

Robust Topline Growth Enhances Margins

Quarterly Revenue Hits All-Time High

Okomu Oil Palm Plc kicked off the 2022 financial year with an impressive performance. In the first quarter of the year, the company reported 63.18% YoY growth in revenue to NGN20.49bn, as the rally in global crude palm oil prices pushed revenue to its highest level. Sales from crude palm oil, which makes up 92.14% of its total revenue, grew significantly by 66.56%YoY to NGN18.87bn in Q1:2022. The rising demand for palm oil globally (particularly triggered by the more expensive alternative oils such as sunflower oil and rapeseed oil) has further spurred higher CPO prices across the globe. Consequently, imports of expensive CPO (from Malaysia) into the Country reduced by 76.54%YoY in the first quarter of the year. **In our opinion, this gave local producers such as OKOMUOIL the leeway to drive both production volumes and palm oil prices higher.** Revenue from its rubber exports also expanded to NGN1.61bn in Q1:2022 (vs NGN1.22bn in Q1:2021), reflecting the heightened demand for rubber. **For the rest of the year, we still expect the local demand for palm oil to remain strong (as CPO imports remain relatively expensive). In addition, we anticipate favourable oil palm prices as the heightened demand for crude palm oil further pressures prices upwards. We also expect higher rubber sales as demand for rubber remains strong in the international market. A combination of these factors is expected to propel a 31.00%YoY revenue growth to NGN48.99bn.**

Earnings Shun Cost Pressures

The firm's cost of production grew in line with topline, increasing significantly by 504.08% YoY to NGN2.89bn in Q1:2022. Consequently, cost to sales ratio deteriorated to 14.12% in Q1:2022 (vs. 3.81% in Q1:2021). Hence, gross margin worsened to 85.88% in Q1:2022 (vs. 96.19% in Q1:2021), despite the increase in gross profit (from NGN12.07bn in Q1:2021 to NGN17.59bn in Q1:2022). Meanwhile, net operating expenses declined by 23.43% YoY to NGN3.89bn in Q1:2022 (vs. NGN5.08bn in Q1:2021). Consequently, operating margin rose to 66.88% (vs 55.70% in Q1:2021), as operating profit settled higher by 95.93%YoY to NGN13.70bn in Q1:2022.

There was a notable increase in finance cost (+470.29% YoY) to NGN134.90mn, despite the interest-bearing liabilities remaining flat at NGN11.26bn (vs NGN11.26bn in 2021FY). Overall, PBT and PAT grew substantially by 94.68% YoY and 80.19% YoY to NGN13.57bn and NGN9.50bn, respectively. **While we project an increase in cost of production and operating expenses (a consequence of the rising inflationary pressures in the economy), we retain a positive outlook for profitability premised on robust topline growth. Hence, we expect bottom-line to increase by 20.89%YoY to NGN17.86bn in 2022FY.**

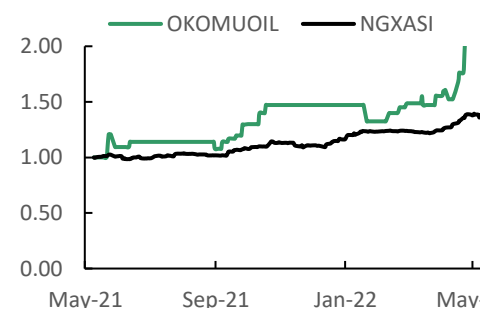
Coverage Ratio Still at Sustainable Levels Despite Higher Finance Costs

Due to the spike in finance cost by 470.29% YoY to NGN134.90mn in Q1:2022, the interest coverage ratio declined to 101.57x in Q1:2022 (vs. 295.62x in Q1:2021). However, we note that the firm is still well able to service its debts as its interest coverage ratio remains at favourable level when compared with its African peers – Presco Plc (**PRESCO**) and Al jouf Agriculture Development (**JADCO**), with an interest coverage ratio of 85.96x and 126.75x, respectively. In our view, we consider the company to be modestly levered with Debt to Equity, Leverage, and Debt to Asset ratios at 0.28x, 1.86x and 0.15x in Q1:2022 (vs. 0.36x, 1.93x and 0.19x in 2021FY).

Recommendation

Premised on our 2022FY expected EPS of NGN18.72 and target PE of 11.74x, we arrived at a target price of NGN219.73. This represents a 13.56% upside when compared to the ticker's closing price as of 2nd June 2022. Hence, we recommend a **BUY** on the ticker.

