

Price Uptrend Drives Performance

Topline Growth Sustained

In its H1:2021 financial scorecard, **OKOMUOIL** registered solid double-digit revenue growth. Topline soared to a new high of NGN23.63bn, representing a 74.67% year-on-year increase from NGN13.53bn in H1:2020. On a product basis, CPO revenue (which accounts for c.90% of total revenue) expanded by 71.80%YoY – a combination of slightly improved production volumes (+6.57%YoY to 30,800tons in H1:2021) and, more significantly, higher prices (+58.03%YoY to NGN610,000 per ton in H1:2021). The firm's move to increase price was influenced by the global surge in the price of CPO – **a ripple effect of the increased export levy in Indonesia (from USD55 to USD255 per tonne), and the labor shortage in Malaysia (both of which jointly account for c.84% of global production)**. Clearly, the reopening of the land borders in December 2020 had negligible impact on the company's performance as the global surge in prices gave domestic players the leeway to increase prices. Rubber sales also grew by 106.91%YoY as rubber prices rose to NGN579,000 per tonne (vs NGN425,000 per tonne in H1:2020).

So far in the year, the tyre factories worldwide have rebounded from the impact of the shutdown in 2020. On this note, we see further improvement in price and sales volumes, translating into better rubber revenues in 2021FY. While we anticipate robust local demand of CPO, we see a case for a reduction in prices as farmers' inventory levels increase during the harvest season (which typically characterizes the second half of the year). Thus, we project an 81.53%YoY growth in 2021FY revenue to NGN42.50bn (vs. NGN23.41bn in 2020FY).

Increased CAPEX Investment

Despite the increase in cost of sales by 79.32%YoY to NGN1.94bn, gross profit remained resilient, edging upwards by 74.26%YoY to NGN21.68bn in H1:2021, supported by the growth in revenue. Although net operating expenses advanced by 38.05%YoY to NGN9.16bn, operating profit climbed to NGN12.53bn from NGN5.81bn in H1:2020 (*Operating margin: 53.02% vs. 49.25% in H1:2020*) hinged on the solid growth in topline. Overall, PBT and PAT grew substantially by 126.17%YoY and 137.98%YoY to NGN12.45bn and NGN9.54bn, respectively. **Hinged on our expectation of robust revenue growth, we project a bottom-line increase of 74.11%YoY to NGN13.55bn in 2021FY.**

In the first half, total assets expanded to NGN60.20bn from NGN55.01bn as of year-end 2020. Given that revenue grew at a faster pace, asset utilization improved slightly, evidenced by the total asset turnover ratio of 0.58x in H1:2021 (vs. 0.47x in 2020FY). During the period, CAPEX expanded by c.43%YoY, indicating a CAPEX intensity ratio of 11.92% vs. 14.58% in H1:2020. The company is actively taking steps to ramp up its asset base as the 5Mw turbine, (*which will generate enough power for its extensions*), will be commissioned before the end of the year. The firm is also moving to further increase CAPEX spending for the rest of the year as efforts are in place to ensure the establishment of its first oil mill by 2021FY. **Thus, we have modeled an increase in CAPEX (CAPEX intensity: 25.00%) for the rest of 2021FY. Our projections for CAPEX spending and revenue should deliver a total asset turnover of 0.61x by 2021FY (vs. 0.47x in 2020FY).**

Recommendation

Premised on our 2021FY expected EPS of NGN13.88 and revised target PE of 8.36x, we arrived at a target price of NGN116.04. This represents a 5.49% upside compared to the ticker's closing price as of 19th August 2021. Hence, we recommend a **HOLD** on the ticker.

