

OKOMUOIL's Revenue Hits All-Time High

Price Rally Drives Topline

Supply constraints from the top producers of Crude Palm Oil (CPO) as well as higher prices of its substitutes (sunflower oil, soybean oil, and rapeseed oil) triggered a rally in global CPO prices. Thus, global CPO price grew in 2022 (+12.86% YoY). This trickled down to Okomu Oil Palm Plc. (**OKOMUOIL**)'s 2022FY financial performance as it increased its CPO price by 43%, leading to a stellar performance in the financial period. Hence, revenue from CPO, accounting for 90.40%, soared by 69.20% YoY in 2022FY. Conversely, rubber sales declined by 1.22% YoY to NGN5.50bn despite the 7% increase in rubber prices. This is attributable to lower rubber production by 13.00%, following an attack on the company's rubber plantation by terrorists. Cumulatively, **OKOMUOIL**'s revenue for 2022FY grew by 58.64% YoY to NGN59.32bn (vs. NGN37.39bn in 2021FY). **For 2023FY, our revenue outlook is positive primarily driven by the expectation of higher CPO sales volume which is anticipated to be propelled by increased demand for CPO and its derivatives. However, we expect a deceleration in revenue growth hinged on a moderation in global CPO prices which is expected to slow local CPO prices. Therefore, we project revenue to come in at NGN76.74bn (vs. NGN59.32bn in 2021FY).**

Cost Pressures Dampen Profitability Margins

In the period, production costs grew by 44.56% YoY to NGN16.99bn mainly due to the adverse impact of the heightened inflationary pressures on input costs. Nevertheless, cost to sales ratio and gross margin improved to 0.29x and 71.36% (vs. 0.31x and 68.57% in 2021FY), respectively. Operating expenses also climbed by 101.79% YoY to NGN16.05bn. Notwithstanding, Earnings Before Interest and Tax (EBIT) grew by 52.20% YoY to NGN22.55bn bolstered by the strong topline growth. However, operating margin declined to 38.02% (vs. 39.63% in 2021FY) due to higher cost pressures. Finance cost shot up by 59.51% YoY to NGN1.07bn due to increased interest-bearing obligations (NGN9.97bn vs. NGN8.89bn in 2021FY) obtained to expand its operational capacity. Consequently, interest coverage ratio declined to 21.05x (vs. 22.07x in 2021FY). Similarly, its Debt-to-Equity and Leverage ratios increased to 0.29x and 2.13x (vs. 0.26x and 1.93x in 2021FY), respectively, while its Debt-to-Asset ratio remained unchanged at 0.14x. Overall, Profit Before Tax (PBT) and Profit After Tax (PAT) expanded by 45.94% YoY (NGN23.52bn vs. NGN16.11bn in 2021FY) and 40.66% YoY (NGN16.23bn vs. NGN11.54bn in 2021FY), respectively. Nonetheless, net margin declined to 27.36% (vs. 30.86% in 2021FY) owing to the remarkable increase in turnover. **While we expect the recently commissioned oil mill at Extension 2 with a capacity of 30 ton/hr, which is expected to commence operations in 2023, to improve productivity, the high inflationary environment is anticipated to keep costs elevated. However, we expect the topline growth to positively impact earnings. Hence, we project a bottomline increase of 18.12% YoY to NGN19.17bn in 2023FY.**

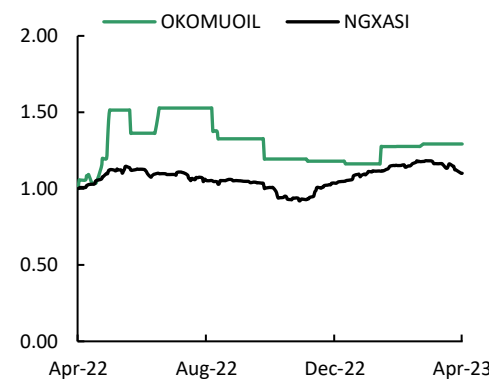
Trade Payables Drag Liquidity Metrics

We highlight that **OKOMUOIL**'s earnings quality edged down to 1.44x (from 2.09x in 2021FY) due to a decline in net operating cashflow. Also, the firm's liquidity ratios – current and quick ratios declined to 1.11x and 0.70x (vs. 1.77x and 1.24x in 2021FY), respectively, owing to a spike in trade payables by 132.84% YoY to NGN2.83bn (vs. NGN1.21bn in 2021FY). This signifies a reduced ability to settle short term obligations as they fall due.

