breakdown Of The Total Proportion Of Banks NPL To Oil & Gas: Oil & Gas - Services (%)		Oil & Gas - Upstream (%)		Oil & Gas - Downstream (%)		Oil & Gas Refinery (%)	
Banks	Total NPL of the Bank as at Jun 2020	Total NPL of the Bank as at Dec 2019	Jun-20	Dec-19	Jun-20	Dec-19	Jun-20	Dec-19	Jun-20	Dec-19	Jun-20	Dec-19
Access Bank	4.4%	5.8%	12.9%	19.6%	11.5%	18.5%	1.4%	1.1%	N/A	N/A	N/A	N/A
GTB	6.8%	6.53%	26%	23.7%	N/A	N/A	N/A	N/A	9.1%	8.6%	16.9%	15.1%
FBNH	8.8%	9.9%	12%	14%	N/A	N/A	6%	6%	6%	8%	N/A	N/A
UBA	4.1%	5.6%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Zenith Bank	4.7%	4.3%	40.99%	30.75%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FCMB	3.5%	4.3%	2.7%	12.4%	0%	12.1%	0.8%	0.0%	1.9%	0.3%	N/A	N/A
Fidelity Bank	4.8%	3.3%	21.3%	26.2%	N/A	N/A	0%	0.1%	21.3%	26.1%	N/A	N/A
Unity Bank	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Union Bank	6.3%	5.8%	43%	47%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wema Bank	5.6%	7.38%	5.7%	4.85%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Stanbic IBTC	4.9%	3.9%	20.9%	3.92%	3%	3.9%	N/A	N/A	17.9%	0.02%	N/A	N/A
Sterling Bank	2.1%	8.7%	29.35%	18.17%	29.35%	N/A	N/A	N/A	18.17%	N/A	N/A	N/A
ETI	9.8%	9.7%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

** N/A No Data Available*

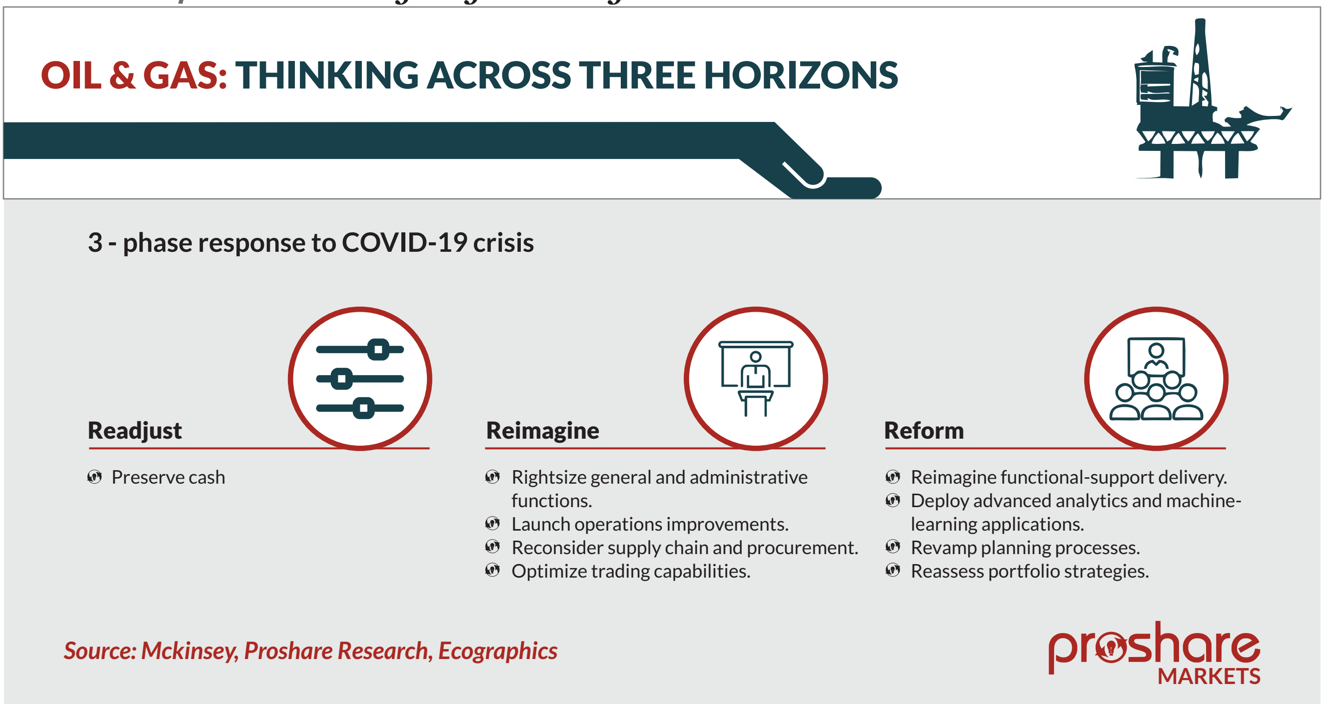
Source: Bank's Financial Statement, Proshare Research, Ecographics

proshare MARKETS

To wriggle out of the reshaped realities of the business, downstream oil & gas businesses would have to adopt a three-phased approach to leaning into the future according to analysts at a global research company, McKinsey Consulting.

The McKinsey analysts argued that downstream oil firms will have to embark on the following phased and overlapping measures:

Illustration 4: ***O&G Restrategizing: Thinking Across Three Horizons***



Phase 1: Readjust

In this phase, downstream companies would be required to preserve cash until a stronger indication of industry depression ends. The analysts admonished that companies in the segment should "They should exercise the full set of cash management levers, including reducing inventory positions, lengthening suppliers' payment terms, reducing receivables terms, deferring capital expenditures, and halting equity disbursements".

A few companies have already embarked on these measures, but this is just a start to ensuring that businesses respond appropriately to the imperatives of a shift in industry dynamics as they pull a few more levers.

Phase 2: Reimagine

The second phase of actions required to realign the downstream oil & gas business with changing supply and demand algorithms would include the following:

- **Rightsize general and administrative costs (G&As)-** This would see companies taking a hacksaw to areas where it can reduce general and personnel costs. One way of assessing whether corporate costs are fit-for-purpose is to take a set of industry metrics and evaluate corporate performance to the industry average. For example, a company could look at its G&A expenses-to-revenue ratio and line it up against the industry average (median and not mean) to decide how much adjustments must be made to reduce the size of recurrent spending. As part of this effort, companies could outsource the payroll management function. To remain fiscally sustainable companies may need to cut their G&As by as much as 20 to 30%.

- **Launch improvements through operations-** Companies in the downstream industry will have to get their hands dirty by reviewing their operations and chipping away at activities and/or processes that can be cut without adversely affecting revenues. The companies would also have to deliberately wrestle with cost heads and thump down on their expenditures. Mr. Tunji Oyebanji, managing director/CEO of 11 Plc. at a recent webinar on the future of the O&G industry in Nigeria emphasized the importance of process recalibration and market-friendly domestic pricing models. He specifically called for a review of all regulatory hindrances to efficient local operations of the downstream oil sector. *" If we are going to see operational sustainability in the local Nigerian oil market, then the forces of demand and supply must be allowed to determine the price of premium motor spirit (PMS) and other sundry products, marketers should be permitted to sell white products at differential prices based on their cost structures and efficiencies; also, the Nigerian National Petroleum Corporation (NNPC) prices should be commercially-anchored to promote fair competition"*, he noted.

Globally downstream participants, particularly oil refiners, stand to pump additional margins of between US$1.00 and US$1.50 if they can cap the pressure of rising industry costs. A few ways of doing this would include, but would not be limited to the following:

- **Repair and maintenance-** the cost of repairs of equipment need to be scaled down with improvement in machine use and the measuring of the contribution of each machine to operating costs, profitability, environmental sustainability, and the corporate digital footprint.
- **Operational decision-making-** organizations may be required to change their decision-making procedures and criteria. As operating conditions alter, companies will have to face the mirror and ask the hard questions about how ugly present practices and guidelines are in the presence of new cost-to-performance trade-offs. For example, companies may need to decide how often spares are switched and when new thresholds for vibration or process conditions have been attained.
- **Staffing-** Corporations will have to come clean with themselves on how much staffing is optimal. A fall in demand and a thinning of operating margins will require some reconsideration of optimal staff strength. Consideration will also have to be given to what type of staff would be required for the organization's future transformation. With digitization and machine learning becoming an increasingly important factor in efficiency and cost containment within the industry corporations must begin re-skill, re-educate, and re-tool the workforce. An indication of how a staff cost optimization springboard could work is gleaned from how an operating plant reduced its project-engineering-labor cost by 25% by changing the way it allocated technical support. Such initiatives and cost-savings could be replicated in other operational areas.
- **Product quality levels-** Improving product value chains will be critical to sustainable businesses and companies in the downstream oil & gas sector will need to craft a path towards improved product quality and delivery platforms. The corporations will need to reduce the number of times products randomly exceed minimum threshold quality benchmarks. If companies can improve demand-forecasts, they can improve product portfolios to align with demand expectations meaning that the cost of holding product inventories could be reduced sizably.

Planning operations- In times of volatility, especially in O&G markets, precision becomes a crucial consideration in operational sustainability. Businesses in the oil and gas sector must craft models that establish predictable links between raw materials and operational outcomes. Proper modeling reduces energy consumption and frees capital by guaranteeing better production planning.

Phase 3: Reform

The third horizon of O&G executives in a volatile business environment has to be reform. To assume that the old ways of doing business would achieve the expected new results would be naïve. The shifts in global oil and gas demands and the evolution of energy use and technology would require the O&G sector to rethink and reform its business because not doing so would be like swimming happily while the tide is high only to realize that one has no pants on when the tide runs out, many businesses will suffer this fate as they remain oblivious of the technological Tsunami flooding their doorsteps.

Section Three:
Understanding O&G Companies By Numbers

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The O&G Business Gambit

Profitability - Priming the Money Pump

Revenue

Niger Delta Exploration & Production Plc (NDEP)

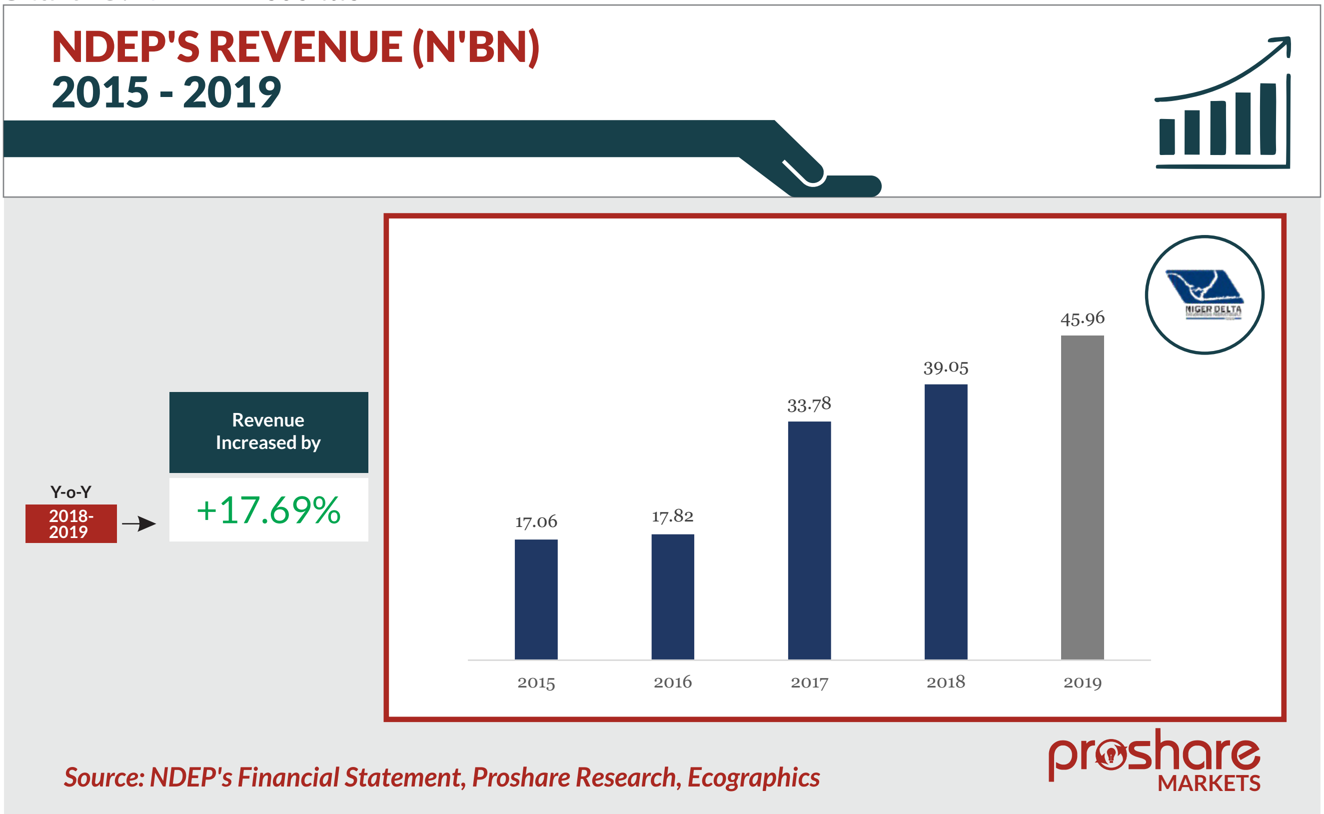
The latest result of NDEP shows an increase in earnings and financial position of the group despite instability in the industry which impacted the price of products and volume sold.

Revenue increased by +17.69% year-on-year (Y-o-Y) from N39.05bn in 2018 to N45.96bn for FY 2019, revenue from the sale of crude oil grew Y-o-Y by +30.18% while revenue from diesel and gas declined by -31.46% and -11.33% respectively.

Debt-to-revenue increased to 50.15% against 31.10% in 2018, this is as a result of +89.77% growth recorded in the debt size of the Company.

In USD terms, revenue for the upstream and downstream player in the O&G industry for 2019 was $127.24m against $149.73m for 2018 using the official CBN rate during the different periods (*see chart 10 below*).

Chart 10: NDEP - Revenue



Seplat Petroleum Development Company Plc (SPDC)

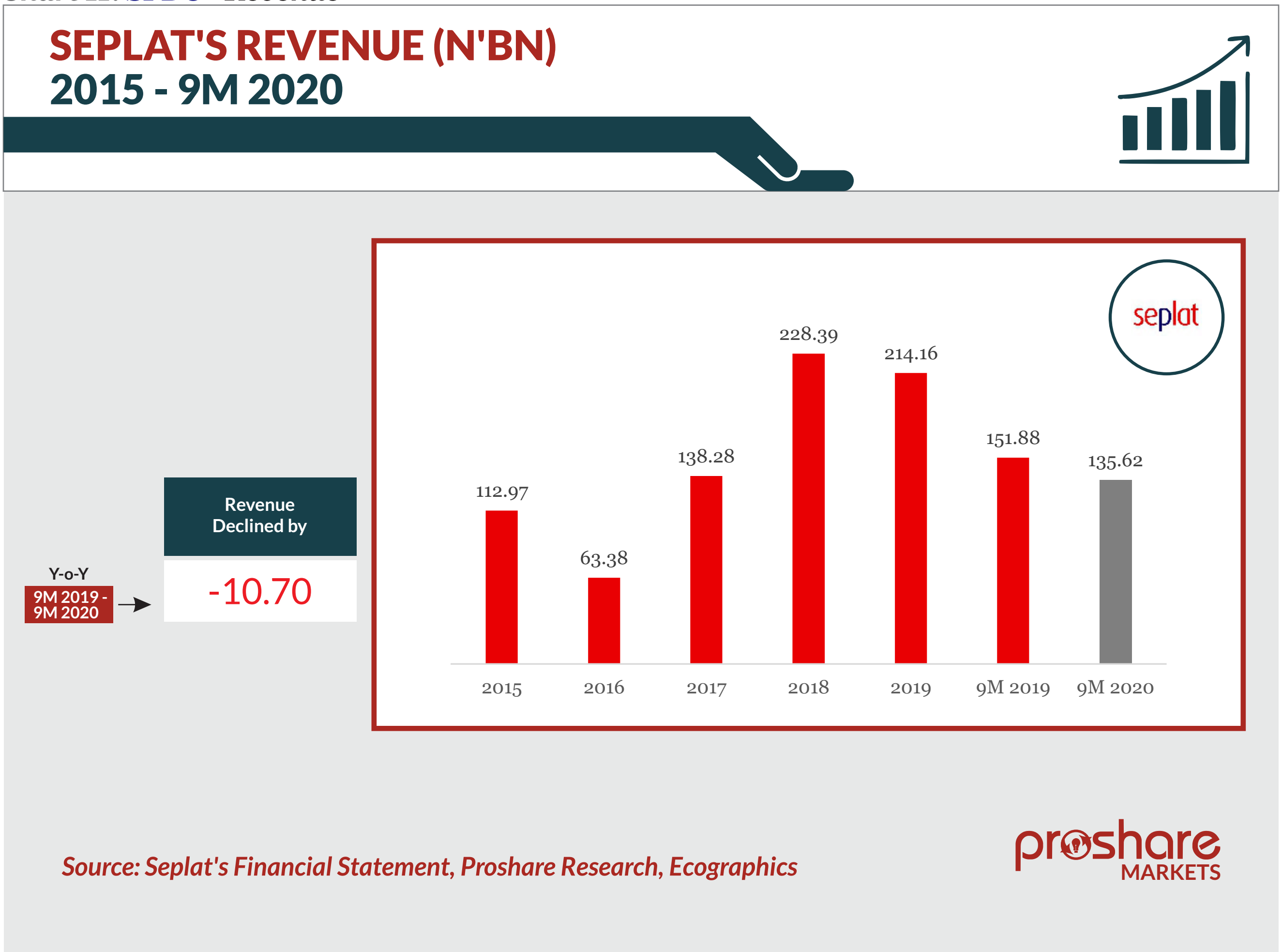
Oil price was heavily impacted by COVID-19 and KSA-Russia price war; the revenue of the company was not directly impacted by the COVID-19 pandemic, however, OPEC+ cuts are likely to impact the performance of the company.

Seplat Petroleum Development Company reported a -10.70% decline in its revenue for year-to-date (YTD) September 2020, this was against N151.88bn recorded in the same period of the previous year to N135.62bn. This was majorly driven by a -10.92% decline in gas sales despite a +7.88% increase in crude oil sales (*see chart 11 below*).

The company did not record revenue from gas processing as it has ceased to process gas for Nigerian Petroleum Development Company (NPDC).

In contrast to the -10.70% decline in Naira terms, in USD terms, SPDC's revenue declined by -28.07%. From $494.84m recorded in YTD September 2019 to $355.96m in YTD September 2020. The Company lost $85.92m as a result of the devaluation of the domestic currency, that is, USD terms translation cost.

Chart 11: SPDC - Revenue

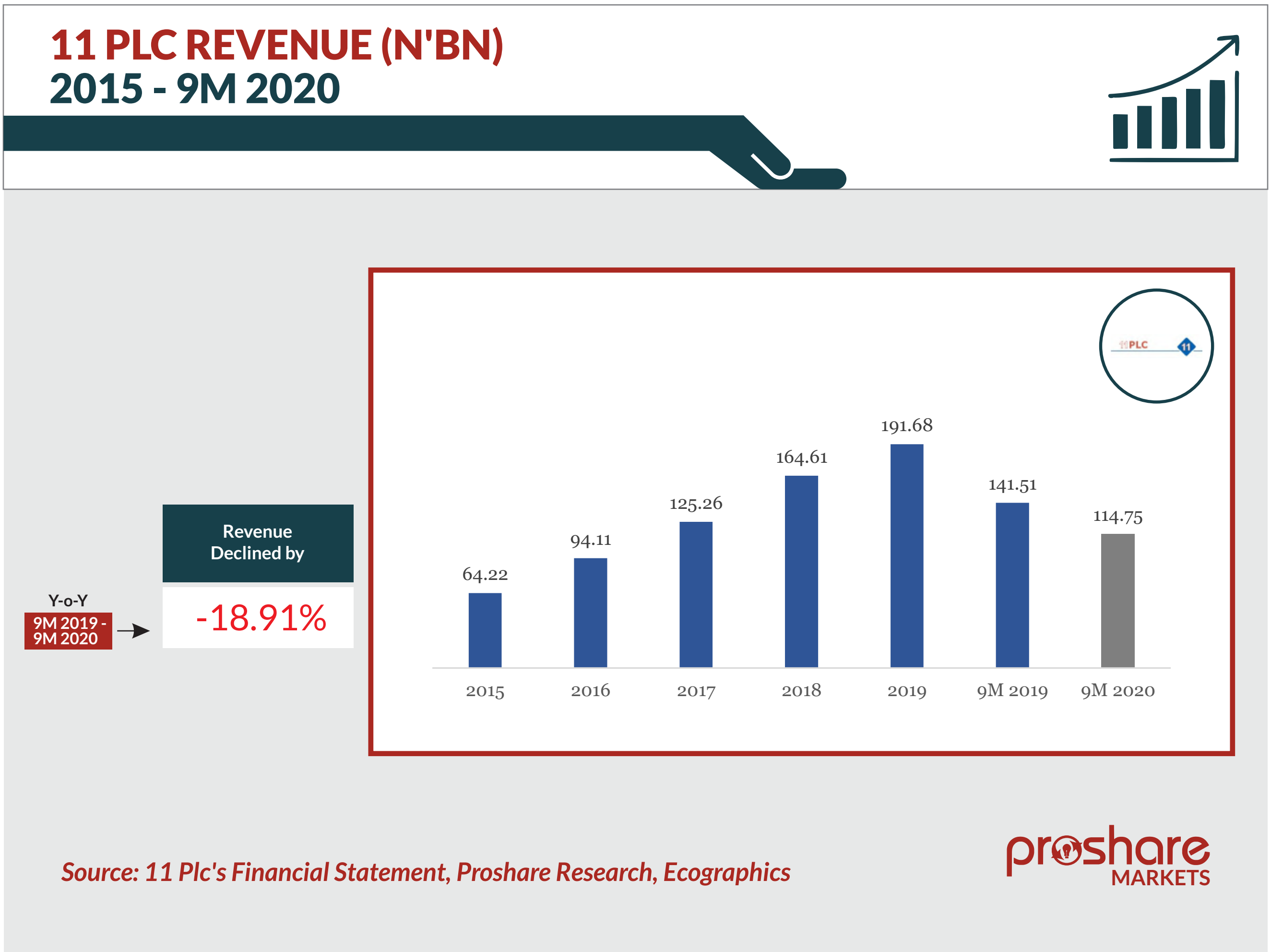


11 Plc

11 Plc (formerly Mobil Oil Nigeria) recorded a marginal decline in its financial position for 9months 2020, which shows the company was not heavily impacted by the COVID-19 pandemic and the oil price war. Revenue for the company has an upward trend, however, in 9months 2020 the company's revenue declined -18.91% year-on-year (Y-o-Y), from N141.51bn in 9months 2019 to N114.75bn in 9months 2020. The drop in revenue also translated to a drop in gross profit of the Company which declined by -30.69% despite the -17.87% decline in cost of sales.

In USD terms, the revenue of 11 Plc declined by -34.68% Y-o-Y from $461.07m in 9months 2019 to $301.17 in 9months 2020 using the CBN official rates at the respective periods (*see chart 12 below*). Foreign currency translation cost was $72.69m as a result of the devaluation of the domestic currency during the period.

Chart 12: 11 Plc's Revenue

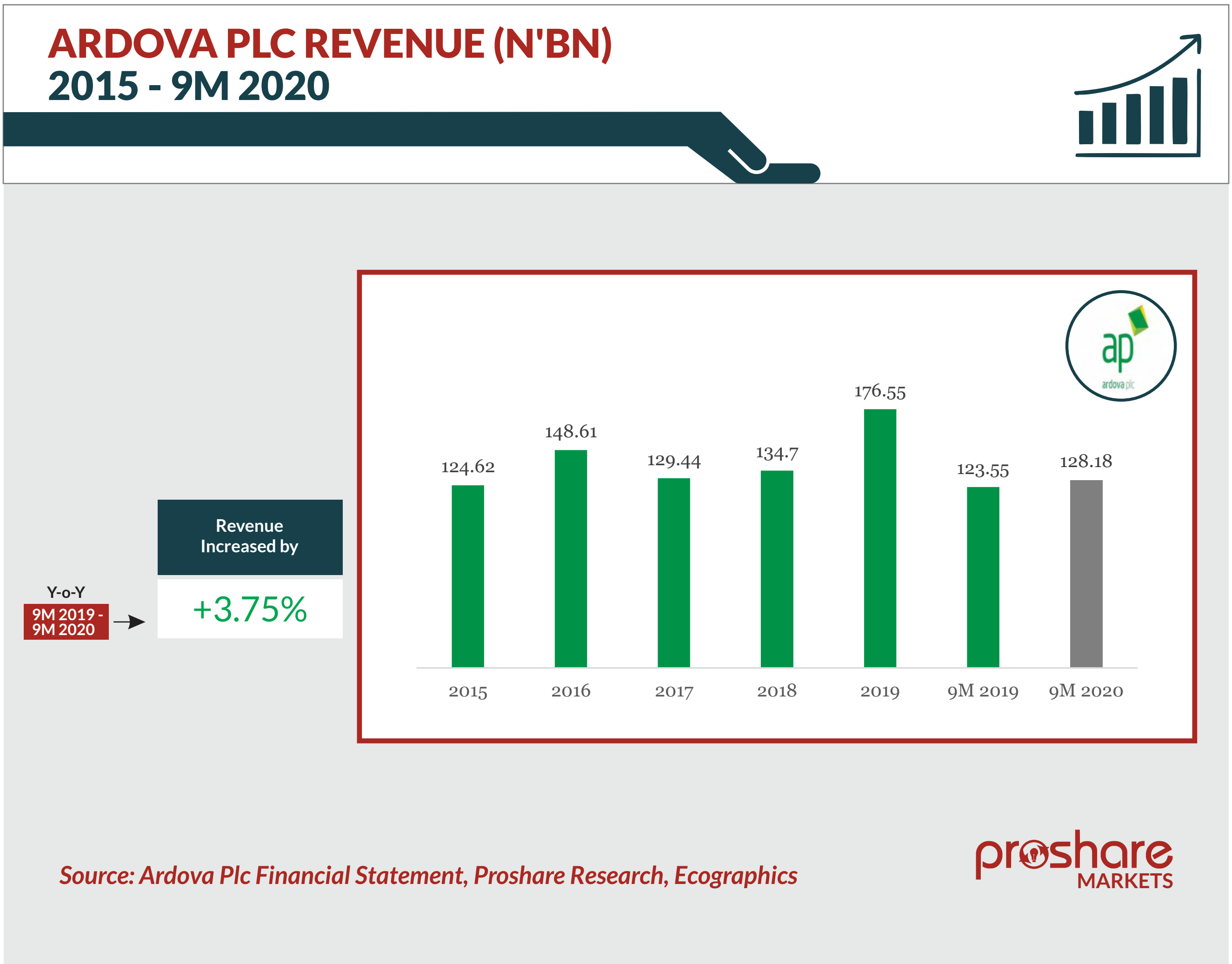


Ardova Plc

Revenue of Ardova Plc (formerly Forte Oil Plc) recorded an improvement for 9months 2020, this is despite the macroeconomic challenges caused by the COVID-19 pandemic. Revenue grew by +3.75% from N123.55bn in 9months 2019 to N128.18bn recorded in 9months 2019. This was majorly driven by a +4.82% increase in revenue from fuels and N5.21m revenue from Liquefied Petroleum Gas (LPG) and Cylinder Sales, this is despite a decline of -5.37% in Solar system revenue.

However, translating to USD terms, Ardova Plc recorded a decline of -16.42% in revenue for 9months 2020, from $402.54m recorded in 9months 2019 to $336.43m in 9months 2020 using the CBN official rate in the different periods (*see chart 13 below*). Foreign currency translation cost for the period was $81.20m as a result of the devaluation of the local currency.

