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Oil Palm Sector Update Report

# Value Lurking in the Green

July 2022

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# Oil Palm Sector Update

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## Value Lurking in the Green

### Industry Outlook: BUY

Outline


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- *Company Profiling*
  - ⇒ *Okomu Oil Palm Plc*
  - ⇒ *Presco Plc*



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### Executive Summary

Globally, oil palm is the most consumed edible oil – accounting for 41.2% of the global edible oil consumption in 2021 according to estimates by United States Department of Agriculture (USDA). Interestingly, the crop has an economic lifespan of about 25 to 30 years, bearing its fruit round the year given favourable climate. A palm tree produces roughly 3.8MT/ha (Metric Tonne per Hectare) annually on a global average, 6.0MT/ha in the best plantations in Southeast Asia and 10.0MT/ha in genetic field trials. Due to its climatic requirement for cultivation, a whopping 91.8% of global production comes from Malaysia, Indonesia, Nigeria, Columbia, and Thailand (MINCT) – three of which are Southeast Asian countries.

Global oil palm production recovered in 2021 from a 2-year low, increasing by 3.7% y/y to 75.5MMT compared to the previous year. Meanwhile, global consumption of oil palm grew at a slower pace than production, up 1.1% y/y to 74.3MMT in 2021 – sustaining growth for 24 consecutive years. We attribute the mild consumption growth to the gradual reopening of economic activities, especially the resumption of production by consumer goods manufacturers – the largest user of oil palm.

In terms of contribution, Nigeria, which controlled an average of 30.9% of the global oil palm production in the late 1960s, controlled only 1.9% in 2021 (up from 1.7% in 2020) even though its production grew 9.8% y/y to reach 1.4MMT in 2021. The declining share of Nigeria in the global market owes to poor mechanisation, prevalence of small farm-holders (70.0% of the market), low yield due to inadequate improved oilseeds, and insecurity challenges in farming areas.

Also, domestic oil palm production continues to lag consumption due to steady population growth and weak output capacity. In 2021, the consumption of oil palm grew 6.0% y/y to 1.8MMT – outpacing the 4.3% y/y growth in the prior period. This represents a 400,000 MT production shortfall. With a population estimate of 211.4 million people, Nigeria consumes 2.6MMT of fats and oils annually of which palm oil accounts for 67.3%.

The uptick in the local CPO (Crude Palm Oil) prices was extended to 2021 as industrial demand for CPO improved following the economic activities reopening post-pandemic lockdown. Specifically, we estimate that average local CPO prices rose 35.0% y/y to $1,276.09 in 2021 – the fastest growth in 4 years. This price growth translated to solid top-line expansion for listed oil palm companies - Okomu Oil Palm Plc and Presco Plc.

However, the sector faces risk factors which could dent its growth potentials. Low yield of smallholders' farmers (who contribute over 70.0% of the industry production) due to the use of obsolete technology, little or no access to finance & enhanced oilseeds, rising costs, and frequent FX shock (due to large importation of fertilizer) pose downside risks to the sector's growth. Also, persistent insecurity and communal disputes have aggravated the constraints.

Nevertheless, we are optimistic that output from the Dangote fertilizer plant (capacity: 3.0MMT/year) would mitigate supply risk and reduce FX exposure in the medium to long term. Also, to bridge the production shortfall, the listed companies are focused on expanding their capacity by investing in planting areas, expanding mills and refineries. This production boost coupled with expected population growth would continue to support the top and bottom-line of the companies in the near to medium term. Overall, we believe that there are values still lurking in the industry, which supports our optimistic view for a near and long-term growth of the listed companies – Okomu Oil Palm plc and Presco plc.

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*Overall, we believe that there are values still lurking in the industry, which supports our optimistic view for a near and long-term growth of the listed companies – Okomu Oil Palm plc and Presco plc .*

## Investment Thesis

Based on our assessment, we expect the Nigerian oil palm industry to remain buoyant over our forecast period. Our optimism is premised on the global supply gap (400,000 MT) induced by the current policy strain on export from Indonesia (the largest producer and exporter of CPO in the world) as global buyers scrabble for alternative sources. Incidentally, prior to this development, the FG has shown keen interest in the agriculture sector through its FX ban on CPO and the creation of a $500.0m agriculture sector funding plan to expand local production and exports. However, these initiatives have yielded relatively weak results due to the dominant crude production nature of the industry.