Recommendation

We revise our 2023FY target price to NGN194.96 on the back of an expected EPS of NGN20.10 and a target P/E of 9.70x. This represents an upside potential of 6.24% to its closing price of NGN183.50 on April 13, 2023. Hence, we rate the ticker a **HOLD**.

Company	OKOMUOIL
Valuation	
EPS	17.02
BVPS	35.68
P/E	9.13
P/BV	5.14
Target PE	9.70x
Dec-2023 Exp. EPS	20.10
Dec 2024 Target price	194.96
Current Price	183.50
Up/Downside Potential	6.24%
Ratings	HOLD
Key metrics	
ROaE	51.79%
ROaA	23.48%
Net margin	27.36%
Asset Turnover	0.82
Leverage	2.13
Share Price Data	
Year High	183.50
Year Low	165.00
YTD return	+11.21%
Beta	0.84
Adjusted Beta	0.89
Shares outstanding	0.95bn
Market cap [NGN]	175.04bn
Financial year end	December
Most Recent Period (MRP)	2022FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	180.31
						Max	210.11
EPS							
						19.60	19.85
						20.10	20.35
						20.60	
Target PE	9.20x	180.31	182.61	184.91	187.21	189.51	
	9.45x	185.21	187.57	189.93	192.29	194.66	
	9.70x	190.11	192.53	194.96	197.38	199.81	
	9.95x	195.01	197.49	199.98	202.47	204.96	
	10.20x	199.91	202.46	205.01	207.56	210.11	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Revenue	37.39	59.32	76.74	91.43	108.74	129.59	154.47
Cost of sales	11.75	16.99	20.39	24.47	29.36	35.23	42.28
Gross Profit	25.64	42.33	56.35	66.96	79.38	94.36	112.19
OPEX	7.95	16.05	26.86	32.00	38.06	45.36	54.06
Other Income	1.79	1.78	2.92	3.47	4.13	4.92	5.87
Operating Profit	14.82	22.55	24.62	29.61	35.40	42.40	50.71
Finance Cost	0.67	1.07	1.15	1.23	1.32	1.44	1.55
PBT	16.11	23.52	26.63	32.14	38.54	46.28	55.50
PAT	11.54	16.23	19.17	24.10	28.91	34.71	41.63

Balance Sheet	2021A	2022A	2023F	2024F	2025F	2026F	2026F
Property, Plant and Equipment	30.55	38.07	44.08	46.96	50.66	55.36	61.23
Total Debt	8.89	9.97	11.83	13.27	15.01	16.92	19.12
Total Assets	65.77	72.50	82.38	92.71	106.00	122.17	146.17
Total Equity	34.05	34.03	40.99	44.04	49.04	56.97	69.88
Total Current Liabilities	8.84	13.92	14.81	16.69	19.80	23.29	27.40
Non-Current Liabilities	22.88	24.54	26.58	31.98	37.16	41.91	48.48
Total Liabilities	31.72	38.46	41.39	48.67	56.96	65.20	76.28

Financial Ratios	2021A	2022A	2023F	2024F	2025F	2026F	2026F
Gross Margin	68.57%	71.36%	73.43%	73.24%	73.00%	72.81%	72.63%
Operating Margin	39.63%	38.02%	32.09%	32.39%	32.56%	32.72%	32.83%
Net Margin	30.86%	27.36%	24.98%	26.36%	26.58%	26.79%	26.95%
Return on average Asset	19.05%	23.48%	25.88%	27.53%	29.09%	30.43%	31.02%
Return on average Equity	39.92%	51.79%	51.11%	56.69%	62.11%	65.49%	65.63%
Asset Turnover	0.57	0.82	0.93	0.99	1.03	1.06	1.06
Financial Leverage	1.93	2.13	2.01	2.11	2.16	2.14	2.09
Debt to Asset Ratio	0.14	0.14	0.14	0.14	0.14	0.14	0.13
Debt to EBIT Ratio	0.60	0.44	0.48	0.45	0.42	0.40	0.38
Current Ratio	1.77	1.11	0.76	0.72	0.64	0.54	0.44

(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
11-Aug-2022	216.90	219.73	219.73	BUY	BUY
13-Apr-2023	183.50	158.02	156.59	BUY	HOLD

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Okomu Oil Palm Plc	

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