Chart 13: Ardova Plc's Revenue

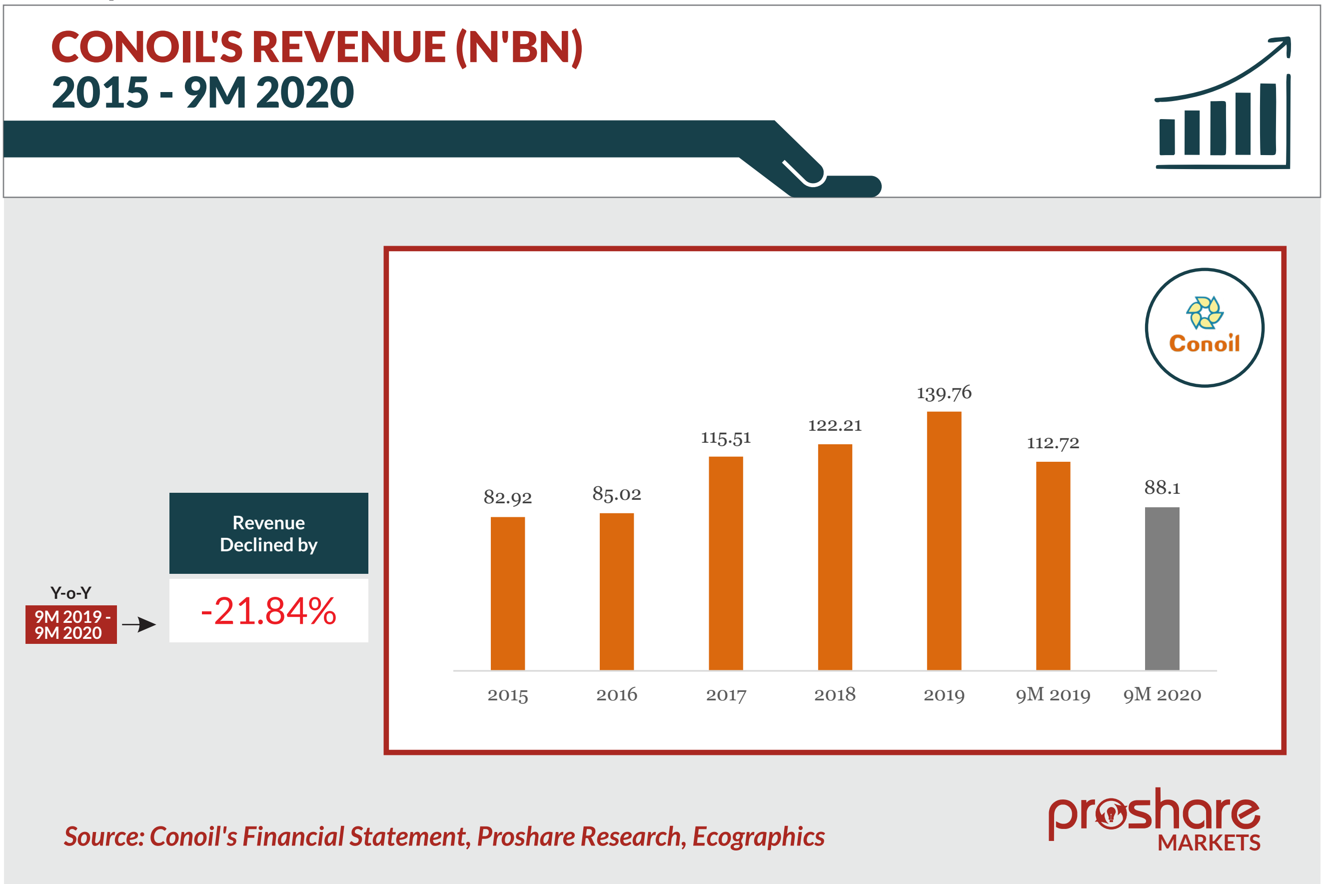


Conoil Plc

The company's revenue from the sale of petroleum products declined in 9months 2020, revenue declined by -21.84% from N112.72bn recorded in 9months 2019 to N88.10bn. The drop in revenue also translated to a decline in gross profit of the company, gross profit declined by -28.15% despite the -21.16% decline in cost of sales for the period.

Revenue declined further after translating to USD terms, revenue declined by -37.04% from $367.27m in 9months 2019 to $231.24m in 9months 2020 using the official exchange rates at the different periods while foreign currency translation cost was $55.81m (*see chart 14 below*).

Chart 14: Conoil Plc's Revenue

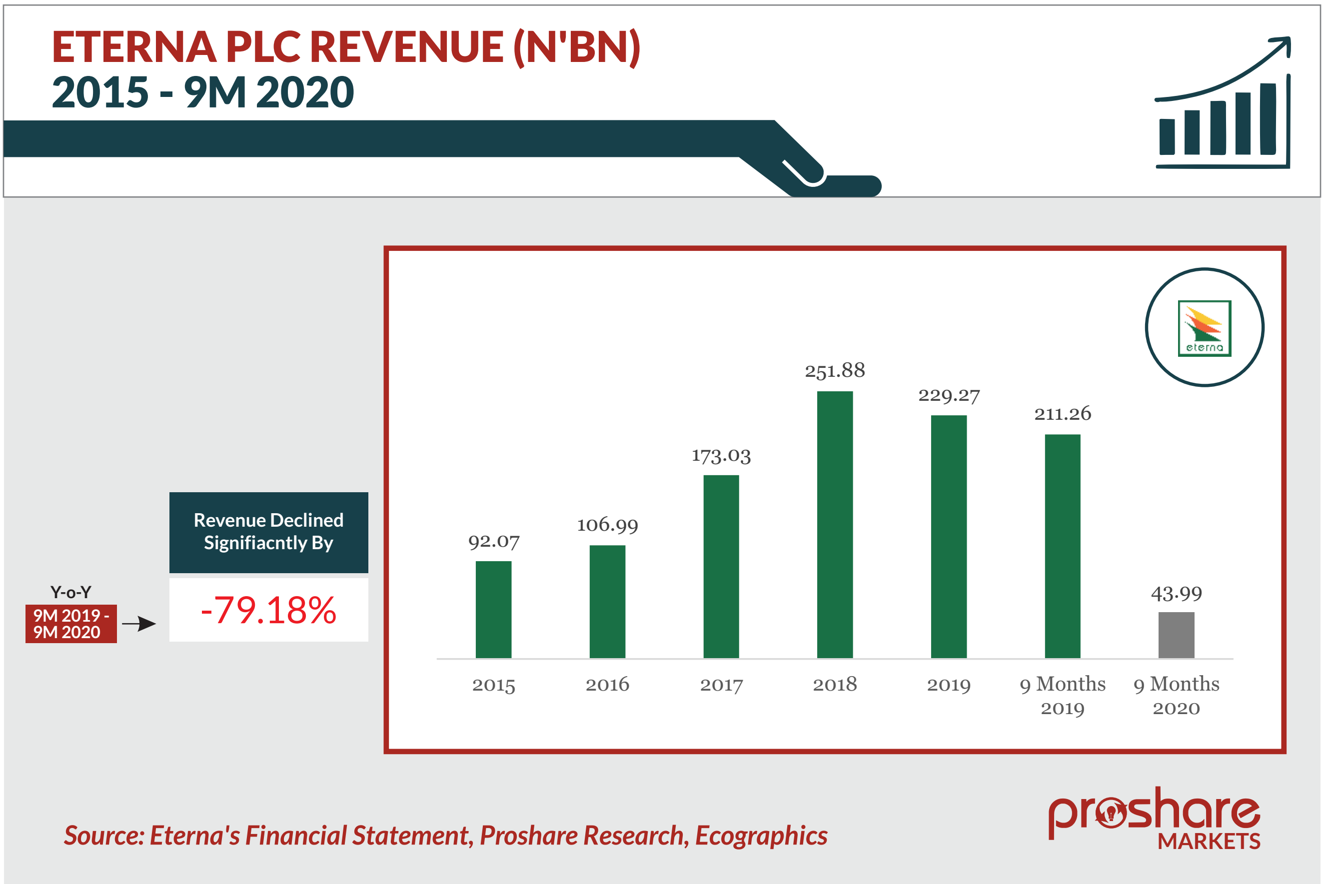


Eterna Plc

The downstream operator of the Oil & Gas sector recorded a significant decline in its revenue, operations of The Group was heavily impacted by macroeconomic challenges which were caused by the COVID-19 pandemic. Revenue declined by -79.18% Y-o-Y, from N211.26bn recorded in 9months 2019 to N43.99bn in 9months 2020, this was majorly driven by -99.23% Y-o-Y decline recorded in revenue from trading, also, revenue from fuel and lubricants declined by -17.49% and -12.12% Y-o-Y respectively.

Translating to USD terms, the revenue of Eterna Plc declined by -83.23% from $688.32m in 9months 2019 to $115.45m in 9months 2020 using the official CBN exchange rates during the different periods (*see chart 15*). Foreign currency translation cost was $27.87m as a result of the devaluation of the domestic currency.

Chart 15: Eterna Plc's ***Revenue***



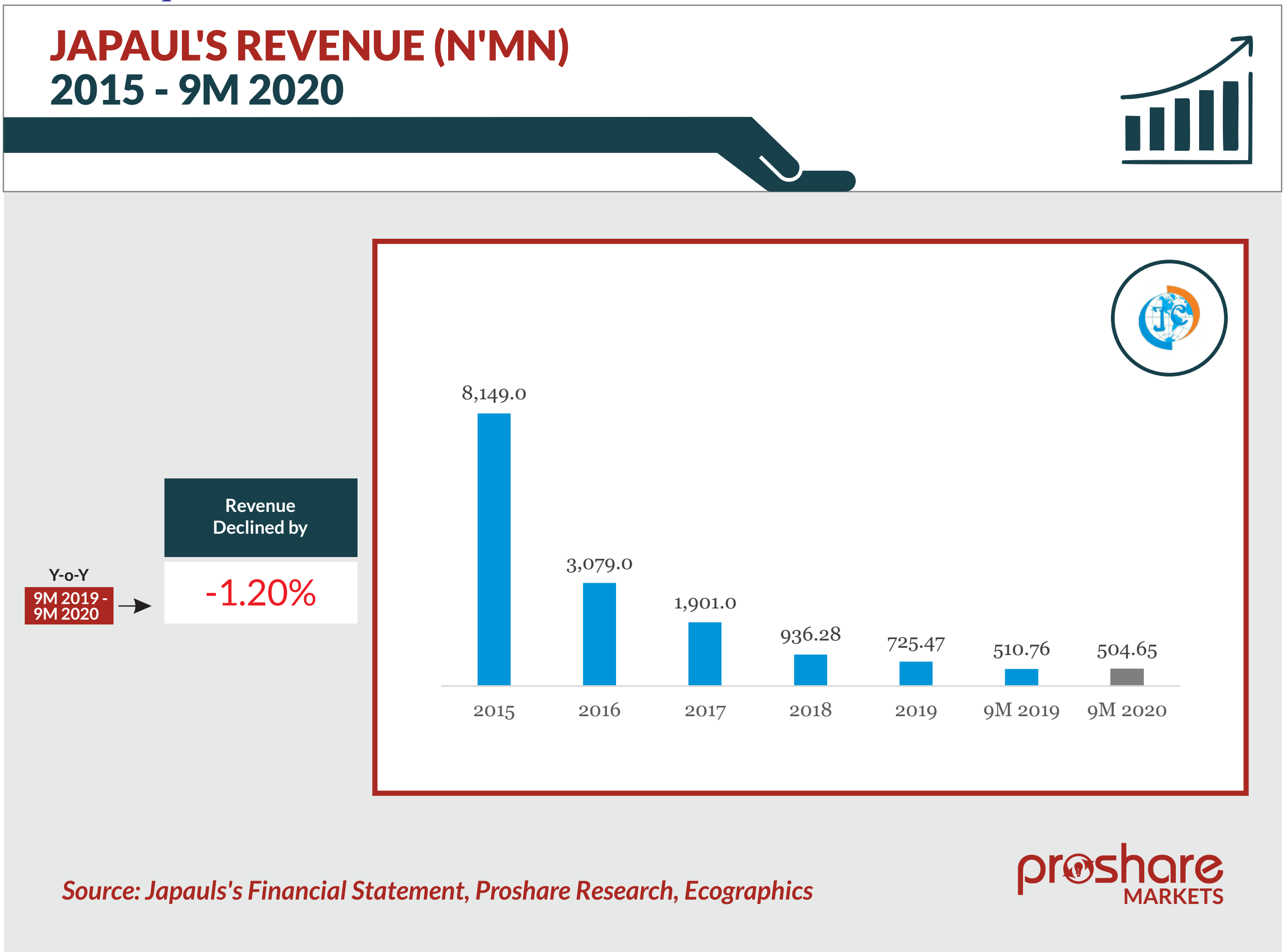
Japaul Gold & Ventures Plc

The exiting indigenous oil services company has a downward sloping revenue curve, the Group recorded a marginal decline in revenue for H1 2020. Revenue declined by -1.20% from N510.76m recorded in YTD September 2019 to N504.65m recorded. This was majorly by a decline in revenue from offshore, which declined by -19.05%, revenue from dredging, and quarry services increased by +72.22% and +20.68% respectively.

Translating to USD terms, the Group's revenue declined by -20.41% from $1.66m recorded in the same period of the previous year to $1.32m, foreign currency translation cost was $319,700 this was due to the currency devaluation by the CBN between the periods. (using the official CBN exchange rate) (*see chart 16*).

Chart 16: Japaul Oil & Maritime Services Plc - Revenue

*Chart 16: **Japaul Gold & Ventures Plc** - **Revenue***



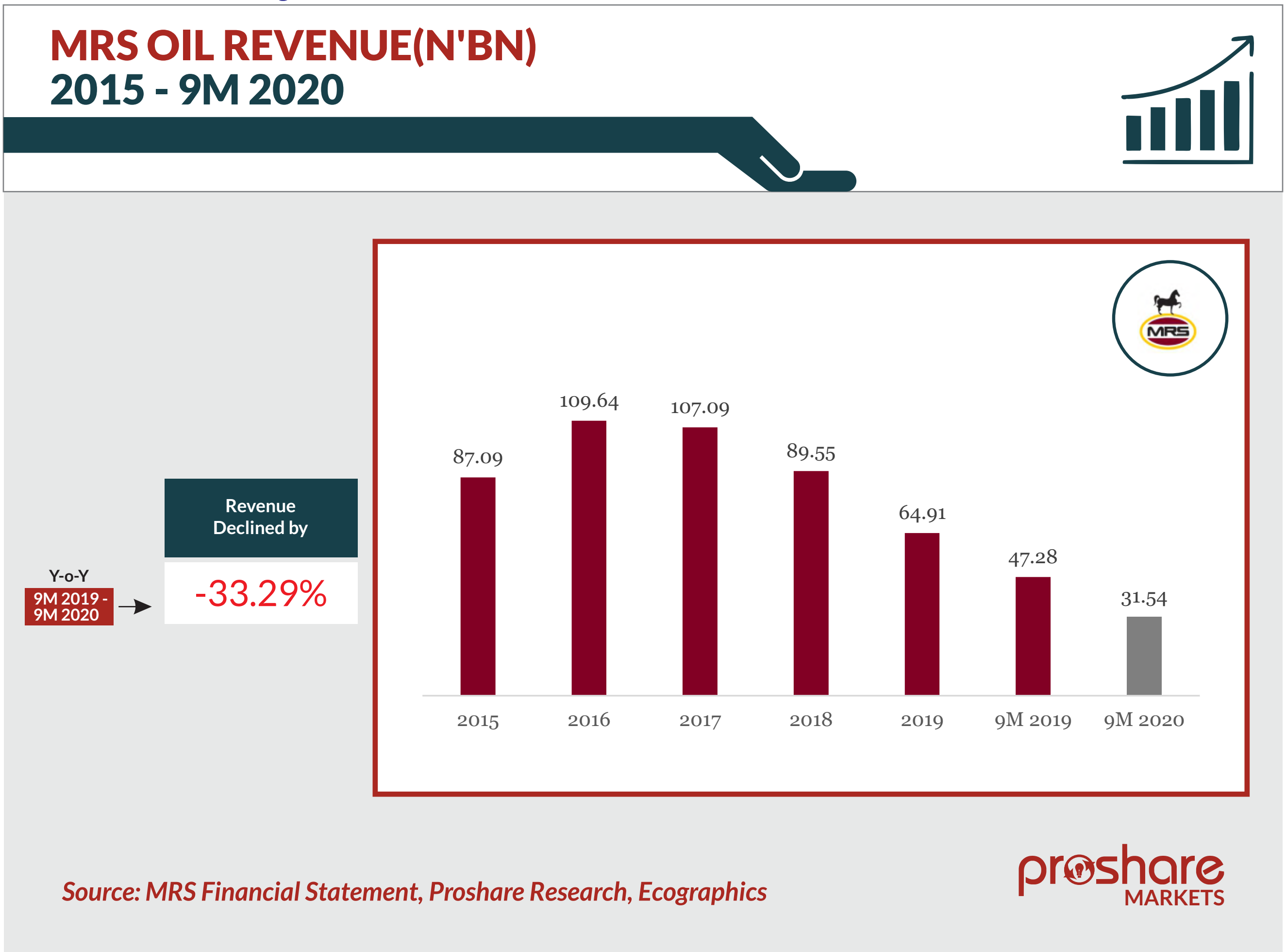
MRS Oil Nigeria Plc

The downstream player in the Nigeria Oil Industry recorded a decline in its total revenue resulting from a decline in revenue from its different business units which was affected by the macroeconomic challenges caused by the COVID-19 pandemic and KSA-Russia Oil price war.

MRS revenue declined by -33.29% Y-o-Y, from N47.28bn in 9months 2019 to N31.54bn recorded in 9months 2020, this was majorly driven by -30.06%, -88.15%, and -70.33% Y-o-Y decline in revenue from Premium Motor Spirit (PMS), Dual Purpose Kerosene (DPK) and Aviation Turbine Kerosene (ATK), respectively. This was despite a +19.62% increase in revenue from Liquefied Petroleum Gas (LPG).

Revenue declined further after translating to USD terms, it declined by -46.42% Y-o-Y from $154.51m recorded in the same period of 2019 to $82.78m recorded in H1 2020 using the official CBN exchange rate. MRS lost $20.29m as a result of the devaluation of the domestic currency during the period (*see chart 17*).

*Chart 17: **MRS Oil Nigeria Plc** - **Revenue***

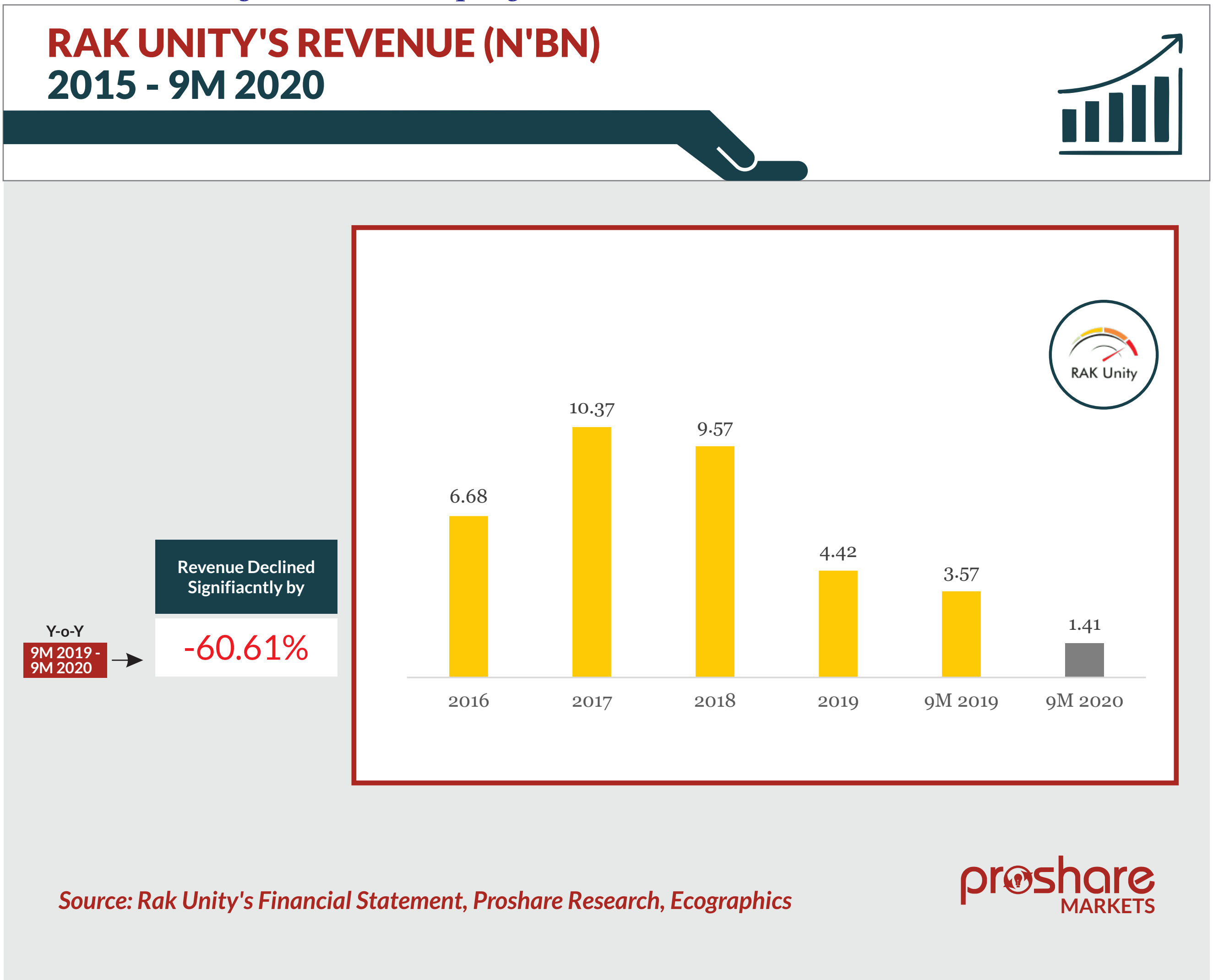


Rak Unity Petroleum Company Plc

Revenue of the Company has a downward sloping curve, revenue declined by -60.61% Y-o-Y from N3.57bn in 9months 2019 to N1.41bn. This was majorly driven by a -62.42% decline in revenue from Automotive Gas Oil (AGO), revenue from PMS and DPK also declined by -52.50% and -42.40% respectively. The decline in revenue also translated to a decline in gross profit, which declined significantly by -41.81% Y-o-Y.

In USD terms, the revenue of Rak Unity declined by -68.27%, from $11.65m in 9months 2019 to $3.69m recorded in 9months 2020 using the official CBN exchange rate during the different periods. Foreign currency translation cost was $892,000 as a result of the devaluation of the domestic currency (*see chart 18*).

*Chart 18: Rak Unity Petroleum Company Plc - **Revenue***

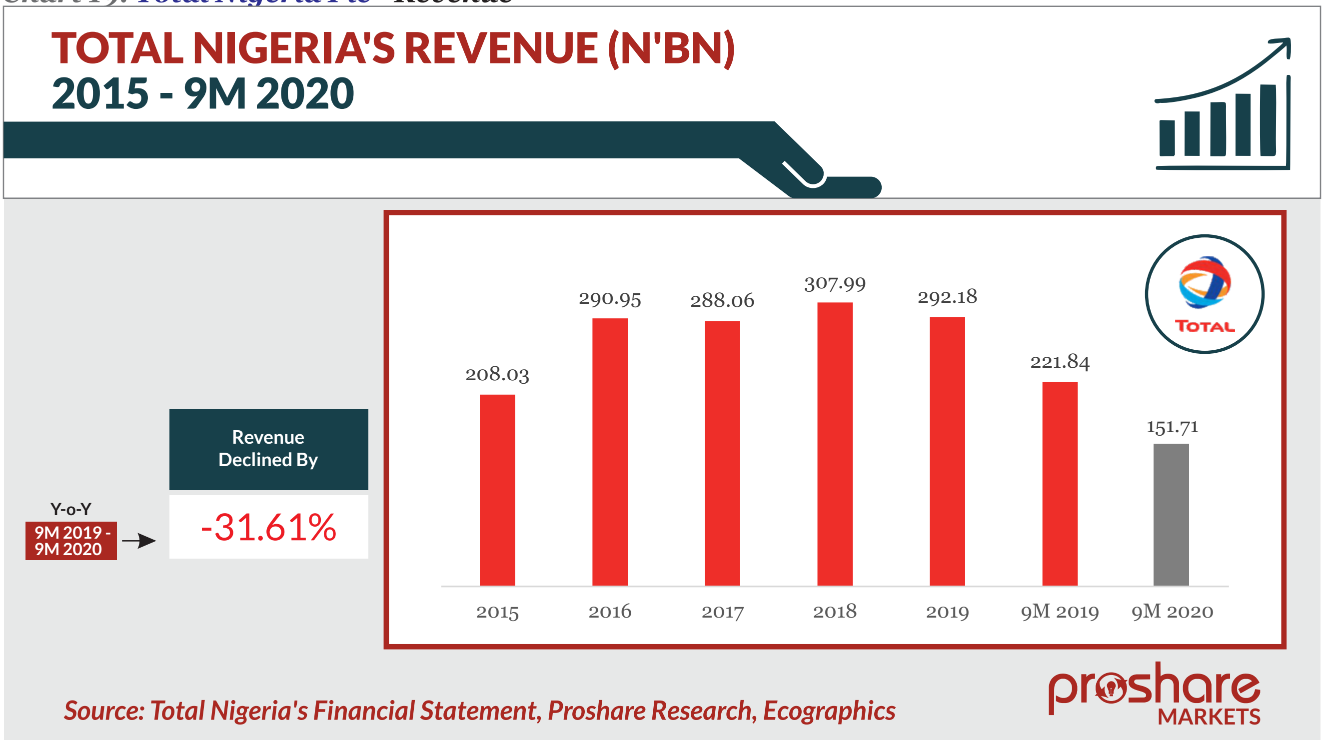


Total Nigeria Plc

Despite being a major player in the O&G industry in Nigeria, the Company was not spared the negative impact of the pandemic and crash in Oil prices. The revenue of the company declined Y-o-Y by -31.61% from N221.84bn in 9months 2019 to N151.71bn in 9months 2020, this was a result of a decline in revenue from the different business unit of the company. Revenue from petroleum products declined by -35.41% and revenue from lubricants also declined by -10.66%, drop in revenue translated to a decline in Gross Profit, it declined by -16.20% Y-o-Y (*see chart 19*).

Translating to USD terms, Total Nigeria's revenue declined by -44.91%, from $722.78m in 9months 2019 to $398.18m recorded in 9months 2020. (Using the official CBN exchange rate during the different periods). Foreign currency translation cost was $96.11m due to the devaluation of the domestic currency.

Chart 19: Total Nigeria Plc - Revenue

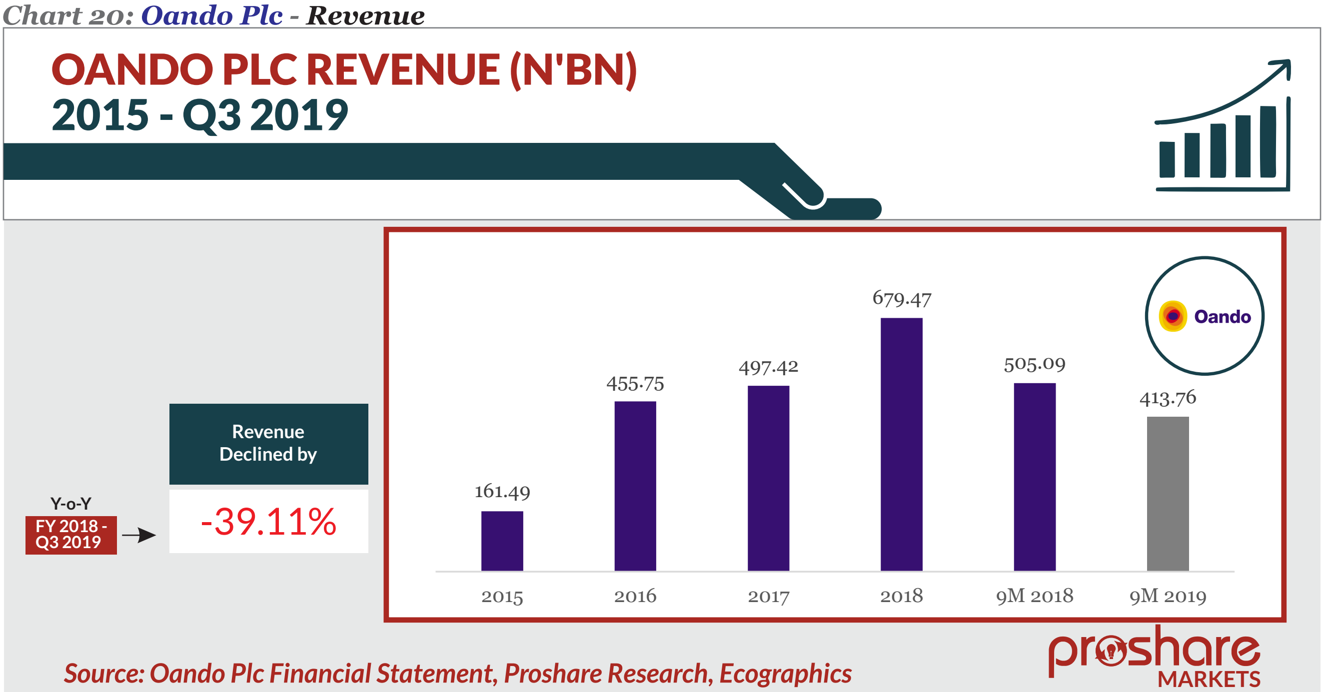


Oando Plc

The Group has an upward trending revenue growth, latest result released by Oando Plc (Q3 2019) shows that revenue declined by -18.08% in 2019 from N505.09bn recorded in the same period of the previous year. The debt to revenue for the period was 46.66% (*see chart 20 below*).

Translating to USD terms, the revenue of the Group declined by -18.17%, from $1.65bn recorded in 2018 (9 months) to $1.35bn recorded in 2019 99 months).

