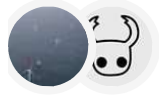


# Seplat Energy and the MPNU Deal

When High Hopes Meet Harsh Realities



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Seplat Energy's acquisition of Mobil Producing Nigeria Unlimited (MPNU) represents a transformative but high-risk transaction:

- **Financial Impact:** Assets show negative post-tax NPV under current terms, with 85% tax burden severely limiting cash flow generation.
- **Growth vs. Risk:** While the deal doubles production and reserves, it requires substantial capital investment (\$475M peak in 2027) with uncertain returns.
- **Key Challenge:** Success depends heavily on transitioning to more favorable tax terms under Nigeria's Petroleum Industry Act - without this shift, the investment thesis becomes difficult to justify.

The transaction positions Seplat as Nigeria's leading independent E&P player but at a potentially unsustainable financial cost under current fiscal terms.

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## Initial Deal Promise vs. Reality

Seplat today published the long-awaited **Prospectus for MPNU** acquisition. The proposed acquisition, which began over two years ago, was heralded as a transformative opportunity. Investors envisioned Seplat doubling its production, bolstering reserves, and solidifying its status as a leading indigenous energy company in Nigeria. The narrative seemed perfect: years of ExxonMobil's underinvestment provided a chance for Seplat to restore productivity and unlock significant value. Optimism surged, buoyed by mechanisms like the lockbox structure and the potential shift to more favorable tax regimes.

Yet, as always, the devil lay in the details, and the picture doesn't look pretty. While the headline numbers appear incredible - showing triple-digit growth in volumes and reserves - the economic reality of the deal (which we have attempted to assess over time) falls far short of expectations.

Working interest volume	Seplat	Enlarged Group	% increase
Production (all assets)	48 kboepd	124 kboepd	158%
2P liquids reserves	226 MMbbl	591 MMboe	162%
2P gas reserves	1,463 Bscf	1,719 Bscf	17%
Total 2P reserves	478 MMboe	887 MMboe	86%

After a flurry of approvals from regulators, ministries, and the Nigerian president, the deal appeared poised to close by year-end. While our timing prediction proved accurate, our broader expectations did not materialize.

In my earlier commentary, I maintained an optimistic outlook. The acquisition structure, underpinned by the lockbox mechanism and the opportunity to capitalize on years of underinvestment by Exxon, appeared to be a masterstroke. Under the PIA, the deal could be not only self-funded at closing, but Seplat could even receive cash (despite an undisclosed Profit Sharing Scheme).