*Based on our assessment, we expect the oil palm industry to remain buoyant over our forecast period. Our optimism is premised on the global supply gap (400,000 MT) induced by the current policy strain on export from Indonesia*

On a broader view, there are opportunities both on the local and global scenes for the industry due to increasing local demand, expanding global industrialization, and Indonesia's recent export policy – Domestic Market Obligation (DMO) – which requires producers to set aside CPO for local buyers. However, the question of whether the two listed oil palm companies have the capacity to seize this opportunity arises. As such, we suggest some level of partnership with the smallholder plantations (which constitute 70.0% of the industry). The partnership can be in form of purchasing the Fresh Fruits Bunches from the smallholder farmers, training on the best planting practices for better yields, and expansion of milling and refinery capacity.

Our findings show that PRESCO has tilted further to the production and sales of Refined, Bleached, & Deodorised (RBD) oil and Palm Fatty Acid Distillate (PFAD) oil in recent years which required an expansion of planting and refinery capacity. Consequently, the company acquired Siat Nigeria Ltd with 15,215ha planted area and ongoing expansion of the refinery capacity to 500.0MT/day. On this backdrop, PRESCO is positioned to expand revenue and profitability.

Meanwhile, in a bid to expand milling capacity to 150.0MT/hour, OKOMUOIL has commissioned the first of the two 30.0MT/hour mills in extension-2 in 2022 while the second mill is to be completed in the first quarter of 2023. Likewise, management continues to explore various cost management strategies such as the commissioning of 5MW turbine to power plantations and the recent installation of third line to power existing mills. These initiatives hold positive for the company's top and bottom-lines going forward.

Hence, we believe positioning in these buffer stocks offers an opportunity for capital appreciation and consistent dividend payment. This opportunity is evidenced by the sector undervaluation with an average P/E ratio of 7.2x relative to global peers in Singapore (7.5x) and Malaysia (13.9x). Thus, we have rated OKOMUOIL and PRESCO an ACCUMULATE and a BUY respectively . However, pre-election jitters, FX issues, smuggling, and protracted insecurity are prominent risks to the sector.

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## Global Oil Palm Sector

### Global Oil Palm Production… Indonesia Leads the Way

Indonesia remains the largest producer of oil palm globally, contributing 58.9% to global production in 2021. Good climatic conditions, CPO government policy, efficient value chain, easy access to financing and research & development continue to support Indonesia's global dominance in CPO production. Ranking next is Malaysia (24.8%) and Thailand (4.1%).

*Indonesia remains the largest producer of oil palm globally, contributing 58.9% to global production in 2021.*

Oil palm is the most consumed edible oil – accounting for 41.2% of the global edible oil consumption in 2021 according to estimates by United States Department of Agriculture (USDA). Interestingly, the crop has an economic lifespan of about 25 to 30 years, bearing its fruit round the year given favourable climate. A palm tree produces roughly 3.8MT/ha annually on a global average, 6.0MT/ha in the best plantations in Southeast Asia and 10.0MT/ha in genetic field trials. Due to its climatic requirement for cultivation, a whopping 91.8% of global production comes from Indonesia, Malaysia, Thailand, Columbia, and Nigeria (MINCT) – three of which are Southeast Asian countries.

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### Global Outlook… La Nina to Weigh on Production in 2022

Global oil palm production recovered in 2021 from a 2-year low, increasing by 3.7% y/y to 75.5MMT compared to the previous year. According to USDA, Southeast Asian countries – Indonesia (58.9%), Malaysia (24.8%), and Thailand (4.1%) contributed the most to the global production. We attribute the growth in production to the friendly climate and large plantations in the aforementioned countries which accounted for 74.0% of the total land area cultivated globally (25.1m hectares). Also, we ascribe the growth in production to the high level of yield on cultivation (supported largely by im-

*Global oil palm production recovered in 2021 from a 2-year low, increasing by 3.7% y/y to 75.5MMT compared to the previous year* proved oilseed) of these countries – Indonesia (3.7MT/ha), Malaysia (3.4MT/ha), and Thailand (3.1MT/ha) in 2021.