Chart 20: Oando Plc - Revenue



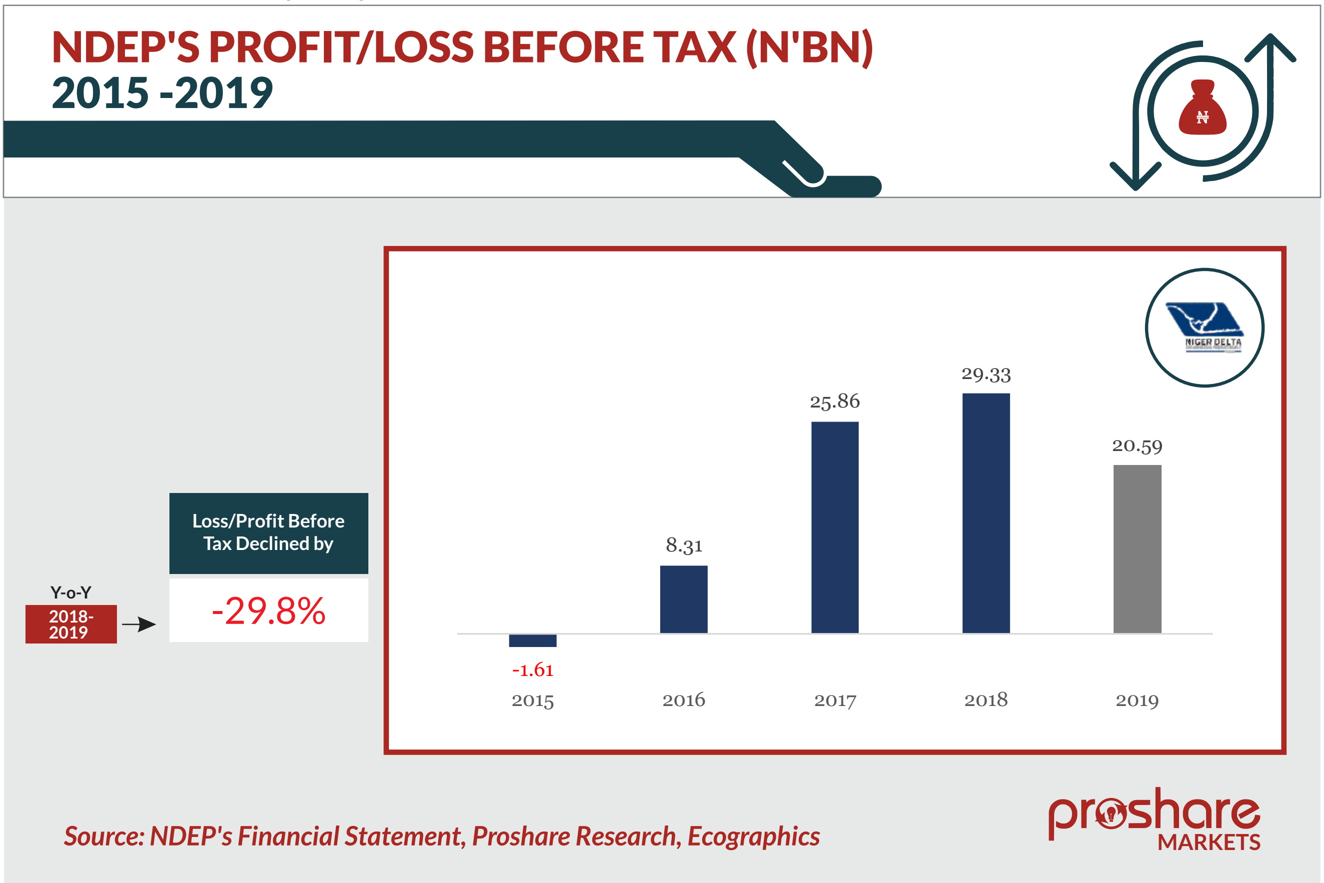
Profit Before Tax (PBT)

Niger Delta Exploration & Production (NDEP)

Profit before tax for NDEP in 2019 declined by -29.80% from N29.33bn in 2018 to N20.59bn. The decline in PBT was majorly driven by non-recurrent costs (one-off costs) as stated in the financials of the company. Other drivers of the decline in PBT were the growth in the cost of sales and finance costs both increased by +84.61% and +333.41% respectively and the -72.39% decline in finance income.

In USD terms, PBT for 2019 was $95.57m against $67.09m for 2018 using the CBN official rate during the different periods (*see chart 21 below*).

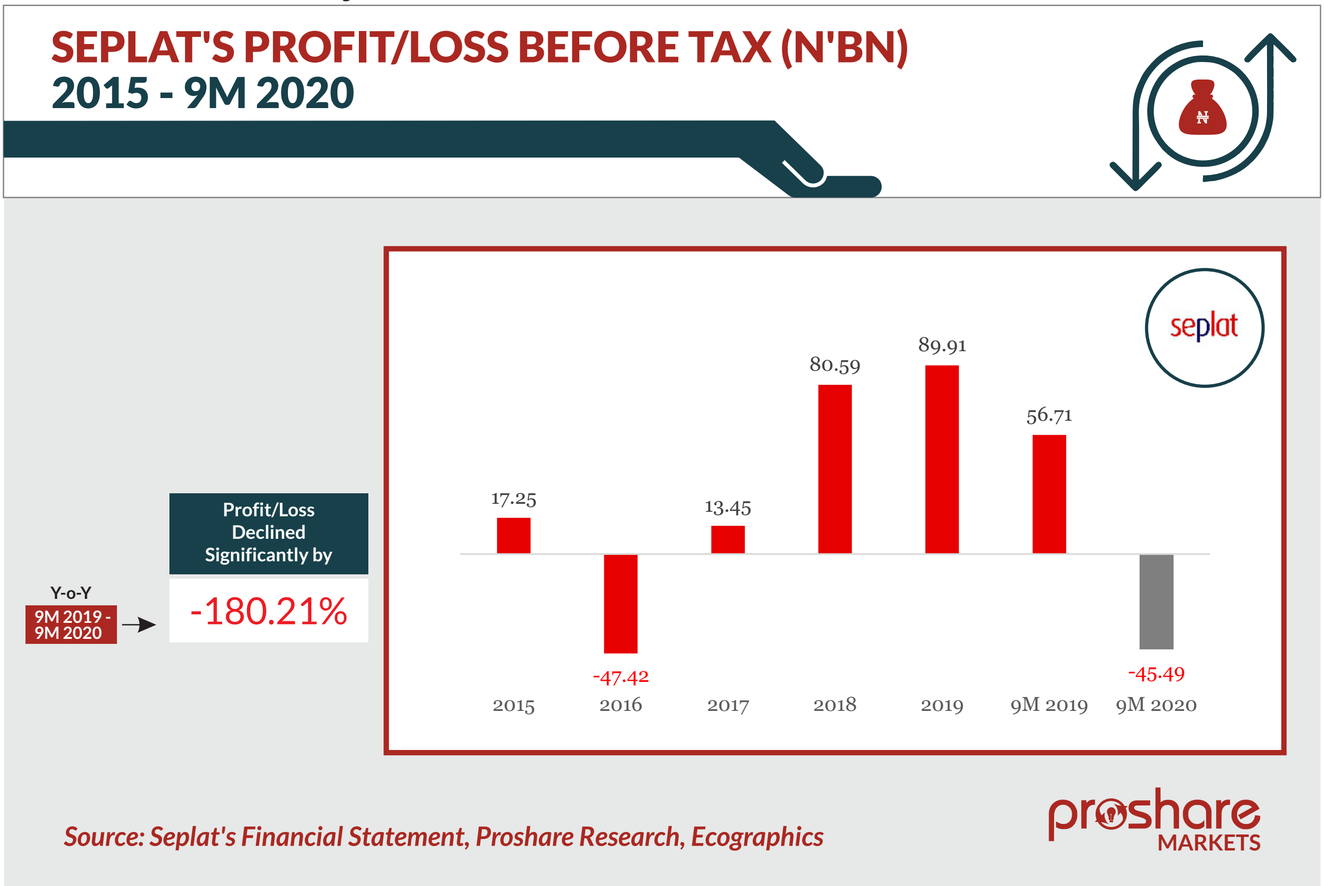
Chart 21: NDEP - Profit Before Tax



Seplat Petroleum Development Company Plc (SPDC)

Seplat recorded a significant decline in its gross profit which declined by -60.99% in YTD September 2020 from N81.22bn recorded in the same period of the previous year to N31.69bn. Profit/Loss before tax also declined significantly, PBT declined by -180.21% year-on-year (Y-o-Y), from N56.71bn recorded in YTD September 2020 to a loss of N45.49bn. This was majorly driven by a -74.72% decline in finance income and a +69.01% increase in finance cost Y-o-Y (*see chart 22*).

Chart 22: SPDC's ***Loss Before Tax***

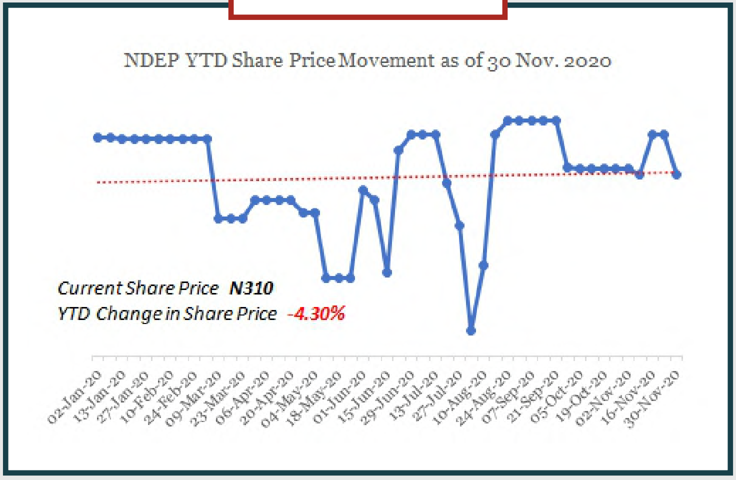


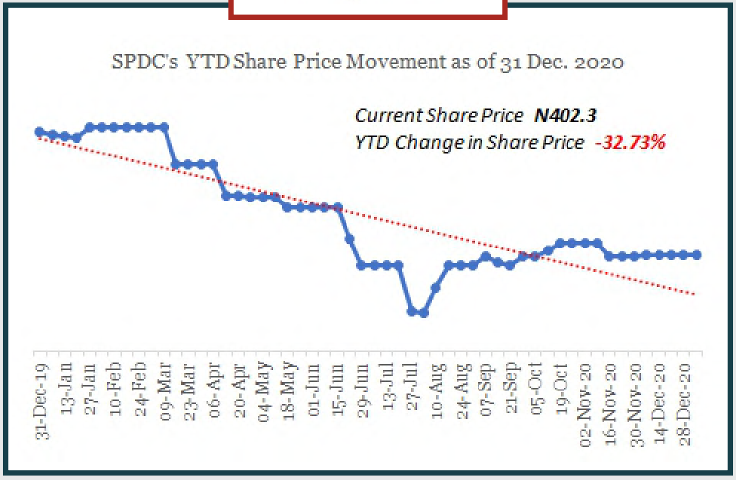
11 Plc

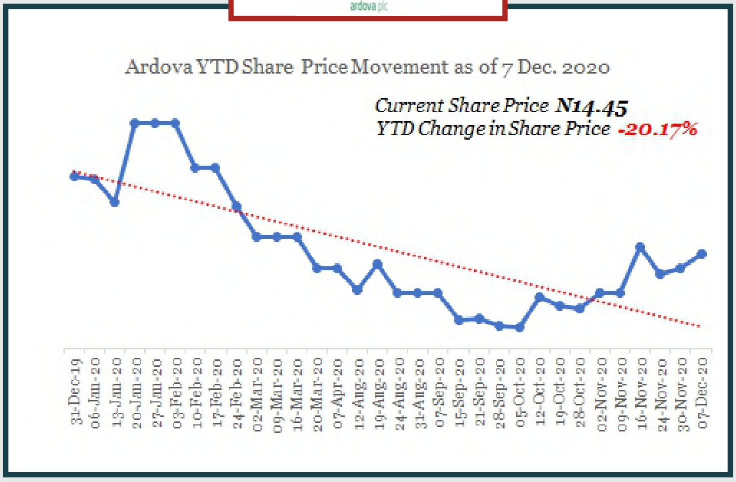
Operating profit declined significantly by -33.38% which translated to a -34.73% decline in profit before tax, from N9.4bn recorded in the same period of 2019 to N6.14bn in 9months 2020. This was despite a +55.19% growth in finance income, however, finance cost increased by +58.68%. PBT to Revenue for 9months 2020 was 5.35% against 6.64% recorded in 9months 2019.

Translating to USD terms, 11 Plc (formerly Mobil Oil Nigeria) recorded a significant decline of -47.42% in PBT, from $30.64m in 9months 2019 to $16.11m in 9months 2020 while foreign currency translation cost was $3.89m (*see chart 23*)

GETTING TECHNICAL WITH PRICE MOVEMENTS

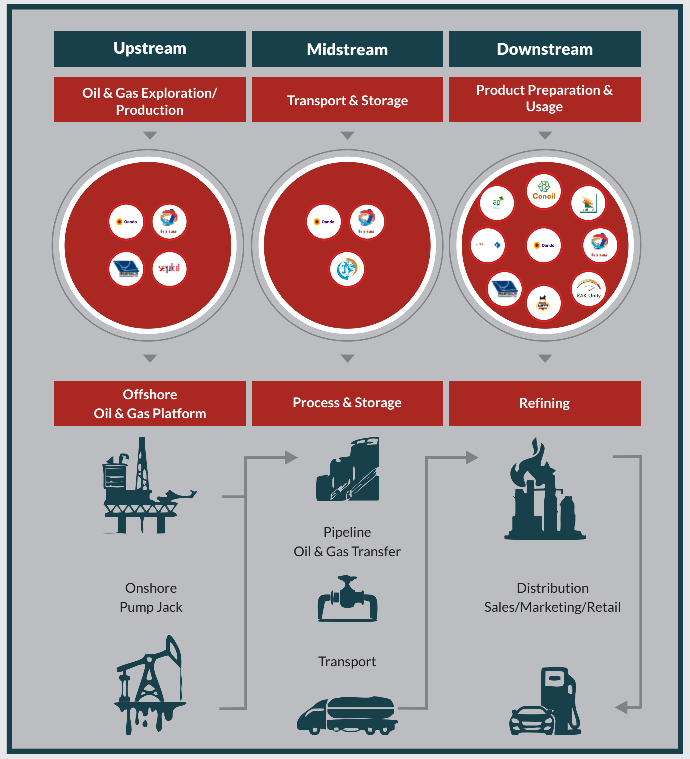






Source: NSE, Proshare Research, Ecographics

OIL & GAS: A SECTOR IN TRANSITION, EYEBALLING NUMBER



Company	Market Cap	Debt/ Revenue (%)	Debt/ Equity (%)	Working Capital (N'bn)	Current Ratio	Quick Ratio
Upstream						
Oando Plc	43,541,336,257.33	46.66%	66.73%	-330.19	0.28	0.27
Total Nigeria	51,877,146,121.84	17.41%	99.52%	-330,189.16	0.28	0.27
SPDC	205,179,910,290.44	193.85%	41.09%	73,626	1.43	1.26
NDEP	56,236,480,000	20.74	5.17	10,551.09	1.61	1.49
Mid-Stream						
Japaul	1,628,302,446.16	-	-	-897.41	0.92	-0.17
Oando Plc	43,541,336,257.33	46.66%	66.73%	-330.19	0.28	0.27
Total Nigeria	51,877,146,121.84	17.41%	99.52%	-330,189.16	0.28	0.27
Downstream						
Ardova	21,049,371,909.48	10.48%	23.71%	6,836.59	1.23	0.88
Conoil	17,005,937,418.08	-	-	16,540.56	1.55	1.34
Eterna	5,881,692,357.97	26.80%	93.55%	207.11	1.01	0.63
11 Plc (Mobil)	88,494,345,715.49	-	-	-9,985.76	0.78	0.39
Oando Plc	43,541,336,257.33	46.66%	66.73%	-330.19	0.28	0.27
Rak Unity	16,987,359.90	-	-	375.69	1.44	-
Total Nigeria	51,877,146,121.84	17.41%	99.52%	-330,189.16	0.28	0.27
NDEP	56,236,480,000	50.15%	12.49%	10,551.09	1.61	1.49
MRS	4,925,647,227.53	5.75%	9.95%	3,130.80	1.17	0.99

Indicators (Operating)

	Company	Operating Cashflow (N'mn)	Net Investing Cashflow (N'mn)	Net Financing Cashflow (N'mn)
Upstream	Oando Plc	40,061.7	-12,317.9	-23,627.5
	Total Nigeria	19,479.4	-3,473.7	-15,253.1
	SPDC	71,177.0	-50,092.0	-68,504.0
	NDEP	11,728.3	-24,935.2	6,375.4
Mid-Stream	Japaul	5.6	575.0	-431.4
	Oando Plc	40,061.7	-12,317.9	-23,627.5
	Total Nigeria	19,479.4	-3,473.7	-15,253.1
Downstream	Ardova	4,321.9	61.2	-1,650.7
	Conoil	7,574.02	-110.01	-826.82
	Eterna	2,249.60	-2,059.35	2,673.66
	11 Plc (Mobil)	7,849.89	-11,612.84	-4,198.60
	Oando Plc	40,061.7	-12,317.9	-23,627.5
	Rak Unity	-104.2	-	-
	Total Nigeria	19,479.39	-3,473.66	-15,253.11
	NDEP	11,728.29	-24,935.24	6,375.42
	MRS	401.53	-240.95	341.74

Indicators (Cash Flows)

Company	PBT/Revenue	Ebitda/Revenue	ROE	ROA
Upstream				
Oando Plc	-2.23%	4.78%	-3.19%	-0.86%
Total Nigeria	0.60%	0.84%	3.44%	0.74%
SPDC	-33.54%	31.47%	-7.11%	-4.14%
NDEP	44.81%	31.47%	11.16%	8.71%
Mid-Stream				
Japaul	18.04%	10.46%	1.90%	0.42%
Oando Plc	-2.23%	4.78%	-3.19%	-0.86%
Total Nigeria	0.60%	0.84%	3.44%	0.74%
Downstream				
Ardova	1.89%	2.28%	13.41%	4.86%
Conoil	1.85%	2.79%	7.94%	3.13%
Eterna	0.93%	3.06%	3.23%	1.24%
11 Plc (Mobil)	5.35%	5.54%	14.01%	6.44%
Oando Plc	-2.23%	4.78%	-3.19%	-0.86%
Rak Unity	-2.13%	-2.13%	-5.83%	-2.18%
Total Nigeria	0.60%	0.84%	3.44%	0.74%
NDEP	44.81%	31.47%	11.16%	8.71%
MRS	-2.88%	-3.14%	-4.64%	-2.42%

Indicators (Profitability)

Company	Gross Earnings ($'m)	Foreign Exchange Translation Cost ($'m)
11 Plc	301.17	72.69
Ardova Plc	336.43	81.2
Conoil Plc	231.24	55.81
Eterna Plc	115.45	27.87
Japaul Oil	1.32	0.319
MRS Oil	82.78	20.29
NDEP	149.73	-
Oando	1,348.1	1.12
Rak Unity	3.69	0.892
SPDC	355.96	85.92
Total Nigeria	398.18	96.11

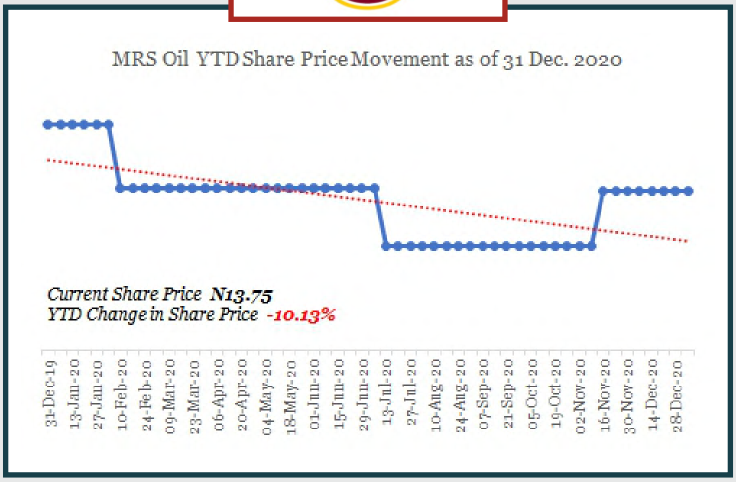
Company	PBT ($'m)	Foreign Exchange Translation Cost ($'m)
11 Plc	16.11	3.89
Ardova Plc	6.35	1.53
Conoil Plc	4.29	1.03
Eterna Plc	1.07	0.257
Japaul Oil	0.238	0.57
MRS Oil	-2.39	-
NDEP	67.09	0.6
Oando	-20.1	-
Rak Unity	3.69	0.892
SPDC	-0.119	-
Total Nigeria	2.39	0.578

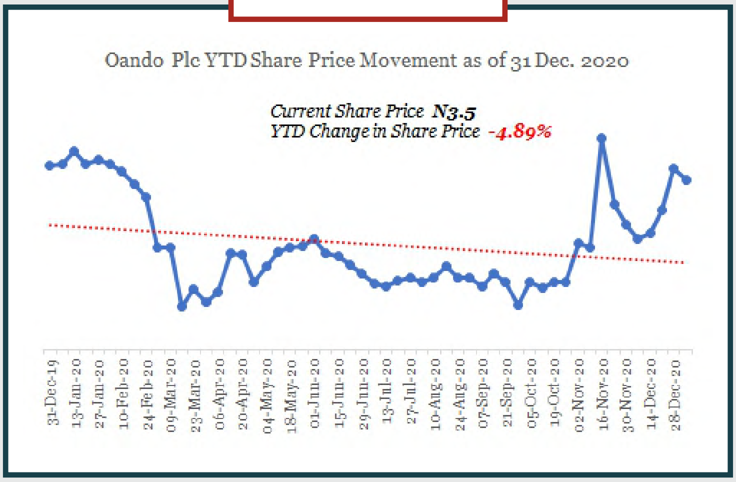
**Data used is as at latest result released by the Company. * Market Cap is as at 30/11/2020*
**SPDC: Seplat Petroleum Development Company. *NDEP: Niger Delta Exploration and Production.*

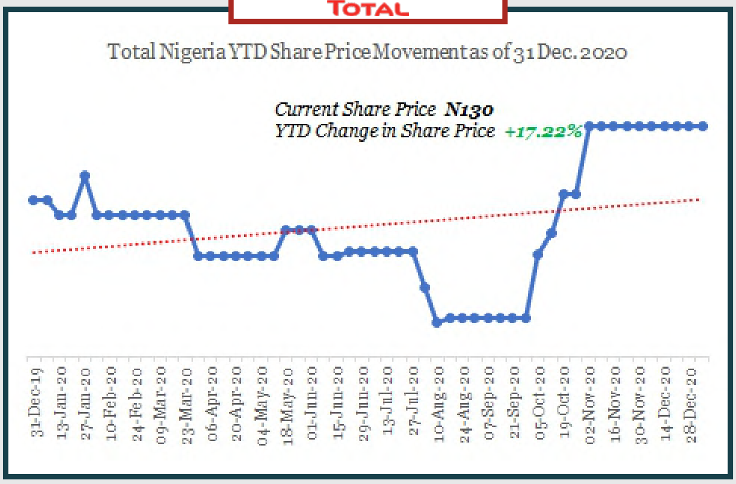
Source: Companies Financial Statement, NSE, NASD, Proshare Research, Ecographics

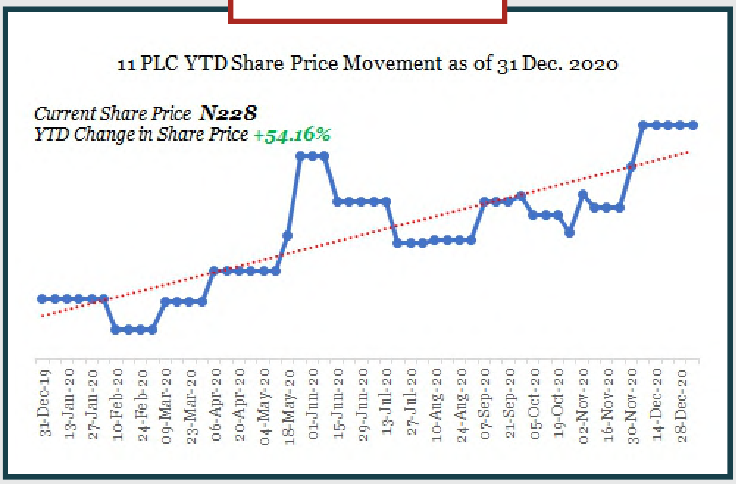
proshare MARKETS

GETTING TECHNICAL WITH PRICE MOVEMENTS



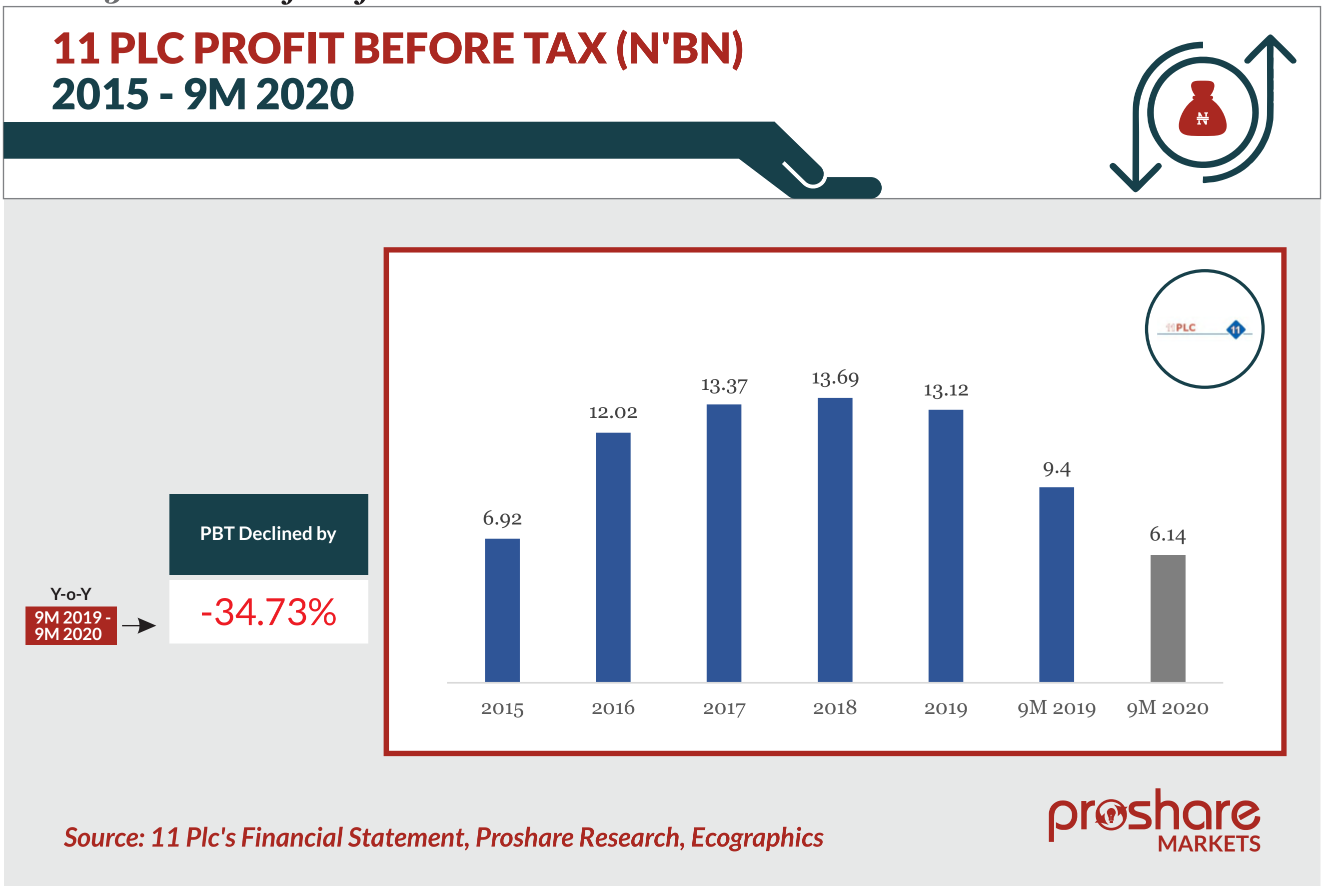






Source: NSE, Proshare Research, Ecographics

Chart 23: 11 Plc - Profit Before Tax



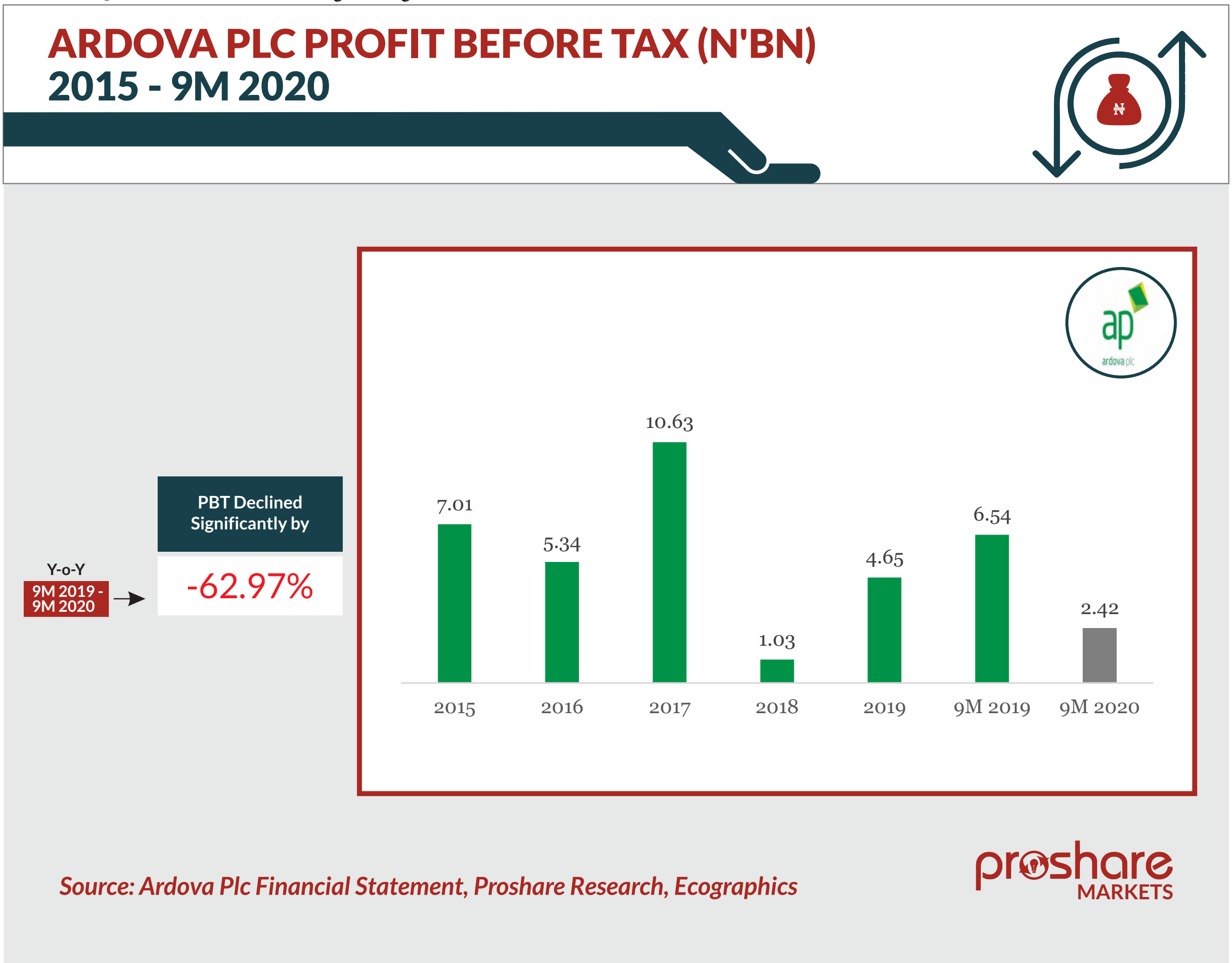
Ardova Plc

The company's operating profit significantly declined by -30.16% Y-o-Y, Profit before tax also declined significantly by -62.97%, from N6.54bn recorded in 9months 2019 to N2.42bn in 9months 2020. The major driver of the decline in PBT was the finance income, it declined by -95.18% despite the -68.14% Y-o-Y decline in finance cost. PBT to Revenue declined to 1.89% in 9months 2020 from 5.29% in 9months 2019 (*see chart 24*).