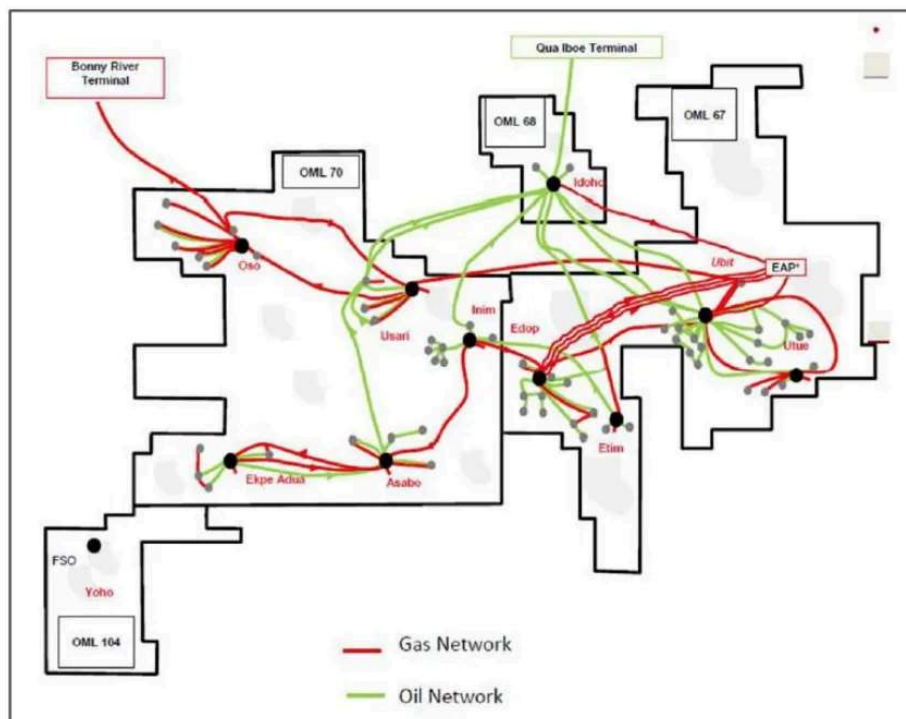
## A Tourist's Musings

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However, markets hate uncertainty. Following a review of the fiscal terms prompted by [Mr. Brown's video commentary](#), I exited my position, as noted in my [X account](#), preferring clarity over speculation. My revised model suggested that while the deal wasn't quite as compelling under the Petroleum Profits Tax regime (PPT), it still presented upside but I was not comfortable with the uncertainties. In hindsight, the final terms seem even worse than my revised model, reinforcing my decision to sell.

The deal's closing now feels like a double-edged sword: while Seplat has undeniably secured its place as Nigeria's leading independent E&P player, the less favorable terms and financial strain leave little room for missteps. This article examines how the deal evolved, why optimism waned, and what the final terms mean for Seplat's future.



OML 67/68/70/104 Gathering Network (Source: MPNU)

## The Financial Reality

The final consideration structure reveals the complex nature of this transaction. The headline price of \$800 million (\$128 million already paid as deposit, \$672 million due)

closing) is just the beginning. Not only was the deal not self-funded as many wished but it adds significant leverage to Seplat.

	US\$ million
<b>Headline Purchase consideration</b>	<b>1283.0</b>
Purchase price Interest/Working Capital/Other	464.1
Contributions	67.3
less leakage	-59.7
Contingent payments	43.5
Adjustments per SPA	515.2
<b>Subtotal</b>	<b>1798.2</b>
Interest on locked box adjustments	42.8
Adjustment for deep water operations	1.0
Intercompany Receivables adjustment	784.2
Locked box adjustments	740.4
<b>Adjusted Purchase Consideration to Exxon</b>	<b>1057.8</b>
Deposit paid in February 2022	-128.3
Deferred Amount	-257.5
<b>Balance payable at completion</b>	<b>672.0</b>

There's an additional \$257.5 million deferred to December 2025 for decommissioning and abandonment, and JV costs, though the net after-tax impact on MPNU is expected to be more modest at \$25-35 million. The deal also includes contingent payments of up to \$300 million over five years (2022-2026), of which \$43 million is already due for 2022 and 2023. Apart from this, the analysis of MPNU's financial structure reveals a concerning picture dominated by two critical issues: an overwhelming tax burden and challenging capital expenditure requirements that threaten future free cash flow generation.

## The Crushing Tax Burden

The most striking revelation from the prospectus is the crushing tax burden these assets operate under. While the Petroleum Profits Tax (PPT) rate of 85% might not seem unexpected in isolation, its practical impact on cash flows has proven more severe

than anticipated. Historical analysis demonstrates the magnitude of this burden: in past three years, taxes consumed 81%, 87%, and 88% of operating cash flow, leaving minimal resources for growth initiatives or shareholder returns. How did ExxonMo allow this to happen? The main winner here is the Nigerian government:

**Statement of cashflows**

**Financial information: Three years ended 31 December 2023**

		31 Dec 2023	31 Dec 2022	31 Dec 2021
	Notes	\$'000	\$'000	\$'000
<b>Cash flows from operating activities</b>				
Cash generated from operations	28	1,092,099	1,441,767	725,780
Litigation and lawsuits paid	23	(3,263)	(52,037)	(22,352)
Contributions to pension fund	21	-	-	(36,920)
Post retirement benefits paid	21	(3,682)	(4,348)	(4,825)
Severance benefit paid	23	(2,011)	(993)	(899)
Payment for dismantlement, restoration and abandonment		-	-	(13)
Tax paid	27	(962,816)	(1,254,290)	(582,809)
<b>Net cash inflows generated from operating activities</b>		<b>120,327</b>	<b>130,099</b>	<b>77,962</b>

