

Revenue Hits Record High

Price Uptrend Drives Robust Topline Growth

Since the start of year 2021, Okomu Oil Palm Plc has ridden on price rally to drive strong financial performance. The company's revenue grew strongly in the first three quarters of year 2021 (79.73%, 69.26% and 45.66% year-on-year respectively). In Q4:2021 standalone, the firm recorded a 32.52%YoY increase in revenue to NGN6.35bn. This performance overshoot the firm's Q4:2021 forecast of NGN5.23bn by 22.49%.

Cummulatively, revenue for 2021FY stood at NGN37.39bn (vs NGN23.41bn in 2020FY). On a product basis, Crude Palm Oil (CPO) sales grew by 55.25%YoY to NGN31.83bn. Earlier in the year, the firm attributed this growth to an increase in its CPO prices (+58.03%YoY to NGN610,000 per ton in H1:2021). The increase in local CPO prices was a direct consequence of the global price uptrend for CPO, largely resulting from the global supply constraints in key producing regions. The company also recorded significant growth in its rubber sales (representing 14.88% of total revenue). In 2021FY, rubber prices soared; reaching a 7-year high on account of heightened demand as chips (a key rubber derivative) become more heavily embedded in technological products. As a result, revenue from rubber segment soared by 91.30%YoY to NGN5.56bn in 2021FY. **For year 2022, we remain optimistic about improvement in rubber prices. We expect continued strong demand for rubber to drive prices higher. We also anticipate robust local demand of CPO. Our expectation is fueled by better demand for CPO derivatives (such as confectionaries, pasteries, animal feed, pharmaceuticals etc.). Thus, we maintain our growth projection of 19.00%YoY in 2022FY revenue to NGN44.50bn (vs. NGN37.39bn in 2021FY).**

Profitability Metrics Unfettered by Higher Cost Pressures

In 2021FY, direct costs for Okomu Oil Palm Plc surged by 60.12%YoY (higher than the growth in revenue: +59.73%YoY). The rise in cost of sales was mainly on the back of high costs of raw materials (+68.06%YoY), which constitutes 71.85% of its total production costs. Consequently, cost to sales ratio slightly worsened from 25.85% in 2020FY to 25.91% in 2021FY. Thus, gross margin for **OKOMUOIL** declined marginally to 74.09% (vs 74.15% in 2020FY).

Operating expenses increased significantly by 47.82%YoY to NGN12.89bn due to an increase in its external charges (+108.11%YoY) and management fees (+48.14%YoY), respectively. Nonetheless, operating profit increased by 74.72%YoY to NGN16.61bn resulting from substantial increase in topline (operating margin: 44.42% vs 40.61% in 2020FY). The company recorded a higher finance income (+586.33%YoY), as revenue on fixed deposits came in higher during the year. However, finance cost tapered by **22.68%YoY** to NGN0.67bn, despite an increase in the company's interest-bearing liabilities to NGN8.89bn (vs NGN7.27bn in 2020FY). During the year, the firm took up a NGN2.00bn loan from Central Bank of Nigeria. However, we note that this loan has a one-year moratorium, implying that this has no impact on its finance cost for year 2021. Overall, PBT and PAT grew substantially by 85.34%YoY and 292.15%YoY to NGN16.11bn and NGN11.54bn respectively in 2021FY. We note the restatement of financials carried out by the company, as it failed to recognize deferred tax liabilities in 2020FY. This resulted in a higher tax expense (+344.65%) and hence a lower PAT than was earlier recorded in 2020FY (restated 2020FY PAT: NGN2.94bn vs earlier stated 2020FY PAT: NGN7.78bn). **We still expect cost of raw materials to remain persistently high. We factored in the structural challenges faced with oil palm production locally as well as the impact of the current inflationary pressures. However, we still project a bottom line increase of 28.04%YoY to NGN14.77bn in 2022FY, hinged on robust topline growth.**

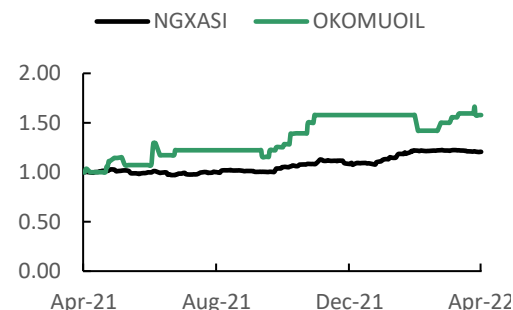
Improvement in Earnings Quality

The firm's working capital in 2021FY at NGN6.85bn came in lower than the recorded value in 2020FY (NGN8.70bn). This is mainly due to the decline in its Trade receivables by 88.25% on a year-on-year basis. Consequently, its liquidity ratios declined (current ratio: 1.77x vs 2.18x in 2020FY; quick ratio: 1.24x vs 1.58x in 2020FY). However, its cash ratio spiked to an all-time high of 1.13x, suggesting high earnings quality as Trade receivables now constitute 2.11% of revenue (quality of earnings ratio: 2.09x).