In USD terms, profit before tax declined by -70.17%, from $21.29m recorded in 9months 2019 to $6.35m in 9months 2020, using the official CBN rates at the different periods. Foreign currency translation cost for the period was $1.53m as a result of the devaluation of the local currency.

Chart 24: Ardova Plc - Profit Before Tax

*Chart 24: Ardova Plc - **Profit Before Tax***

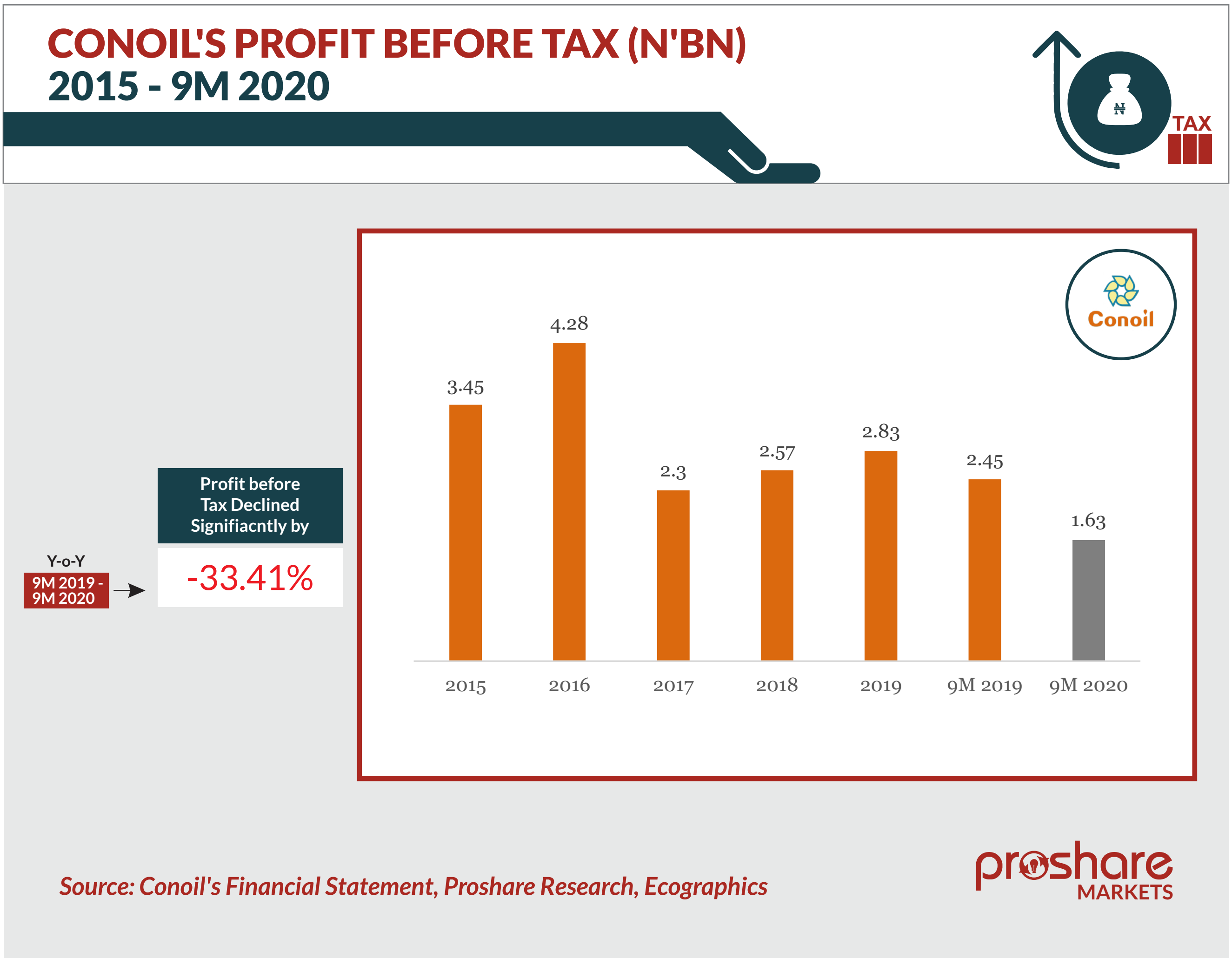


Conoil Plc

The downstream player recorded a significant decline in profit before tax for H1 2020, PBT declined by –33.41% Y-o-Y, from N2.45bn recorded in 9months 2019 to N1.63bn, this was despite a -54.89% Y-o-Y decline recorded in finance cost. PBT to Revenue for 9months 2020 was 1.85% against 2.18% recorded in the same period of 2019 (*see chart 25*).

In USD terms, Conoil Plc recorded a -46.36% Y-o-Y decline in PBT, from $7.93m in 9months 2019 to $4.29m in 9months 2020 using the official CBN rate during the different periods while foreign currency cost was $1.03m for the period.

Chart 25: Conoil Plc - Profit Before Tax

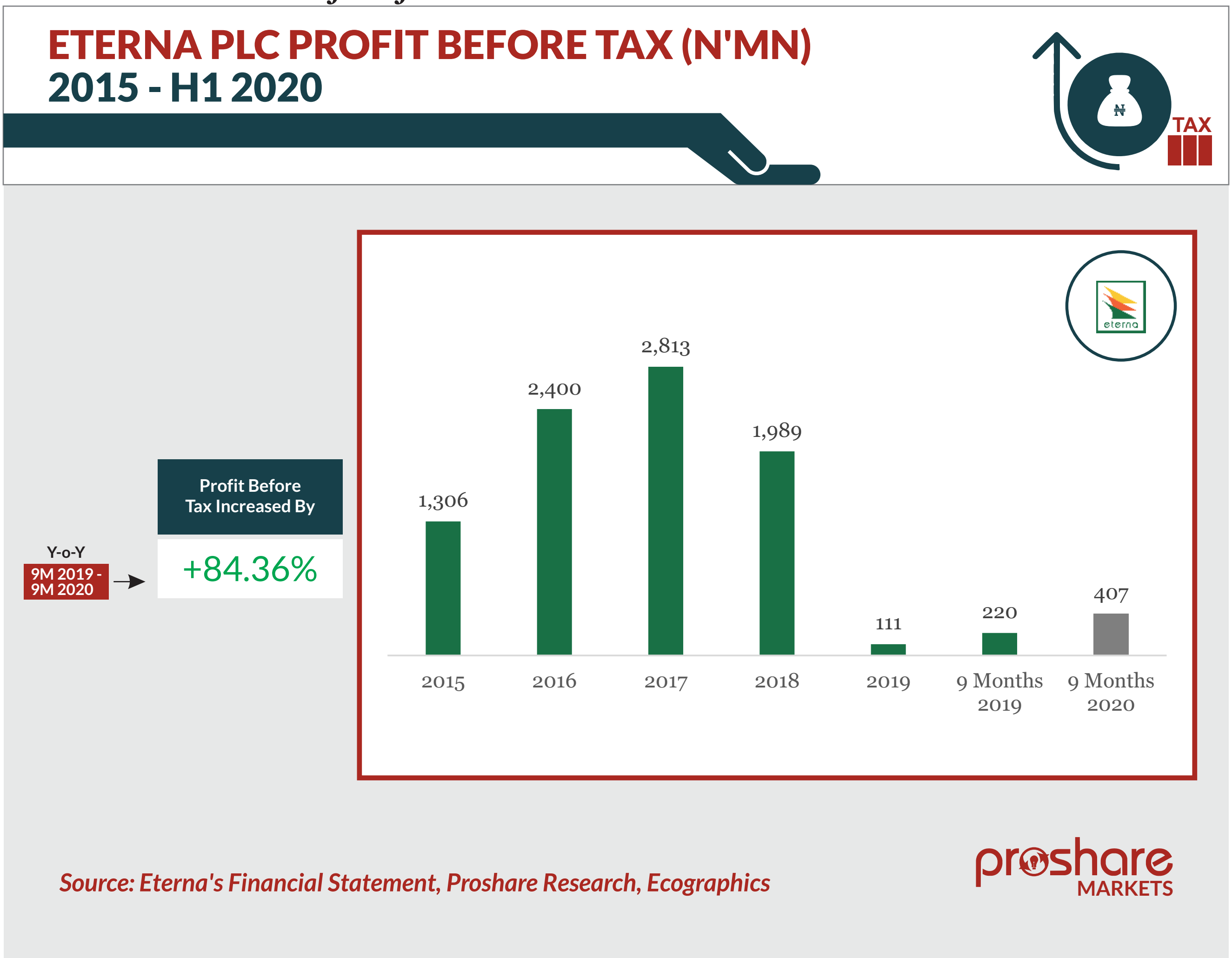


Eterna Plc

Operating profit for the Group grew by +1.58% Y-o-Y which was majorly driven by a -29.50% decline in finance cost. Profit before tax increased significantly by +84.36% Y-o-Y from N220.86m recorded in 9months 2019 to N407.18m in 9months 2020, despite a -97.50% decline recorded in finance income and -387.25% decline recorded in foreign exchange gains for the period. (*see chart 26 below*).

Translating to USD terms, PBT of Eterna Plc declined by +48.51% from $719,600m recorded in 9months 2019 to $1.07m in H1 2020, using the CBN official rate during the different period. However, the foreign exchange translation cost for the period was $257.950 as a result of the devaluation of the local currency.

Chart 26: Eterna Plc - Profit Before Tax



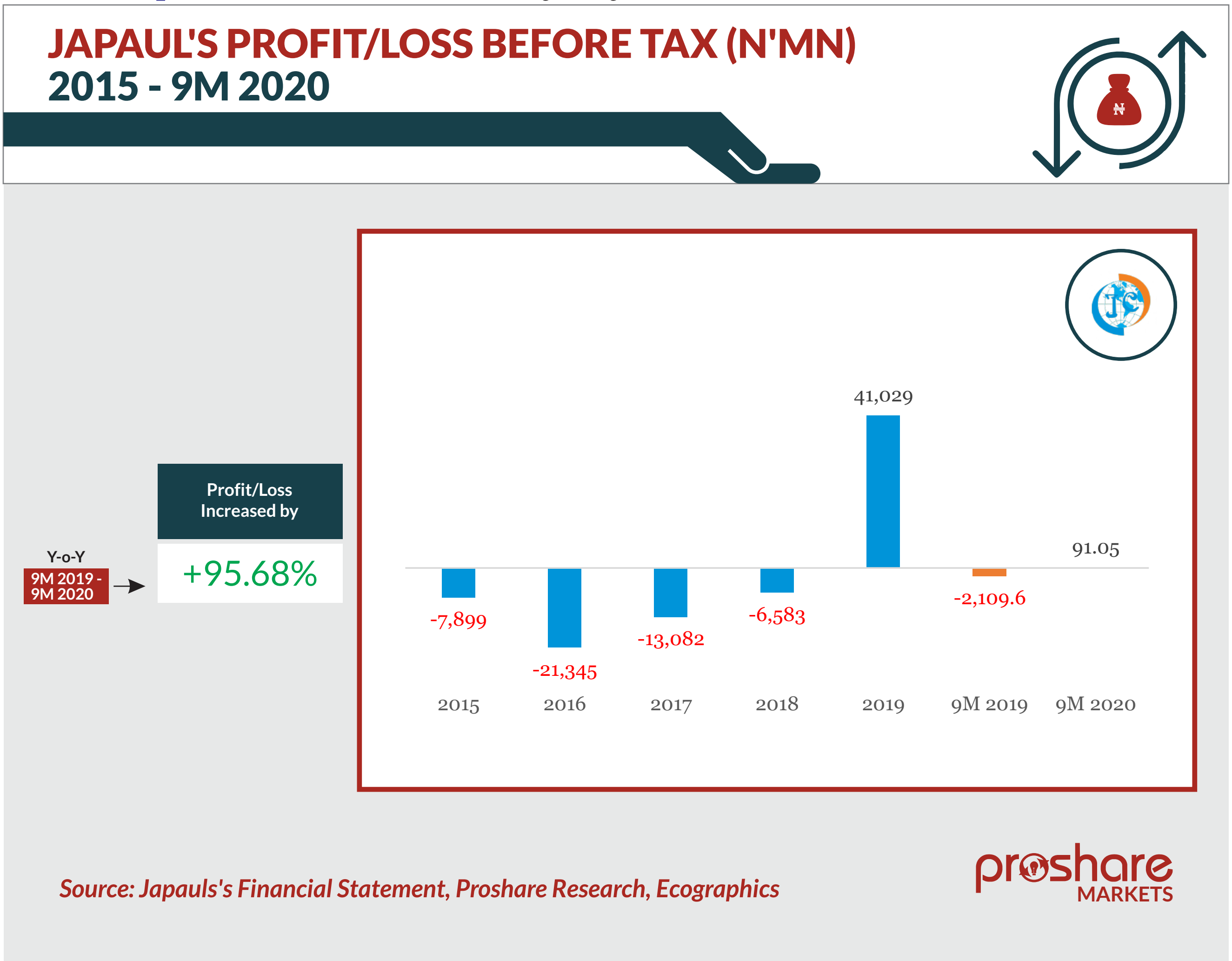
Japaul Gold & Ventures Plc

Loss before tax has trailed the Midstream player of the oil industry, however, for YTD September 2020, the Group recorded a significant rebound in profit, PBT grew by +95.68% Y-o-Y, from a loss position of N2.11bn recorded in YTD September to N91.05m. The growth in profit before tax was majorly driven by over +16000% Y-o-Y increase in other income which comprises of sundry income, a -86.80% decline in finance cost which led to a +95.65% increase in operating profit.

PBT to revenue also improved significantly, from a negative threshold of -413.03% recorded in H1 2019 to 18.04% in H1 2020 (*see chart 27*).

Converting to USD term, Japaul Oil recorded an improvement in PBT of +96.52% from a loss position of $6.87m recorded in YTD September 2019 to $238.98 using the official CBN rates during the different periods.

*Chart 27: **Japaul Gold & Ventures Plc** - **Profit Before Tax***

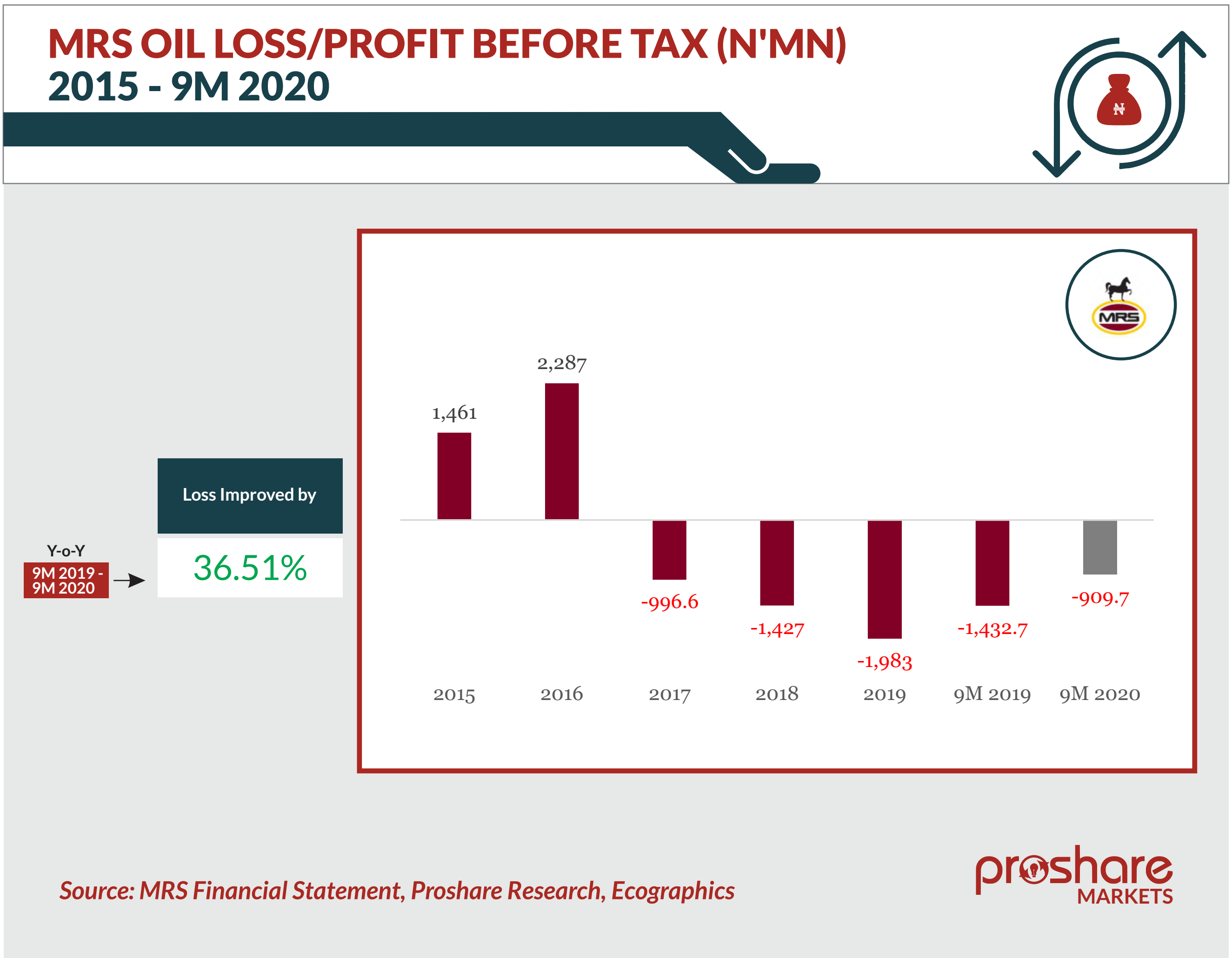


MRS Oil Nigeria Plc

MRS continued its losing streak, the downstream player in the O&G industry posted an improvement in its loss position, loss before tax improved significantly by+163.49%, from a loss position of N1.43bn recorded in the same position of 2019 to a loss of N909.72m. The improvement in the loss was majorly driven by a -125.19% Y-o-Y decline recorded in finance cost.

Also, operating loss improved in 9months 2020 by +14.82%, PBT to revenue improved to -2.88% in 9months 2020 from -3.03% in 9months 2019 (*see chart 28*).
In USD terms, MRS Oil Nigeria recorded a +48.85% improvement in its loss before tax, from a loss of $4.67m in 9months 2019 to a loss of $2.39m in 9months 2020.

Chart 28: MRS Oil Nigeria Plc - Loss Before Tax

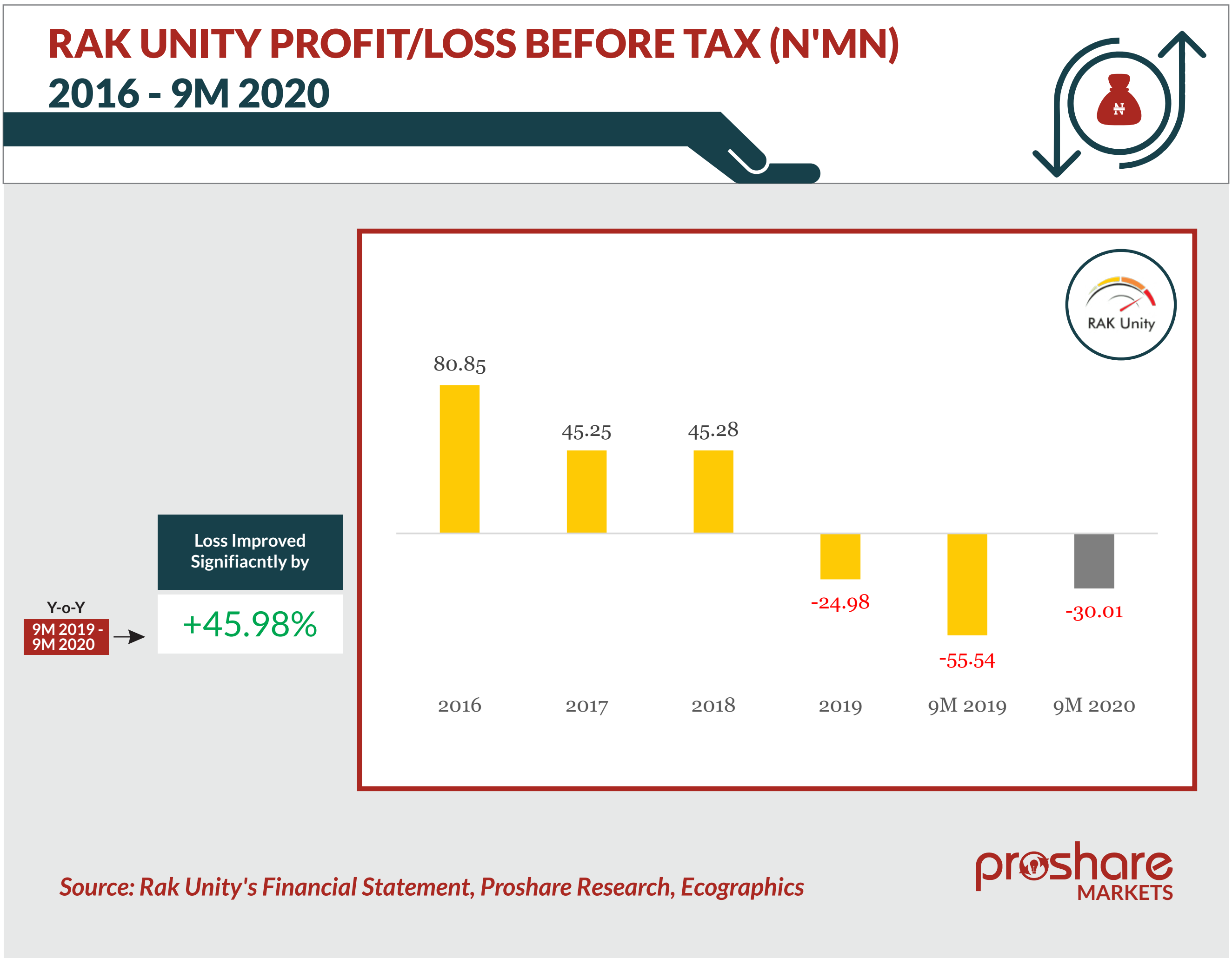


Rak Unity Petroleum Company Plc

The downstream player in the oil & gas sector continued its losing streak in its 9months 2020, although loss for 9months 2020 improved significantly by +45.98% Y-o-Y from a loss of N55.54m recorded in 9months 2019 to a loss of N30.01m recorded in H1 2020. This was majorly driven by a -43.02% decline in operating expenses despite the -46.39% Y-o-Y decline in operating profit. PBT to revenue declined to -2.13% in 9months 2020 from -1.55% in 9months 2019 (*see chart 29*).

Translating to USD terms, Rak Unity recorded a loss of $78,750 in PBT for 9months 2020, that is, 56.48% lower than a loss of $80,970 recorded in the same period of 2019.

Chart 29: Rak Unity Petroleum Company Plc - Loss Before Tax



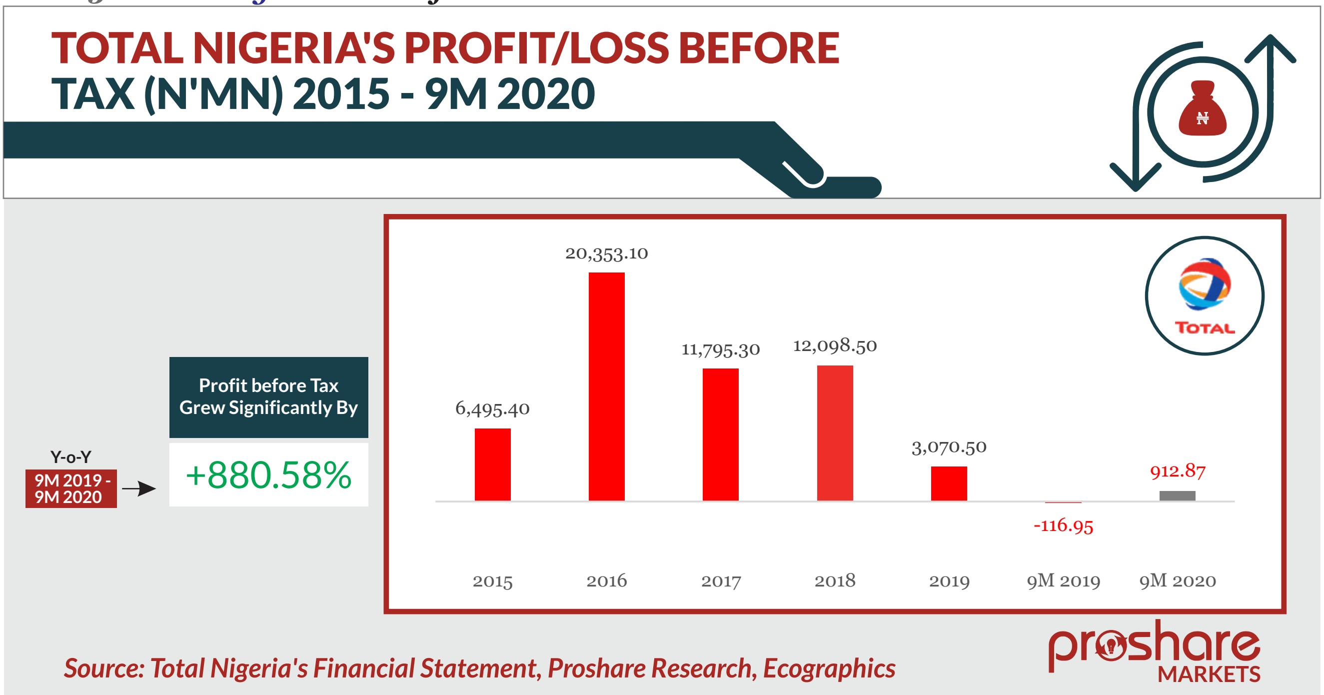
Total Nigeria Plc

Profit before tax grew significantly by +680.58% Y-o-Y from a loss position of N116.95m in the same period of 2019 to N912m recorded in 9months 2020. The growth in PBT was majorly driven by a decline in finance cost, it declined by -58.25% Y-o-Y, despite the decline in other income and operating income, they both declined by -15.86% and -77.68% respectively. However, finance income grew significantly by +664.27% Y-o-Y (*see chart 30*).