This tax regime's impact becomes even more apparent when examining Net Present Value (NPV) calculations. Despite showing significant pre-tax potential with 2P NF of \$7.2 billion at a 0% discount rate, the assets' post-tax NPVs turn deeply negative most reasonable discount rates. Even with a relatively generous 10% discount rate for Nigeria's challenging jurisdiction, the post-tax NPV ranges from negative \$836 million to positive \$2 billion, depending on reserve categorization. This stark reality helps explain ExxonMobil's strategic withdrawal and raises fundamental questions about the acquisition's value proposition under current terms.

Table 1.16: Post and Pre-Tax Net Present Values of MPNU Net Entitlement Reserves as of 30 June 2024

Net Present Values as of 30 June 2024 (USD millions)						
Discount Rate	Post Tax			Pre Tax		
	1P	2P	3P	1P	2P	3P
0%	-2,957	-1,263	1,534	-1,386	7,203	22,945
5%	-1,521	197	2,324	-134	6,330	16,664
10%	-836	527	2,007	410	5,227	12,298
15%	-491	545	1,600	644	4,315	9,413
20%	-308	485	1,275	738	3,621	7,483

Notes

1. The values exclude corporate overheads
2. The NPVs do not necessarily represent fair market value

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## Capital Expenditure Requirements, Production Outlook and Challenges

After the final consideration to be paid to Exxon, the second thing we looked at was the ability of MPNU to generate FCF in the last few years. Well, the answer was surprising for the worse. As expected, MPNU's CAPEX since the deal was announced was reduced to the bare minimum, which confirms that ExxonMobil was certain that it didn't want to continue operating the licences included in MPNU.

### Cash flows from investing activities

Acquisition of other property, plant and equipment	12	(7,626)	(17,652)	(27,
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Here is also the Cost of Sales.

<b>(US\$ millions)</b>	<b>Half 2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Royalties	182.09	381.02	525.35	354.82
DD&A	274.50	534.79	616.37	536.71
Others	-	-30.29	29.79	-63.68
Inventory Fluctuations	26.77	-	-	-
NDDC Levy	6.01	14.17	15.54	16.38
HCD Fund	4.40	6.20	13.06	-
Mutualised research expenses	1.40	4.01	4.35	6.30
Materials and consumables	7.04	13.34	15.93	16.53
Logistics	58.13	105.27	106.14	94.60
Facilities insurance	11.39	24.97	26.03	26.65
Well work	2.78	4.95	7.58	3.97
Repairs and maintenance	77.48	116.33	135.50	125.71
	651.98	1174.76	1495.64	1117.98

The prospectus includes some forecasts for the expected production, CAPEX and OPEX, and they are more bitter than sweet. As expected, the CAPEX in the next few years has to make up for the lower investment level since the deal was first signed. This will increase the group's CAPEX to unseen figures.

Table 13.2: Facilities CAPEX and OPEX Forecasts

Year	CAPEX	OPEX
	(USD million – Real 2024)	(USD million – Real 2024)
2024	113	750
2025	312	1,561
2026	391	1,564
2027	595	1,555
2028	372	1,548
2029	275	1,509
2030	227	1,507
2031	226	1,507
2032	228	1,507
2033	145	1,505
2034	137	1,505
2035	103	1,504
2036	103	1,504
2037	94	1,503
2038	258	1,508
2039	103	1,504
2040	103	1,504
2041	103	1,504
2042	103	1,504
2043	103	1,504
2044	149	1,505
2045	94	1,503
2046	103	1,504
2047	103	1,504
2048	103	1,504
2049	94	1,503
2050	93	1,503
<b>TOTAL</b>	<b>4,837</b>	<b>40,080</b>

