



The Palm Oil and Rubber Processing Giant

1.0 HY 2015 Performance Analysis:

Tuesday, September 08, 2015

Table 1:	BUY
Current Price	25.83
Fair Value	29.67

Turnover (T/O) increased marginally by 2.50% to N4.99bn in HY 2015.

The finance charges increased from N16.54mn to N35.08mn in HY 2015.

The profit recorded in HY 2015 is already higher than that recorded in FY 2014.

The HY 2015 result of Okomu Oil Palm Company Plc (Okomu Oil) for the period ended June 30, 2015 shows that its Turnover (T/O) increased marginally by 2.50% to N4.99bn in HY 2015, compared with N4.87bn recorded in the corresponding period of 2014. This rise in turnover could be attributed to the completion of the new oil mill which effectively doubled its volume of fresh fruiting bunches (FFB) to 60t/hrs as well as additional mature palm harvest from the newly acquired plantation, named Extension 2. However, the drop in the international price of rubber offset the improvement in the yield of rubber. The cost of sales increased by 25.31% to N724.81mn from N578.40mn recorded in HY 2014. These costs as a percentage of T/O rose to 14.52% in HY 2015 from 11.88% in HY 2014. The administrative, distribution and other expenses decreased by 19.48% to N2.17bn in HY 2015. These expenses as a percentage of T/O fell to 43.47% from 55.34% in HY 2014. The attacks on the company's plantation by the militants have increased the cost of running the business as the company has to engage the police and other military officers to overcome these attacks.

The other income for HY 2015 decreased by 48.96% to N76.80mn, compared with N150.46mn recorded for the corresponding period of 2014, while the finance charges increased from N16.54mn to N35.08mn in HY 2015, representing a significant increase of 112.11% from the previous year. This increase in financial charges can be linked to the devaluation of the Naira and rising interest rates. The company's HY 2015 Profit Before Tax (PBT) stood at N2.14bn up from N1.73bn in 2014. The tax provision decreased to N296.50mn from N315.50mn in HY 2014. This led to a Profit After Tax of N1.84bn in 2015, up by 30.21% from N1.41bn recorded in 2014. The rise in profitability is a reflection of the increase in revenue and reduced operating expenses. The bottom line performance in absolute terms for the 3-months ended June 2015 shows a decline from the 3-months ended March 2015 and the corresponding period of last year. The profit recorded in HY 2015 is already higher than that recorded in FY 2014.

Table 2: Financial Performance (N'bn)

	HY 2015	HY 2014	%Δ	FY 2014
T/O	4.99	4.87	2.50%	8.66
EBIT	2.35	1.87	25.43%	2.18
PBT	2.14	1.73	23.60%	2.13
PAT	1.84	1.41	30.21%	1.55

Table 3: Quarterly Result Highlights (N'bn)

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Turnover	2.57	2.42	1.76	2.03	3.04
PBT	0.95	1.18	0.05	0.35	1.05
PAT	0.81	1.03	N/A*	N/A*	0.74

*The company did not report PAT for 9 Months ended September 2014

The company's profit margins, excluding the gross profit margin increased in HY 2015 compared with HY 2014.