Company	OKOMUOIL
Valuation	
Trailing EPS	16.53
BVPS	45.65
P/E	11.71
P/BV	4.24
Target PE	11.74x
Dec-2022 Exp. EPS	18.72
Dec 2022 Target price	219.73
Current Price	193.50
Up/Downside Potential	13.56%
Ratings	BUY
Key metrics	
ROE	40.63%
ROA	21.50%
Net margin	41.99%
Asset Turnover	0.62
Leverage	1.86
Share Price Data	
Year High	215.00
Year Low	127.80
YTD return	+36.27%
Beta	0.25
Adjusted Beta	0.50
Shares outstanding	0.95bn
Market cap [NGN]	183.83bn
Financial year end	December
Most Recent Period (MRP)	Q1:2022



Analyst

Mosunmola ADEOYE

mosunmolaadeoye@meristemng.com

+234 (812) 110 5615

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	216.70
						Max	222.79
EPS							
		18.62	18.67	18.72	18.77	18.82	
Target PE	11.64x	216.70	217.28	217.86	218.44	219.03	
	11.69x	217.63	218.21	218.80	219.38	219.97	
	11.74x	218.56	219.15	219.73	220.32	220.91	
	11.79x	219.49	220.08	220.67	221.26	221.85	
	11.84x	220.42	221.01	221.61	222.20	222.79	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	Q1:2022A	Q1:2021A	2022F	2023F	2024F	2025F	2026F
Revenue	20.49	12.55	48.99	60.69	76.57	86.27	97.84
Cost of sales	2.89	0.48	10.78	11.99	13.49	14.67	15.16
Gross Profit	17.59	12.08	38.21	48.70	63.08	71.60	82.67
OPEX	3.89	5.08	15.41	17.33	22.75	24.63	27.01
Operating Profit	19.65	27.87	36.36	42.45	50.53	33.82	39.57
Finance Cost	0.13	0.02	0.70	0.72	0.77	0.81	0.86
PBT	13.57	6.97	21.01	29.69	38.79	45.24	53.74
PAT	9.50	5.27	17.86	26.73	34.91	40.72	48.37

Balance Sheet	Q1:2022A	2021A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	49.71	49.66	53.91	58.52	66.15	74.31	83.78
Total Debt	12.10	12.20	13.05	17.93	22.58	25.04	25.91
Total Assets	80.88	65.77	84.29	96.04	120.54	135.55	154.99
Total Equity	43.55	34.05	44.91	49.75	62.36	69.15	80.98
Total Current Liabilities	14.39	8.84	15.75	20.88	23.94	27.80	30.34
Non-Current Liabilities	22.93	22.88	23.63	25.41	34.25	38.59	43.67
Total Liabilities	37.33	31.72	39.38	46.29	58.18	66.39	74.01

Financial Ratios	Q1:2022A	Q1:2021A	2022F	2023F	2024F	2025F	2026F
Gross Margin	85.88%	96.19%	78.00%	80.25%	83.00%	84.50%	81.02%
Operating Margin	66.88%	55.70%	40.11%	45.92%	47.49%	49.21%	51.65%
Net Margin	41.99%	29.04%	36.46%	44.03%	45.60%	47.20%	49.44%
Return on Asset	21.50%	10.21%	23.81%	28.29%	28.98%	27.29%	27.18%
Return on Equity	40.63%	19.74%	45.24%	53.40%	54.43%	50.71%	49.27%
Asset Turnover	0.62	0.48	0.65	0.65	0.56	0.53	0.50
Financial Leverage	1.86	1.93	1.88	1.90	1.86	1.85	1.78
Debt to Asset Ratio	0.15	0.19	0.15	0.19	0.19	0.20	0.18
Debt to EBIT Ratio	0.71	1.14	0.66	0.71	0.73	0.75	0.69
Current Ratio	2.14	1.77	1.51	1.68	1.94	2.00	2.11
Quick Ratio	1.73	1.24	1.14	1.40	1.66	1.74	1.86

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

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
 isaacnaolapo@meristemng.com (+234 803 234 8275)
 contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
 seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
 crmwealth@meristemng.com
 Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
 martinaosague@meristemregistrars.com (+234 802 303 1783)
 www.meristemregistrars.com
 Tel: +23401-280 9250

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
 trustees@meristemng.com

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
 ifeomaogalue@meristemng.com (+234 802 3942967)
 info@meristemng.com

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
 car@meristemng.com

Investment Research

damilareojo@meristemng.com
 praiseihansekhien@meristemng.com
 research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

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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
07-Apr-2022	142.00	158.02	156.59	BUY	BUY
02-June-2022	193.50	158.02	219.73	BUY	BUY

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Okomu Oil Palm Plc	

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