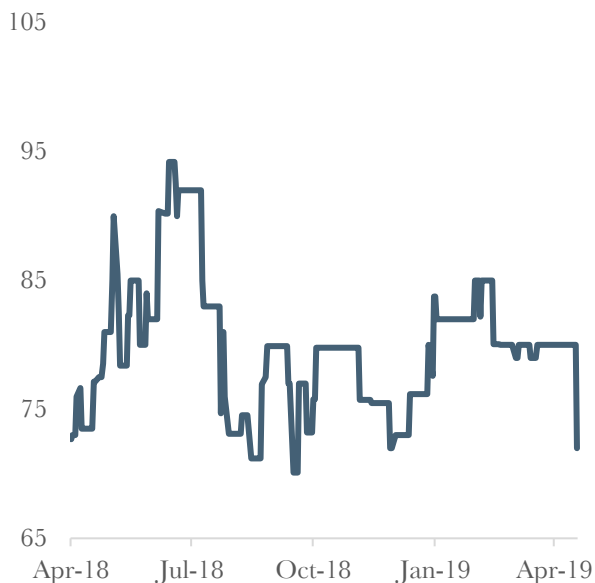


Rating	BUY
Price	₦72.00
52-week range	₦70.1 – ₦94.7
Market Cap. (₦'bn)	68,681.5
1-month Avg. Vol	80,290.05
Current PE	7.9x

OKOMUOIL: NL - Share Price Trend



Analyst

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The Okomu Oil Palm Plc (OKOMUOIL.NL)

Initial View

Worrisome start to the year

- The Okomu Oil Palm Plc released its first quarter 2019 result on Friday which showed significant contraction in PAT by 71% YoY to ₦1 billion, translating to an EPS of ₦1.06. The depressed performance emanated from material decline in revenue and higher production cost. The poor Q1 19 numbers marks the weakest first quarter performance since 2014, as the first two quarters of its financial year which coincides with its harvest season usually post the best performance.
- Lower domestic CPO prices dent revenue.** While we had expected volume contraction to stem from the high base in the prior year (due to bumper harvest occasioned by favourable weather condition), the depressed global CPO rubber prices, the steep contraction of 42.5% YoY far exceeded our expectation. For context, when compared to Q1 2017, revenue is still much weaker (-28% YoY).
- On prices, global CPO prices were down 19% YoY over the period on the back of the ongoing glut in the global CPO market. Given that local prices are reflective of global prices, local CPO prices have remained depressed. Beyond movement in the global market, we believe the smuggling of cheaper CPO into the domestic market, which are of similar quality for some class of corporates further escalated the pressure on revenue.
- Higher cost of sales dent margins.** Despite weaker volumes over the period, cost of sales rose 27.9% YoY to ₦838 million, with gross margin contracting to 80.1% from 91.1% in the prior year. While we link this to higher fertilizer cost from CBN's ban on importation of fertilizer, we will seek further clarity

from management. Reflecting the weak performance from the topline, Okomu's OPEX to sales ratio expanded to 48.7% from 36.4% in the prior year, although actual operational spend came in 23% lower YoY to ₦2.1 billion. As a result, EBIT margin compressed to 31.4% from 54.7% in the prior year.

- Elsewhere, having fully paid down its FCY loan from its parent company in Q1 18, Okomu enjoyed the benefit of a deleverage balance sheet as finance expense dipped 40.7% YoY to ₦75.9 billion. Overall, PAT and PBT declined 68% and 71% respectively to ₦1.3 billion and ₦1 billion respectively.
- Okomu trades at a current P/E of 7.9x which is at a discount to MENA peer average of 12.94x and Presco of 9.2x. We have a **FVE** of **₦97.75** which translates to a **BUY** rating on the stock.
- **More analysis to follow.**

Summary of Results

Income statement – (₦'million)						
	Q1 19	YoY growth	QoQ growth	Deviation	Q1 19	Q1 18
Revenue	4,220	-42.5%	18.1%	-13.9%	4,220	7,342
Cost of sales	838	27.9%	-69.2%	16.9%	838	655
Gross profit	3,382	-49.4%	295.2%	-19.2%	3,382	6,687
OPEX	2,055	-23.0%	-533%	-100.0%	2,055	2,670
Operating profit	1,327	-67.0%	-12%	-48.8%	1,327	4,017
Net interest expense	-54	47.3%	-163%	-246%	-54	-37
PBT	1,273	-68.0%	-21%	-51.6%	1,273	3,981
PAT	1,007	-71.0%	-20%	-53.7%	1,007	3,473

Key Ratios	Q1 19	Q1 18	Change(pps)	Q1 19	Q1 18	Change(pps)
Gross margin	80.1%	91.1%	-10.9%	80.1%	91.1%	-10.9%
EBIT margin	31.4%	54.7%	-23.3%	31.4%	54.7%	-23.3%
PBT margin	30.2%	54.2%	-24.1%	30.2%	54.2%	-24.1%
PAT margin	23.9%	47.3%	-23.4%	23.9%	47.3%	-23.4%
Effective tax rate	20.9%	12.7%	8.2%	20.9%	12.7%	8.2%

Source: ARM Research *unless otherwise stated

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

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
RESTRICTED	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group's engagement in an investment banking transaction and in certain other circumstances.

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