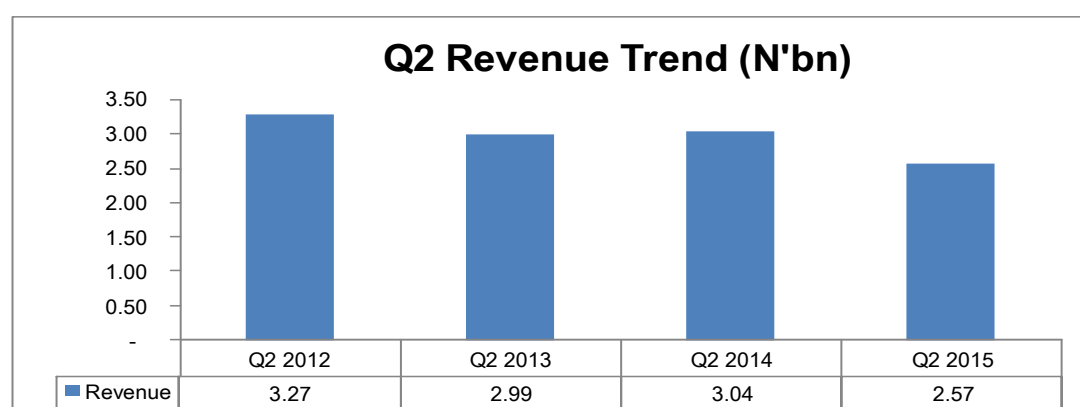
The company's profit margins, excluding the gross profit margin increased in HY 2015 compared with HY 2014. The Gross Profit (GP) margin stood at 85.48% in HY 2015, down from 88.12% in HY 2014. The PBT Margin in HY 2015 increased over the HY 2014 figure and is also higher than the PBT margin of the Financial Year ended December (FY), 2014. The PBT margin increased to 42.84% in HY 2015 from 35.53% in HY 2014 and 24.58% in FY 2014. The PAT margin currently stands at 36.90%, up from 29.05% in the corresponding period of 2014, and up from 17.95% as at FY 2014.

This result also indicates that the percentage of T/O, PBT, and PAT in the HY June 2015 to the Audited T/O, PBT and PAT for the period ended December 2014 are: 57.67%, 100.50% and 118.58%, respectively. Given the run rate, the company should surpass its previous year's performance in profitability with wide margins.

Table 4: Profitability Margins

	HY 2015	FY 2014	HY 2014
GP* Margin	85.48%	76.06%	88.12%
EBIT Margin	47.02%	25.13%	38.43%
PBT Margin	42.84%	24.58%	35.53%
PAT Margin	36.90%	17.95%	29.05%

*GP – Gross Profit

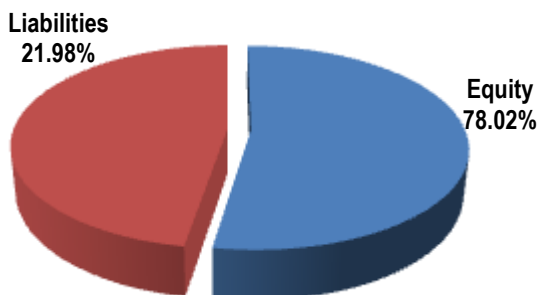


A cursory look at the balance sheet position as at HY 2015 compared with the position as at FY 2014 shows a marginal increase in the company's fixed assets. The total fixed assets increased by 3.96% to N31.58bn in HY 2015 from N30.38bn in FY 2014. The stock increased by 31.39% to N1.86bn in HY 2015 from N1.42bn in FY 2014. The cash and bank balances recorded a decrease by 59.09% from N358.08mn in FY 2014, to N146.48mn in HY 2015. The trade debtors and other receivables increased in HY 2015 by 35.68% to N993.41mn from N732.18bn in the FY 2014, while trade creditors and other payables also increased by 61.65% to N882.96mn from N546.21mn as at FY 2014. Net assets for the period increased by 16.12% to stand at N26.98bn from N23.23bn in the FY 2014.