Table 16.5: Total Oil Production and CAPEX Forecast

Year	Total											
	Developed Producing			Developed Non Producing				CAPEX (USD MM)	Undeveloped			CAPEX (USD MM)
	Oil Rate (stb/d)			Oil Rate (stb/d)			Oil Rate (stb/d)					
Low	Best	High	Low	Best	High	Low	Best	High				
2024	124,943	149,864	174,314									
2025	101,867	131,101	158,070	5,631	7,544	11,808	39	94	126	194	16	
2026	78,582	110,877	140,171	21,975	31,218	49,492	114	7,360	9,769	15,218	202	
2027	61,849	95,053	125,449	21,516	32,416	52,515	13	21,508	30,202	47,679	333	
2028	49,342	82,445	112,997	18,604	28,772	47,536	14	32,867	47,073	75,459	527	
2029	39,476	71,429	102,076	16,162	26,220	43,991	28	39,758	57,581	92,631	526	
2030	32,450	62,586	93,485	12,839	21,730	37,535	13	46,215	67,876	108,707	381	
2031	26,679	55,385	85,245	10,566	18,532	32,564	13	51,855	76,241	122,666	303	
2032	21,776	49,250	78,368	7,755	14,614	26,186	13	53,433	80,811	131,091	396	
2033	18,072	43,926	71,607	6,172	12,019	21,862	13	54,579	86,239	140,534	406	
2034	15,266	39,801	66,529	4,875	9,545	17,970		54,959	89,609	146,965	383	
2035	12,898	36,307	62,163	3,824	7,483	14,479		53,368	89,424	147,585	325	
2036	11,165	33,116	58,151	3,063	6,194	11,852		51,860	88,692	147,124	181	
2037	9,688	30,285	54,466	2,414	5,031	9,670		44,693	78,194	131,162		
2038	8,397	27,820	51,195	1,987	4,183	8,158		37,281	66,906	113,917		
2039	7,382	25,584	48,423	1,668	3,618	6,891		29,824	55,898	97,206		
2040	6,527	23,565	46,113	1,393	3,156	5,910		22,324	44,767	80,488		
2041	5,757	21,789	43,821	1,198	2,697	5,105		14,710	33,393	63,785		
2042	5,036	20,397	41,830	1,013	2,384	4,498		9,217	23,643	49,146		
2043	4,449	19,159	39,734	871	2,129	3,924		6,354	16,712	37,107		
2044	3,991	18,076	37,767	722	1,895	3,482		4,417	10,782	27,178		
2045	3,569	16,961	35,771	648	1,692	3,107		3,828	7,832	20,587		
2046	3,190	15,919	34,194	567	1,463	2,737		3,279	6,796	14,581		
2047	2,877	14,968	32,750	504	1,308	2,428		2,845	6,029	11,106		
2048	2,608	14,050	31,612	447	1,160	2,134		2,384	5,394	9,698		
2049	2,354	13,298	30,257	395	986	1,867		1,857	4,894	8,727		
2050	2,130	12,638	29,116	336	895	1,666		1,672	4,321	7,838		
Total (MMstb) / (USD MM)	219.2	424.1	657.1	53.7	90.9	156.8	261	238.3	397.8	675.1	3,979	

