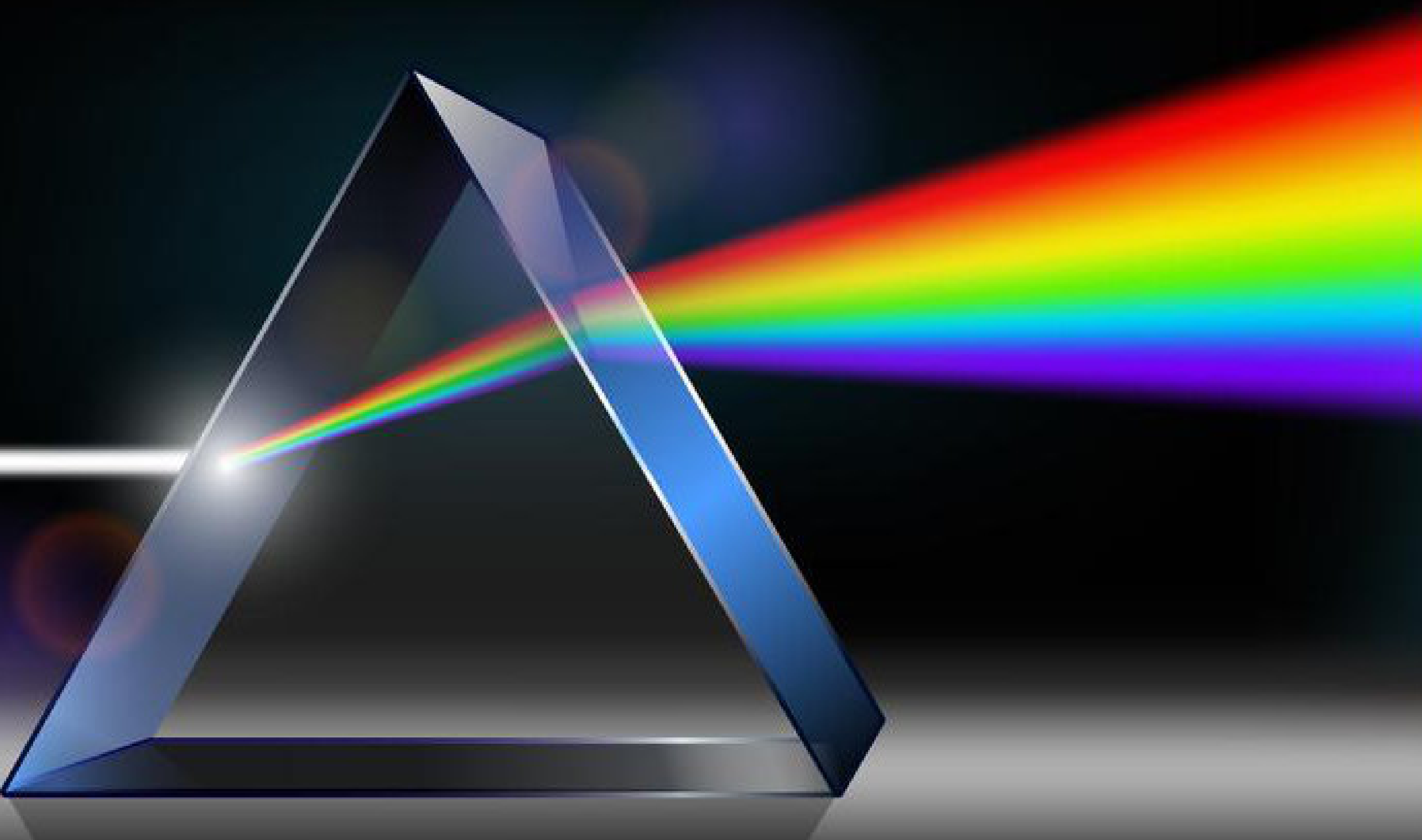
September 11, 2024

PRISM



BIZNOMICS

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THE PRISM (BIZNOMICS) OVERVIEW

End of Artificially Low PMS Prices: Time for Social Safety Nets to Step Up

True to the “Subsidy is gone” announcement of May 29, 2023, Premium Motor Spirit (PMS) prices in Nigeria now range from N855 to N1,400 per litre, more than 4 times the N197 per litre in May last year. The price increase is attributed to an official price review by the NNPC and rising uncertainties, exacerbating the endemic PMS scarcity and resulting in tortuous petrol queues in Nigeria’s major cities. While the adjustment is expected to reduce the annual subsidy spending, consumers are estimated to lose about N5trn-N14.6trn to the government. The resulting income squeeze, increased transportation and logistics costs, and heightened inflation risks deepen the ongoing cost-of-living crisis.