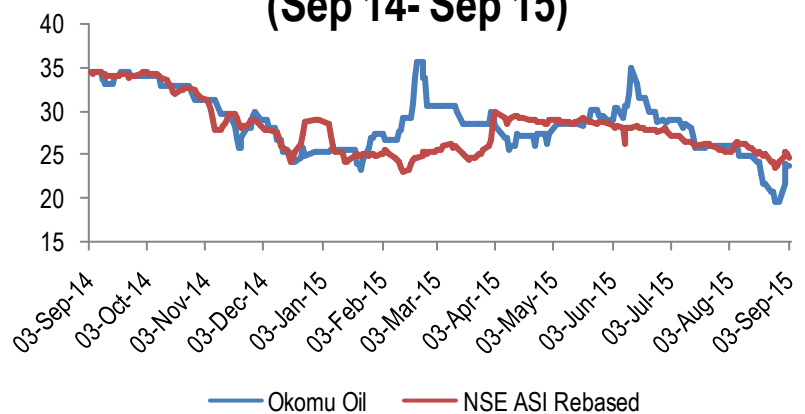
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The total assets of the company which stood at N34.58bn as at HY 2015 were financed by a mix of equities and liabilities in the ratio of 78.02% and 21.98% respectively. Our analysis of the liabilities shows that the short-term liabilities stood at N2.23bn, accounting for 29.32% of the total liabilities, while the long-term liabilities which stood at N5.37bn, accounting for 70.68% of the total liabilities. The short term liabilities constituted mainly of trade and other payables and current financial liabilities. Long term liabilities constituted mainly of borrowings. Long term borrowings rose to N3.16bn in HY 2015 from N1.88bn in FY 2014. This also impacted the finance costs.

Financing Mix



Okomu Oil vs NSE ASI Rebased (Sep'14- Sep'15)



1.1 FY 2014 Performance Analysis:

As at FY 2014, turnover decreased by 2.31% to N8.86bn, compared with N8.86bn recorded in the corresponding period of 2013. The employee expenses increased by 15.79% to N899.87bn in FY 2014. The company also recorded an increase in its net finance cost of N55.88mn in 2014 compared to a net finance income of N68.74mn in 2013. The Profit Before Tax (PBT) fell to N2.13bn, a decrease of 21.00% from N2.69bn recorded in the corresponding period of 2013. The tax provision decreased by 4.46% to N574.54mn from N601.38mn, leading to a Profit After Tax (PAT) of N1.55bn in FY 2014 from N2.09bn in the corresponding period of 2013, representing a decrease of 25.75%.

As at FY 2014, all profit margins decreased over the FY 2013 figures.

The 2014 performance was premised on the backdrop of the continued drop in the price of rubber. The average rubber price in 2014 declined by 30.7% over the prices in 2013. This adversely affected the revenue from rubber and offset improvement in its yield. We expect an increase in the price of rubber if there is an improvement in the global economic recovery that will stimulate demand for rubber by the manufacturing companies.

We expect an increase in the price of rubber if the global economic activities improve.

As at FY 2014, all profit margins decreased over the FY 2013 figures. The Gross Profit margin fell to 76.06% from 82.07% in FY 2013 while the Earnings Before Interest and Tax (EBIT) margin fell to 25.13% from 29.37% in FY 2013. The PBT margin decreased to 24.58% in FY 2014 from 30.40% as at FY 2013. Also, the PAT margin stood at 17.95%, down from 23.61% in the corresponding period of 2013.

Table 5: Financial Performance (N'bn)

	FY 2014	FY 2013	Change
T/O	8.66	8.86	(2.31%)
EBIT	2.18	2.60	(16.39%)
PBT	2.13	2.69	(21.00%)
PAT	1.55	2.09	(25.75%)