Recommendation

Premised on our 2022FY expected EPS of NGN15.49 and target PE of 10.11x, we arrived at a target price of NGN156.59. This represents an 10.27% upside when compared to the ticker's closing price as of 7th April 2022. Hence, we recommend a **BUY** on the ticker.

Company	OKOMUOIL
Valuation	
EPS	12.10
BVPS	0.83
P/E	9.44
P/BV	2.65
Target PE	10.11x
Dec-2022 Exp. EPS	15.49
Dec 2022 Target price	156.59
Current Price	142.00
Up/Downside Potential	10.27%
Ratings	BUY
Key metrics	
ROE	36.82%
ROA	19.05%
Net margin	30.86%
Asset Turnover	0.62
Leverage	1.93
Share Price Data	
Year High	149.70
Year Low	127.80
YTD return	+0.00%
Beta	0.14
Adjusted Beta	0.43
Shares outstanding	0.95bn
Market cap [NGN]	135.33bn
Financial year end	December
Most Recent Period (MRP)	2021FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	154.04
						Max	159.16
						EPS	
						15.39	15.44
						15.49	15.54
						15.59	
Target PE	10.01x	154.04	154.54	155.04	155.54	156.04	
	10.06x	154.81	155.31	155.81	156.32	156.82	
	10.11x	155.58	156.08	156.59	157.09	157.60	
	10.16x	156.35	156.85	157.36	157.87	158.38	
	10.21x	157.11	157.62	158.14	158.65	159.16	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Revenue	23.41	37.39	44.50	48.50	53.84	59.22	65.15
Cost of sales	6.05	9.69	10.17	10.68	11.22	11.78	12.37
Gross Profit	17.36	27.71	34.33	37.82	42.62	47.45	52.78
OPEX	8.72	12.89	14.43	15.88	17.30	18.69	20.18
Other Income	0.86	1.79	2.15	2.64	3.22	3.90	4.72
Operating Profit	9.51	16.61	22.04	24.59	28.54	32.66	37.32
Finance Cost	0.87	0.67	0.81	0.98	1.21	1.40	1.63
PBT	8.69	16.11	21.39	23.88	27.70	31.66	36.14
PAT	2.94	11.54	14.77	16.26	18.57	20.89	23.82

Balance Sheet	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	19.52	30.55	31.19	32.53	33.22	33.91	34.63
Total Debt	7.41	8.97	10.14	9.22	8.84	8.44	8.06
Total Assets	55.36	65.77	70.98	74.72	77.36	82.48	85.61
Total Equity	28.63	34.05	36.17	38.12	39.28	41.01	41.50
Total Current Liabilities	7.40	8.84	12.60	13.73	13.82	15.33	15.42
Non-Current Liabilities	19.34	22.88	22.21	22.87	24.26	26.14	28.69
Total Liabilities	26.73	31.72	34.81	36.60	38.08	41.47	44.10

Financial Ratios	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Gross Margin	74.15%	74.09%	77.14%	77.98%	79.17%	80.11%	81.02%
Operating Margin	40.61%	44.42%	49.53%	50.70%	53.02%	55.15%	57.28%
Net Margin	12.57 %	30.86%	33.20%	33.52%	34.49%	35.27%	36.57%
Return on Asset	5.95%	19.05%	21.61%	22.32%	24.42%	26.14%	28.35%
Return on Equity	10.18%	36.82%	42.08%	43.77%	47.99%	52.03%	57.75%
Asset Turnover	0.47	0.62	0.65	0.67	0.71	0.74	0.78
Financial Leverage	1.93	1.93	1.96	1.96	1.97	2.01	2.06
Debt to Asset Ratio	0.13	0.14	0.14	0.12	0.11	0.10	0.09
Debt to EBIT Ratio	0.78	0.54	0.46	0.38	0.31	0.26	0.22
Current Ratio	2.18	1.77	1.41	1.38	1.47	1.46	1.55
Quick Ratio	1.58	1.24	1.00	0.97	1.05	1.04	1.11

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

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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
20-Aug-2021	110.00	127.04	116.04	BUY	HOLD
07-Apr-2022	142.00	158.02	156.59	BUY	BUY

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Okomu Oil Palm Plc	

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