

Nigeria Palm Oil Sector. (Okomuoil.NL & Presco.NL)

Call Memo

Okomu **STRONG BUY**

Price ₦80.00

FVE (last communicated) ₦97.75

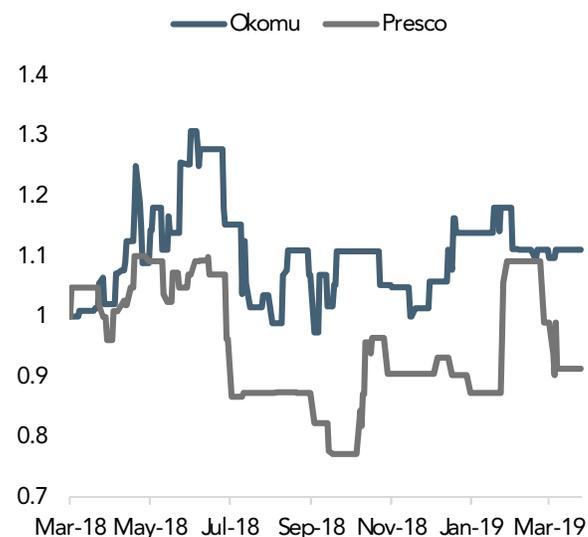
Presco **NEUTRAL**

Price ₦62.75

FVE (last communicated) ₦67.47

Quarterly EPS (2018)	Q1	Q2	Q3	Q4
Okomu	3.64	2.59	1.36	1.32
Presco	2.60	1.39	1.29	N/A

Okomu & Presco: NL - Share Price Trend



Analyst(s)

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- Consequent to the release of The Okomu Oil Palm Plc audited FY 18 results and the expectation of the full year 2018 audited FY 18 results for Presco Plc, we paid a visit to the two companies in Edo state. There we met with management of both companies to get insight into the outlook of both firms over the medium term. We also embarked on a factory and Palm plantation tour to get firsthand information about the progress of their expansion plans. See below discussion highlights.

The Okomu Oil Palm Plc

- Palm oil Mill expansion to 105 ton/ hour in 2021:** From our discussion with management, out of the 7,983 hectares planted so far in extension 2 plantation, the first batch of harvest (3800 hectares) is due to come in this year, but management guided to preserving its harvest in order to reap better yields next year.



*Aerial view of the Northern region of Extension 2 Palm estate (~4000 hectares)

- Following expectation of additional Fresh fruit bunches (FFBs) from extension 2, management plans to expand its existing plant in Okomu 1 plantation by 15 tons/hour which is expected to bring its total oil mill capacity in Okomu 1 plant to 75 ton/ hour by 2020. In addition, to fully cater for additional FFBs from its extension 2 plantation, Management has started the civil work for the construction of a new 60 ton/hour oil mill on a 400 by 260 meters land area at its extension 2 plantation. However, management plans to commission only 30 ton/ hour mill in January 2021, while it plans to set up another 30 ton/ hour mill in 2023. This should bring Okomu's total Oil mill capacity to 105 ton/ hour across all its plantation in 2021 and 135 ton/ hour in 2023.



*Ongoing civil work of the 60 ton/ hour mill at extension 2

- The civil work and acquisition of the new 30 ton/ hour mill is expected to cost \$34 million, out of which \$11 million will be internally sourced while the rest will be sourced via cheap funding from CBN and BOI. Consequently, over the next 3-4 years, Management hinted at doubling its oil output from a current maximum capacity of 40,000 tons of CPO to 80,000 tons of CPO.



*Fresh FFBs been moved from the conveyor to the sterilizer at the Okomu 1 Palm oil mill



*FFBs after cooking in the sterilizer been moved to the thresher for further processing.

- **Expansion in turbine to 5MW in 2020:** In a bid to reduce its cost of energy and avoid the persistent energy issues associated with the Benin Electricity Distribution Company (BEDC), management has purchased a new Turbine from Malaysia with commissioning of the Mill expected to take place in March 2020. This will take energy generated from the use of turbine from current 2.2 MW of electricity to a 5MW and would supply electricity to both factory and staff quarters. The new turbine would cost \$1.3 million and management guided to sourcing the entire funds internally.



*2.2MW Turbine supplying electricity to the Oil mill

- The new turbine will run on biomass gotten from raw material waste from the production of CPO such as Empty fruit bunches (EFBs), palm kernel shell and steam from the boiler. Hence, Generator and BEDC electricity usage would be limited mainly to the lean season (June – December) where raw material waste is minimal. Thus, management envisage ~85% energy cost reduction which is positive for Cost of sales and Operating expenses going forward.