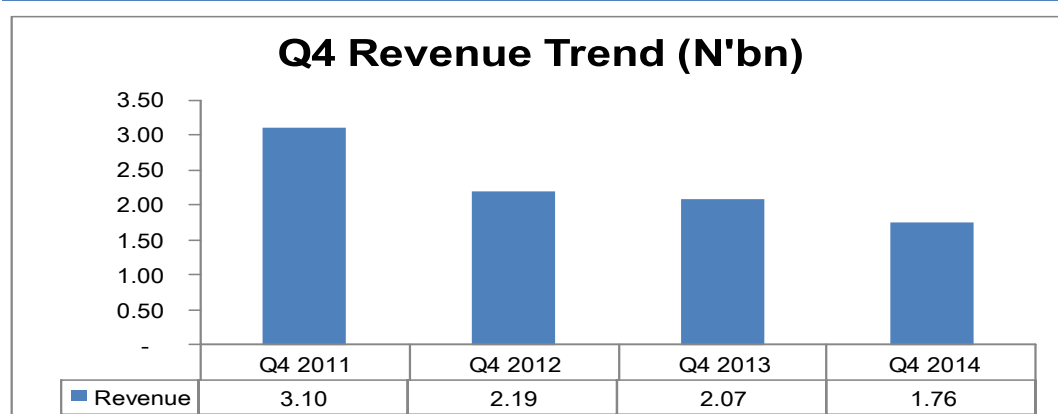


Table 6: Profitability Margins (%)

	FY 2014	FY 2013	FY 2012	FY 2011
GP* Margin	76.06%	82.07%	81.47%	72.27%
EBIT Margin	25.13%	29.37%	42.94%	41.02%
PBT Margin	24.58%	30.40%	42.84%	41.89%
PAT Margin	17.95%	23.61%	35.39%	35.28%

2.0 Drivers of Performance:

The company's performance was impacted by the following factors:

Positive Factors:

- Increased volume of Fresh Fruiting Bunches and matured palm from the new oil mill and Extension 2 respectively.
- Reduced operating expenses.
- Improvement in the rubber yield.

Negative Factors:

- The devaluation in the foreign exchange market which affected finance costs.
- The weak disposable income and the purchasing power in the economy.
- The lower rubber prices.
- Attacks on the company's plantations and equipment by militants

Increased volume of FFB and matured palm from the new oil mill and Extension 2 respectively.

The devaluation in the foreign exchange market which affected finance costs.

The company plans on gaining the highest health and safety certification standards within the ISO as it prepares to be ISO18001 certified in May 2016.

2.1 Strategic Focus:

Okomu Oil has strategic expansion and development plans. In oil palm, the company purchased 11,400 hectares of land in Edo state and intends to plant at least 10,000 hectares of oil palm on the land. It also plans on clearing 4,000 hectares for planting in 2016.

Under rubber, Okomu oil will continue with its replant programme with another 500 hectares of palm oil in 2015 and an additional 500 hectares in 2016. The company plans on gaining the highest health and safety certification standards within the ISO as it prepares to be ISO18001 certified in May 2016.

3.0 Business:

Okomu Oil's principal activities are the cultivation of oil palm, processing of fresh fruit bunches into crude palm oil for resale, rubber plantation and processing of rubber lumps to rubber cake for export. The company's products include the following: Edible Crude Palm Oil (CPO), Banga Oil and Rubber (cup-lump).

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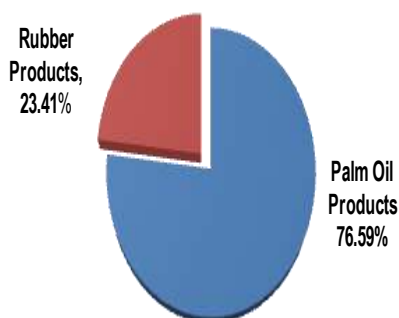
Okomu Oil has 9,710 hectares of palm and 7,572 hectares of rubber. Okomu Oil has also purchased 11,400 hectares of land in Edo state and it intends to plant at least 10,000 hectares of oil palm on the land. The company plans to clear 4,000 hectares of the land in 2015 and plant by 2016. As part of Okomu Oil's replant programme an area of 250 hectares of oil palm will be planted in place of rubber in 2015 with plans to plant an additional 500 hectares in 2016.

As at December 2014, it generated N6.63bn from the sale of Palm Oil products which represents 76.59% of its revenue while it generated N2.03bn from the sale of rubber products which represent 23.41% of total revenue. All palm oil products are sold locally while all rubber products are exported. The exports mean that the company will earn more revenue in nominal terms due to the Naira devaluation.