PBT to revenue improved in 9months 2020 to 0.60% from 0.05% recorded in 9months 2019.

In USD terms, Total Nigeria recorded a Y-o-Y growth of +528.81% in PBT from $381,000 in 9months 2019 to $2.39m recorded in 9months 2020 using the official CBN rate during the different periods. Foreign currency translation cost was $578,000 as a result of the devaluation of the domestic currency.

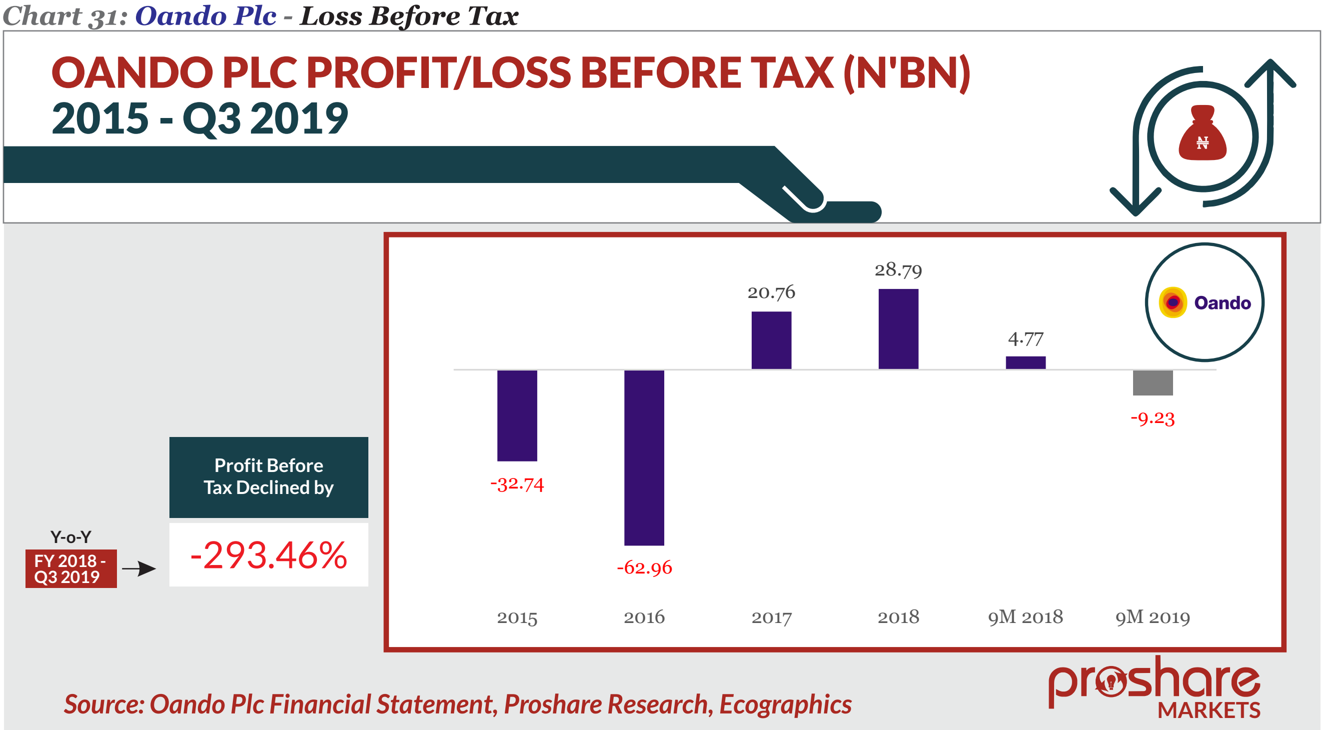
Chart 30: Total Nigeria Plc - Before Tax



Oando Plc

The latest results released by the Company shows that profit before tax declined significantly by -293.46% Y-o-Y, to a loss of N9.23bn recorded in 9 months of 2019 from N4.77bn recorded in the same period of the previous year. Operating profit declined Y-o-Y by -31.05% and finance income declined by -6.81% while finance cost increased by +9.31%. PBT to revenue declined to 2.23% in 9 months 2019 from 0.94% recorded in the same period of the previous year (*see chart 31 below*).

Chart 31: Oando Plc - Loss Before Tax



Total Assets

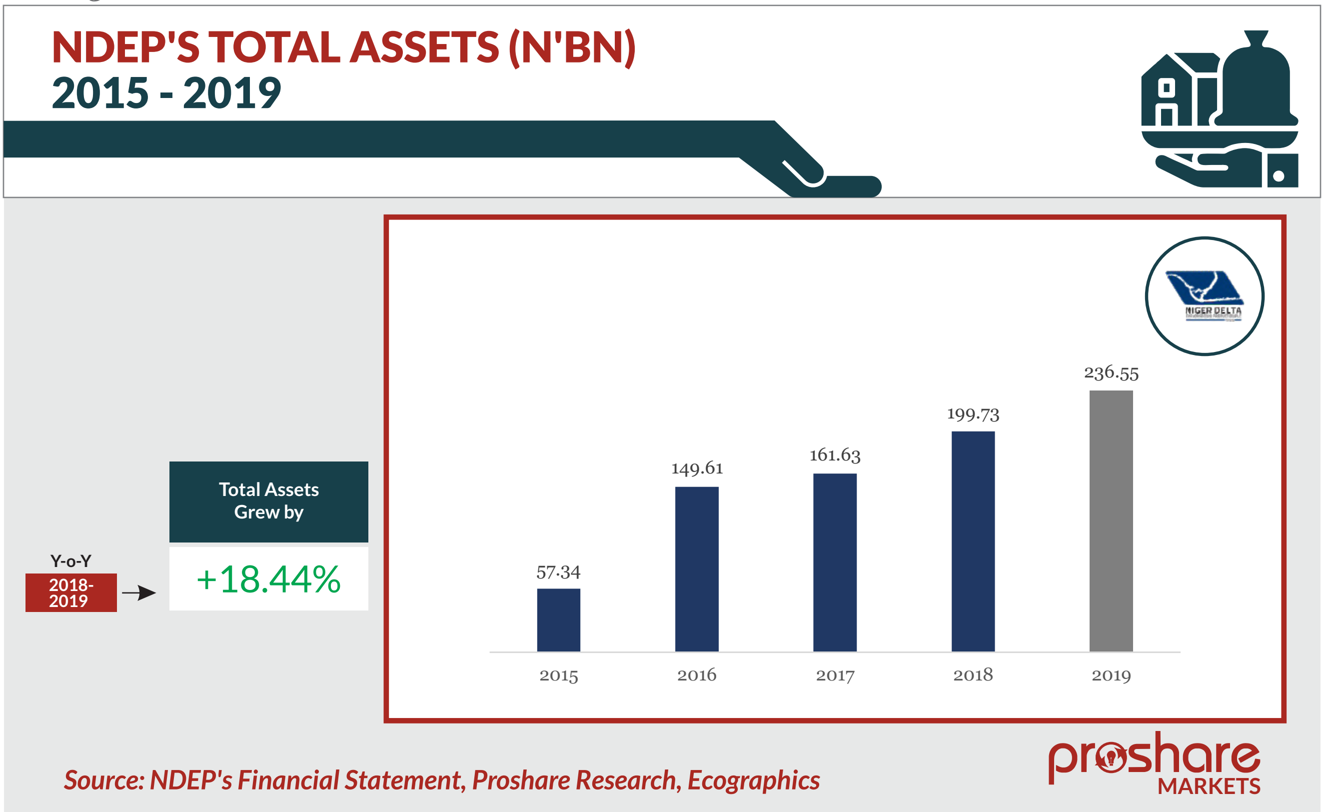
Niger Delta Exploration & Production Plc (NDEP)

Total assets grew on the back of the expansion project embarked by the Group, with the completion of Wells #10 and #11. Total assets increased Y-o-Y by +18.44% from N199.73bn in 2018 to N236.55bn recorded in 2019. Other drivers of the growth in total assets were growth in property, plant and equipment, financial assets and trade, and other receivables, they increased by +30.80%, +155.74%, and +20.56% respectively.

The working capital of the Group for the period was N10.55bn while the current ratio and quick ratio (acid-test ratio) were 1.61 and 1.49 respectively.

In USD terms, total assets for 2019 was $650.74m against $770.64m in 2018 using the official CBN rate during the different periods (*see chart 32 below*).

Chart 32: NDEP - Total Assets



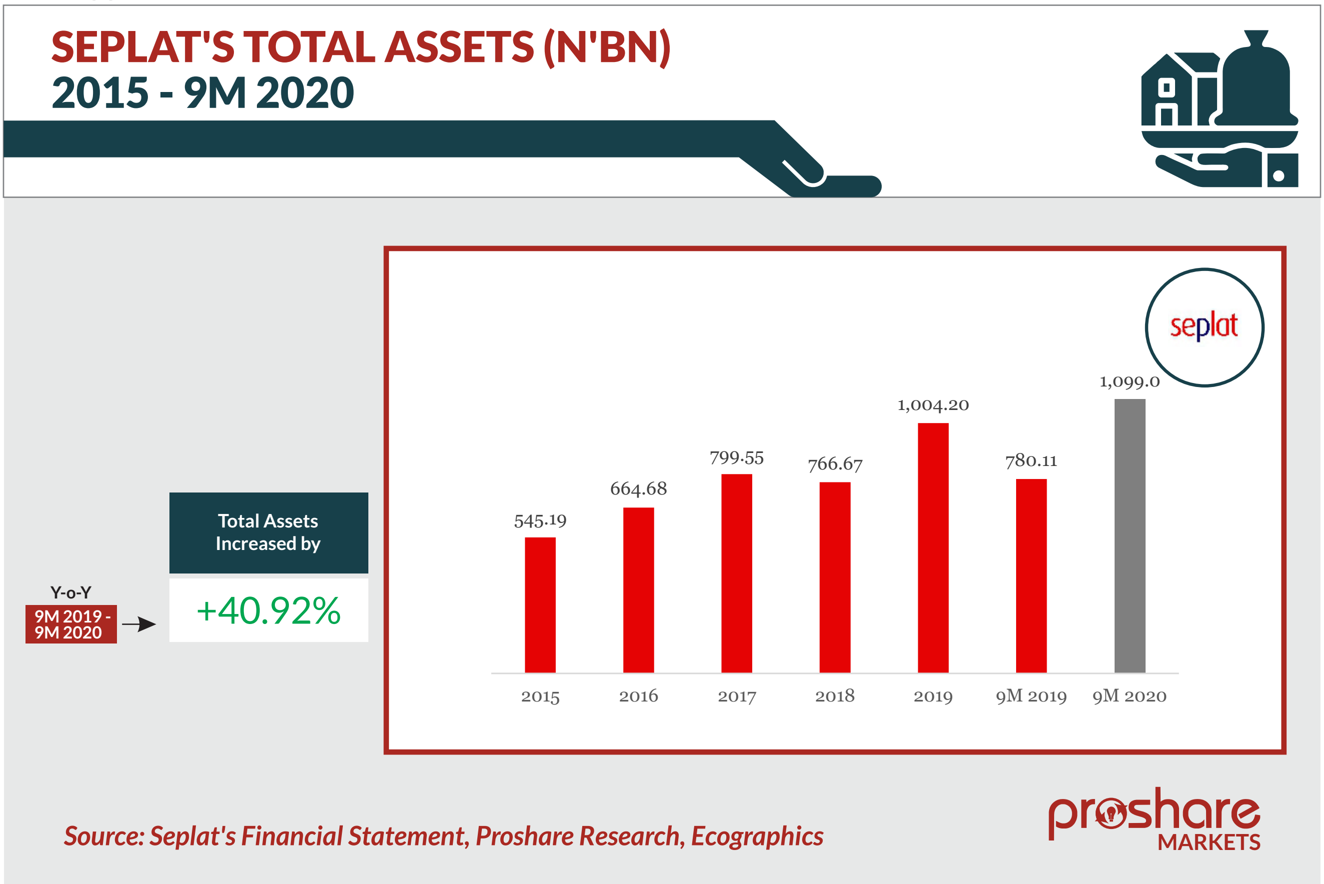
Seplat Petroleum Development Company Plc (SPDC)

SPDC's total asset for the period (9 months 2020) was N1.09trn which shows a growth of +40.92% from the same period in the previous year. The increase in total assets was majorly driven by oil and gas properties, deferred tax, inventories and trade, and other receivables, they all grew by +56.07%, +133.72%, +5.96%, and +113.56% respectively.

Working capital was in the positive threshold which indicates a good liquidity position, using the latest data released by the company, working capital stood at N73.63bn for 9 months ended 2020, current ratio and quick ratio for the company stood at 1.43 and 1.26 respectively (*see chart 33 below*).

Translating to USD terms, the total asset for the period was $2.89bn against $2.54bn recorded in the same period in the previous year which shows a growth of +13.52%. The percentage change in Naira terms was higher than the percentage change in USD, showing the impact of devaluation.

Chart 33: SPDC- Total Assets



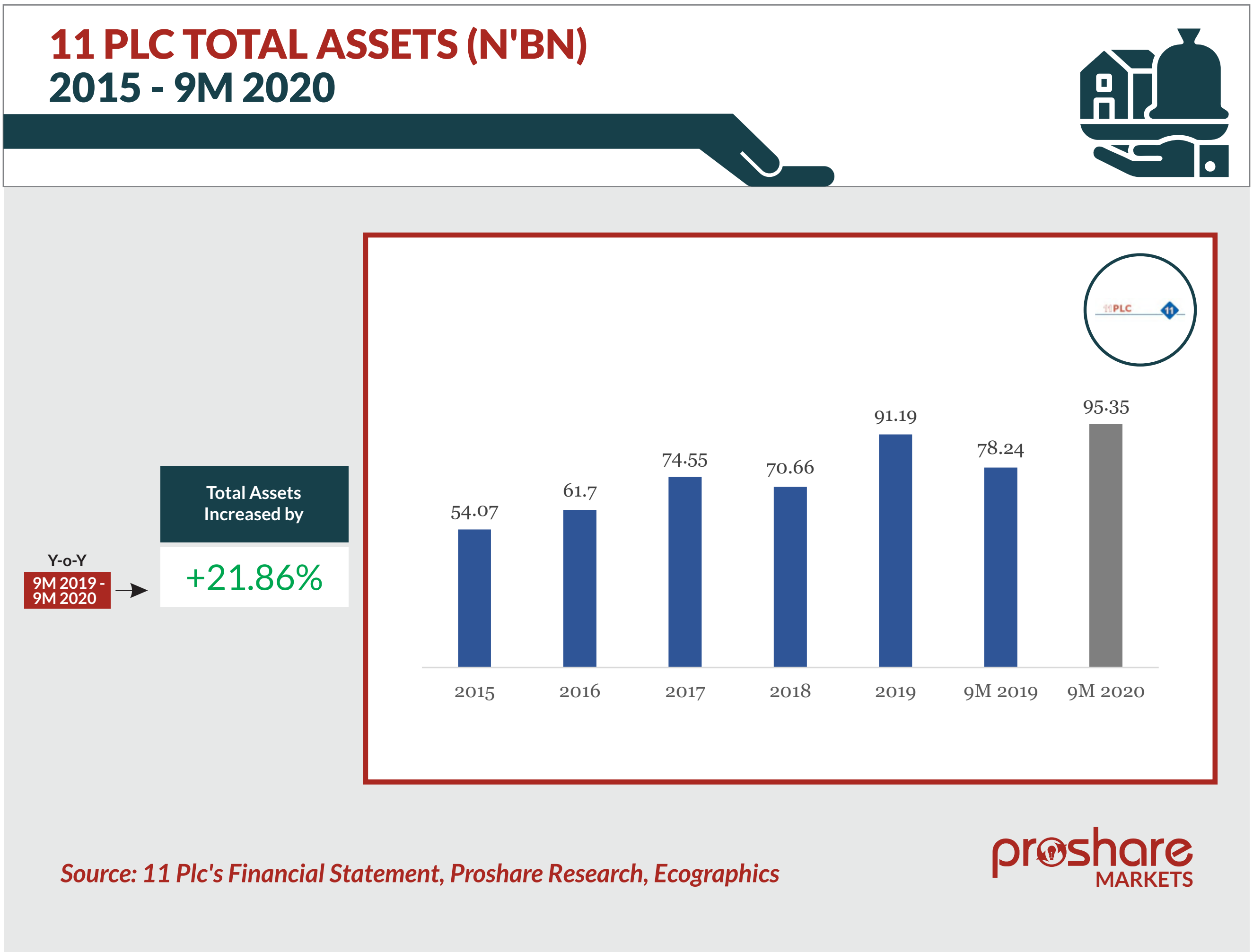
11 Plc

Total assets for 11 Plc grew by +21.86% Y-o-Y, from N78.24bn recorded in 9months 2019 to N95.35bn for 9months 2020. The major driver of the growth recorded in total assets was the property, plant, and equipment which grew by +195.85%. Prepayments and cash and cash equivalents both declined Y-o-Y by -3.88% and -41.50% respectively (*see chart 34*).

Working capital for the period was negative at N9.99bn which indicates liquidity tightness in the company, while the current ratio and quick ratio were 0.78 and 0.39, respectively.

Translating to USD terms, the company recorded $254.94m in 9months 2019 to $250.25m for 9months 2020, that is, a marginal decline of -1.84% in total assets. Foreign exchange translation cost was $60.40m as a result of the devaluation of the domestic currency.

*Chart 34: 11 Plc - **Total Assets***



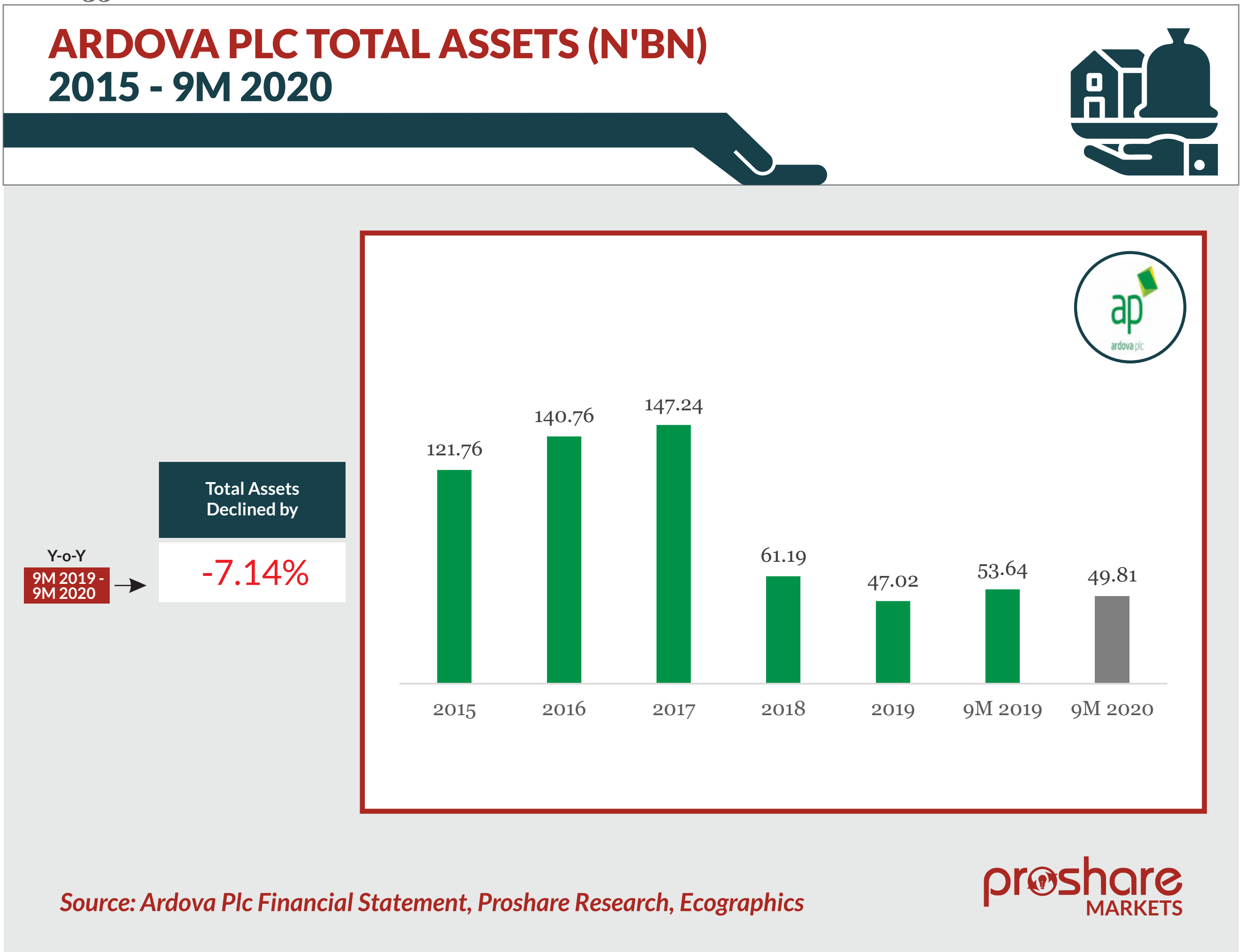
Ardova Plc

The erstwhile Forte Oil recorded a marginal decline in total assets for the period (9 months ended 2020), total assets declined by -7.14%, from N53.65bn recorded in the same period of the previous year to N49.81bn recorded in 2020 9 Months ended. The driver of the decline in total assets was the decline recorded in current assets which declined by -15.42%, major drivers of the decline in current assets were the trade and other receivables, and inventories, they both declined Y-o-Y by -23.40% and -16.25% respectively (*see chart 35*).

The current ratio and quick ratio of the company for the period were 1.24 and 0.88 respectively while working capital was N6.84bn which indicates liquidity in the company.

Foreign exchange translation cost was a loss of $31.56m as a result of the devaluation of the domestic currency. In USD terms, the company's total assets for the period declined by -25.19%, from $174.77m recorded in the same period of the previous year to $130.74m.

Chart 35: Ardova Plc - Total Assets



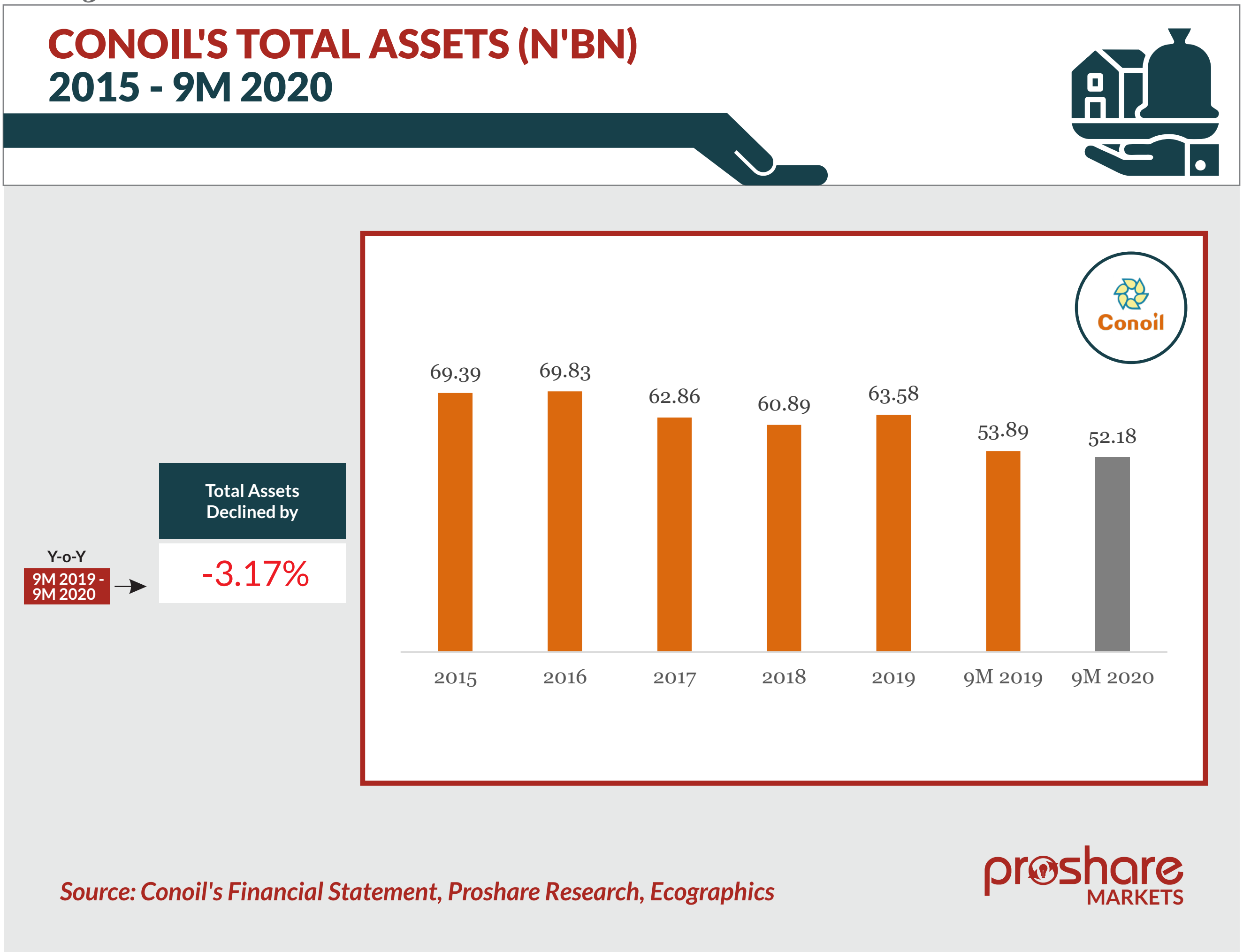
Conoil Plc

The Company's total assets declined by -3.17% Y-o-Y, from N53.89bn in 9months 2019 to N52.18bn, which was majorly driven by a -3.81% decline in current assets. Major drivers of the decline in current assets were the prepayments and cash and bank balances, they both declined by Y-o-Y -79.09% and -73.50% respectively (*see chart 36*).

Working capital was N16.54bn while the current ratio and acid test ratio of the company were 1.55 and 1.34, respectively.

Translating to USD terms, Conoil Plc recorded $200.75m in total assets in 9months 2019 to $136.95m recorded in 9months 2020 showing a -22.0% Y-o-Y decline. Foreign currency translation cost was $33.05m as a result of the devaluation of the domestic currency.