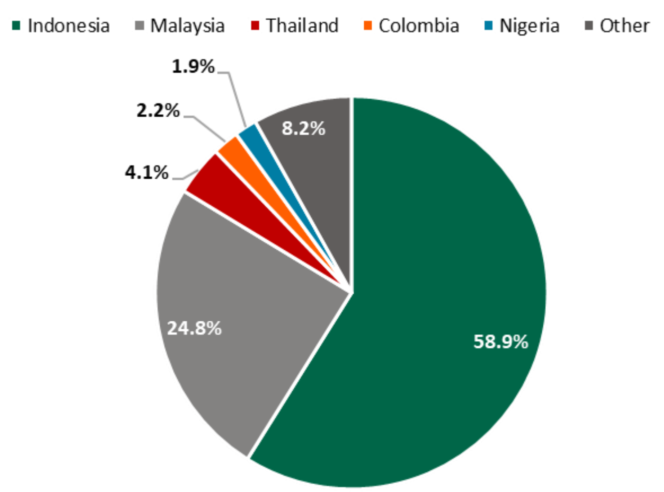
For 2022, we project that global production growth would be muted as La Nina weather condition weighs on average yield and ability to harvest oil palm plantations in Southeast Asia. For context, La Nina weather pattern usually comes with excess rainfall in Indonesia and Malaysia. Although good amount of rainfall benefits oil palm production, excessive rainfall hinders yields and harvest. On this backdrop, we project that Indonesia's CPO production would hover around 45.0MMT while Malaysia's production is expected to moderate slightly to 18.3MMT in 2022.

*For 2022, we opine that global production growth would be muted as La Nina weather condition weighs on average yield and ability to harvest oil palm plantations in Southeast Asia.*

Relative to production, global consumption of CPO grew at a slower pace, up 1.1% y/y to 74.3MMT in 2021 – sustaining growth for 24 consecutive years. We attribute the mild consumption growth to the gradual reopening of economic activities, especially through the resumption of production by consumer goods manufacturers – the largest user of oil palm. Regionally, Indonesia consumed the most oil palm (41.0% of global consumption) in 2021, mostly due to its aggressive drive to boost biofuel usage as well as its robust population

*Relative to production, global consumption of CPO grew at a slower pace, up 1.1% y/y to 74.3MMT in 2021 – sustaining growth for 24 consecutive years.*

**Chart 1: Top Five Oil Palm Producing Countries in 2021**



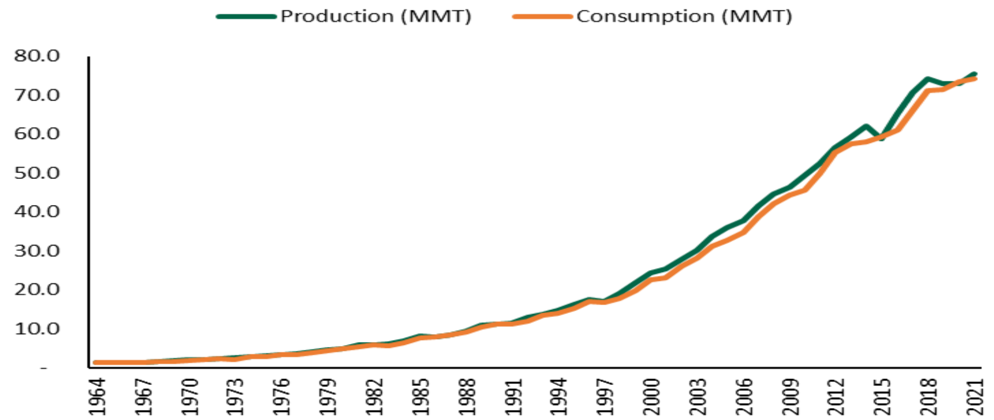

*Source: USDA, Afrinvest Research*

(c.280 million population). Trailing, India, and China consumed 22.5% and 18.8% of the total oil palm in the year — largely supported by their large population of c.1.4 billion apiece.