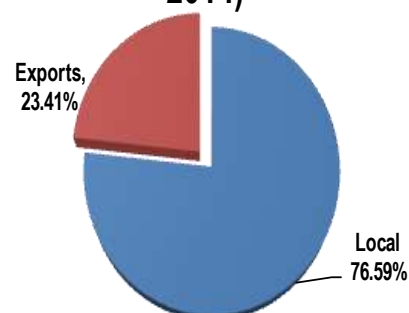
Okomu Oil is 62.69% owned by Socfinaf S.A making it the ultimate holding company.

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Revenue By Products (2014)



Revenue by Geographical Destination (2014)



Revenue by Products					Revenue by Geographical Destination				
	2014		2013			2014		2013	
Products	N'bn	Weight	N'bn	Weight	Destination	N'bn	Weight	N'bn	Weight
Palm Oil Products	6.63	76.59%	5.62	63.44%	Local	6.63	76.59%	5.62	63.44%
Rubber Products	2.03	23.4%	3.24	36.56%	Exports	2.03	23.4%	3.24	36.56%

Director	Position	Holdings
Mr.G Oyebode MFR	Chairman	35,938,136 5,345,978*
Dr.G.D Hefer	Managing Director	Nil
Mr. A. Mary	Executive Director	Nil
Chief D.U Edebiri OON	Non -Executive Director	Nil
Mr.H. Fabri	Non -Executive Director	Nil
Mr.R. Helsmoortel	Non -Executive Director	Nil
Dr.L.J.J Boedt	Non -Executive Director	Nil
Mr.P.A.E. Eguasa JP	Non -Executive Director	9,015,000 150,000*
Mr. A. Ighodalo	Non -Executive Director	Nil
Mr Ph.de Traux de Wardin	Non -Executive Director	Nil
Mr.S.Claeys	Non -Executive Director	Nil

* Indirect Holdings

Shareholders	No of Shares Held	% of Shareholding
Socfinaf S.A	598,006,179	62.69
Others	355,903,821	37.31
Total	953,910,000	100.00

Table 10: Company Summary

Ticker	OKOMUOIL
Sector	Agriculture
Sub-sector	Crop Production
Date of Incorporation	December 03, 1979
Date of Listing	March 11, 1991
Financial Year End	December
Number of Fully Paid Share	953,910,000
Current Capitalization(NGN)	24,639,495,300
NSE Capitalization (NGN)	10,439,999,406,657.60
% of NSE Capitalisation	0.24%
52 Week high NGN	35.58
52 Week low NGN	19.60
YTD Return (%)	2.88%
52 Weeks Average Volume Traded	347,733.06
Trailing EPS NGN	2.08
Trailing P/E Ratio (X)	12.44

**As at September 8,2015*

4.0 Product Analysis:

Okomu Oil one of Nigeria's leading agro-businesses with two reporting segments; Palm Oil products and Rubber products. In 2014, local sales accounted for 76.59% of total sales while export sales accounted for 23.41% of total sales.

4.1 Palm Oil Products:

Palm oil products are the largest contributors to total revenue, contributing 76.59% in 2014. Products in this segment include Banga Oil, Edible Crude Oil and Other Palm Fruit by-products. In the period under review, Okomu oil sold all its palm oil products locally in line with historical trend.

Okomu Oil's major competitor in this segment is Presco Plc with the following Palm Oil Products; Special Palm Oil, Refined, Bleached and Deodorised (RBDO) Palm oil, Palm Fatty Acid Distillate (PFAD), Palm Olein, Palm Stearin, Crude Palm Kernel Oil (CPKO) and Refine Palm Kernel oil (RPKO).

4.2 Rubber Products:

Okomu Oil exports its rubber to Sogescol with sales to Sogescol in 2014 accounting for all sales in this segment.

