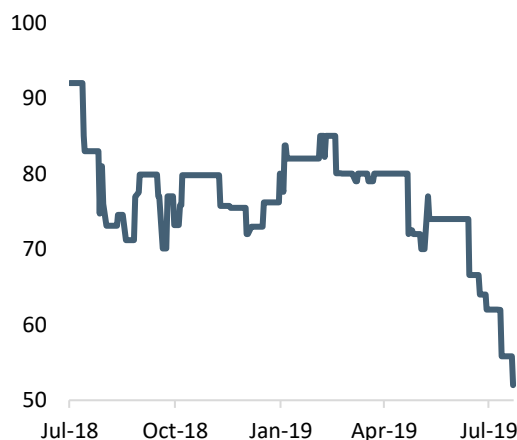


The Okomu Oil Palm Plc (OKOMUOIL.NL)

Initial View

Rating	BUY
FVE	₦75.6
Price	₦52
52-week range	₦50.25 – ₦88.5
Market Cap. (₦'bn)	49.6
1-month Avg. Vol	223,167.5
Current PE	8.26x

OKOMUOIL: NL - Share Price Trend



Analyst(s)

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Earnings remain pressured

- Last week, The Okomu Oil Palm Plc released its second quarter 2019 result wherein it reported 38.4% YoY decline in EPS to ₦1.60 emanating from lower CPO prices and higher operating cost (+26.7% YoY to ₦1.9 billion) over the period. Factoring the Q2 19 numbers, cumulative H1 19 EPS declined 57.4% YoY to ₦2.65.
- **Revenue slump on lower CPO prices:** Following the bearish run in global CPO prices (-16% YoY) alongside the infiltration of CPO into Nigerian from neighboring countries, Okomu's CPO revenue (-29.6% YoY to ₦3.6 billion) remained pressured, while export revenue from sale of rubber rose (+58% YoY to ₦730.6 million) on the back of higher global rubber prices (+18% YoY). Overall, the company's sales dipped (-22.4% YoY to ₦4.3 billion) over the period. Reflecting the lower volumes sold over the period, cost of sales (-25.3% YoY to ₦853 million) declined, largely from the Oil Palm (-31% YoY) segment. While the gross margin expanded 80bps, gross profit declined 21.6% YoY to ₦3.5 billion over the period. This alongside higher operating expenses which in our view is reminiscent of ongoing expansion work in the company deteriorated operating profit (-46.3% YoY to ₦1.6 billion), with EBIT margin contracting to 36.5% from 52.7% in the prior period.
- Positively, the company reported interest expense of ₦25 million in Q2 19 relative to ₦125 million in Q2 18. This is largely driven by lower foreign exchange losses in the period due to stability in USD/NGN over the period.
- In addition, the company secured approval from the CBN for an agricultural credit loan under a scheme of the Federal government to the tune of ₦10 billion. Over the period, total amount received is ₦1.7 billion. Negotiation is still ongoing to determine moratorium period before payment commences.

- Although, Operating expenses is tracking ahead of our estimates, we envisage a more normalized expenses in subsequent quarters. Thus, we leave our FVE unchanged at **₦75.6** which now translates to a **BUY** rating from NEUTRAL in our last communicated report. The change in rating largely reflects the recent price decline in price. Okomu trades at a current P/E of 9.7x relative to 11.7x for Presco.

Summary of Results and Forecast

Income statement – (N'million)					
	Q2 19	YoY growth	QoQ growth	H1 19	H1 18
Revenue	4,345	-22.4%	3.0%	8,565	12,939
Cost of sales	854	-25.3%	1.8%	1,692	1,798
Gross profit	3,491	-21.6%	3.2%	6,874	11,141
OPEX	1,907	26.7%	-7%	3,962	4,175
Operating profit	1,584	-46.3%	19%	2,911	6,966
Net interest expense	-22	-244.7%	-59%	-76	-21
PBT	1,562	-47.3%	23%	2,835	6,945
PAT	1,522	-38.4%	51%	2,529	5,943

Key Ratios						
	Q2 19	Q2 18	Change(pps)	H1 19	H1 18	Change(pps)
Gross margin	80.4%	79.6%	0.8%	80.2%	86.1%	-5.9%
EBIT margin	36.5%	52.7%	-16.2%	34.0%	53.8%	-19.8%
PBT margin	36.0%	53.0%	-17.0%	33.1%	53.7%	-20.6%
PAT margin	35.0%	44.1%	-9.1%	29.5%	45.9%	-16.4%
Effective tax rate	2.6%	16.7%	-14.1%	10.8%	14.4%	-3.6%

*N/M means not meaningful

Source: ARM Research

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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