Over the past three decades, consumption of CPO has continued to outpace other oils. In 2021, CPO accounted for 36.9% of the total edible oil consumption – followed by soybean (23.8%), rapeseed (14.2%), sunflower seed (11.7%), palm kernel (4.3%), peanut (3.2%), cottonseed (2.5%), coconut (1.8%), and olive (1.6%) oils. In 2022, we expect that global CPO consumption level would remain elevated, supported by Indonesia's switch to biofuels and low inventory level of India, China, and Pakistan.

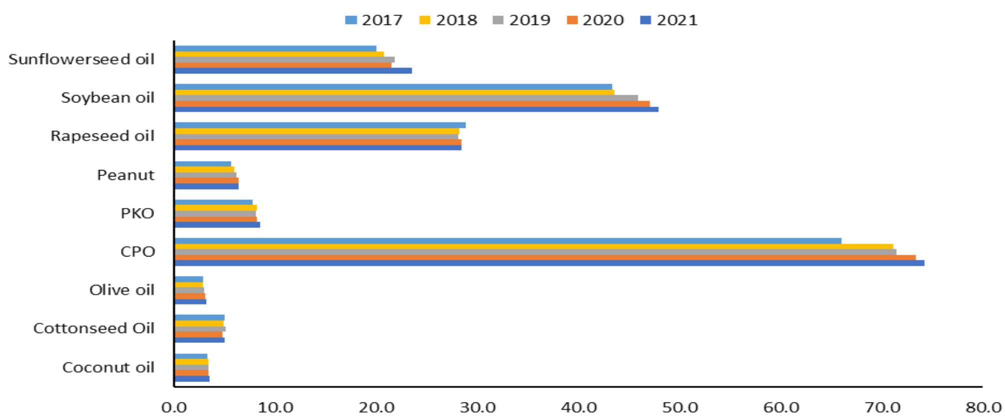
*Over the past three decades, consumption of CPO has continued to outpace other oils.*

**Chart 2: Global Production vs Consumption Trends (1964-2021)**




*Source: USDA, Afrinvest Research*

**Chart 3: Global Consumption of Edible Oils (MMT)**




*Source: USDA, Afrinvest Research*

## Global Oil Palm Trade in 2021

According to the USDA data, total CPO exports grossed 51.2MMT in 2021, up 6.5% from the prior period. Indonesia (61.4%) and Malaysia (33.8%) exported the most to the rest of the world – as they are the largest CPO producers globally.

In terms of the recipients of these exports, India (8.5MMT), China (7.1MMT), and European Union (6.6MMT) topped the global CPO importers' chart as imports grew 0.5%, 4.1% and 6.5% y/y respectively. Specifically, India's imports rose following various reductions in import duty until October 2021 when it was totally scrapped to protect local refiners and consumers from rising local CPO prices. CPO consumption for food remains the largest purpose for its demand in top importing countries – India (95.9%), China (65.3%), and Pakistan (96.1%) save the European Union. Thus, we believe that the steady increase in average population size (India; 1.0%, China; 3bps and Pakistan; 2.0%) is a major driver of demand in these countries.

The Indonesian government banned the export of CPO to the global market in April 2022 to keep the price of cooking oil locally in check as well as support local demand for biofuel. However, the export ban was replaced with a Domestic Market Obligation (DMO) – which requires producers to set aside CPO for local buyers – in May to salvage rising prices of cooking oil locally. Although the ban was replaced by a DMO, CPO's exports from Indonesia (the largest exporter of CPO) is likely to be suboptimal due to policy instability. Meanwhile, global edible oil market was already pressured by the rising price of sunflower oil (key substitute of CPO) following the war in Ukraine. Against this backdrop, global CPO export is expected to fall in our forecast period thus, posing an opportunity for other CPO exporting countries.