It is now critical to ensure that savings from subsidy removal are directed toward social programs that alleviate this burden. Targeted welfare initiatives, subsidized public transportation, and investments in essential infrastructure are essential to boosting the purchasing power of the most vulnerable. Without these measures, the economic strain will persist, increasing the risk of social unrest and constraining long-term growth prospects. The government must prioritize redistributive policies to ensure the benefits of fiscal adjustments are shared with the groups hardest hit by rising costs.

Education disparities in Nigeria - Addressing the human capital gap

India has become a model for economic growth among emerging markets, averaging at least 7% annual real GDP growth over the past 30 years, and is expected to become the world’s third-largest economy by 2027 based on its GDP size. A critical factor in this success is India's emphasis on education. India’s Human Development Index (HDI), which considers life expectancy, education, and gross national income per capita, increased to 0.644 in 2022 from 0.586 in 2014. In comparison, Nigeria’s HDI in 2022 was 0.548. As Nigeria aims to replicate India’s economic success, the importance of quality education cannot be overstated. According to UNICEF, approximately 18.3 million children in Nigeria are not in school. The dire condition of Nigeria's education sector raises concerns about its future as it struggles to develop a substantial, skilled labor force, which is essential for economic transformation and sustained growth.

In this latest edition of FDC Prism, the Think Tank in-depthly analyzes these recent economic shifts, shedding light on what lies ahead for Nigeria in the coming weeks.

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PRIMARY EDUCATION DISPARITIES IN NIGERIA: THE IMPACT OF UNDERFUNDING IN RURAL AND URBAN REGIONS

The issue of underfunding education has persisted for a long time in Nigeria, and it has been further aggravated by the current economic issues, including Nigeria's total public debts which stood at ₦121.67 trillion(trn) in Q1'24 and debt servicing costing ₦8.27trn. While there were some wins in the 2024 budget— such as the federal government allocating more funds to capital expenditure (₦9.99trn) than to recurrent expenditure (₦8.7trn) for the first time since 1999, only 7.9% of the total budget was allocated to education, well below UNESCO's global benchmark of 15%.[1]

This allocation reflects the widening educational inequalities in infrastructure and the overall dilapidation of the sector, which includes a lack of qualified teachers, low school enrollment, and poor academic performance, with rural schools disproportionately affected. According to UNICEF, approximately 10.5 million children ages 5 to 14 in Nigeria are not in school, the majority of whom are in rural areas.[2] These rural populations often face higher levels of poverty, limiting their ability to invest in education. As a result, many families prioritize immediate economic needs over educational expenses, viewing education as a luxury rather than a necessity.

For those attending schools in the rural regions, approximately 2000 schools lack proper classrooms, with lessons often held under trees or in thatched houses.[3] Notably, in 2022, research revealed a significant deficit of over 260,000 classrooms in public primary schools across 24 states in Nigeria.[4] Key shortages include Kano with 52,176 classrooms, Katsina with 33,241, Akwa-Ibom with 22,204, Kaduna with 22,138, Oyo with 17,914, and Imo with 14,318. It is no surprise that teachers lack motivation, as evidenced by the frequent strikes and a shortage of learning materials in schools across the country. A 2020 survey by the Nigerian Union of Teachers revealed that over 70% of teachers are dissatisfied with their salaries.

Additionally, Primary education is essential for children to learn foundational skills, nurture them for life and work,

[1] UNESCO. (n.d.). "SDG4 Scorecard Dashboard". https://www.unesco.org/en/sdg4scorecard-dashboard

[2] UNICEF. 2022. "Education". https://www.unicef.org/nigeria/education.

[3] Dike, V. 2004. "The State of Education in Nigeria and the Health of the Nation." www.AfricaEconomicAnalysis.org.

[4] Tolu-Kolawole, D. (2022, October 28). "Public schools in 24 states lack adequate classrooms." Punch Newspapers. https://punchng.com/public-schools-in-24-states-lack-adequate-classrooms/

educate them about healthcare, reduce inter-generational poverty, and become active citizens. International research shows that 90% of brain growth occurs by age five, so providing support in those early years is necessary as it impacts their future.[5] The alarming state of the education sector in Nigeria raises concerns about where the nation is going and the critical need for educational reforms, as the nation struggles with producing a sufficiently skilled labor force. This issue must be addressed for Nigeria to secure a prosperous future, as human capital is our most valuable human resource but is currently not being effectively nurtured, this has been reflected in our low human development index (HDI) score of 0.548.

Lessons from India

India's educational reform experience is a contrasting example to Nigeria's. By 2022, India built over 1.4 million schools, increasing the nation's literacy rates from 12% in 1947 to 77.7% in 2022.[6] In 2001, India faced challenges in its education sector, similar to those in Nigeria, including inadequate state support for early childhood education, with disparities in access and quality between urban and rural regions. Urban schools had better resources and literacy levels.[7] A report from the Annual Status of Education Report stated a significant disparity in educational outcomes, with children in rural regions and marginalized communities facing challenges in accessing quality education.[8] The report revealed that 25% of rural youth aged 14 to 18 struggled to read a class II-level text in their regional language.