Chart 36: Conoil Plc - Total Assets



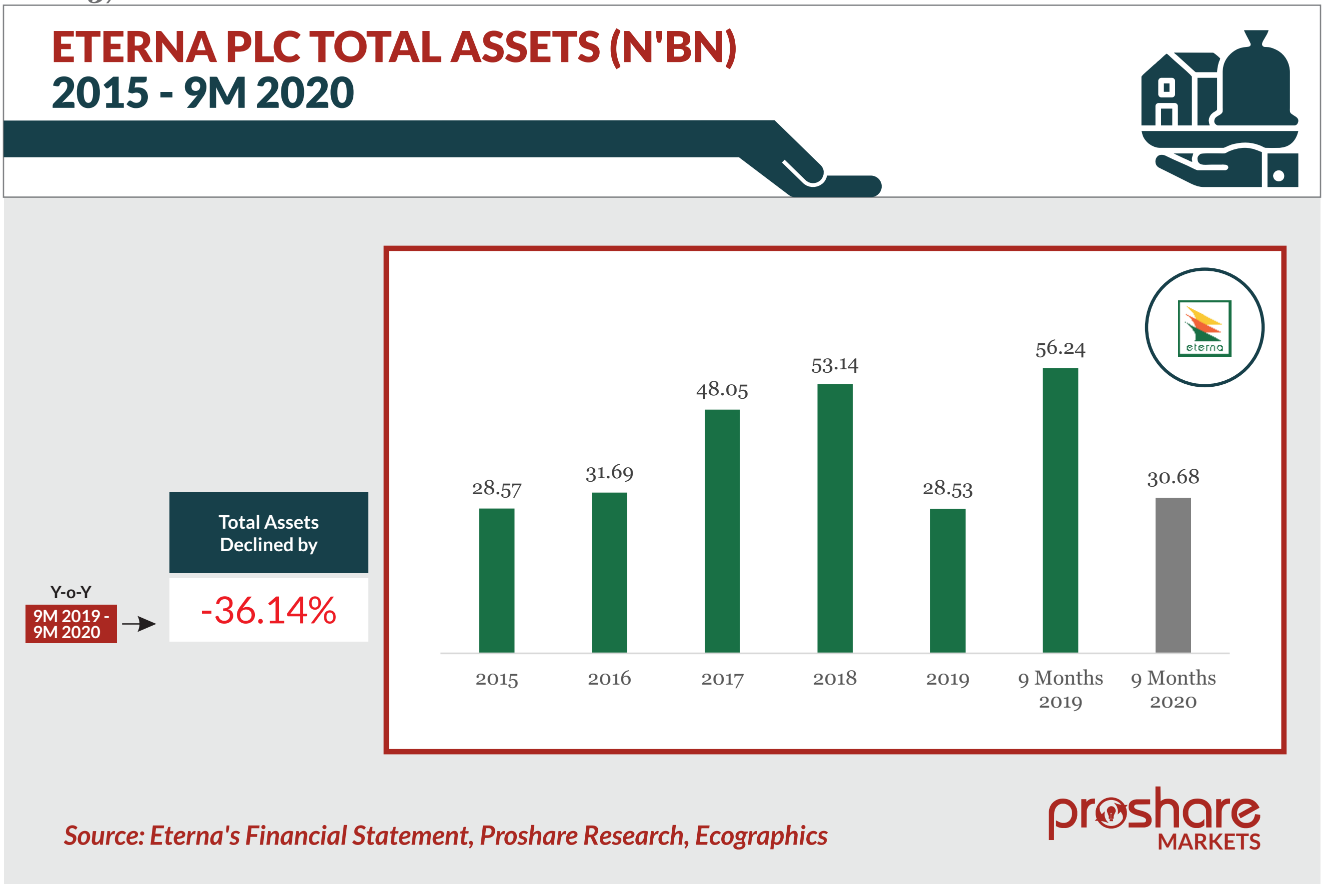
Eterna Plc

The Group's total assets declined Y-o-Y by -36.14%, from N51.44bn recorded in the same period of the previous year to N32.85bn recorded at the end of 9 months 2020 which was driven by a -53.09% decline in current assets. Drivers of the decline in current assets were the trade and other receivables and prepayments which both declined Y-o-Y by -73.50% and -62.01% respectively (*see chart 37*).

Working capital for the period was in the positive threshold, working capital was N207.11m while the current ratio and quick ratio were 1.01 and 0.63, respectively.

In USD terms, Eterna Plc recorded $167.59mn in the same period of the previous year to $86.22m recorded for 9 months ended 2020 showing a -48.55% decline, using the official CBN rate for the different periods. USD terms translation cost was $20.79m as a result of the devaluation of the domestic currency.

Chart 37: Eterna Plc - Total Assets



Japaul Gold & Ventures Plc

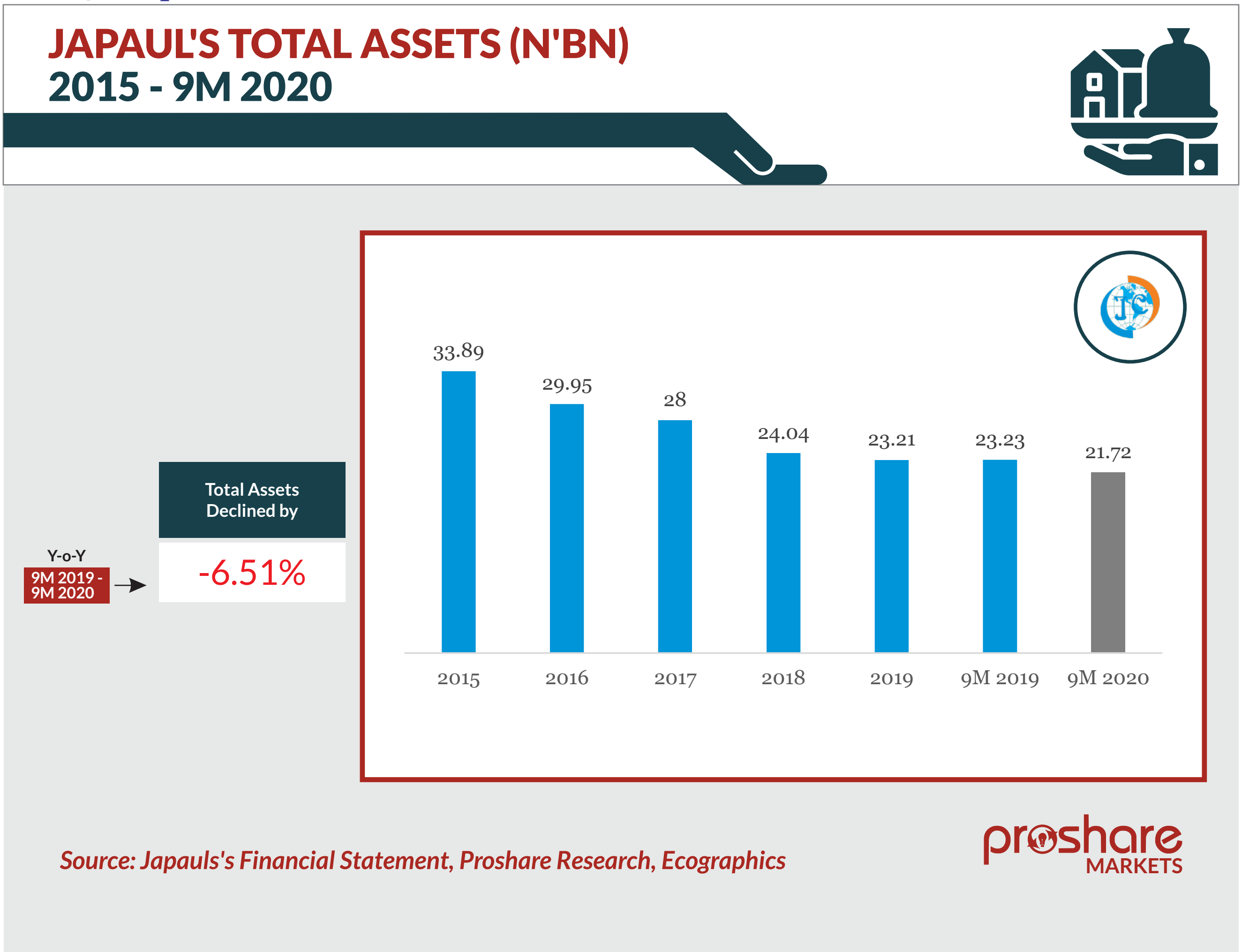
For 9 months ended 2020, total assets declined Y-o-Y by -6.51% from N23.23bn recorded in 2019 to N21.72bn, which was majorly driven by a -64.27% decline in property, plant, and equipment, -36.43% Y-o-Y decline in inventory, and -5.10% decline in cash and bank balances (*see chart 38*).

Working capital was in the negative, it stood at N897.41m for the period, the current ratio was 0.92 and the acid test ratio was 0.92 for the period.

Translating to USD terms, the Group recorded a -6.51% Y-o-Y decline in total assets from $75.68m in 9months 2019 to $57m recorded for 9months 2020 using the official CBN rate during the different periods. Foreign currency translation cost for the period was $13.75m.

Chart 38: Japaul Oil & Maritime Services Plc- Total Assets

Chart 38: Japaul Gold & Ventures Plc - Total Assets



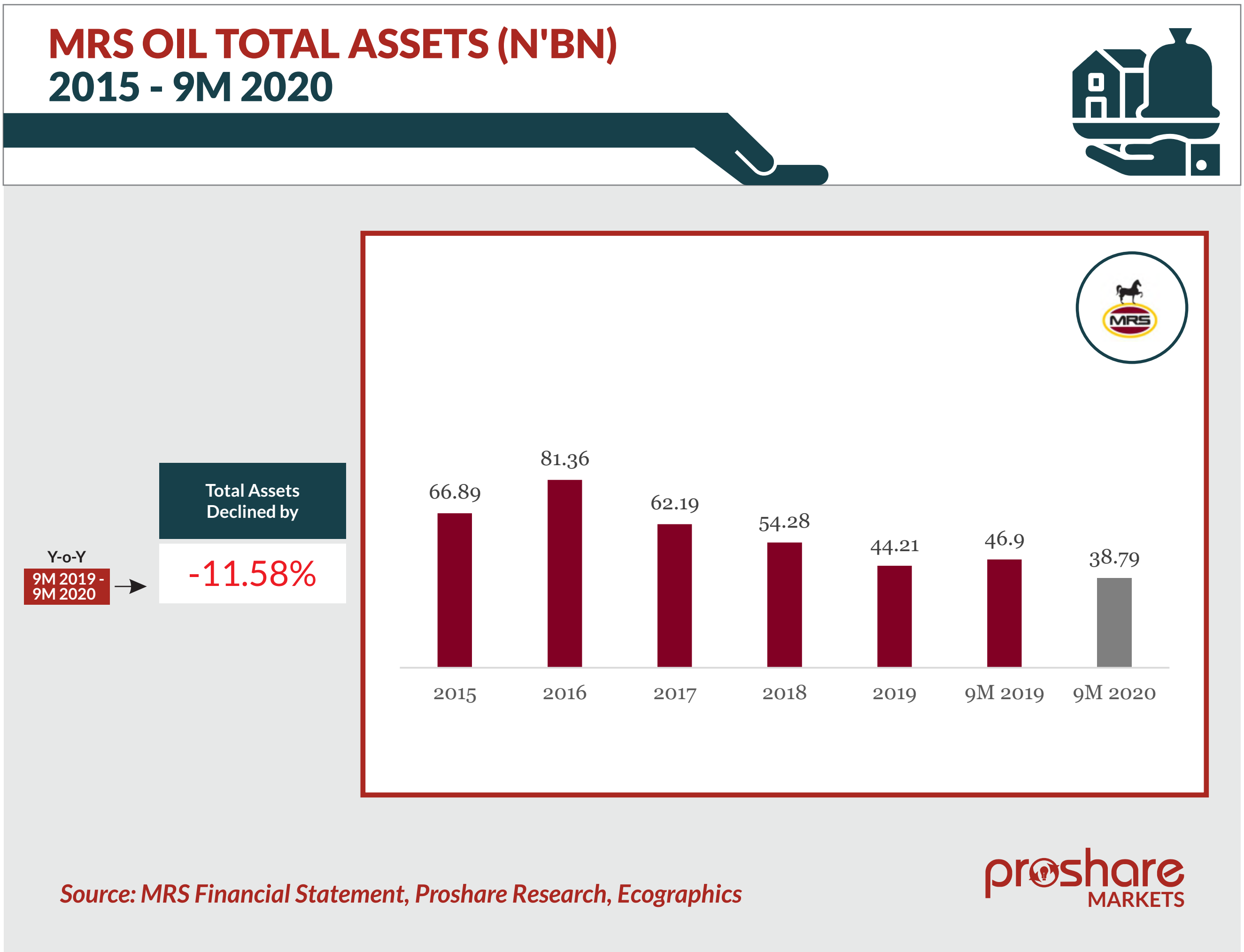
MRS Oil Nigeria Plc

Total assets for the period (YTD September 2020) declined by -11.58% Y-o-Y, from N42.57bn in YTD September 2019 to N37.64bn. Major drivers of the decline in total assets were the intangible assets, inventories, prepayments, and trade, and other receivables, they all declined Y-o-Y by -63.43%, -39.73%, -58.32%, and -33.82% respectively (*see chart 39*).

Working capital was N3.13bn, while the current ratio and quick ratio were 1.17 and 0.99, respectively.

In USD terms, The Company recorded a -28.76% decline in total assets, from $138.69m in YTD September 2019 to $98.80m in YTD September 2020 using the official CBN exchange rate during the periods. USD terms translation cost was $23.84m as a result of the devaluation of the domestic currency.

*Chart 39: **MRS Oil Nigeria Plc** - **Total Assets***



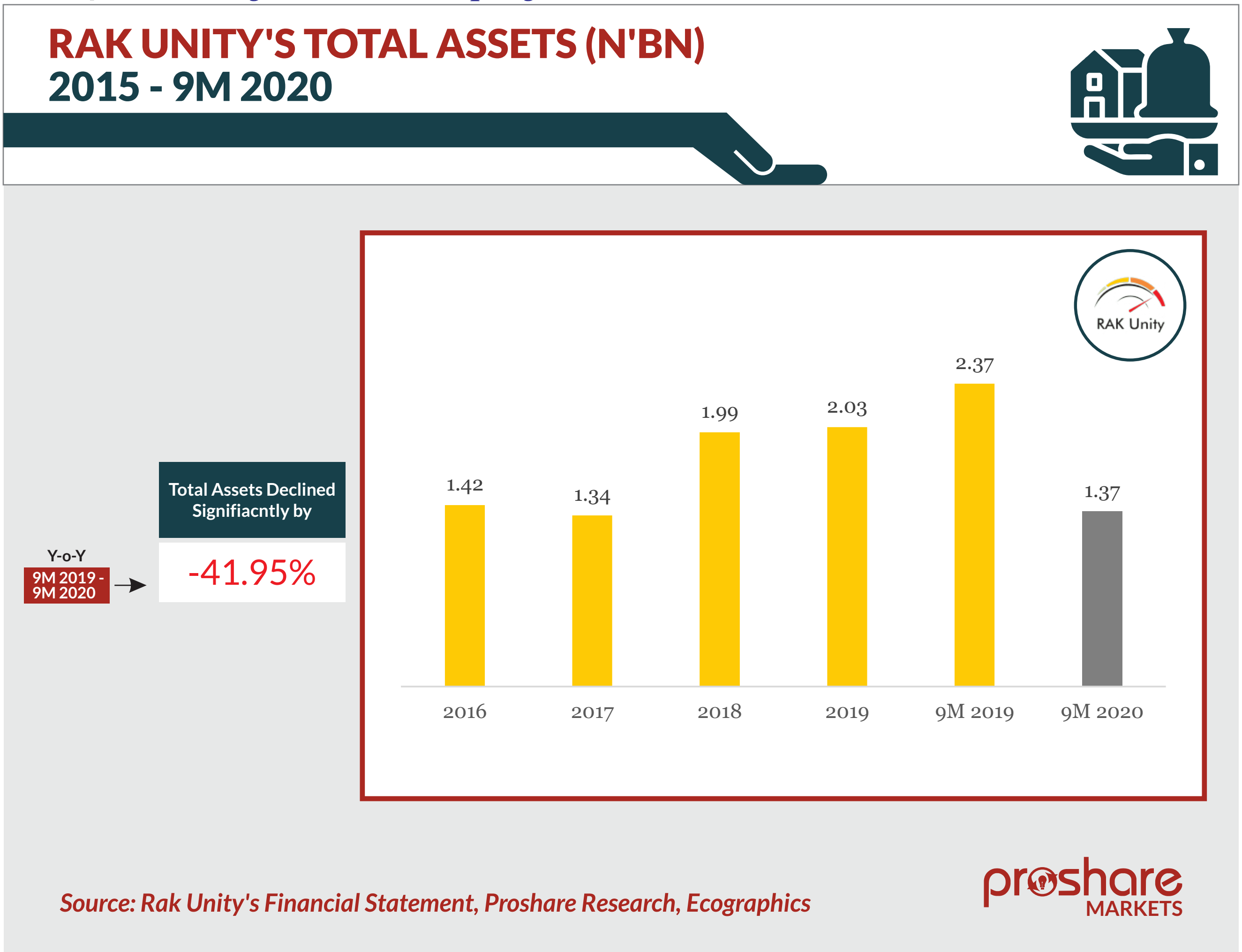
Rak Unity Petroleum Company Plc

The Company's total assets declined Y-o-Y by -41.95%, from N2.23bn recorded in H1 2019 to N1.69bn recorded in H1 2020. Current assets declined by -25.34% while non-current assets declined by -10.49% (*see chart 40*).

Working capital was positive for the period, working capital was N389.4m, the current ratio was 1.34, the quick ratio could not be calculated as the latest results released by the company did not record inventory.

Translating to USD terms, the Company recorded $7.27m in H1 2019 to $4.68m recorded in H1 2020 showing a -35.59% decline, using the official CBN rate during the different periods. USD terms translation cost for the period was $824.59 resulting from the devaluation of the domestic currency.

*Chart 40: **Rak Unity Petroleum Company Plc** - **Total Assets***



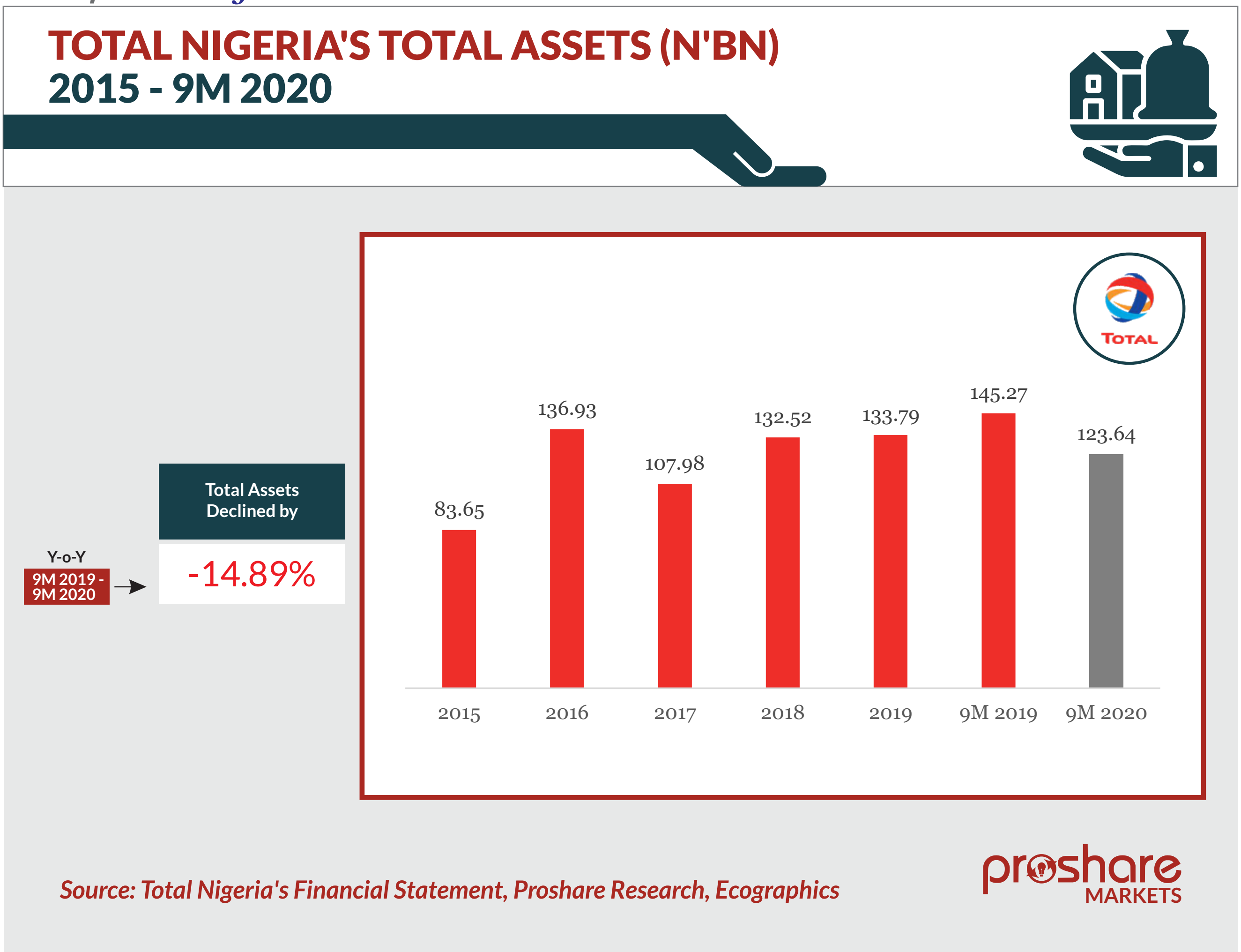
Total Nigeria Plc

Total Nigeria recorded a -14.89% Y-o-Y decline in total assets, from N145.27bn recorded for YTD September 2019 to N123.64bn recorded in YTD September 2020. Current assets were the major drivers of the decline in total assets, inventories, trade, and other receivables and prepayments declined by -46.03%, -46.33%, -15.26%, and -51.78% respectively (*see chart 41*).

Working capital was negative, the Company's working capital for the period was N13.35bn, while the Company's quick ratio and current ratio were 0.65 and 0.85, respectively.

In USD terms, total assets declined by -31.43%, from $473.28m recorded in the same period in the previous year to $324.52m recorded in YTD September 2020 using the official CBN rate during the different periods. USD terms translation cost was $78.29m as a result of the devaluation of the domestic currency.

Chart 41: Total Nigeria Plc - Total Assets



Oando Plc

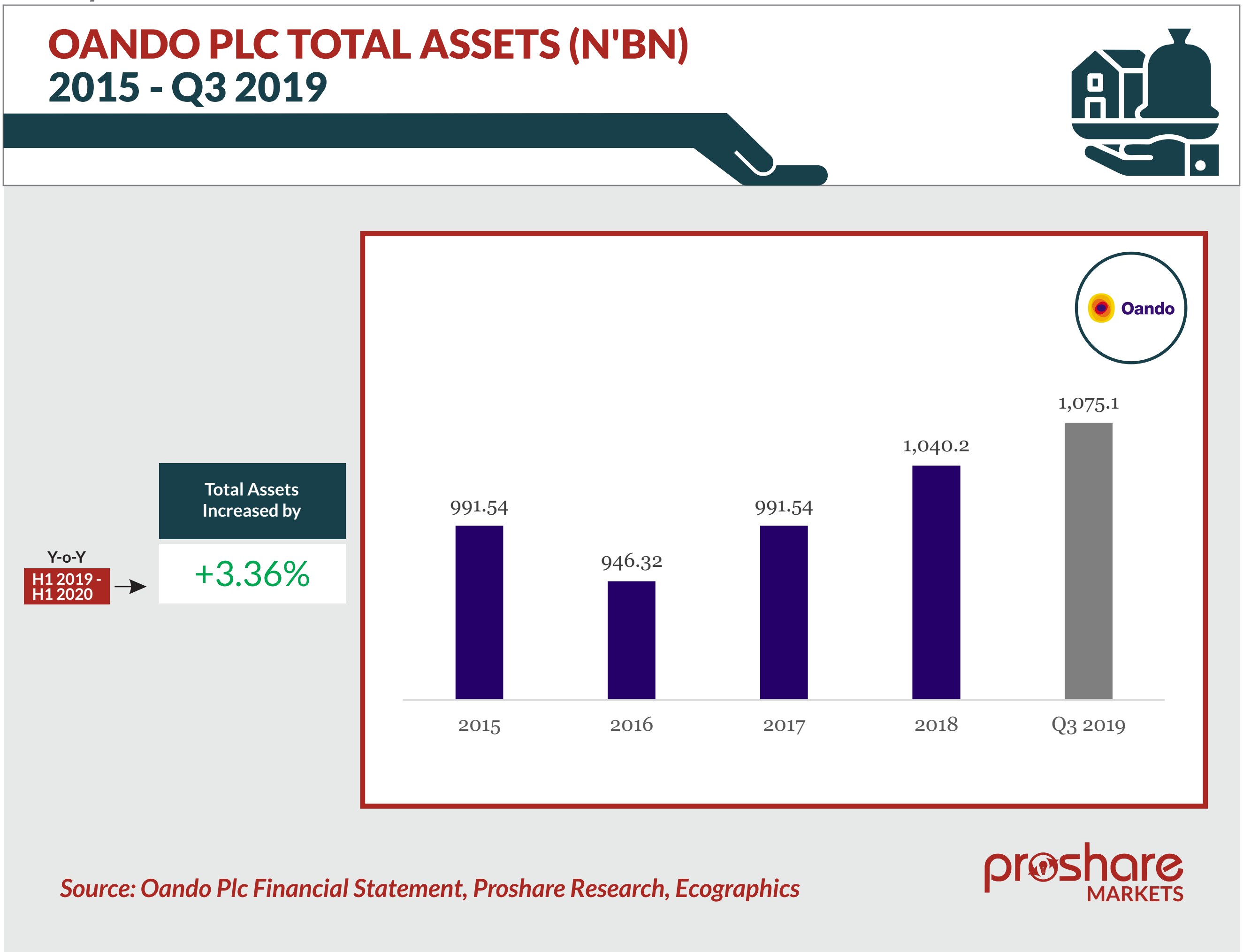
The latest results released by the Group shows total assets grew marginally by +3.36%, from N1.04trn recorded in FY 2018 to N1.08trn recorded in YTD 2019. This was majorly driven by N42.89m recorded in prepayment for YTD September 2019 as results from the Group did not record any prepayment in the previous year.

Inventories and cash and cash equivalents increased by +39.39% and +64.29% respectively (*see chart 42*).

Working capital was negative during the period, the Group recorded N330.19bn, while the current ratio and acid test ratio of the Group was 0.28 and 0.27, respectively.

In USD terms, the company recorded $3.50bn for YTD 2019 against $3.39bn recorded for FY 2018.

Chart 42: Oando Plc - Total Assets



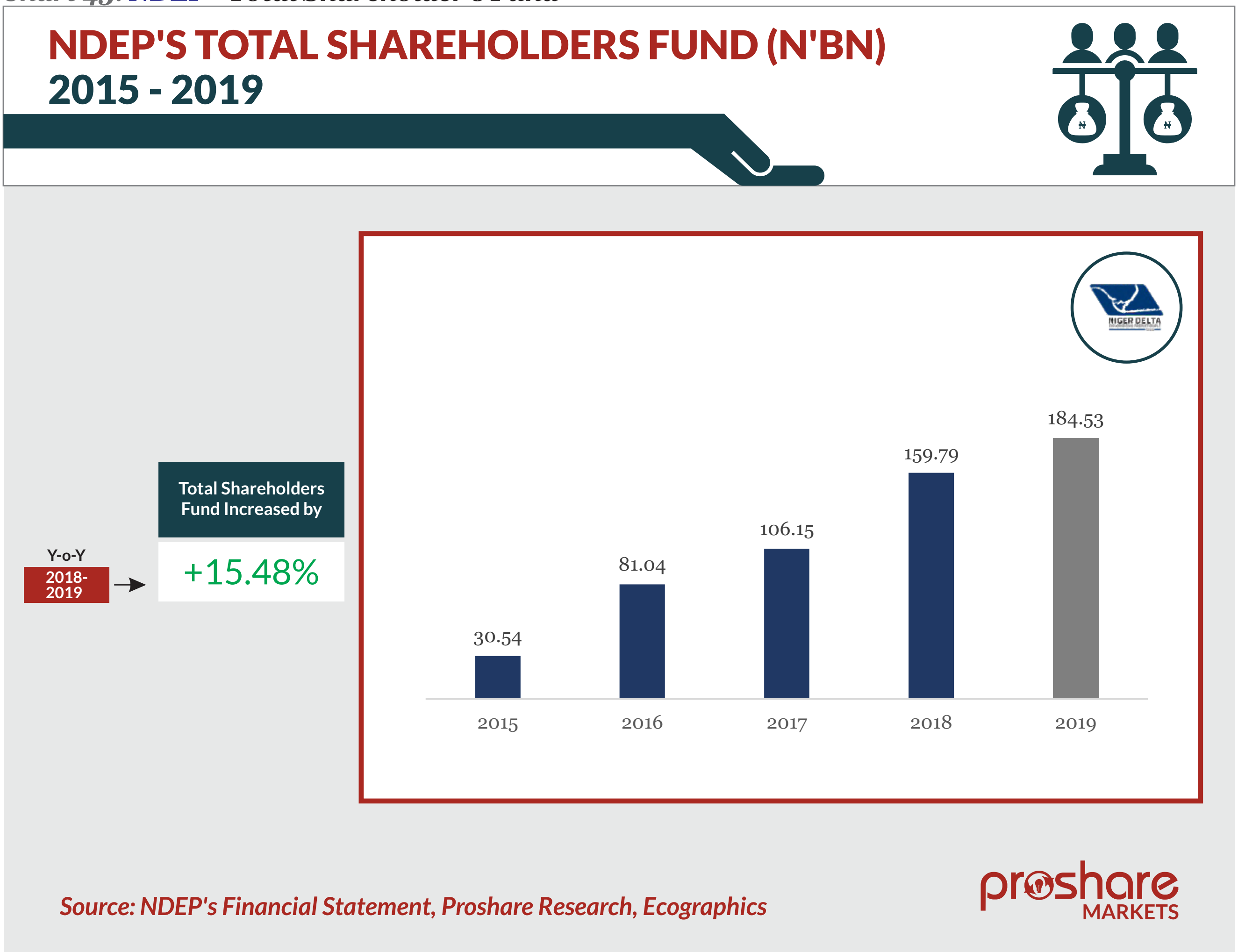
Total Shareholder's Fund

Niger Delta Exploration & Production Plc (NDEP)

Conversion of the African Capital Alliance convertible loan to ordinary shares at a premium led to the +15.48% Y-o-Y growth in total shareholders fund, from N159.79bn in 2018 to N184.53bn recorded in 2019 (*see chart 43*).

