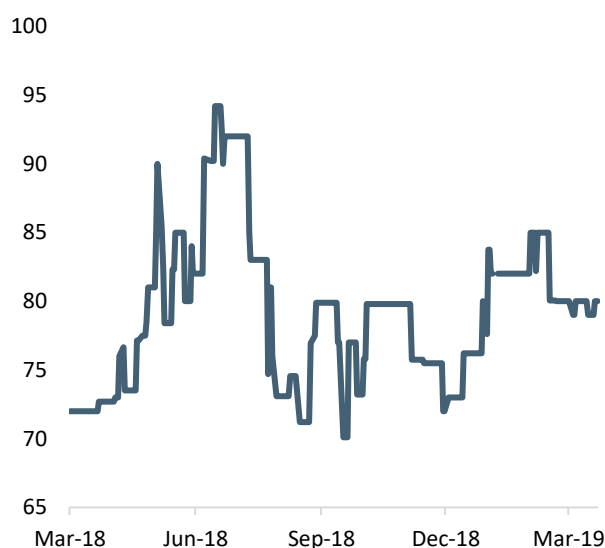




Rating	STRONG BUY
Price	₦80.00
52-week range	₦70.1–₦94.7
Market Cap. (₦bn)	76,312.8
1-month Avg. Vol	67,354
Current PE	7.64x

OKOMUOIL: NL - Share Price Trend



Analyst

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The Okomu Oil Palm Plc (OKOMUOIL.NL)

Initial View

Cost pressure plunge earnings

- In our last update on Okomu in November (See report: **Rejuvenating prospect**), we guided that cost pressure from planting season in Q4 18 and unresolved issues with Benin Electricity Distribution Company (BEDC) will pressure earnings over 2018. True to our words, results released by the company this afternoon showed decline in PAT by 7% YoY to ₦8.5 billion, which translates to EPS of ₦8.91 (which is largely in line with our estimate of ₦8.90). However, surprising was the steeper contraction in gross margin by 394bps YoY to 75.2% compared to our estimate of 78.5%. In line with the company usual practice, the board of directors declared dividend per share of ₦3.00 (FY 17: ₦3.00) which translates to a dividend yield of 4% based on current market price.
- Over Q4 2018, which is usually the lean season for palm oil producers, Okomu's revenue contracted by 2.8% YoY to ₦3.6 billion which was largely driven by lower CPO and rubber sales over the period. For CPO, the contraction mainly mirrors declines observed in domestic CPO prices, which typically reflects the movement in global CPO prices. That said, over the review period, global CPO prices declined by 25% YoY in Q4 18. However, going by our estimates, we reckon that the higher matured area (+7.8% YoY) from its plantation which translates to higher harvest of Fresh fruit bunches, supported increased volumes over Q4. Similarly, given that Okomu exports all its rubber, the weak global rubber prices (-24% YoY) largely explains the moderation in rubber sales over the period.

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- Further down, in addition to lower sales over the period, Okomu also faced cost pressures emanating from energy issues experienced by the Benin Distribution company (BEDC) over the period. Recall that Okomu tilted its energy mix towards sourcing bulk of its energy from the national grid (BEDC) rather than diesel. As a result, cost of goods sold was up 19% YoY to ₦5.02 billion. While the company was not so explicit with its cost breakdown, we would seek clarity from the management regarding cost pressures faced.
 - However, operating expenses were tightly controlled over the period, rising only 0.02% YoY to ₦5.2 million in the quarter. Thus, following lower sales and higher cost of sales, EBIT margin contracted 520bps YoY to 42.4% (FY 17: 47.5%).
 - Overall, while the company reaped the benefits of a deleveraged balance sheet which resulted in a net finance income of ₦85.7 million (vs ₦61.1 million in 2017), earnings still printed at ₦1.3 billion (-54.3% YoY), translating to EPS of ₦1.32.
 - Okomu trades at a current P/E of 7.64x which is at a discount to MENA peer average of 13.5x and Presco of 9.2x. We have a **FVE** of **₦97.75** which translates to a **STRONG BUY** rating on the stock.
 - **More analysis to follow.**
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Summary of Results

Income statement – (N'million)						
	Q4 18	YoY growth	QoQ growth	Deviation from forecast	FY 18	FY 17
Revenue	3,573	-2.8%	-4.6%	-1.4%	20,258	20,262
Cost of sales	2,717	117.7%	439.1%	31.6%	5,019	4,226
Gross profit	856	-55.6%	-73.6%	-45.1%	15,238	16,035
OPEX	-475	-363.8%	-132%	-131.7%	5,162	5,061
Operating profit	1,331	-13.3%	-15%	-7.0%	10,260	11,128
Net interest expense	86	40.2%	-2714%	18%	61	7
PBT	1,616	-17.9%	-9%	11.6%	10,337	11,140
PAT	1,259	-54.3%	-3%	-11.8%	8,502	9,148

Key Ratios	Q4 18	Q4 17	Change(pps)	FY 18	FY 17	Change(pps)
Gross margin	23.9%	52.4%	-28.5%	75.2%	79.1%	-3.9%
EBIT margin	42.4%	47.5%	-5.2%	50.6%	54.9%	-4.3%
PBT margin	45.2%	53.5%	-8.3%	51.0%	55.0%	-4.0%
PAT margin	35.2%	74.9%	-39.7%	42.0%	45.1%	-3.2%
Effective tax rate	22.1%	-40.0%	62.1%	17.8%	17.9%	-0.1%

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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