India implemented the Sarva Shiksha Abhiyan (SSA) to address these issues in 2001, targeting inadequate infrastructure, teacher shortages, gender disparities, and the significant gap in educational access between urban and rural areas. SSA was introduced as a national plan for long-term universal education for children aged 6 to 14, with implementation by the central and state governments alongside local communities. The core aim was to ensure free and mandatory education by 2010. It was launched under the Ministry of Human Resource Development, focusing on removing educational disparities, enhancing school infrastructure, and promoting community involvement in school management.

The programme received over $1.5 billion and aimed to serve 1.1 million households with 193 million children.[9] SSA interventions included opening new schools, constructing additional classrooms, providing toilets and drinking water, teachers, free textbooks, and uniforms. Chaired by the Prime Minister, the strategies central to SSA included institutional reforms carried out by the states, assessing the current state of education, addressing financial constraints, equitable distribution of teachers across schools, recruitment of teachers, monitoring, and evaluation to improve the delivery system for elementary education and ensure sustainable financing. For transparency, they employed community-based monitoring and used habitation as a planning unit. A major focus was given to educating girls and marginalized groups.

The outcomes of SSA included improvements to the existing infrastructure, increased school enrollment, improved teacher-student ratios,

[5] UNICEF. (n.d.). "Primary Education." https://www.unicef.org/education/primary-education.

[6] The Global Hues. 2023, July 19. "A Growth Chart: Scanning India's education sector from 1947 to 2023". The Global Hues | World Meets Media. https://theglobalhues.com/a-growth-chart-scanning-indias-education-sector-from-1947-to-2023/

[7] Banaji, S. 2014. "Indian Education in 2001: an overview." Lse. https://www.academia.edu/595749/Indian_Education_in_2001_an_overview.

[8] ASER Centre. (2023). "ASER 2023 press release." https://asercentre.org/wp-content/uploads/2022/12/ASER-2023-press-release1_English_16-Jan.pdf

[9] Prep, B. E. 2023, November 14. "Sarva Shiksha Abhiyan - Role, Objectives, Importance, SSA UPSC." BYJU'S Exam Prep. https://byjusexamprep.com/upsc-exam/sarva-shiksha-abhiyan-ssa

and reduced numbers of out-of-school children, particularly in rural regions. In 2000, approximately 20.6 million children were not enrolled into primary school. As a report by the World Bank states, since 2001, India's Education for All Programme— SSA has brought nearly 20 million children into primary school. [10]

The way forward- revamping Nigeria's education reforms.

The challenges faced in Nigeria's educational system are well known, and the solutions are not out of reach. Drawing insights from India, the Nigerian government should prioritize transparent funding allocations, build more schools and classrooms, and provide public amenities like toilets, drinking water, educational materials, and uniforms, particularly in rural regions. It should also provide incentives for qualified teachers in those regions because if there are no teachers, there is no class.

Subnational governments cannot do the work alone; they must synergize with local communities to create a favorable learning environment with well-trained teachers. This will increase literacy rates, enhance skill development, and create jobs, ultimately reducing insecurity from economic hardship and a lack of opportunities.

Primary education forms the bedrock of development for a nation. A study conducted in southwest Nigeria showed that the average cost of building the required classrooms per state was ₦5.82bn in 2020, ₦7.82bn in 2021, ₦10.36 bn in 2022, ₦13.59bn in 2023, and ₦17.64 bn in 2024.[11] These costs pertain specifically to the construction of standard classrooms, which include essential features such as furniture, teaching aids, boards, shelves, etc. For context, the total recurrent expenditure (₦8.7 trillion) could have built approximately 640 fully equipped schools in 2023. This shows the opportunity cost of diverting funds to recurrent expenditure, such as luxurious cars purchases, non- essential renovations instead of addressing educational infrastructure needs.

Properly allocating funds to primary education can drive economic transformation by unlocking human potential, diversifying the economy, revitalizing growth sectors, and reducing manpower loss. These recommendations align with the United Nations Sustainable Development Goal 4 (Quality Education), emphasizing inclusive and equitable education, a priority often overlooked in development agendas in Nigeria.

[10] Vyjayanthi, S. 2017. "The learning Conundrum: How to measure and reform children's education in India?" Reuters. https://www.reuters.com/article/idUSKBN16R0O0.