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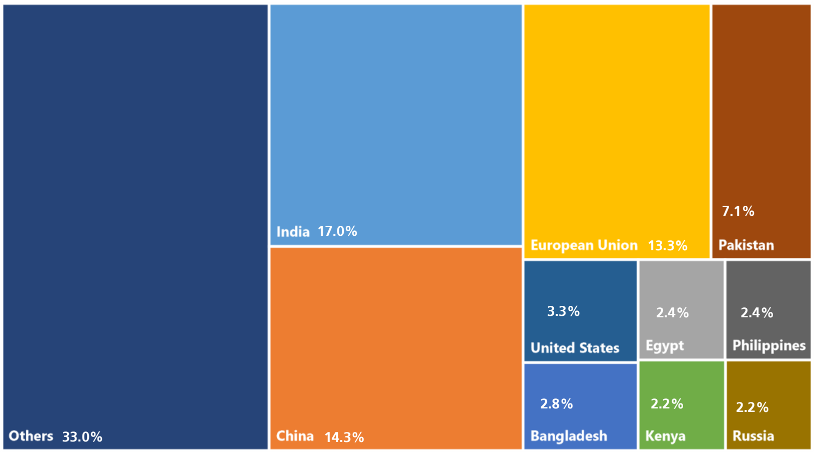
**Chart 4: Largest Importers of CPO (2021)**




*Source: USDA, Afrinvest Research*

## Crude Palm Oil (CPO) in 2022… Has Price Peaked?

CPO price rally which started in May 2020 was sustained throughout 2021 to reach a fresh record high of $1,200 per MT. Supply concerns occasioned by a mix of pandemic-induced factors (such as increased shipping costs and labour shortages in Malaysia), unfavourable weather, and a rally in rival soybean oil prices drove CPO price higher.

In 2022, we expect CPO price to remain elevated above the pre-pandemic level and to reach the $1,500 per MT mark by the end of the year. Our outlook is supported by expectations of extended supply bottleneck due to unfavourable weather condition – which is premised on Bureau of Meteorology Australia's projection that La Nina weather condition is 70.0% probable in 2022. Similarly, we believe that the hostile weather conditions (heat and drought) in South America would continue to affect supply of soybean (CPO's closest substitute for food and fuel) – as such, keeping soybean oil's price high. Likewise, the anticipated fall in Indonesia's CPO export would weigh on global supply. Meanwhile, demand is expected to remain

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strong as the inventory of the largest importers of CPO continue to dwindle. Asides the aforementioned factors, the geopolitical tension between Russia and Ukraine is expected to mount upward pressure on CPO prices, given that Ukraine is a major producer of sunflower

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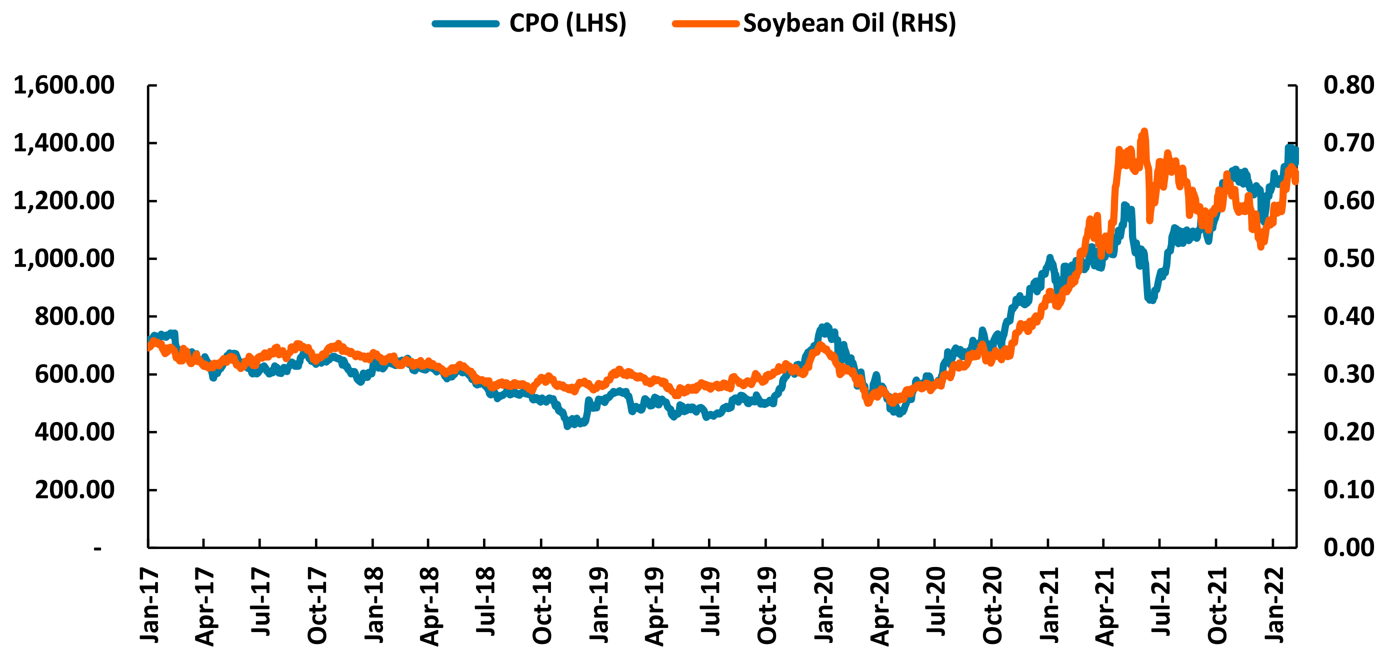
**Chart 5: Prices of CPO vs Soybean ($/MT)**



