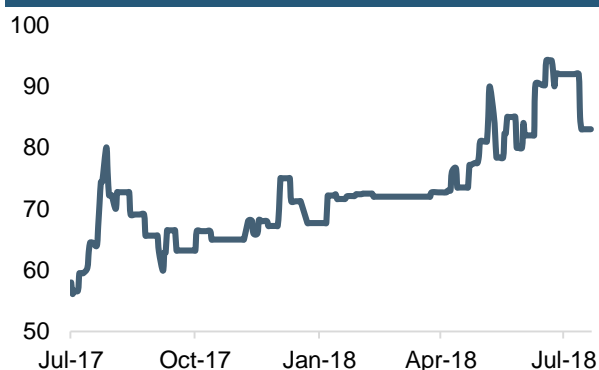


Rating	BUY
Price	₦83.00
FVE (<i>last communicated</i>)	₦102.3
52-week range	₦56–₦94.00
Market Cap. (₦'bn)	79
1-month Avg. Vol	212,434
Current PE	8.94x

OKOMUOIL:NL - Share Price Trend



Analyst(s)

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The Okomu Oil Palm Plc (OKOMU.NL)

Initial View

Volumes slump drives earnings weakness

- The Okomu Oil Palm Plc (Okomu) released its Q2 2018 result yesterday wherein earnings dipped 22% YoY to ~~₦2.47~~ billion, translating to an EPS of ~~₦2.59~~. The dull Q2 performance eroded volumes-led gains in Q1 2018 as cumulative earnings in H1 2018 plunged 4.7% YoY to ~~₦5.94~~ billion.
- In terms of driver, the company recorded revenue contraction of 14.9% to ~~₦5.6~~ billion underpinned by weaker sales volume and in part falling local CPO prices (-2.5% YoY) in Q2 2018. Okomu faced volumes pressures owing to lower than expected Yield Ton FFB/ ha in Q2 2018 (-33% YoY to 2.51) which translated to a 10% YoY contraction in volumes by our estimates (Q2 18: 12,000 MT). Elsewhere, the contraction in local CPO prices mirrors falling global CPO prices (-11.5% YoY over Q2 2018) following widening surplus in the global CPO market. Accordingly, palm oil sales declined 15.4% YoY to ~~₦5.1~~ billion. In a similar fashion, the company reported weaker revenue from rubber (-9.1% YoY to ~~₦461~~ million), also due to weaker rubbers prices (-16% YoY over Q2 2018) in global markets. Despite weaker volumes in the period, Okomu faced cost pressures with cost of sales tracking significantly higher (Q2 2018: ~~₦1.14~~ vs ~~₦22~~ million in Q2 2017). As a result, gross profit plunged 32.1% YoY to ~~₦4.45~~ billion while related margin contracted 20ppts to 79.6%.
- Despite sizeable fall in operating expenses (-25.9% YoY to ~~₦1.51~~ billion), EBIT for the quarter dipped 34.8% YoY to ~~₦2.95~~ billion—tailing weaker top line earnings while related margin declined 16ppts to 52.7%. However, having paid down its FCY owed to its parent company (Socfinal Group), finance expense

- slipped 50.5% YoY to ₦125.63 billion. This in addition to tamer slump in finance income (Q2 18 -4.7% YoY to ₦141 million), translated to a net finance income of ₦15.39 billion over the review period in relation to an expense of ₦106 billion in Q2 2017.
- Overall, the combination of dwindling revenues (Q2 2018: -14.9% YoY) and cost pressures led the company to report weaker PAT which plunged 22% to ₦2.47 billion in Q2 2018. Okomu trades at a current P/E of 8.94x versus 16.45x for Bloomberg MENA peers. We have a **BUY** rating on the stock based on our last communicated **FVE of ₦102.3**.
- **More analysis to follow.**

Summary of Results

Income statement – (₦'million)	Deviation					
	Q2 18	YoY growth	QoQ growth	from forecast	H1 18	H1 17
Revenue	5,596	-14.9%	-23.8%	7.6%	12,939	12,475
Cost of sales	1,143	4892.7%	74.4%	5.2%	1,798	1,287
Gross profit	4,454	-32.1%	-33%	11.5%	11,141	11,188
OPEX	1,505	-25.9%	-44%	0.0%	4,175	3,268
Operating profit	2,948	-34.8%	-27%	18.0%	6,966	7,919
Net interest expense	15	-114.5%	-142%	100%	-21	-109
PBT	2,964	-32.9%	-26%	19.9%	6,945	7,811
PAT	2,470	-22.0%	-29%	14.6%	5,943	6,235

Key Ratios	Q2 18	Q2 17	Change(pps)	H1 18	H1 17	Change(pps)
Gross margin	79.6%	99.7%	-20.1%	86.1%	89.7%	-3.6%
EBIT margin	52.7%	68.7%	-16.1%	53.8%	63.5%	-9.6%
PBT margin	53.0%	67.1%	-14.2%	53.7%	62.6%	-8.9%
PAT margin	44.1%	48.1%	-4.0%	45.9%	50.0%	-4.1%
Effective tax rate	16.7%	28.3%	-11.6%	14.4%	20.2%	-5.7%

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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