[11] Gambo, O. O., & Adelokun, A. S. 2020. "Time, cost and construction of public primary school classrooms in southwestern, Nigeria (2020 - 2024)". International Journal of Educational Research. https://www.ajol.info/index.php/ijer/article/view/205036a

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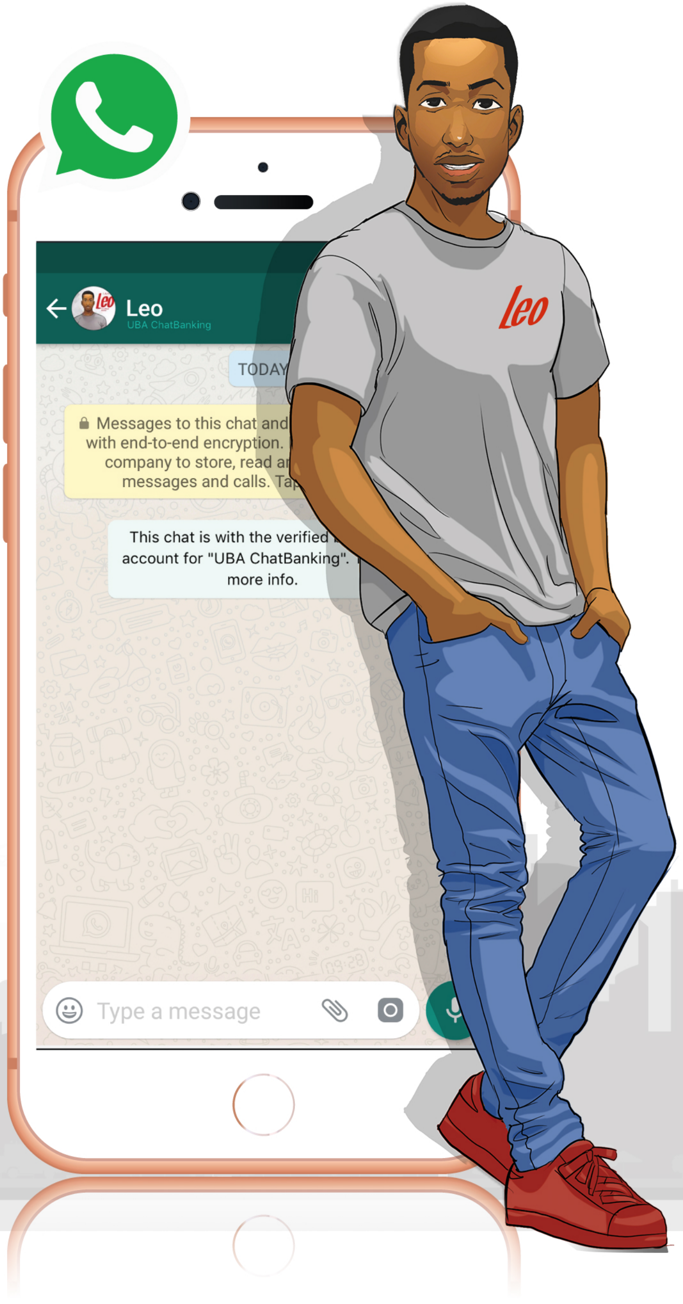
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SUSTAINABILITY-DEBT SWAP – A DELEVERAGING STRATEGY FOR UNLOCKING LONG-TERM GROWTH

"Neither a borrower nor a lender be, for loan oft loses both itself and friend, and borrowing dulls the edge of husbandry." **Shakespeare**

The above quote is Polonius' counsel to his son, Laertes, in the first Act of "Hamlet", one of Shakespeare's masterpieces published in 1603. Indeed, as Shakespeare noted, borrowing could "dull the edge of husbandry" - relying on borrowing can diminish one's ability to manage and "cultivate" resources optimally.

The problem with debt buildup is that it can quicken the debt trap syndrome for anyone; individuals, businesses, nations. Specifically, for a country, the debt trap syndrome is when the country is caught in a spiral with excessive external debt and limited foreign currencies to honor its (external) contractual obligations.

Debt traps create a cycle of financial constraints that stifle a country's economic development aspirations, making them unattainable unless the country breaks free. Worst still, some of the escape options could be a detour to a brick wall of a debt trap loop – a journey that takes you deeper into the trap you want to escape.

Africa's rising debt burden constrains economic growth

Debt distress in Africa is a significant and growing concern. According to a World Bank report in early 2024, nine African countries are in debt distress, with another 29 categorized as high or moderate risk.

TABLE 2A: TEN MOST INDEBTED AFRICAN COUNTRIES (2024)

Rank	Country	Gross Debt-to-GDP ratio (%)	Per Capita income		
			2014	2024*	% change
1	Sudan	256	1,316.27	421.857	-67.95
2	Eritrea	164	20,253.97	31,854.78	57.28
3	Mozambique	101	683.942	659.095	-3.63
4	Republic of the Congo	96.46	512.244	714.763	39.54
5	Egypt	95.8	3,705.47	3,224.87	-12.97
6	Zimbabwe	92.6	1,415.28	2,087.61	47.51
7	Sierra Leone	88.9	713.53	526.587	-26.20
8	Mauritius	85.9	10,366.36	12,973.30	25.15
9	Ghana	84.9	2,003.71	2,229.90	11.29
10	Libya	83	9,166.56	6,975.33	-23.90

Source: IMF, FDC Staff Calculations
a. 2024 is an IMF forecast

Table 2A above shows that Africa houses the countries with the highest debt burdens globally, indicating elevated levels of debt distress and fiscal challenges that heighten sustainability concerns. Over 48% of African countries have gross debt to GDP ratios above the IMF's 70% benchmark for developing and frontier economies.[12] Also, about 30% of the countries that had sovereign default since 2020 are in Africa (Zambia, Ghana, and Ethiopia).