Competitors in this segment include Pamol Nigeria Limited a subsidiary of DN Tyre and Rubber Plc. Pamol Nigeria's plantations span 15,738 hectares of land from which it provides raw materials to DN Tyre and Rubber Plc and exports rubber. Pamol is also involved in other agro businesses.

In 2014, local sales accounted for 76.59% of total sales while export sales accounted for 23.41% of total sales.

Okomu Oil one of Nigeria's leading agro-businesses with two reporting segments; Palm Oil products and Rubber products.

5.0: SWOT Analysis

<p>5.1 Strengths:</p> <ul style="list-style-type: none"> ❖ Strong and competent management team ❖ Nearness to raw materials ❖ Strong market presence ❖ Continuous improvement of plant ❖ Technical relationship with the parent company ❖ Increased revenue from exports 	<p>5.2 Weaknesses:</p> <ul style="list-style-type: none"> ❖ Rising finance cost ❖ Sole customer risk
<p>5.3 Opportunities:</p> <ul style="list-style-type: none"> ❖ Strong demand for rubber and palm oil products ❖ Expected recovery in the global economy ❖ Large markets both in Nigeria and West Africa ❖ Favourable government policies for agro-businesses in Nigeria 	<p>5.4 Threats:</p> <ul style="list-style-type: none"> ❖ Foreign exchange rate instability. ❖ Weak consumers' income ❖ Declining commodity prices particularly rubber ❖ Militant attacks on facilities, plantations and employees ❖ Rising interest rate in Nigeria

6.0 Forecast:

Our Forecast Drivers

We considered the following factors in arriving at our 5-year forecasts:

Positive Factors:

- Technical relationship with the parent company.
- Nearness to raw materials.
- Strong market presence.
- Continuous improvement of plantation.
- Strong demand for rubber and palm oil products.

Negative Factors:

- Foreign exchange exposure and risk.
- The weak consumers spending power.
- Declining commodity prices particularly rubber

Looking at the medium to long term outlook of the company and the impact of the aforementioned factors, we are of the opinion that the impact of the positive factors would be higher on both the revenue and the profitability of the company than the negative factors. We therefore estimate a Turnover of N9.11bn, N10.01bn, N11.64bn, N13.48bn and N15.54bn for the periods ending December 2015, 2016, 2017, 2018 and 2019. We estimate EBIT of N4.03bn, N4.46bn, N5.47bn, N6.51bn and N7.55bn, and EBITDA of N4.92bn, N5.44bn, N6.54bn, N7.70bn and N8.86bn for the same period using EBIT margins of 44.18%, 44.58%, 46.98%, 48.32% and 48.61% respectively. Our PBT forecasts for the periods are: N3.56bn, N4.03bn, N5.08bn, N6.14bn and N7.18bn. Adjusting for tax, our PAT forecasts are N2.80bn, N3.17bn, N4.00bn, N4.84bn and N5.66bn. PAT Margin for the period are 30.73%, 31.70%, 34.40%, 35.88% and 36.39%. Our forecast final dividend for the FY 2015 is N1.17 per share.

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Profit and Loss =N='bn	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Turnover (Net Sales)	9.11	10.01	11.64	13.48	15.54
Cost of Sales	(1.82)	(1.95)	(2.03)	(2.22)	(2.55)
Gross Profit	7.30	8.06	9.61	11.26	12.99
Admin, Selling & Distribution Expenses	(0.95)	(1.04)	(1.21)	(1.40)	(1.62)
Depreciation	(0.89)	(0.98)	(1.08)	(1.18)	(1.31)
Other Operating Income	(2.50)	(2.74)	(3.19)	(3.69)	(4.26)
EBIT	4.03	4.46	5.47	6.51	7.55
EBITDA	4.92	5.44	6.54	7.70	8.86
Net Finance Cost	(0.47)	(0.43)	(0.38)	(0.37)	(0.37)
PBT	3.56	4.03	5.08	6.14	7.18
Taxation	(0.76)	(0.86)	(1.08)	(1.30)	(1.53)
PAT	2.80	3.17	4.00	4.84	5.66