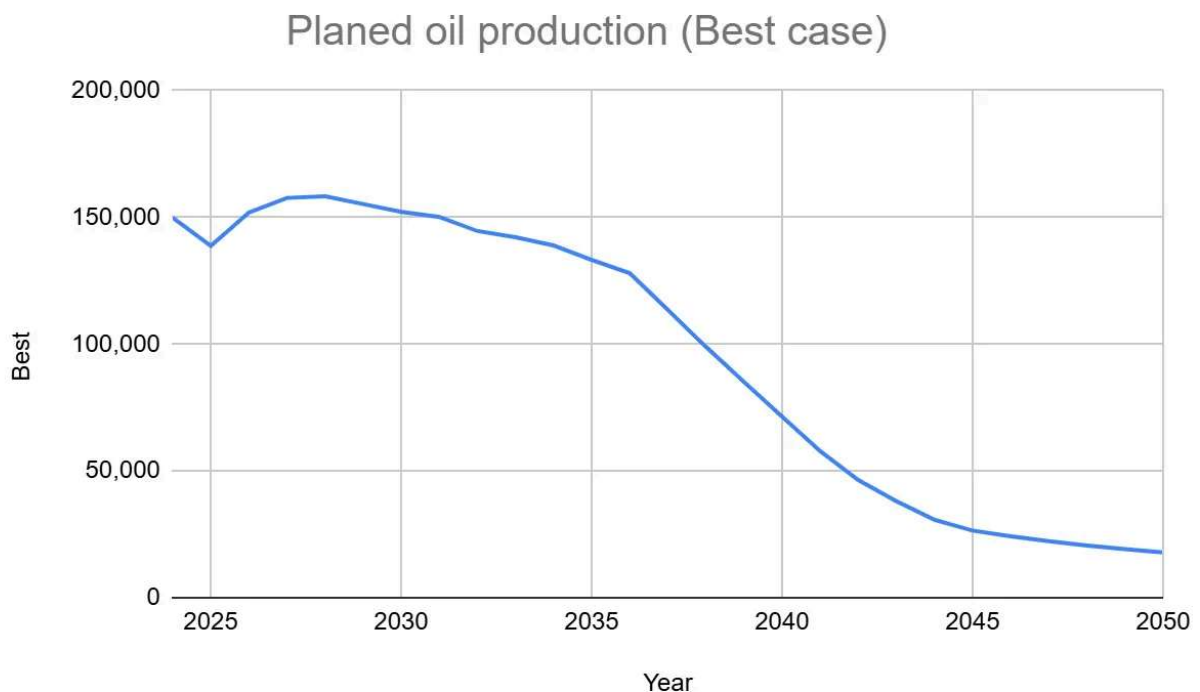
Notes:

To add some context, this year's CAPEX is expected to be around \$200 million and investment in production growth required by OMLs 67, 68, 70 and 104 alone will be \$312 (\$125 net) million in 2025, growing to \$595 (\$238 net) million in 2027. Despite t being huge numbers, it's not the only CAPEX required by these OMLs.

Hence, Seplat will need to optimize its cash generation capacity in the coming year task that appears challenging based on the recently disclosed post-tax cash flow fro operations (CFFO) figures.

6M 2024, \$million	Seplat	MPNU	Pro-Forma	% Change
Revenue	422	1034	1456	+245%
Adjusted EBITDA	267	533	800	+199%
Pre-tax CFFO	226	422	648	+187%
Post-tax CFFO	174	36	210	+21%

The gross oil production in the following years will be more or less flat even after the projected insane levels of CAPEX. The future production curve is the following:



One may think that this heightened CAPEX would substantially increase the production of the fields, but there is a series of commitments that are not related to production growth or decline compensation. For example, these 2 items alone will result in a net expenditure of \$56 million per year without resulting in additional barrels.

- \$575 million over seven years (2026-2032) for platform structural repairs which covers repair of 23 platforms
- \$411 million over seven years (2027-2034) for pipeline replacement program

See 13.3. Capital Expenses of the Prospectus (gross figures)

With the total CAPEX for facilities (on top of the production CAPEX) reaching staggering figures as high as \$842 (\$337 net) million in 2027.

**Table 16.8 : Total Facilities CAPEX and OPEX Forecast (RT'24)**

Year	Developed Producing OPEX and CAPEX		Developed Non-producing Activities		Undeveloped Activities	
	CAPEX (USD MM)	OPEX (USD MM)	CAPEX <sup>1</sup> (USD MM)	OPEX (USD MM)	CAPEX <sup>1</sup> (USD MM)	OPEX (USD MM)
2024	113	750				
2025	308	1,544	3	17		
2026	370	1,479	55	64	21	20
2027	547	1,431	137	64	158	60
2028	336	1,400	27	56	214	92
2029	246	1,346	23	51	42	112
2030	200	1,330	35	43	90	134
2031	198	1,317	19	37	44	153
2032	198	1,308	18	30	25	168
2033	125	1,297	16	25	39	183
2034	117	1,290	15	21	39	194
2035	88	1,285	1	17	35	202
2036	88	1,281	1	15	14	208
2037	80	1,283	1	13	13	207
2038	221	1,291	2	13	35	204
2039	89	1,293	1	13	14	198
2040	90	1,302	1	13	13	188
2041	90	1,316	1	14	12	173
2042	92	1,335	1	15	11	153
2043	93	1,354	1	17	9	132
2044	137	1,381	2	19	10	106
2045	87	1,395	1	19	6	89
2046	96	1,401	1	18	6	85
2047	97	1,405	1	18	6	81
2048	97	1,408	1	17	5	79
2049	88	1,411	1	15	5	77
2050	88	1,415	1	15	5	73
TOTAL	4,380	36,049	367	660	870	3,371