Noteworthy is that the debt problem in Africa is particularly worrisome because most countries cannot repay their rising debt due to low economic productivity and high debt service to revenue ratio. For instance, the US had its gross debt to GDP ratio at 123.8% as of June 2024, higher than more than half of the countries in the table above. However, with a debt service to revenue ratio of 6.8%, the US is not debt-distressed. It does not have to undergo painful reforms or access conditional IMF programmes because of its high productivity levels and repayment capacity—something most African economies lack.

High debt burden has strained public finances in Africa, limiting governments' ability to invest in critical sectors like health and infrastructure, thereby constraining income growth and exacerbating poverty and inequality across the continent. The World Bank estimates that government spending per capita of $84 (compared to the global spending per capita of $1,265.62) is one of the lowest worldwide, negatively impacting output and economic development. This issue is exacerbated by a narrow revenue base, external shocks, diverse creditor landscapes, and high borrowing costs. For instance, Africa's per capita income has also declined by 16.2% to $1,631.22 in 2024 from $1945.55 in 2014. This sharply contrasts the global per capita income, which has risen 20.3% to $13,138.3 in 2024 from $10,918.55 in 2014. In the same vein, Nigeria's per capita income declined by 65.6% to $1,109 in 2024 from $3,222 in 2014. Similarly, in the past ten years, per capita income in Egypt, Libya and Sudan declined by 13%, 24% and 68% to $3,224.87, $6,975.33, and $421.86 respectively.

To mitigate these debt sustainability risks, improve productivity somewhat, and avert the high "risk premium" priced on currencies, especially with credit rating downgrades, most African economies have sought shelter in multilateral agencies like the IMF, World Bank, and the G20 common framework. In the last three years (2022-2024), more than 15 African countries, including Ghana and Egypt, entered IMF programs, restructured domestic and international debt, and implemented reforms to bolster investor confidence and reduce debt burdens. The fundings aims to ease fiscal pressures spurred by external shocks, including the 2020 Covid-19 pandemic and 2022/24 geopolitical tensions (Russia-Ukraine and Israel Gaza war).

However, there are concerns that the IMF support is not a sustainable vehicle for escaping a debt trap.

Will Nigeria be extricated from the debt trap?

Although Nigeria is not in the top ten most indebted African countries, Figure 2.A suggests that Nigeria could be on a path to a debt trap. The debt-to-GDP ratio has risen sharply to 52% in Q1 2024 from 7.3% in 2006, and it is projected to exceed 65% by 2027. In line with the World Bank debt sustainability threshold, a debt-to-GDP ratio in excess of 55% puts a country at a moderate to high risk of debt distress. In

[12] Vera Songwe, Christine Awiti, African Countries' Debt: A Tale of Acceleration at Multiple Speeds and Shades, Journal of African Economies, Volume 30, Issue Supplement_1, November 2021, Pages i14–i32, https://doi.org/10.1093/jae/ejab020

addition, total debt service to revenue ratio has trended above 50% in the 5 years, exceeding 100% in 2022. Thus, Nigeria needs to rethink its debt management strategy with a clear focus on deleveraging (or reducing) its debts through targeted fiscal levers.

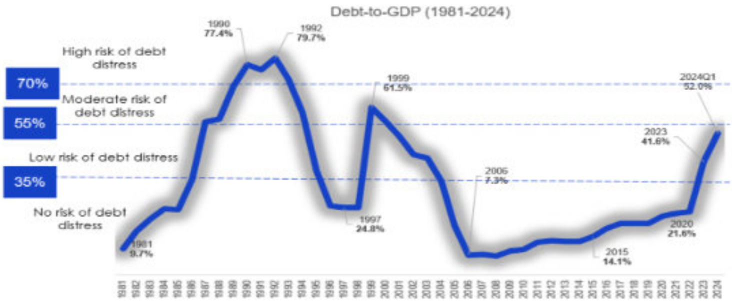

Figure 1: Nigeria's Debt-GDP ratio

It is even riskier to delay the evil days by kicking the can down the road. This is because a rising debt burden coupled with weak repayment capabilities puts Nigeria at the risk of credit rating downgrade by any of the top credit rating agencies (CRAs), including Standard and Poor's, Moody's, and Fitch. CRAs' negative ratings have triggered economic crises in various countries. In the eurozone crisis, downgrades affected Greece, Portugal, and Ireland. In recent episodes of the debt crisis in Africa, CRAs downgrades triggered massive selloff of debts and equity holdings in Zambia and Ghana. Countries with high risk of debt distress should act proactively to prevent default.