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
EBITDA Margin	53.96%	54.36%	56.22%	57.11%	57.01%
EBIT Margin	44.18%	44.58%	46.98%	48.32%	48.61%
PBT Margin	39.01%	40.25%	43.67%	45.55%	46.21%
PAT Margin	30.73%	31.70%	34.40%	35.88%	36.39%
EPS(N)	2.94	3.33	4.20	5.07	5.93
DPS(N)	1.17	1.33	1.68	2.03	2.37
Dividend Payout	40.00%	40.00%	40.00%	40.00%	40.00%
Earnings Yield *	9.89%	11.21%	14.15%	17.09%	19.98%
Dividend Yield *	3.96%	4.48%	5.66%	6.83%	7.99%
P/E Ratio*	10.11	8.92	7.07	5.85	5.00
Number of Shares ('bn)	0.95	0.95	0.95	0.95	0.95
ROCE	13.03%	13.48%	15.20%	16.53%	17.44%
ROE	10.88%	11.42%	13.12%	14.33%	15.09%
Collection Days	5.17	5.17	5.17	5.17	5.17
Payment Days	136.04	136.04	136.04	136.04	136.04
Inventory Turnover	1.45	1.45	1.45	1.45	1.45
Asset Turnover	0.25	0.26	0.28	0.29	0.31
Current Ratio	0.92	1.11	1.35	1.60	1.85
Quick Ratio	0.68	0.87	1.13	1.38	1.61
Debt Ratio (Total Liabilities /Total Assets)	0.29	0.28	0.28	0.27	0.26
Gearing Ratio (Long Term Debt /Equity)	5.74%	5.32%	4.84%	4.38%	3.94%
Interest Cover	5.87	6.89	9.13	11.09	12.86

**At Our Fair Value of N29.67*

Table 13 : Comparable Analysis (Nbn)		
Company	Okomu Oil	Presco
Turnover (Net Sales)	8.66	9.14
Gross Profit	6.58	5.94
EBIT	2.18	3.78
PBT	2.13	3.42
PAT	1.55	2.61
GP Margin	76.06%	64.99%
EBIT Margin	25.13%	41.40%
PBT Margin	24.58%	37.43%
PAT Margin	17.95%	28.51%
ROE	6.69%	13.05%
Net Assets	23.23	19.96
Net Assets Per Share	24.36	19.96
PE Ratio	12.44x	11.44x
Earnings Yield	8.04%	8.74%
<i>*As at September 8,2015</i>		

7.0 Valuation:

In arriving at a fair value for the ordinary shares of the company, we used the Discounted Free Cash Flow (DCF) model. We applied a terminal growth rate of 5.99% and used a beta value of **0.75x**. We used the yield of **15.95%** as our risk free rate, and market premium of **11.15%**. Applying the foregoing parameters on the Capital Asset Pricing Model (**CAPM**), the cost of equity generates **24.31%**. The company has long term debt, with the after tax weighted cost of the debt estimated at 8.23% using a tax rate of 32%. The Weighted Average Cost of Capital (**WACC**), which is our discount rate, was estimated at 24.31%. Using 954mn shares in issue, the DCF model generated **N29.67** per share, which is our fair value.

The current market price of Okomu Oil shares is N25.83. The highest and the lowest closing price in the last 52 weeks are N35.58 and N19.60 respectively. The forward earnings yield and dividend yield based on our fair value are: 9.89% and 3.96% respectively. The total return, a combination of the capital appreciation and the dividend, generates 19.42%. This is higher than the current yield on the FGN Bond of 15.95%. We therefore place a **BUY** on the shares of Okomu Oil Palm Plc at the price of N25.83 as of September 08, 2015

The fair value for Okomu Oil Palm Plc is N29.67.

For enquiries please contact us at our offices:

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