Chart 43: NDEP- Total Shareholder's Fund

*Chart 43: NDEP - **Total Shareholder's Fund***

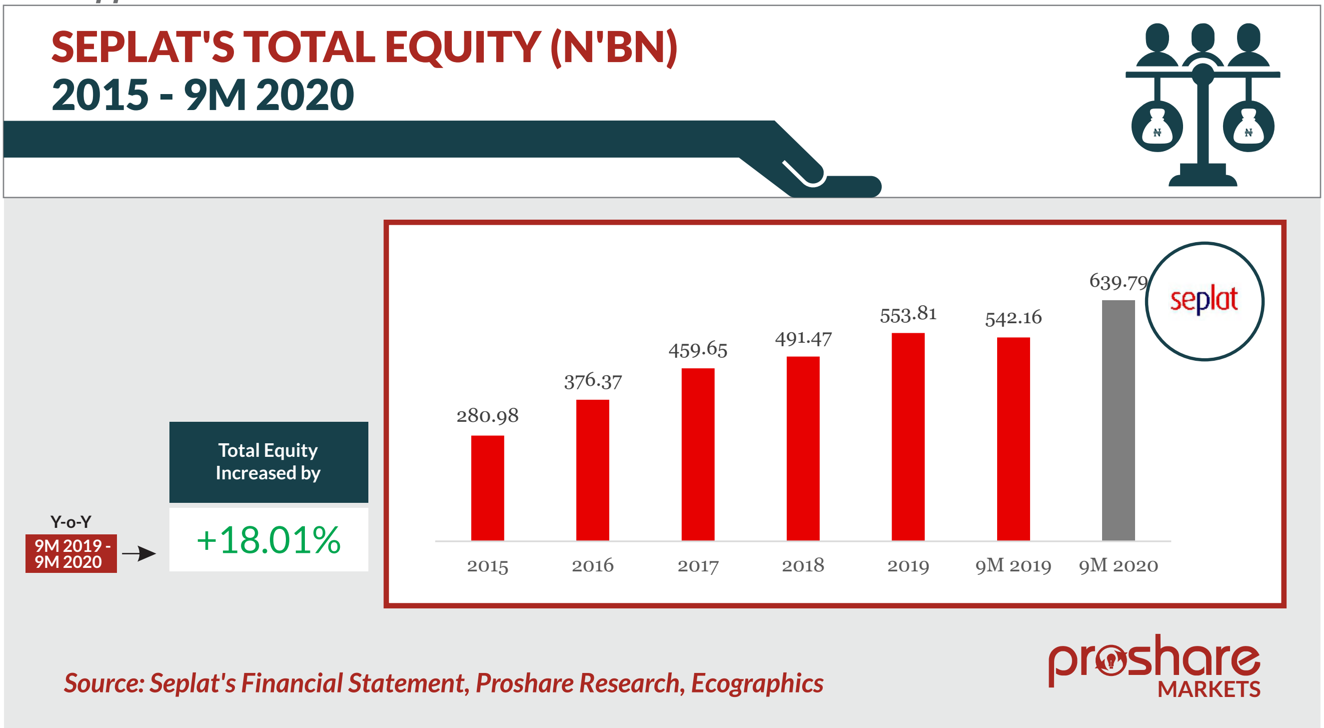


Seplat Petroleum Development Company Plc (SEPLAT)

Total shareholders fund grew Y-o-Y by +18.01%, from N542.16bn ($1.77bn – using the official CBN exchange rate as of September 2019) recorded in YTD September 2019 to N639.79bn ($1.68bn using the official CBN exchange rate as of September 2020) recorded in YTD September 2020. The major driver of the growth in total equity was the USD terms translation reserve which increased by +63.24%. issued share capital and share premium also increased Y-o-Y by +2.45% and +6.45% respectively (see chart 44 below).

The debt to equity ratio of the company for the period stood at 41.09%.

*Chart 44: **SPDC** - **Total Shareholder's Fund***

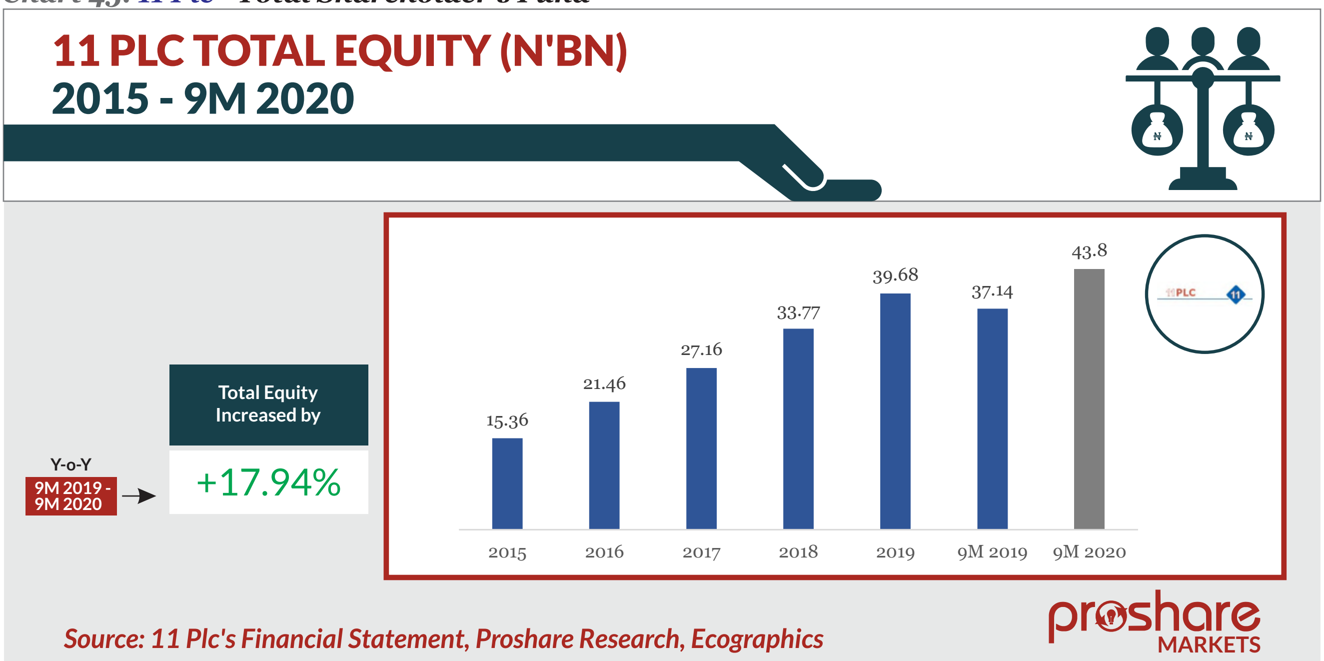


11 Plc

The Company's total shareholders fund increased Y-o-Y by +17.94%, from N37.14bn ($121m – using the official CBN exchange rate as of September 2019) in the same period of 2019 to N43.80bn ($114.97m) for 9months 2020. This was as a result of the +18.03% Y-o-Y growth in retained income and other reserves (*see chart 36 below*).

The company had no record of debt for the period; therefore, the debt-to-equity ratio was 0%.

*Chart 45: **11 Plc** - **Total Shareholder's Fund***

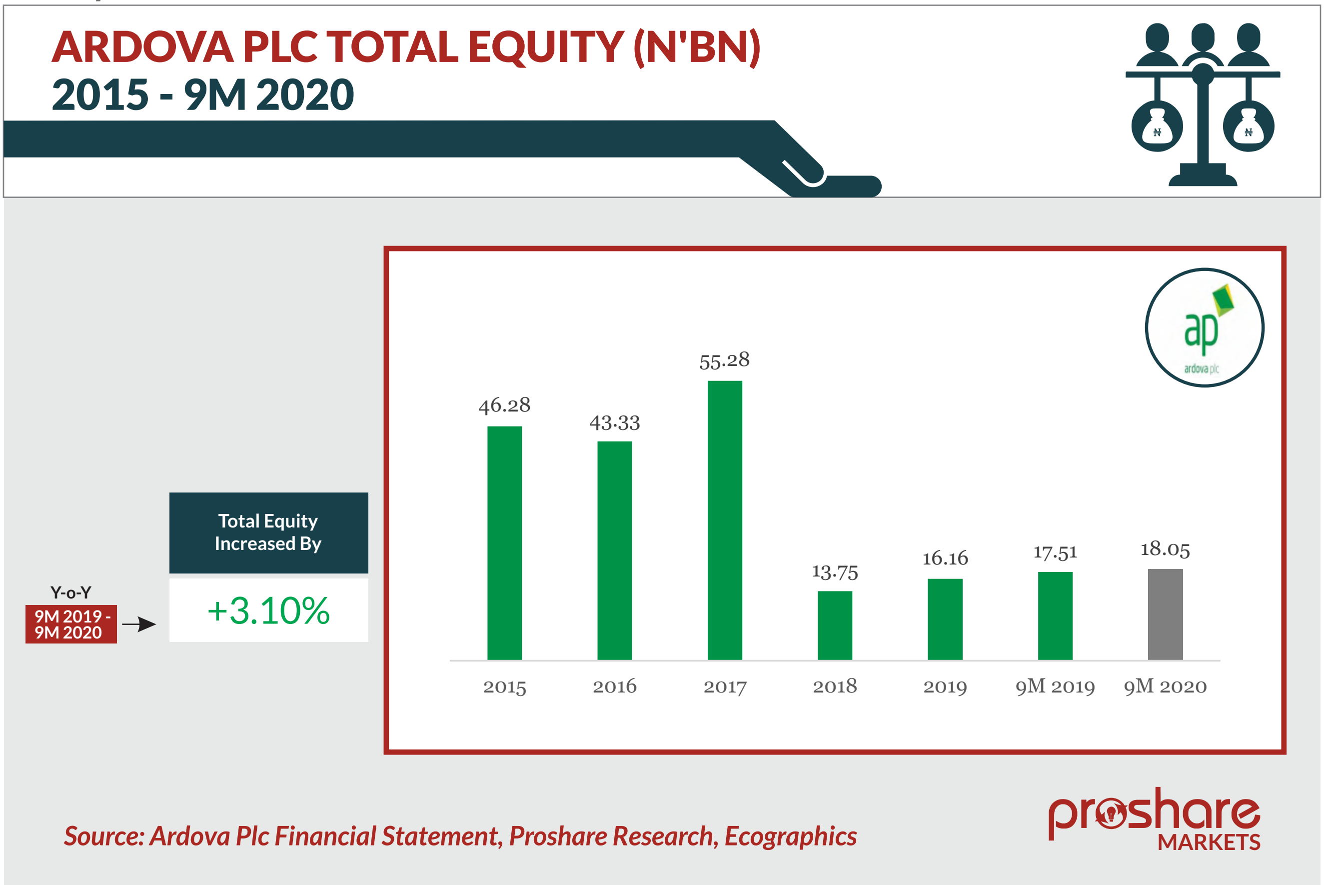


Ardova Plc

Ardova Plc recorded a marginal increase in its total shareholder's fund for the period, total equity increased by +3.10%, from N17.51bn ($57.04m – using the official rate as of September 2019) recorded in the same period of the previous year to N18.05bn ($47.38m) recorded in YTD September 2020. This was a result of a +5.31% increase recorded in retained earnings (*see chart 46 below*).

The debt to equity ratio was for the period was 23.71%. in USD terms, the company recorded a decline of -16.94% as a result of the devaluation of the domestic currency.

*Chart 46: **Ardova Plc** - **Total Shareholder's Fund***

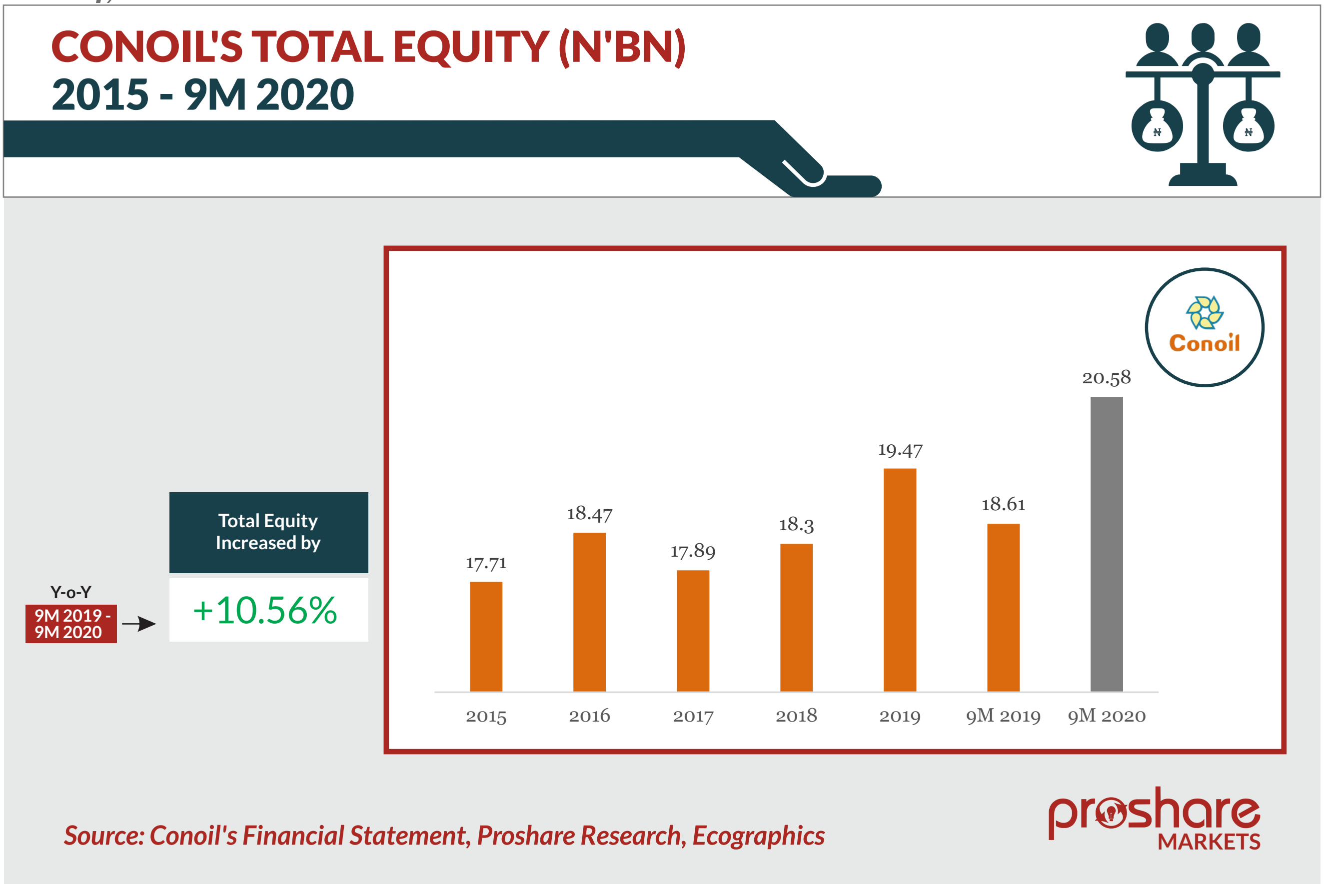


Conoil Plc

Total shareholder's fund of the Company increased Y-o-Y by +10.56%, from N18.61bn ($60.65m – using the official CBN rate as of June 2019) recorded in the corresponding period to N20.58bn ($54.01m) recorded in 9months 2020. The major driver of the growth in shareholder's fund was the retained earnings which grew by +13.61% (*see chart 47*).

The Company's debt to equity ratio for the period was 0% as the Company had no record of debt. In USD terms, the Company's total shareholder's fund declined Y-o-Y by -10.94%.

Chart 47: Conoil Plc - Total Shareholder's Fund



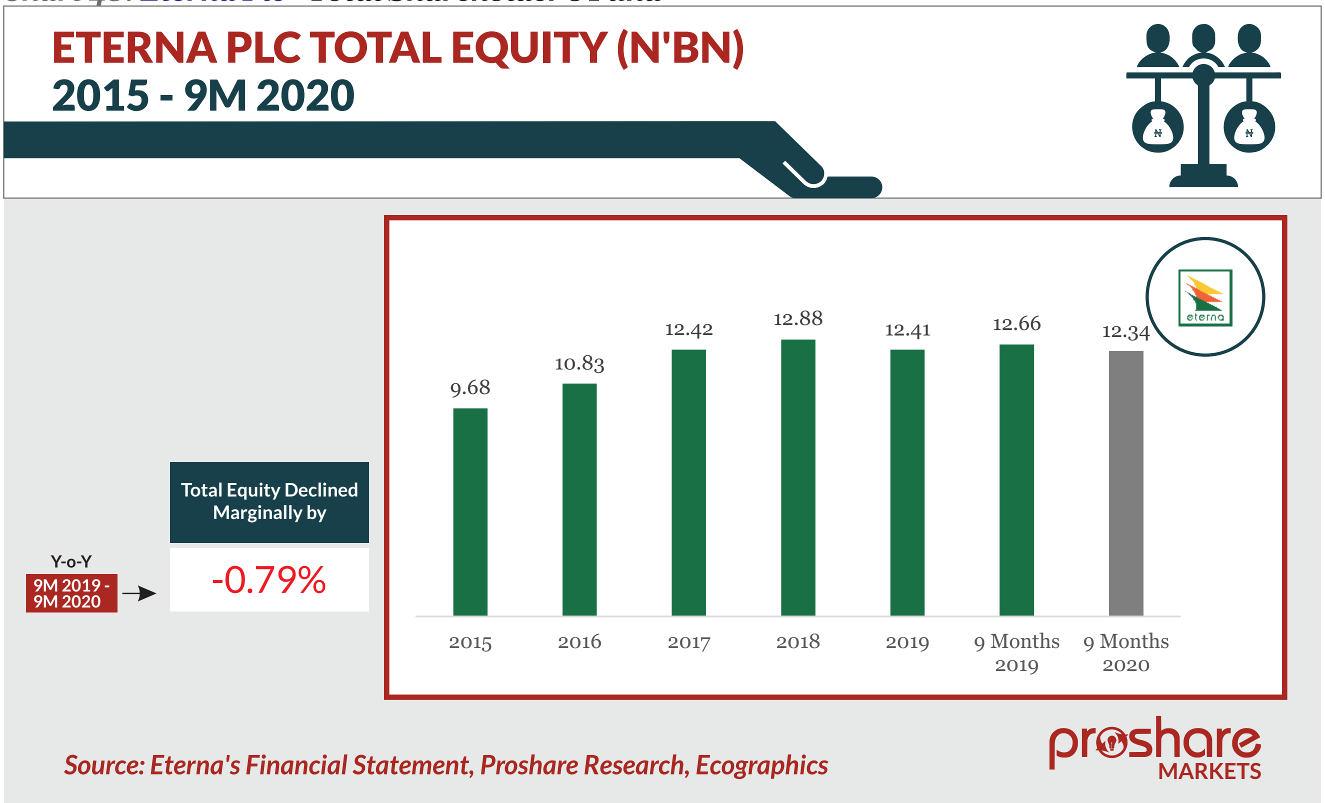
Eterna Plc

The Group's total shareholder's fund declined marginally by -0.79%, from N12.70bn ($41.39m – using the official CBN rate as of September 2019) recorded in the corresponding period of the previous year to N12.60bn ($33.07m – using the official CBN rate as of September 2020) recorded in YTD September 2020. -1.60% Y-o-Y decline in retained earnings was responsible for the marginal decline recorded in shareholder's fund for the period (*see chart 48*).

Eterna Plc's debt to equity ratio for the period was 93.55%. translating to USD terms, the Group recorded a Y-o-Y decline of -20.08% in shareholder's fund.

Chart 48: Eterna Plc - Total Shareholder's Fund

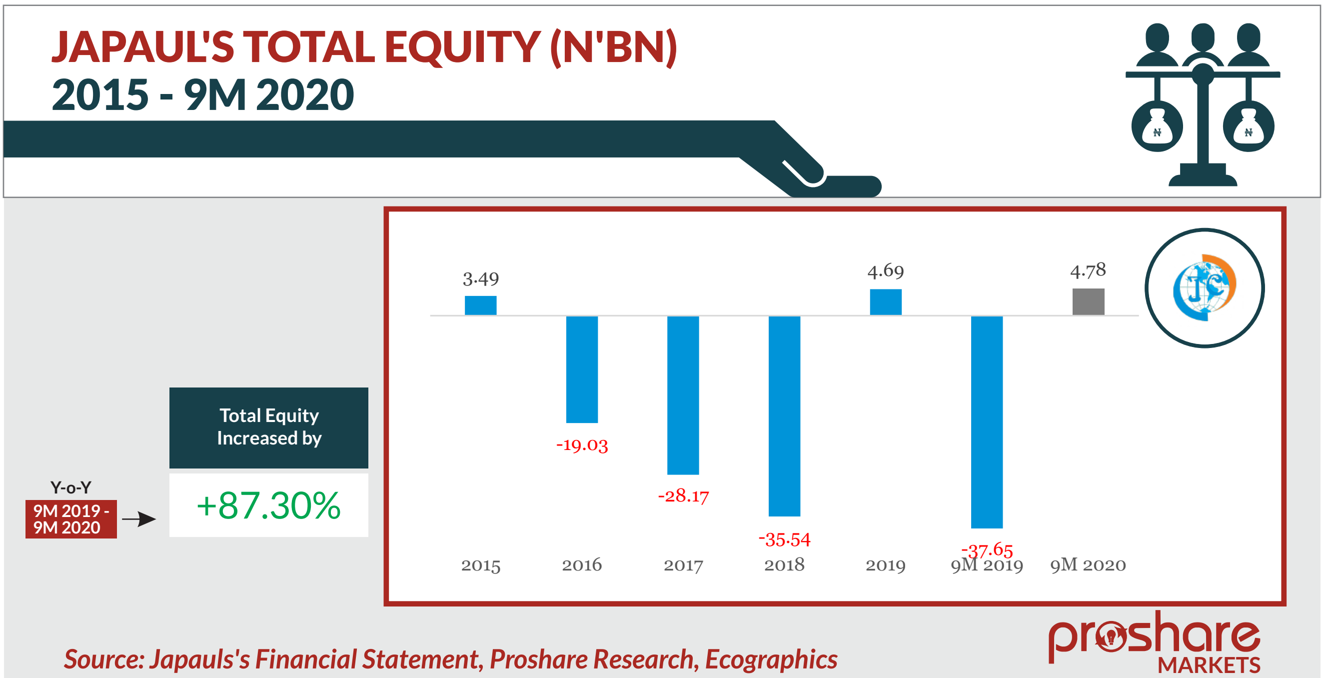
Chart 48: Eterna Plc - Total Shareholder's Fund



Japaul Gold & Ventures Plc

Total shareholder's fund for the Group grew significantly Y-o-Y, from a loss position of N37.65bn recorded in YTD September 2019 to N4.78bn recorded in YTD September 2020, this was as a result of a +83.54% increase recorded in AFS reserve (*see chart 49*).

Chart 49: Japaul Gold & Ventures Plc - Total Shareholder's Fund

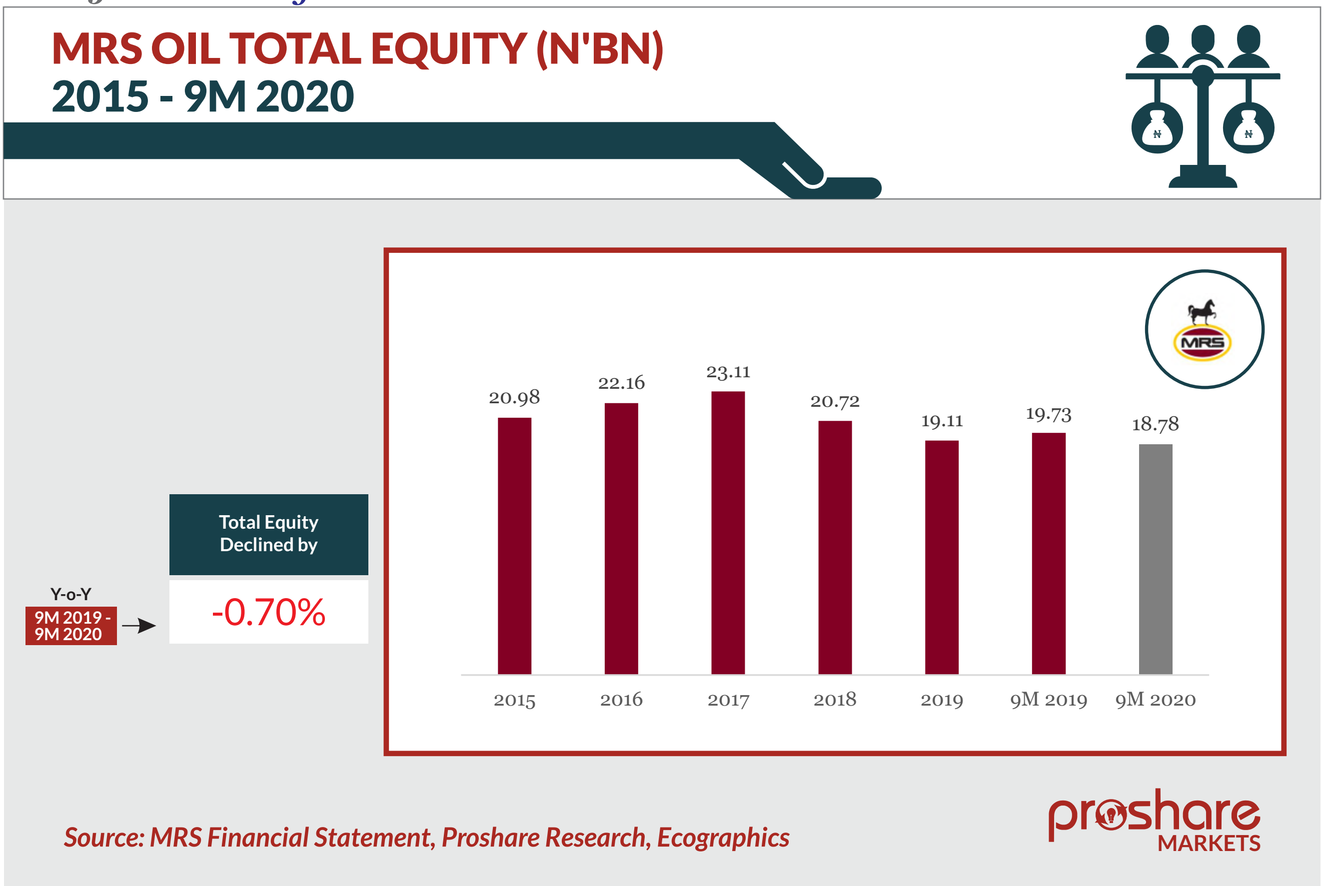


MRS Oil Nigeria Plc

The Company's total shareholder's fund declined marginally by -0.70% Y-o-Y, from N19.73bn ($64.28m) recorded in the same period of the previous year to N19.59bn ($51.42m) recorded for YTD September 2020. This was majorly driven by a -7.02% Y-o-Y decline recorded in retained earnings (*see chart 50*).

The Company's debt to equity ratio for the period was 9.26%. in USD terms, the Company recorded a Y-o-Y decline of -20.01% in its shareholder's fund.