One of the most derisked deleveraging strategies is a sustainability debt swap. A sustainability debt swap is a financial arrangement that involves exchanging existing debt obligations for investments in sustainable development projects. This mechanism allows debtor nations to restructure their debt by channeling funds toward initiatives that promote environmental sustainability, social welfare, and economic growth. Nigeria may reduce its debt burden by engaging in sustainability debt swaps and fostering long-term sustainable development goals.

Innovative solution for the twin crisis of debt distress and climate vulnerability

Debt-for-climate swap and debt-for-nature swap initiatives represent innovative forms of sustainability debt swaps that offer veritable solutions for addressing Nigeria's debt problem while advancing environmental and climate goals. These mechanisms involve linking debt relief or restructuring to specific environmental or climate-related actions, thereby deleveraging debts while promoting sustainable development, conservation efforts, and climate resilience.

Debt for climate initiatives involve restructuring sovereign debt repayments in exchange for a verifiable commitment to invest in climate mitigation or adaptation projects. There are three main types of debt-for-climate swaps, namely, bilateral, multilateral, and third-party swap. In a bilateral swap, one of Nigeria's creditor countries may agree to forgive Nigeria's debt in exchange for Nigeria's pledge to allocate the freed-up funds towards approved projects. Multilateral swap is a situation where multiple creditor countries are involved. In the case of third-party swaps, a third party, often a non-governmental organization (NGO), acts as an intermediary between the debtor nation and its creditors to facilitate the agreement. Specifically, the third party buys the debt of a developing country at a discounted rate in the secondary market and then transfers it back to the debtor in return for the government's commitment to raise funds for specific projects.

On the other hand, debt for nature programs involve linking debt relief or restructuring to conservation and biodiversity preservation efforts. The idea of debt-for-nature swap was initially suggested by Thomas Lovejoy[13], the vice president of the World Wildlife Fund, in 1984. The first debt-for-nature swap took place in 1987 between the United States and Bolivia. In this swap, the United States agreed to forgive a portion of Bolivia's debt (estimated at $650,000) in exchange for Bolivia's commitment to allocate funds towards conservation projects within its territory. Other countries that have consummated a sustainability debt swap deal include Seychelles (2018), Barbados (2022), Ecuador (2023), and Gabon (2023). Since the inception of debt-for-nature and debt-for-climate swaps in the 1980s, approximately $3.7 billion has been written off from the face value of debt globally through 145 debt-for-nature swaps.[14] The International Institute for Environment and Development estimates that more than $100 billion of developing countries' debt could be swapped for nature or climate.[15]

Challenges and strategies for successful implementation of sustainability-debt swap

Although a sustainability-debt swap is a win-win strategy, it is associated with some risks. These swaps involve high transaction costs due to multiple stakeholders, leading to lengthy planning and negotiation processes; for example, the Seychelles debt-for-nature swap of 2018 took four years to finalize. One strategy for reducing the high transaction costs is designing term sheets and implementing robust monitoring frameworks. Term sheets streamline negotiations by outlining key terms and conditions, reducing transaction costs and negotiation times.

Another challenge encountered, particularly in debt-for-nature swaps is local community conflicts and land ownership disputes. Bolivia's 1987 swap exemplifies this, as Indigenous people were not consulted about protecting their lands, leading to tensions over logging concessions and traditional activities. To address this, consultations with stakeholders are needed. Stakeholder engagement, including debtor governments, creditors, and development partners, is vital to secure political support and agreement on project implementation.

Overall, debt-sustainability swaps offer significant benefits to countries with high debt burdens and low environmental sustainability investment. Overall, debt-sustainability swaps provide a dual advantage of fiscal relief and environmental sustainability, fostering long-term economic progress and ecological sustainability. By converting debt into funding for environmental projects, these swaps reduce financial pressure, freeing up resources for essential services and fostering macroeconomic stability. They promote sustainable development by financing conservation and climate resilience initiatives, enhancing biodiversity, and mitigating climate change impacts.

