

Fortunes Turn on Account of Border Closure

Strong CPO Sales Powers Topline Growth

In 2020FY, Okomu Oil Palm Plc. delivered topline growth of 24.08% YoY to NGN23.41bn. This growth was fueled by better Crude Palm Oil (CPO) sales, which expanded by 29.17%YoY (to NGN20.50bn, from NGN15.87bn in 2019FY). CPO sales benefitted from the Federal Government's border closure directive (which ran from August 2019 – December 2020), which limited smuggling across the country's porous borders, encouraged domestic patronage and provided local players the leeway to implement price increases as CPO prices were increased by c. 22% (according to company management). In contrast, the company's rubber business was severely affected by slower demand last year (consistent with the trend observed globally), as well as logistics (port-related) bottlenecks. Oversupply of rubber in the international market, combined with the impact of the coronavirus pandemic, which necessitated the shutdown of tyre factories worldwide, exerted downward pressure on rubber revenue (which the company exports). This brought revenue from rubber sales down by 2.89% year on year to NGN2.91bn (vs. NGN2.94bn recorded in 2019FY). **While we expect local CPO demand to remain strong, we are concerned that the reopening of the borders may facilitate increased smuggling of cheap CPO into the country. Hence, we forecast a 12.46% YoY growth in revenue to NGN26.33bn (vs. NGN23.41bn in 2020FY).**

Revenue Growth Passes Through to Bottom Line

Production costs rose in line with revenues (+30.78% YoY to NGN7.70bn), particularly influenced by the significant upswing in raw material and consumable costs (+22.90% to NGN5.29bn). This, in turn led to a mild contraction in gross margin to 67.12%, from 68.80% in 2019FY. Administrative expenses also grew (+32.14%) - as management fees increased to NGN1.91bn from NGN1.02bn in 2019FY, pushing up operating expenses to NGN6.80bn, from NGN5.63bn in the prior year.

Quite notably, interest income dipped by 97.96% YoY to NGN7.13mn owing to a much lower interest rate environment witnessed in 2020FY. Finance costs also tumbled to NGN70.23mn from NGN189.40m in 2019FY as the company enjoyed a 5.00% reduction on its cost of debt [mainly the Differentiated Cash Reserve Requirement (DCRR) loan extended by the CBN] during the year. This alongside the lower effective tax rate of 4.55% (vs. 13.11% in 2019FY) contributed to bottom-line expansion (translating to an improvement in net margin to 33.23% vs. 26.76% recorded in the previous year). **We see scope for improved profitability over 2021FY, premised on our expectation of a slight moderation in production costs, as well as favourable CPO prices as business conditions pick up. Also, we note that a higher crude oil price environment typically bodes well for CPO prices (since CPO is a substitute for crude oil in biofuel).**

Interest Coverage Ratio Sees Unusual Spike

Although Okomu's total debt grew from NGN8.97bn in 2019FY to NGN11.37bn last year, finance costs slumped to NGN70.23mn (vs. NGN450.31mn as at 9M:2020) – while interest coverage surged to 126.85x (vs. 38.83x in 2019FY and 5-year average of 21.94x). This is partially explainable by the reduction on interest rates on both its Bank of Industry (BoI) and DCCR loan facilities (**our efforts to reach out to the company's management for clarity received no response as at the time of writing**).

Outlook and Recommendation

Premised on our 2021FY expected EPS of NGN9.34 and target PE of 11.75x, we arrived at a Target Price of NGN109.75. This represents a 15.52% upside potential when compared to its closing price as of 29th April 2021. Hence, we place a **BUY** recommendation on the ticker.

Company	OKOMUOIL
Valuation	
EPS	8.16
BVPS	36.46
P/E	11.65x
P/BV	2.61x
Target PE	11.75x
Dec-2021 Exp. EPS	9.34
Dec 2021 Target price	109.75
Current Price	95.00
Up/Downside Potential	+15.52%
Ratings	BUY
Key metrics	
RoAE	24.33%
ROAA	15.78%
Net margin	33.23%
Asset Turnover	0.43x
Leverage	1.54x
Share Price Statistics	
Yr Hi	95.00
Yr Lo	60.55
YTD return	-1.10%
Beta	0.69
Adjusted Beta	0.79
52-wk average volume	2,943,333,000
Shares outstanding	0.95bn
Market cap [NGN]	90.62bn
Financial year end	December
Most Recent Period (MRP)	2020FY

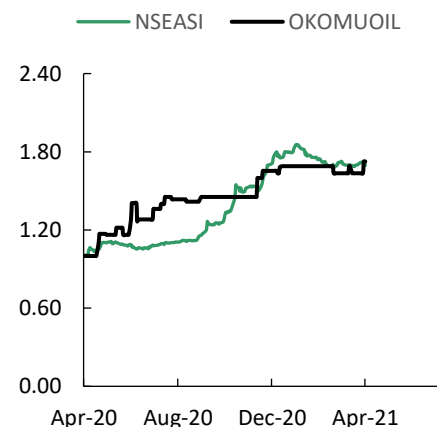


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	103.49
EPS						Max	120.36
		9.24	9.29	9.34	9.39	9.44	
Target PE	11.20x	103.49	104.05	104.61	105.17	105.73	
	11.25x	103.95	104.51	105.08	105.64	106.20	
	11.75x	108.57	109.16	109.75	110.33	110.92	
	12.25x	113.19	113.80	114.42	115.03	115.64	
	12.75x	117.81	118.45	119.09	119.72	120.36	

Financial Highlights (NGN'bn) Okomu Oil Palm Plc. 2020FY Audited Results

Profit & Loss Account	2020FY	2019FY	y/y Growth
Revenue	23.41	18.87	24.08%
Cost of Sales	7.70	5.89	30.78%
Gross Profit	15.71	12.98	21.04%
Net Operating Expenses	6.81	5.63	20.92%
Operating Profit	8.91	7.35	21.14%
Finance Income	0.01	0.35	-97.96%
Finance Cost	0.07	0.19	-62.92%
Gain on Disposal of Assets	-	0.01	-100.00%
PBT	8.85	7.52	17.58%
PAT	7.78	5.05	54.08%
Balance Sheet	2020FY	2019FY	y/y Growth
Inventories	4.81	3.73	28.83%
Trade and Other Receivables	6.72	5.05	33.01%
Cash and Bank	4.57	2.68	70.17%
Bearer Biological Assets	19.40	18.20	6.56%
Property and Equipment	19.52	13.92	40.18%
Total Assets	55.01	43.60	26.19%
Shareholders' fund	34.78	29.18	19.18%
Trade and Other Payables	2.31	1.30	77.19%
Deferred Tax Liabilities	1.57	1.68	-7.00%
Total Liabilities	20.23	14.42	40.36%

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Movements in Price Target

Company Name: Okomu Oil Palm Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
30-April-2021	95.00	N/A	109.75	N/A	BUY

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Company	Disclosure
Okomu Oil Palm Plc	

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