Seplat will experience a monstrous net CAPEX of \$475 million, \$447.2 million and \$346 million in 2027-2029. How would Seplat's stake in MPNU cover these investments without requiring external funds?

There is additional upside in the NGL and natural gas production, plus the midstream assets of the group, but oil production will still become the largest contributor to th

top line of Seplat's financials. Even with more benign fiscal terms, the natural gas and midstream segment cannot compensate for the situation for the oil production.

Thus, the company will barely generate any FCF from these assets in the following years. So, it is highly likely that the company needs additional cash from the existing businesses to maintain this high level of investment. This has already been recognized in the risks section:

**2.2 The operations and development activity of the Group, MPNU and, post Completion, the Enlarged Group requires significant capital expenditures and may require additional funding.**

The Group's, MPNU's and, following Completion, the Enlarged Group's business requires significant capital expenditures for exploration, appraisal, development, maintenance, production and processing infrastructure, and in the future, the Group, MPNU and, following Completion, the Enlarged Group may seek additional financing to fund its operations beyond current committed and planned expenditures. As part of the Group's oil and gas development strategy Seplat has grown and, Seplat plans to continue growing, the Group's and, following Completion, the Enlarged Group's production base as well as reserves and resources through both organic activities such as drilling wells and improving efficiency and strategic acquisitions. Although the Group, and, following Completion, the Enlarged Group expects that the Acquisition and conversion of reserves and resources will contribute to increased revenues, the development, acquisition and/or implementation of these projects will require substantial investment and their success is uncertain. If the Group's, MPNU's and, following Completion, the Enlarged Group's development projects face delays or are not successful in increasing their revenues, it could have a material adverse impact on their business, results of operations, cash flows, financial condition and prospects.

The prospectus gives a grim outlook of high CAPEX levels, sustained oil production rate and additional financial resources to finance these plans. It is not the idea we had when we first approached this deal and we believed in the potential of OMLs 67, 68 and 104. We anticipated a large CAPEX increase the years after the deal was closed but we didn't foresee the very low FCF yield and enormous CAPEX for facilities. In view of these facts, the deal is a hard to swallow pill for shareholders. We thought it was a steal for Seplat, now we see Exxon made the better deal.

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# Implications for Seplat's Future

In summary, the prospectus is clear and leaves no room for interpretation: the MPN assets have a negative post-tax NPV under the current fiscal framework. This alone makes the transaction a risky gamble, hinging on the Nigerian government's willingness to transition these assets to the more favorable Petroleum Industry Act (PIA) tax regime.

For those who may consider the potential upside, this deal isn't about the present or even immediate future value of these licenses—it's about a bet on fiscal reform. If, and only if, the government approves the transition to PIA, these assets will become profitable, generating enough cash flow to justify the acquisition cost. Until then, they remain a liability, with high costs and limited returns.

At present, the 'old' Seplat—with its existing portfolio and the upcoming ANOH portfolio—is more profitable than the enlarged 'new' Seplat.