Chart 50: MRS Oil Nigeria Plc - Total Shareholder's Fund

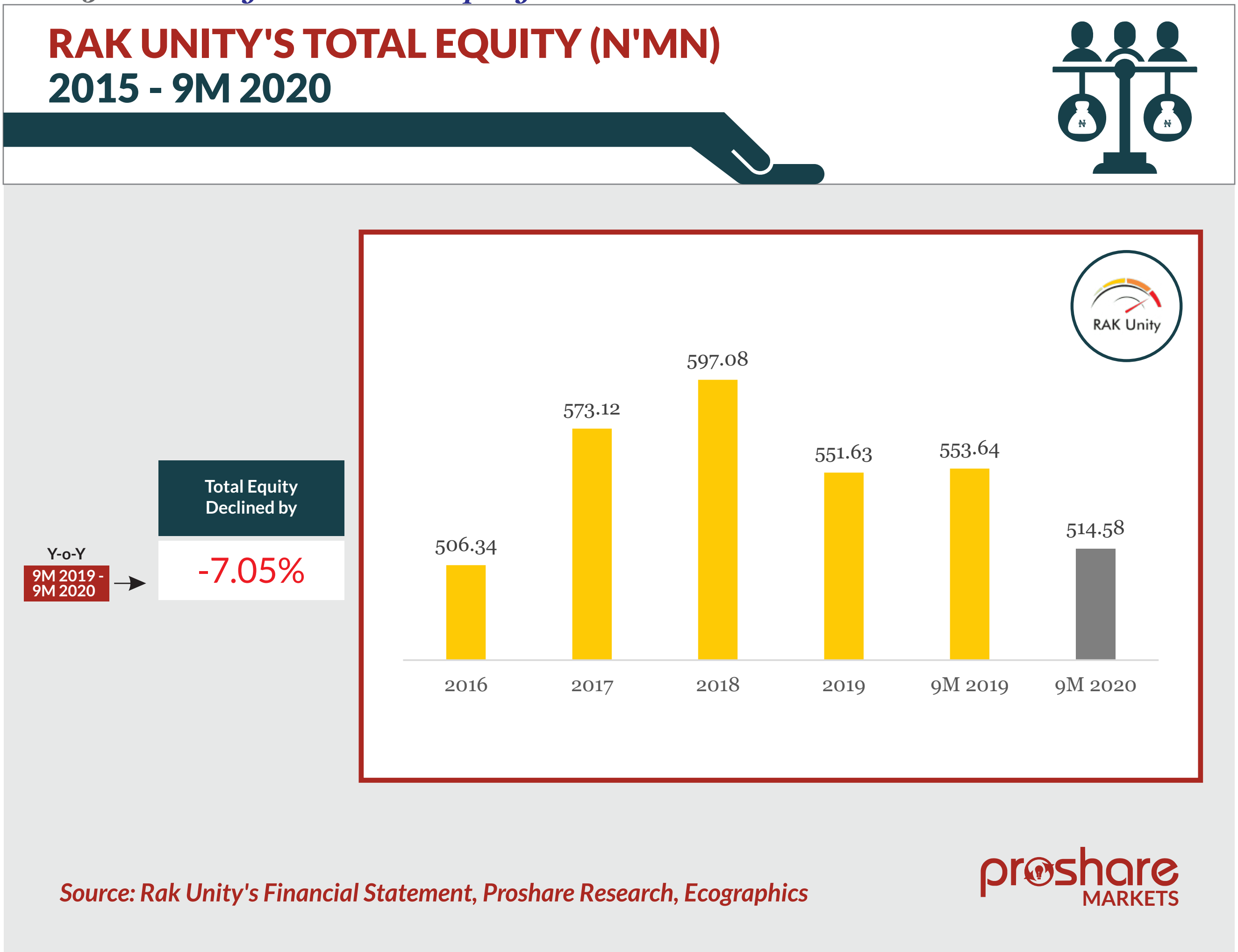


Rak Unity Petroleum Company Plc

Rak Unity's total shareholder's fund declined by -7.05% Y-o-Y, from N553.64m reported in the same period of the preceding year to N514.58m. major drivers to the decline in shareholder's fund were the -21.77% decline in retained earnings (*see chart 51*).

The debt-to-equity ratio of the company could not be calculated as the latest results released by the Company shows no record of current or non-current debt for the period.

*Chart 51: **Rak Unity Petroleum Company Plc** - **Total Shareholder's Fund***



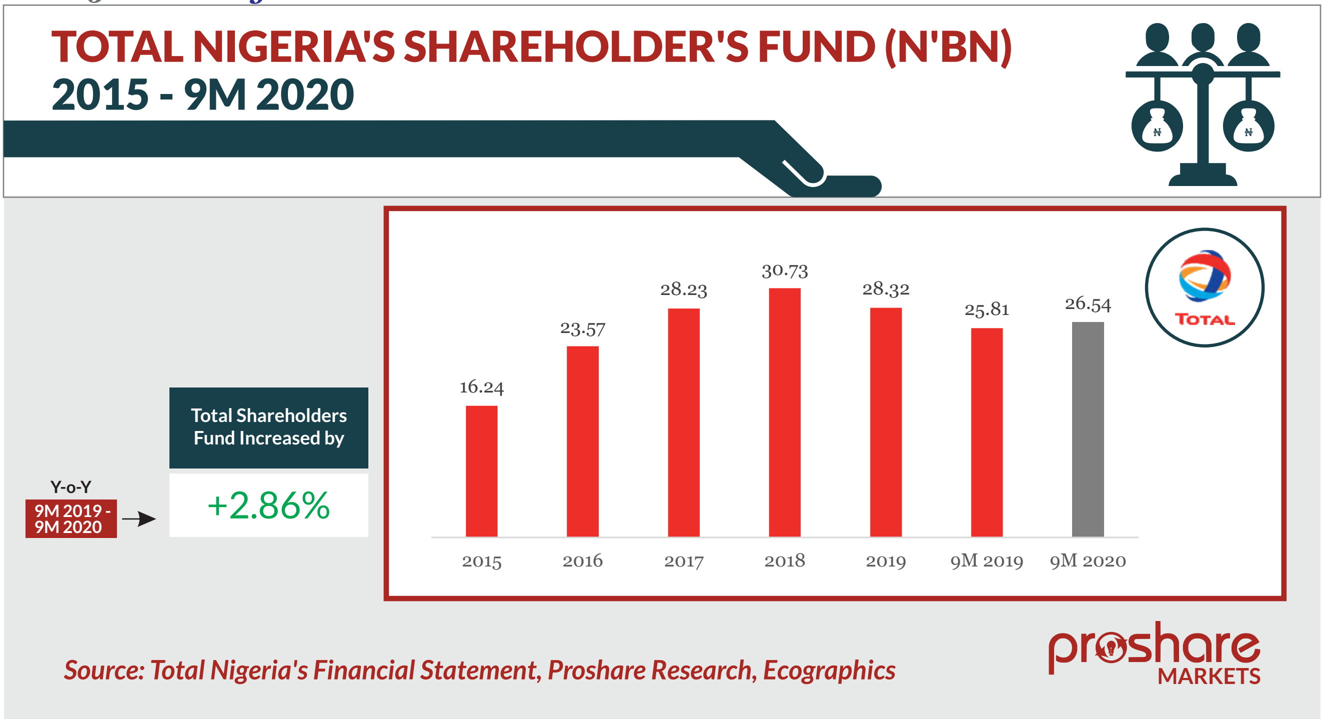
Total Nigeria Plc

Shareholder's funds improved marginally by +2.86% Y-o-Y, from N25.81bn reported in YTD September 2019 to N26.54bn. Retained earnings also recorded a +2.88% marginal growth which was the major driver of the growth in shareholders fund for the period (*see chart 52*).

Total Nigeria's Debt-to-equity ratio for the period was 95.13% against 208.75% recorded in the corresponding period of the previous year, which shows a significant decline in the debt of the company.

Chart 52: Total Nigeria Plc -
Total Shareholder's Fund

Chart 52: Total Nigeria Plc - Total Shareholder's Fund

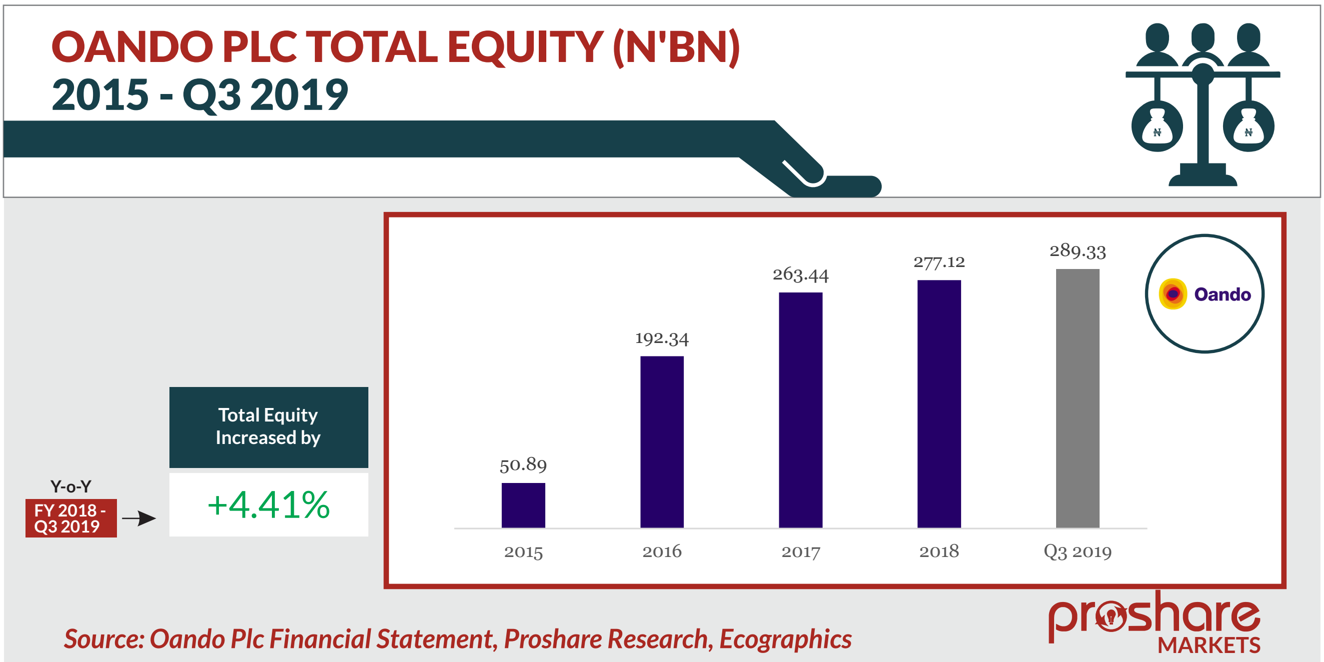


Oando Plc

The latest results released by The Group show shareholder's fund grew by +4.41% from N277.12bn for FY 2018 to N289.33bn for the period, which was driven by +4.07% growth in other reserve components of the financial statement of Oando Plc (see chart 53 below).

The debt-to-equity ratio for the period was 66.04% against 125.84% recorded in the preceding year indicating a reduction in the debt size of the Group.

Chart 53: Oando Plc - Total Shareholder's Fund



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Section Four: The Future Is Gas

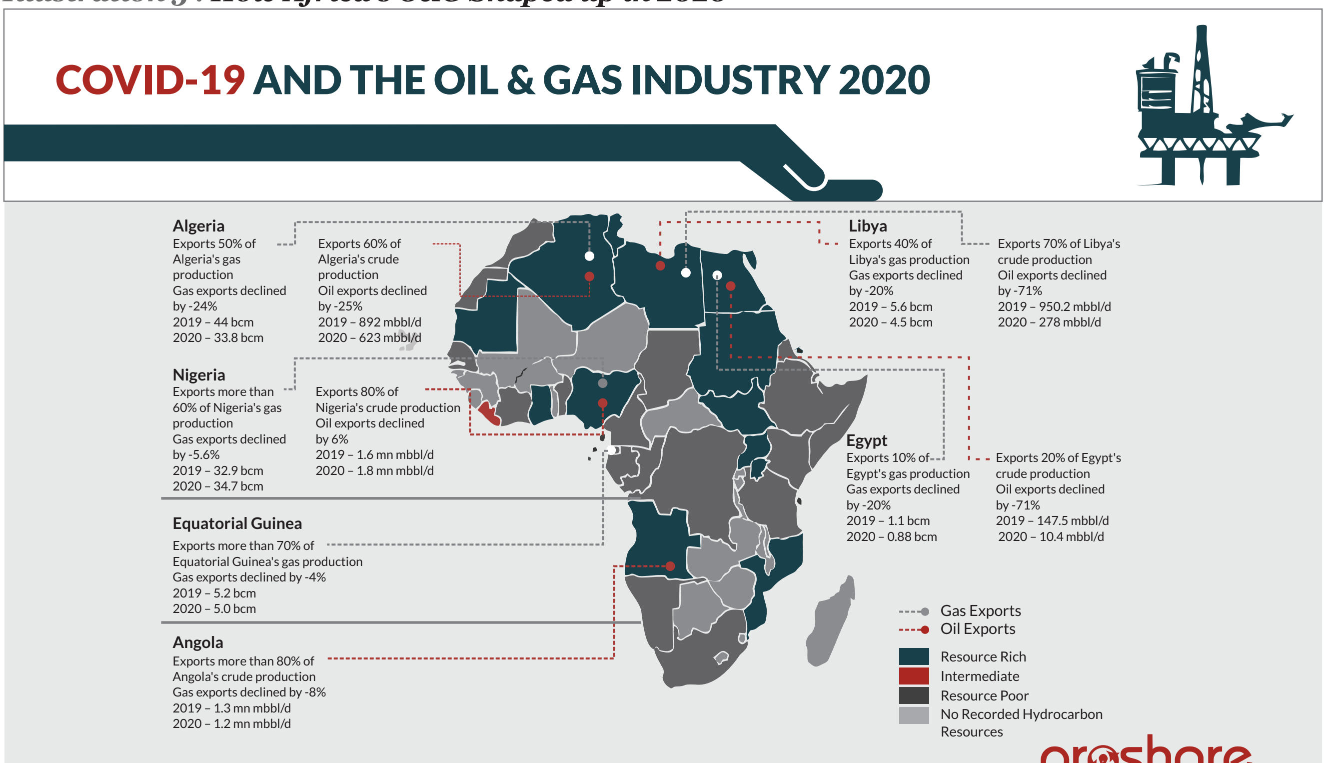
Oil? Eye on The Sparrow

With the United Kingdom (UK) announcing that it would ban fossil fuel vehicles in 2030 and with other nations making similar pronouncements, the future of diesel and premium motor spirit oil appears dim. This being said, gas may begin to pick up the slack as more cars and buses use compressed natural gas (CNG) engines and long-lasting rechargeable batteries.

As white oil products see demand fall and prices drop, O&G companies will increasingly see a rise in demand for gas, hence shifting the dynamics of their businesses. Industry connectivity will be more gas-facing than oil-facing and the industry value chain will pivot away from oil as new gas-related technical skills become more in demand and logistic channels alter to accommodate the new requirements of distribution and delivery.

The new energy order will be one that is gas-dominated with a market-determined pricing structure outside established market cartels such as the organization of petroleum exporting countries (OPEC) and its recent allies OPEC-plus. The new gas market would likely be more volatile than the petroleum market at the beginning as demand and supply factors work themselves out to establish market balance, however, once the kinks in the price discovery mechanism work themselves out countries like Nigeria should be able to create value streams that improve their national treasuries. The gas market will gradually become king and the fiscal authorities in major gas producing nations would likely see revenues rise noticeably over the next decade (*see illustration 5 below*)

Illustration 5 : How Africa's O&G Shaped up in 2020



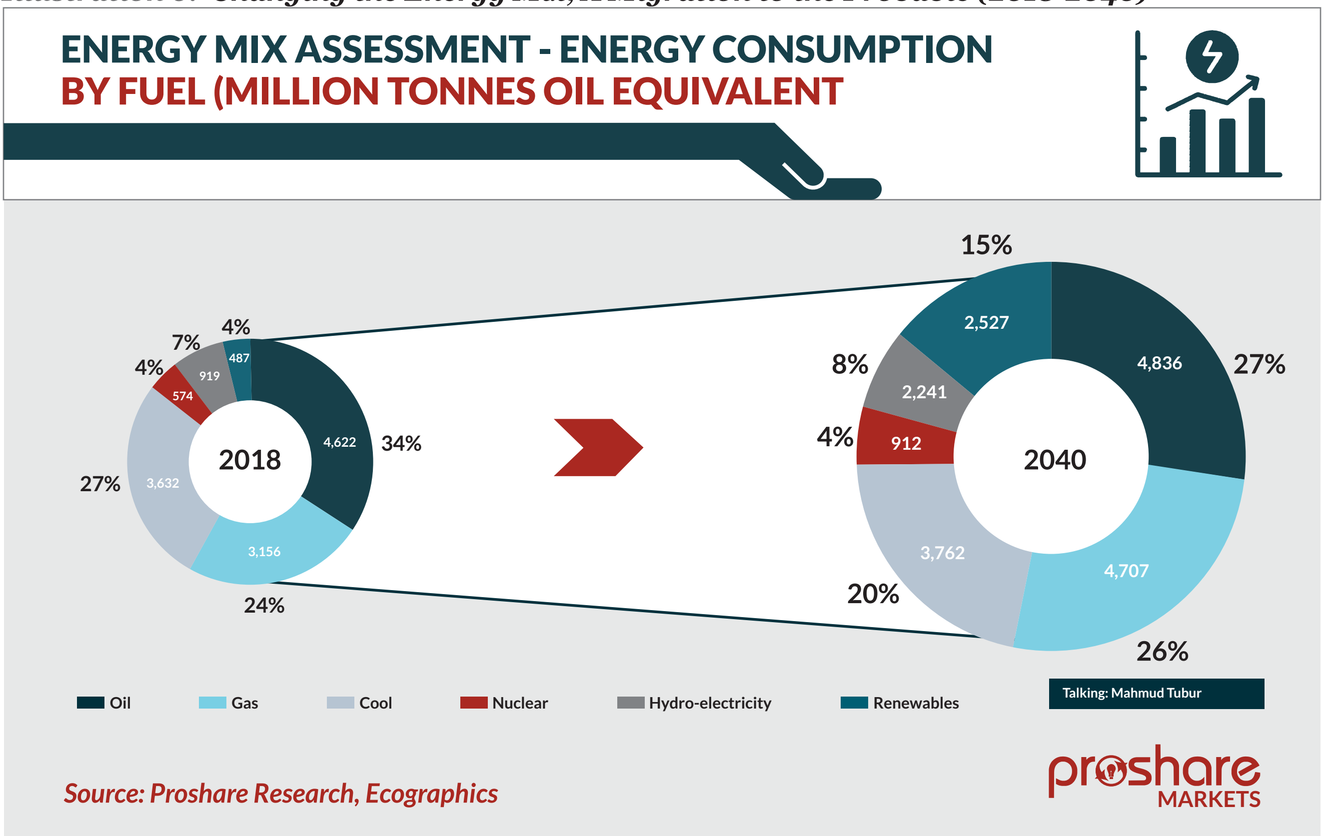
Source: PwC, Proshare Research, Ecographics

Scaling up Domestic Gas Consumption

Oil and gas companies will have to transform speedily, indeed the successful corporations will be in a position to ensure sustainability and profitability while the unsuccessful ones become candidates for consolidation. Serious businesses are not in the trade of providing bandaid for challenged competitors, they simply grow and sweep up their weaker rivals along the way. This is not a matter of corporate wickedness, but just a little matter of how properly-oiled markets work.

With countries announcing targets between 2030 and 2040 for carbon neutrality, time is running out on petroleum business. The emergence of electronic vehicles (EVs) and hybrid gas-powered automobiles underlines a new energy era (*see illustration 6 below*).

Illustration 6: Changing the Energy Mix, A Migration to the Probable (2018-2040)



Section Five: Seeing The Future Clearly

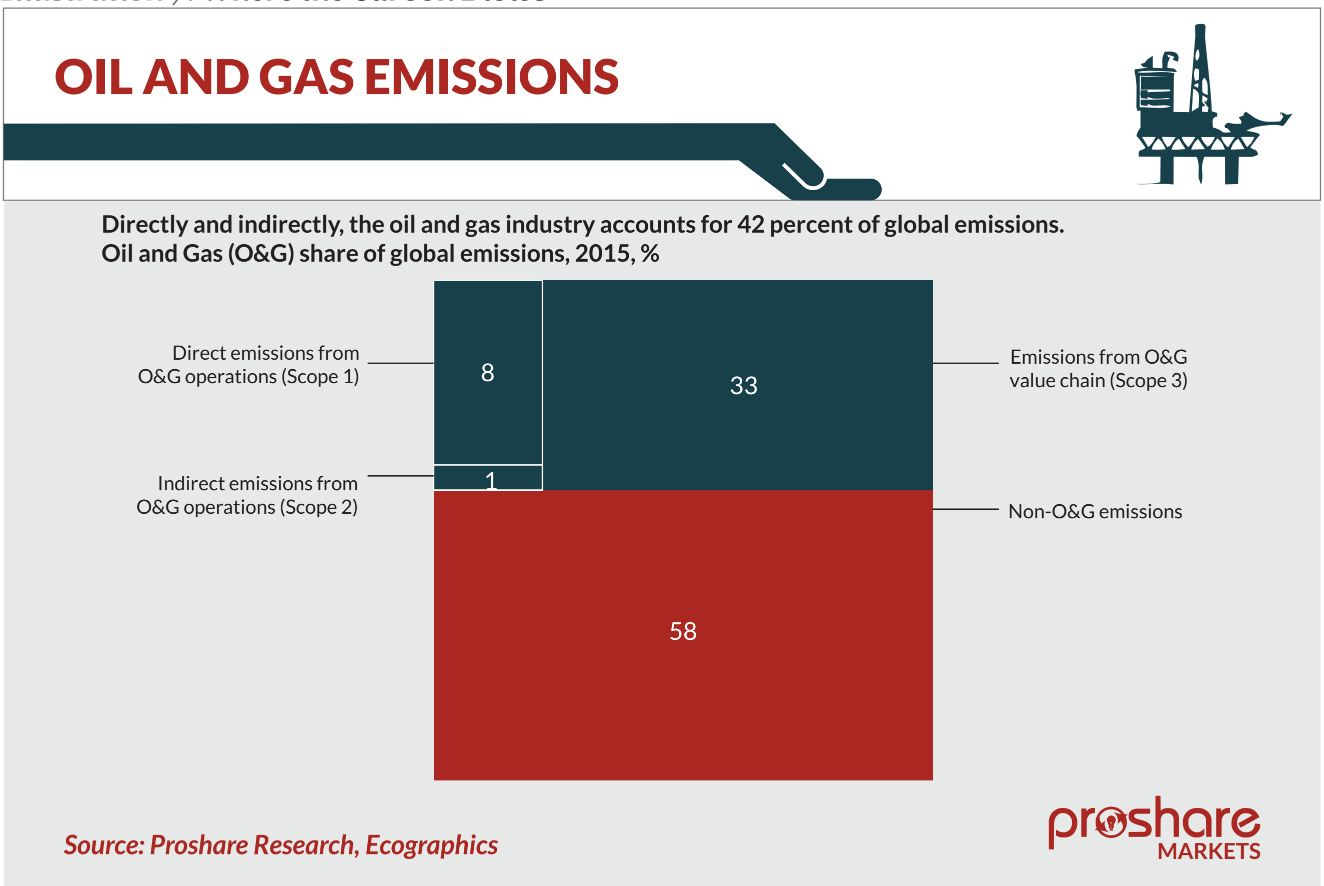
Section Five: Seeing The Future Clearly

Conclusion – Blue Skies Ahead

The notion that the oil industry will suddenly disappear is wrong, but so also is the belief that oil-producing countries have time to scrape by as the world pivots to new energy sources. The reality would seem to lie somewhere in-between both outcomes.

Oil and gas companies will need to change their business models with less dependence on revenues from oil over the next decade while they also would need to ramp up their development of gas and its various uses in both industrial and domestic settings. With companies increasingly concerned about environmental, social, and governance (ESG) matters, the business environment will sashay towards friendlier environmental and social practices with higher emphasis placed on corporate governance and its consistent attention to best corporate practices (*see illustration 7 below*).

Illustration 7: ***Where the Carbon Blows***



Furthermore, the digital storm is upon us. Companies will need to integrate their operations into a new digital reality that would involve data, precision, and flawless execution. The role of the CEO would not be to hive-off technical digital responsibility to the head of IT, but to gain an understanding of the role of IT in the overall new business architecture and to direct its application towards improved efficiency and market competitiveness. The O&G industry should expect a good number of collaborations and mergers in 2021 as companies get a sense of the challenges they will face over the coming months.

Forward-facing technology will require forward-facing management, the key managerial imperatives in 2021 in the O&G sector will be imagination, strategy, and rethinking. The O&G models of the past will have to be unlearned, the present realities will require new approaches to be learned while the future would need managerial relearning. The big industry agendas of 2021 will gravitate around the energy needs of a climate-sensitive ecosystem that disavow the clunky smokestack factories of the past.

The new business mindset would need to address the cost efficiencies that would make cleaner manufacturing and power generation practical and affordable. Therefore, O&G firms will have to drive operational models that cut costs, reduce time to market, and integrate horizontal and vertical value chains to deliver goods in a cheaper, cleaner, and safer manner. This is not impossible, but it is a massive request to ask from companies that are not familiar with such levels of technological innovativeness, operational efficiency, and cost-effectiveness (*see illustration 8 below*).

Illustration 8: ***O&G Reimaging and Technology***

TECHNOLOGY AND THE NEW O&G APPROACH

Ways of working	Promote	Improve	Lighten	
Rationalize activity	↑	↗	↘	Reduce nonvalue-adding activity lists and frequency of each activity when it is not required.
Simplify workflows and centralize activities	↑	↗	↘	Task delivery is improved through simplification. Centralizing onshore workflows enables dynamic resource allocation
Execute maintenance activities in campaigns	↑			Carrying out maintenance in planned campaigns increases flexibility
Transition into agile	↑	↗	↘	Carrying out maintenance in planned campaigns increases flexibility
Multi-skilling	↑	↗	↘	Maintenance hours and costs can be reduced by training workers in a variety of skills.
Outsourcing and strategic partnerships with suppliers	↑	↗	↘	Outsourcing offshore FTEs' and strategic partnerships can reduce overall spending and increase resource flexibility
Data-driven production optimization				
Apply advanced analytics for maintenance	↑	↗		The use of analytics can cut losses through better equipment maintenance and productivity improvements.
Improve well and reservoir management	↑	↗		Greater waterflood and gas-lift efficiency can increase production

Source: McKinsey, Proshare Research, Ecographics

proshare MARKETS

In muscling forward Nigerian O&G firms must find segments of the new technology-framed energy market to service. In a decade the oil and gas business would be unrecognizable with price determination squeezed from the fingers of cartels and demand and supply being driven more closely by market forces, efficiency, effectiveness and cost-containment will be central to corporate survival. Another major factor would be technical skills and consumer-sensitivity.

References

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This report was published on January 11th, 2020, and is based on the best publicly available information at that time. This PDF version was created on Jan 4th, 2020. To check for updates, kindly send us an e-mail. Thank you.

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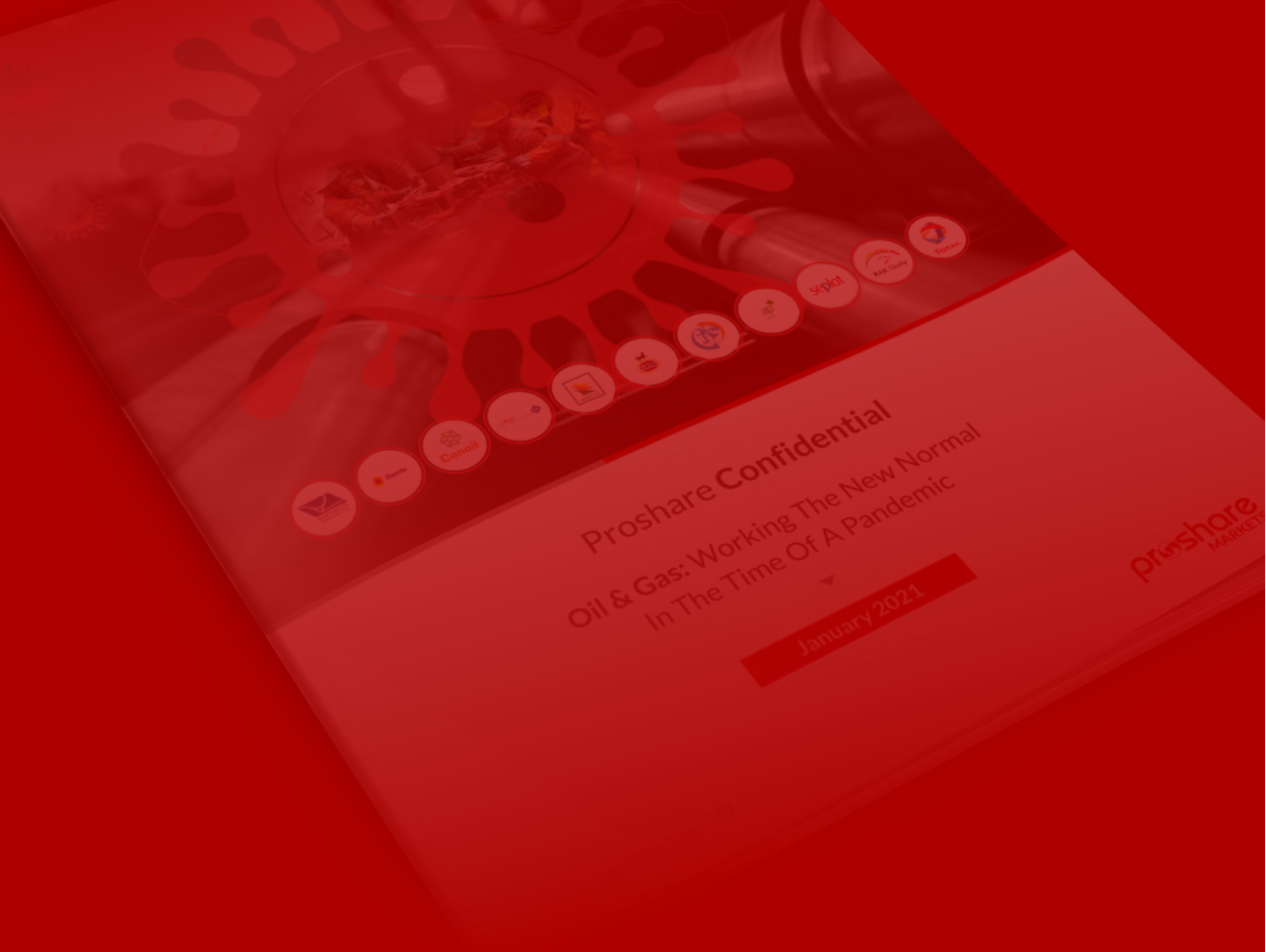
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