Company	OKOMUOIL
Valuation	
Trailing EPS	13.95
BVPS	39.66
P/E	11.00
P/BV	2.77
Target PE	8.36x
Dec-2021 Exp. EPS	13.88
Dec 2021 Target price	116.04
Current Price	110.00
Up/Downside Potential	+5.49%
Ratings	HOLD
Key metrics	
ROE	36.66%
ROA	23.10%
Net margin	39.72%
Asset Turnover	0.58
Leverage	1.59
Share Price Data	
Year High	116.50
Year Low	75.00
YTD return	+20.88%
Beta	0.73
Adjusted Beta	0.82
Shares outstanding	0.95bn
Market cap [NGN]	104.93bn
Financial year end	December
Most Recent Period (MRP)	H1:2021

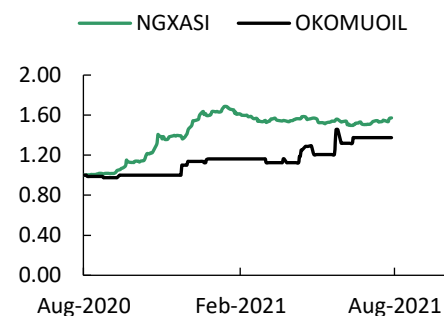


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2021 Target Price to key model inputs						Min	107.62
						Max	130.85
						EPS	
		13.78	13.83	13.88	13.93	13.98	
Target PE	7.81x	107.62	108.01	108.40	108.79	109.18	
	7.86x	108.31	108.70	109.10	109.49	109.88	
	8.36x	115.20	115.62	116.04	116.45	116.87	
	8.86x	122.09	122.53	122.98	123.42	123.86	
	9.36x	128.98	129.45	129.92	130.38	130.85	

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	H1:2020	H1:2021	2021F	2022F	2023F	2024F	2025F
Revenue	13.53	23.63	42.50	48.81	53.94	60.77	64.60
Cost of sales	1.08	1.94	14.63	16.55	16.16	19.12	20.87
Gross Profit	12.44	21.68	27.87	32.27	37.78	41.65	43.73
OPEX	6.63	9.16	9.72	11.24	11.63	13.20	14.27
Other Income							
Operating Profit	5.81	12.53	15.53	17.80	21.99	23.75	24.28
Finance Cost	0.31	0.08	0.67	0.71	0.65	1.13	1.04
PBT	5.50	12.45	15.05	17.20	21.20	22.50	23.07
PAT	4.01	9.54	13.24	14.62	19.08	20.25	18.92

<i>Balance Sheet</i>	2020FY	H1:2021	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	38.91	40.84	58.04	67.01	90.13	98.97	108.27
Total Debt	11.37	10.78	13.37	17.74	21.65	26.76	32.97
Total Assets	55.01	60.20	84.86	92.82	99.21	106.60	114.24
Total Equity	34.78	37.83	44.82	53.79	63.10	71.47	73.19
Total Current Liabilities	6.31	8.39	19.14	22.95	34.10	29.78	38.47
Non-Current Liabilities	13.93	13.97	19.44	24.10	27.96	33.76	40.35
Total Liabilities	20.23	22.36	40.03	39.03	36.11	35.13	41.06

<i>Financial Ratios</i>	H1:2020	H1:2021	2021F	2022F	2023F	2024F	2025F
Gross Margin	77.85%	74.47%	65.58%	66.10%	70.05%	68.53%	67.70%
Operating Margin	27.39%	46.63%	36.55%	36.46%	40.77%	39.07%	37.59%
Net Margin	27.39%	39.72%	31.16%	29.95%	35.37%	33.32%	29.29%
Return on Asset	14.02%	23.10%	18.93%	16.46%	19.87%	19.68%	17.13%
Return on Equity	21.59%	36.66%	33.27%	29.65%	32.64%	30.10%	26.16%
Return on Invested Capital	13.20%	18.52%	21.60%	18.08%	21.39%	22.13%	19.45%
Asset Turnover	0.51	0.58	0.61	0.55	0.56	0.59	0.59
Financial Leverage	1.54	1.59	1.76	1.80	1.64	1.53	1.53
Debt to Asset Ratio	0.22	0.18	0.16	0.19	0.22	0.25	0.29
Debt to EBIT Ratio	1.83	0.86	0.86	1.00	0.98	1.13	1.36
Current Ratio	3.22	2.31	1.40	1.12	0.27	0.26	0.16
Quick Ratio	2.17	1.14	1.03	0.70	0.01	-0.11	-0.17

(Q1- First-Quarter); (H1- First-Half); (H2- Second Half) (FY- Full Year); (F- Forecast)

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Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

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
25-May-2021	96.50	109.75	127.04	BUY	BUY
20-Aug-2021	110.00	127.04	116.04	BUY	HOLD

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Okomu Oil Palm Plc	

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