[13] Jiang, X. & Cao, H. (2024). CaoImplementing the debt-for-nature swaps for marine protected areas: case studies from Seychelles and Belize. https://www.nature.com/articles/s41599-024-02855-3.pdf

[14] Carbonbrief (2024). Q&A: Can debt-for-nature 'swaps' help tackle biodiversity loss and climate change? https://www.carbonbrief.org/qa-can-debt-for-nature-swaps-help-tackle-biodiversity-loss-and-climate-change/

[15] International Institute for Environment and Development (2024). Debt swaps could release $100 billion for climate action. https://www.iied.org/debt-swaps-could-release-100-billion-for-climate-action

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GLOBAL PERSPECTIVE

GLOBAL INEQUALITY IS NARROWING, AND THAT IS CAUSE FOR CELEBRATION - CULLED FROM FINANCIAL TIMES

Westerners worried about growing disparities at home shouldn't overlook the transformative effect of liberalisation in India and China

Imagine that across the length and breadth of America, working-class wages grew much faster than the incomes of millionaires. Rustbelt states started catching up with their more prosperous coastal counterparts. However, these developments came with a caveat: greater income inequality in Beverly Hills. The paycheque gap between Leonardo DiCaprio and his supporting cast increased. Superhero sequels crushed indie movies at the box office.

Taken as a whole, these developments would be a cause for joyous celebrations. Few would shed a tear for the Golden Globe nominees falling further behind their Oscar-winning colleagues.

Something analogous to this happy fiction has been happening worldwide over roughly the past half-century. While the public discourse focuses overwhelmingly on rising domestic inequality in Western countries, global inequality has fallen sharply, primarily due to the rise of two Asian giants, China and India. In 1980, the two countries accounted for almost 40% of the world's population but only 5% of world income. Today they still make up roughly the same share of the global population but account for a much larger 25% of global income. The global income distribution remains unequal, but not nearly as unequal as it used to be.

Since they started liberalising their economies in the late 20th century, China and India have been utterly transformed from the plodding and insular economies they used to be. In neither country was liberalisation a once-and-for-all event; reforms gathered speed at times and subsided or even reversed at others. Nonetheless, the overall trajectory has been unmistakable.

Both countries registered a step-increase in GDP growth post-liberalisation compared with previous decades. More importantly, the new economic dynamism lifted all boats. Although both countries saw an increase in inequality after liberalising, there was nonetheless rapid income growth even at the bottom of the income distribution. The steep fall in the number of people living in absolute poverty in China and India must count as one of the most dramatic improvements in human welfare in the history of the world. Together, the two countries were responsible for lifting an astonishing 1.1bn people above the international poverty line over the past four decades.

Over the same period, income inequality rose sharply in the West, so much so that it now dominates the political discourse and is one of the chief culprits behind a resurgent populism on both sides of the Atlantic. In most OECD countries, the labour share of income has declined substantially in recent decades, with the gains from economic growth accruing disproportionately to the owners of capital and the highly educated. The US provides a vivid illustration, where GDP per capita has more than doubled since the mid-1980s, but median household income has risen by only about 30 per cent.

These numbers are disturbing and politically consequential. They have fuelled populist attacks on what might be called the liberal economic order: a system of free(ish) trade and cross-border investment, substantial immigration from poor to rich countries, and a rules-based international order adjudicated by institutions such as the World Trade Organization.

But they need to be put in perspective. The US and Western Europe collectively comprise about 11% of the global population. Their deteriorating domestic income distributions must be set against the gains made by much vaster numbers of much poorer people. The economist Branko Milanovic has pointed out that the Theil index — a standard measure of global income inequality — has shown considerable improvement since the 1980s, with widening within-country inequality more than outweighed by narrowing between-country inequality.

How should a universalist — somebody who holds that human life has equal worth irrespective of location — regard the overall trajectory of the past half-century?

The philosopher John Rawls suggested that questions about the just ordering of society should be considered from behind a “veil of ignorance”. If you knew nothing about your attributes — whether you were rich or poor, male or female, Chinese or American — which society would you choose to inhabit: today’s world or the world of 50 years ago? Given that your chances of being Chinese or Indian are roughly two-fifths, while your chances of being a Westerner are about one-tenth, you would almost certainly choose the present. Trouble in Beverly Hills should not obscure the much wider progress of those who live on less elevated ground.

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Seplat Energy Plc

Market Capitalization	₦2.17trn
Current Price	₦3,730.10
Industry	Energy

Analyst's note

Seplat Energy plc was incorporated on June 17, 2009, and became publicly listed on October 3, 2014. As the first indigenous oil and gas exploration and production (E&P) company in Nigeria, Seplat is listed on both the Nigerian Stock Exchange (NSE) and the London Stock Exchange (LSE).

In H1'24, Seplat Energy plc recorded an impressive performance with double-digit growth in its top-line and bottom-line metrics. The company reported a return on assets (ROA) of 2.40% and a return on equity (ROE) of 4.65%, indicating efficient asset and capital utilization to generate profit. Operationally, Seplat achieved an inventory turnover ratio of 4.05, showcasing its effectiveness in converting stock into revenue. With a current ratio of 1.48 and a quick ratio of 1.37, Seplat demonstrates its ability to meet short-term obligations.