	Seplat	MPNU	Adjustments	Unaudited pro forma Enlarged Group result
	<i>(US\$ million)</i>			
Revenue from contracts with customers.....	1,061.3	2,102.5	-	3,163.8
Gross Profit.....	532.0	927.7	-	1,459.7
Operating Profit.....	249.4	662.9	(87.4)	824.9
Profit before tax from continuing operations.....	191.2	570.1	(155.5)	605.8
Tax.....	(67.3)	(502.2)	124.5	(445.0)
<b>Profit after tax.....</b>	<b>123.9</b>	<b>67.9</b>	<b>(31.0)</b>	<b>160.8</b>

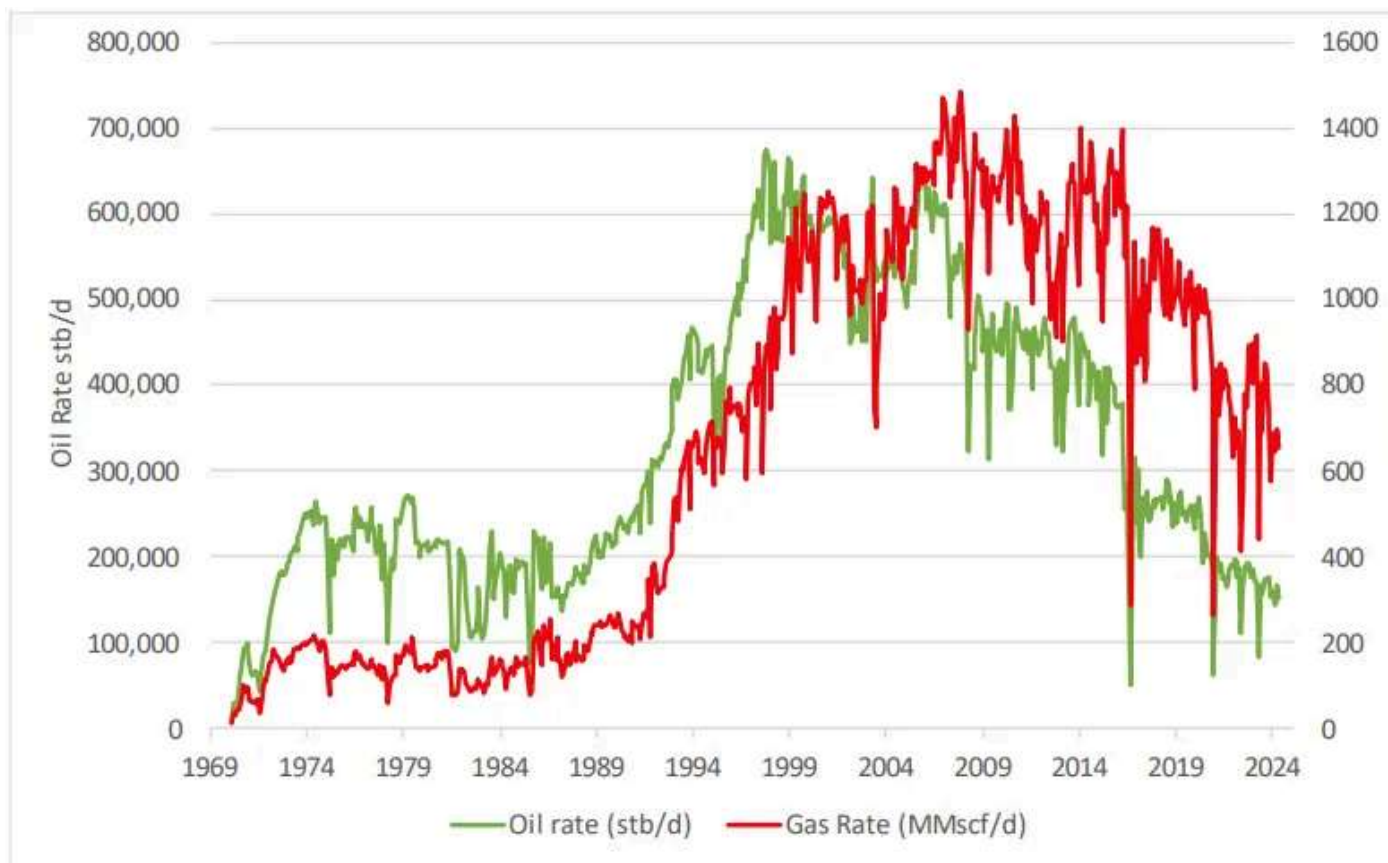
*Unaudited Pro Forma Income Statement of the Enlarged Group for the year ended 31 December 2023*

The decision to ramp up production without securing PIA terms first risks significant value destruction. While management may believe this signals commitment to the government and strengthens their case for reform, it's a gamble that assumes the government will act rationally and prioritize long-term oil and gas production over

immediate fiscal needs. Unfortunately, as the deal's two-and-a-half-year delay demonstrates, there's little evidence to support such optimism.