*Raw material waste; Empty fruit bunches (EFBs) and fibre used in the fueling the Turbine

- **Rubber plantation nearing its peak:** On its rubber plantation, management hinted at planting an additional 1800 hectares this year which will fully exhaust the land area earmarked for rubber planting.
- **Key take away:** With an estimated 7,783 hectares additional acreage area staged to come on board between 2020-2022, as well as expansion in its Palm Oil milling plant (+15 ton/hour in 2020 and +30 ton/ hour in 2021), we see room for sizeable leap in Okomu's revenue beyond 2019 emanating from higher volumes. This corroborated with better economies of scale from higher volumes and additional gains from the expansion of its current Turbine from 2.2MW to 5MW energy plant is positive for gross margin expansion over the medium term. Thus, we remain upbeat on the firm's medium-term outlook. Based on our last communicated FVE, we have a **Strong BUY** rating on OKOMU at a TP of **₦97.75**. More analysis to follow.

Presco Plc

- **Palm oil Mill expansion to 90ton/ hour in 2020:** To cater to its expansion needs from its four Palm plantation estates (Obaretin, Ologbo, Cowan and Sakponba) with total planted area of 24,000 hectares, management guided to embarking on various expansionary projects. Especially given that the new acreage area in the Sakponba palm the new set of fields planted in the Sakponba estate (7706 hectares) is staged to mature this year.
- Firstly, Management guided to expanding its existing Palm oil mill from 60 ton/ hour to a 90 ton/ hour mill in by 2020. Further out management also plans to construct a new 60 ton/ hour Palm oil mill in the Sakponba Estate in 2022.



*Digester and thresher, Obaretin Plant, Presco



*37-ton capacity tilting sterilizer for cooking FFBS, Presco

- **Construction work for 500 ton/ day refinery plant has commenced:** Furthermore, in a bid to cater for additional FFBs from its new plantings, construction work for 500 ton/ day refinery plant has commenced with expected commission date of Q1 2020. Thus, total refining capacity is expected to come to 600 ton/day in Q1 2020. After commissioning in Q1 2020, management plan to cease partial sale of CPO and focus mainly on the sale of refined CPO Crude Palm Kernal Oil (CPKO).



*Current 100 ton/ day refinery plant in its Obaretin plantation *Ongoing construction work of the 500 ton/ day refinery plant

- **Construction work for 350 ton/ day Palm Kernal Oil (PKO) plant has commenced:** Management has also commenced construction of a new PKO plant with capacity of 350 ton/ day. This is in a bid to expand its PKO plant from its current 60 ton/ day.



*Ongoing construction work for the 500 ton/day refinery plant

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- To fund its various expansion needs, management plan to spend ₦33.4 billion over the next five years split between Agricultural related spending (₦20.1 billion) and Industrial related spending (₦13.3 billion). This will be funded with a blend of internally generated sources and external borrowings.
 - Management also plans to approach the capital market later this year to raise debt in order to take advantage of the lower interest rate environment. The funds raised will be used to refinance its expensive bank loans and fund its ongoing expansion projects.
 - **Key take away:** Given the additional Fresh fruit bunches (FFBs) from its Sakponba palm estate (7,706 hectares), expansion of its Palm oil mill from 60 to 90 ton/hour in 2020, construction of a new 500 ton/ day CPO refinery plant and 350 ton/ day PKO milling plant, we see room for revenue growth beyond 2019. Overlaying this with Management's plan to approach the capital market later this year to refinance its expensive bank loans bodes well for earnings over the medium term. Based on our last communicated FVE, we have a **Neutral** rating on PRESCO at a TP of **₦67.47**. More analysis to follow.
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Appendix



*Okomu's Storage tank for CPO. Total size is 8,000 tons of CPO



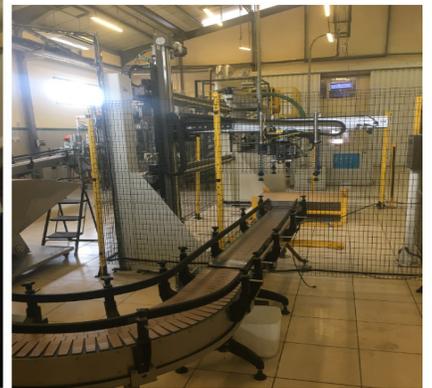
*Presco's Storage tank for CPO. Total size is 9,500 tons of CPO



*Off taker of Presco's CPO from Lagos



*1.5 MW Turbine at the Obaretin Plant, Presco



*Packaging Plant for Palm Olein and Stearin at the Obaretin Estate, Presco



*Palm Olein and Palm Stearin after packaging at the Obaretin Plant, Presco



*Picture with Mr. W. Leonit Shaji (Industrial Coordinator, Okomu)

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TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio
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