In addition to its solid financial performance, the company is expanding its gas production capabilities and actively pursuing renewable energy initiatives, aligning with global transition trends. Seplat's commitment to sustainability is evident in its recent investments in low-carbon energy projects like ANOH gas processing plant , which are expected to reduce its carbon footprint and enhance long-term value for shareholders.

Financial Analysis

Double-digit top-line performance owing to improved crude oil and gas sales

In H1 '24, Seplat Energy plc generated ₦575.1bn in revenue, marking a significant 106.65% increase from the ₦278.3bn recorded in H1'23. This impressive growth was driven by a rise in both crude oil and gas sales. Crude oil sales, which accounted for 85.47% of total revenue, surged by 99.88% to ₦491.53bn in H1'24, compared to ₦245.91bn in H1'23. This increase was primarily due to a 4.38% rise in the average crude oil price, which reached $83.39pb in H1'24, up from $79.89pb in H1'23, owing to elevated geopolitical tensions in the Middle East and cut in OPEC+ global supply.

Similarly, gas sales jumped by 157.54%, reaching ₦83.52bn in H1'24, up from ₦32.43bn in H1'23, as the average gas price for 6M'24 increased by 2.8% to $2.95/MMtu, compared to $2.87/MMBtu in 6M'23.

Operating profit surges on foreign exchange gain

The cost of sales in H1'24 spiked by 137.79% to ₦327.55bn, up from ₦137.75bn in H1'23, owing to increased royalties, crude handling fees and operational & maintenance expenses. Despite the sharp rise in the cost of sales, the company maintained strong profit margins. Gross profit rose by 76.04% to ₦247.49bn in H1'24, up from ₦140.59bn in H1'23, while operating profit soared by 373.64% to ₦285.18bn, compared to ₦60.21bn in the H1'24. The significant rise in operating profit was largely due to foreign exchange gains resulting from the revaluation of Naira-denominated crude oil sales.

Robust bottom-line performance rise in finance costs

Profit-before-tax rose by 462% to ₦244.05bn in H1'24, up from ₦43.45bn in H1'23, despite a 187.41% increase in finance costs, which reached ₦54.12bn in H1'24 compared to ₦18.83bn in H1'23. Additionally, profit-after-tax increased by 61.93% to ₦68.06bn in H1'24, up from ₦42.03bn in H1'23.

Risk and Outlook

Seplat faces various market risks, including foreign exchange, interest rate, and commodity price risks. Additionally, regional operational risks, such as militant activities in the Niger Delta region (most of the company's oil blocks are located there), pose challenges to its operations.

To address these challenges, Seplat has implemented several strategic initiatives. The company manages foreign exchange and interest rate risks by maintaining a strong balance sheet, reducing net debt, and securing favorable financing terms. To combat pipeline vandalism and crude oil theft, Seplat has invested in robust security measures and is collaborating with local communities and the government. Furthermore, Seplat is diversifying its portfolio by expanding into gas production through projects like the ANOH gas plant, which is anticipated to boost revenue and reduce dependence on oil.

BULLS SAY

- Expected completion of Sapele gas plant in H2'24, will likely improve gas production, and exports and eliminate routine gas flaring
- Strong brand recognition and market position
- ANOH gas processing plant expected to commence gas production in Q3'24 which will boost revenue

BEARS SAY

- High interest rates environment
- Pipe vandalism and crude oil theft
- Persistent foreign exchange challenges
- Volatility in international crude oil prices

A PRISM OUTLOOK

Global

- Oil price outlook in the near term is bearish, as OPEC+ revised down its 2024 and 2025 demand forecast. Brent futures are currently trading around $69pb,13% lower than its average of $79pb in the previous month (August 2024). However, the high likelihood that the US Fed will cut rates in its September meeting (Sept 17-18) could put upward pressure on prices.

- The US headline inflation in August slowed for the fifth consecutive month to 2.5%, closer to the Fed's target of 2%. This has increased the chances of rate cuts ahead of the November presidential elections. This is expected to lead to a bullish US stock market performance while weighing on the dollar index, likely lowering borrowing and debt servicing costs for emerging economies.

Domestic

- Brent price below $70pb is unfavorable for Nigeria's government earnings, as it is 12% lower than the budget benchmark of $77.96pb. Lower oil prices also diminish Nigeria's export earnings, which could weigh on the value of the naira.

- However, the naira has maintained relative stability in August, trading between N1,580/$ to N1,670/$. We expect this stability to persist with the naira maintaining this range. The CBN on September 6 sold $20,000 each to BDCs, increasing forex liquidity. The government also raised $900mn in its first domestic dollar bond issuance, which is expected to boost forex supply.

- Headline inflation in August is projected to decline, largely attributed to base effects. However, the recent hike in petrol prices could renew inflationary pressures in subsequent months, which would exacerbate the cost of living crisis and potentially lead to social unrest.

- In the next MPC meeting on September 23 & 24, it is unlikely that the committee would cut interest rates until next year as inflationary pressures persist.

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