Investing in Seplat at this juncture is, therefore, a speculative bet on three key developments:

1. Ramping up production: Seplat must reverse years of underinvestment in MPN assets to restore meaningful production growth to pre-COVID levels. The company needs to achieve a production growth that exceeds the forecasts outlined in the Prospectus.
2. Transition to PIA: Without a transition to the PIA fiscal framework, even improved production won't salvage the negative NPV of these assets. The lack of certainty is evident in statements such as ERCE's disclosure: "Seplat Energy Offshore Ltd (SEOL) has informed ERCE that the expectation is that at some stage the assets will be under the terms of the PIA. It is currently unclear when this would happen." Such ambiguity does little to inspire confidence.
3. The 2026/27 story: Only in the medium term, contingent on both successful fiscal reform and production ramp-up, could the cash flow profile of the MPNU assets justify their acquisition price.



Historical Production of OMLs 67, 68, 70 and 104

This acquisition must be viewed within the broader context of International Oil Companies (IOCs) retreating from Nigeria. Recent high-profile divestments—**Equinor's \$1.2 billion exit** and **TotalEnergies' \$860 million departure**—paint a clear picture: major players are voting with their feet. While security concerns, theft, and regulatory uncertainty are often cited as driving factors, the fundamental issue is simpler: the economics no longer make sense. Operating under an 85% tax burden in a mature basin is difficult to justify when more attractive opportunities exist elsewhere globally.

The pattern is telling: while Nigerian officials speak of attracting foreign investment, their reluctance to transition these assets to the more balanced PIA tax regime undermines such rhetoric. Indigenous firms like Seplat and Chappal Energies are stepping into the void left by departing IOCs. While this might appear to present opportunities to acquire assets at attractive valuations, these local players inherit th

same structural challenges that drove their international counterparts away. Without meaningful tax reforms or regulatory improvements, the apparent advantages of the acquisitions could quickly evaporate.

Even under these optimistic scenarios, the risks remain substantial. Nigeria is a challenging jurisdiction with high discount rates—15% is conservative, and 20% might still be too low for a realistic risk-adjusted valuation. Even considering 3P reserves (proven, probable, and possible), the numbers barely provide a margin of safety for investors.

Ultimately, this deal reflects management's belief in the long-term story. However, for the average investor, it's a difficult proposition. Most would rightly avoid risking capital on the assumption that the Nigerian government will act decisively to support reform. The more prudent strategy is to stay on the sidelines and wait for clear signs of progress—whether that's fiscal reform, successful production ramp-up, or significant improvements in cash flow generation.

As it stands, Seplat faces a tough road ahead. Without fiscal transition, the risks outweigh the rewards, and significant value destruction is a real possibility. Investors should remain cautious and approach this story with skepticism until the company secures better—and fairer—fiscal terms.

*Disclaimer: This post includes the first impressions after reading the prospectus released to investors. A final analysis will be completed in the next few days and our conclusions may change for better or the worse. We will not publish a follow-up unless we see a significant divergence from the views shared here. We may publish some additional thoughts on Twitter/X, follow us there if you are interested. This text is not a recommendation in any way; it's just the opinions of the authors.*



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Another oil and gas tourist 2d

Author

That's why we also looked at the capex required the next years. More capex may lower the tax bi Seplat will have to pay those record levels of CAPEX. The situation may progressively improve aft 2027, but without a significative increase in production, it's impact will not last long. The PIA regi critical here.

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2 replies by Another oil and gas tourist and others



John Radcliffe 2d

The last three tax years will have little to no expenditure on drilling or other operations that can contribute to lessoning the tax burden so focussing your assessment on these is misleading.

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