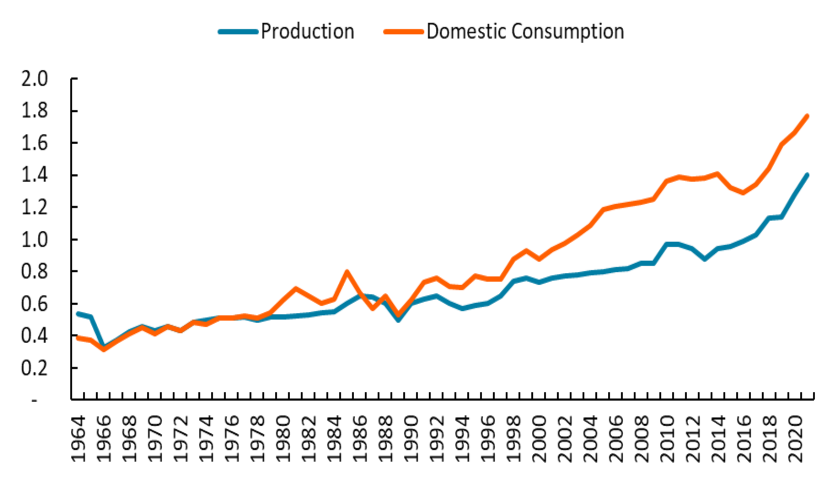

*Source: USDA, Afrinvest Research*

## Nigerian Oil Palm Sector

In terms of structure, the Nigerian oil palm industry is segmented into two – large plantations and small-scale farm-holders. The large and organized plantations such as Okomu and Presco control about 30.0% of the oil palm production while small-scale farm holders account for the balance. Over the years, the industry's dominance by small farm-holders (c.70.0%) and poor mechanization has continue to drag oil palm production growth. Furthermore, production has been impaired by insecurity challenges. Nonetheless, the Nigeria's oil palm production grew 9.8% y/y to reach 1.4MMT in 2021. In terms of global market share, Nigeria, which controlled an average of 30.9% of the global palm oil production in the late 1960s, contributed only 1.9% in 2021 (2020: 1.7%).

Meanwhile, domestic oil palm production continues to lag consumption due to steady population growth and weak output capacity. In 2021, oil palm consumption grew 6.0% to 1.8MMT, picking up from the lower growth rate of 4.7% from the prior period. When juxtaposed with production level, Nigeria has a 400,000MT production shortfall. To bridge this gap, expansionary drive by large oil palm

**Chart 6: Nigeria's Domestic Production and Consumption (MMT)**




*Source: USDA, Afrinvest Research*

*Over the years, the industry's dominance by small farm-holders (c.70.0%) and poor mechanization has continue to drag oil palm production growth.*

*Nonetheless, the Nigeria's oil palm production grew 9.8% y/y to reach 1.4MMT in 2021.*

*Meanwhile, the oil palm production continued to trail behind its consumption which was supported by the steady population growth of Nigeria over 5 decades* growers and processors alongside favourable government policies like the CBN's RT200 FX Programme are in the works. Notwithstanding, consumption is expected to outpace production as demand growth is anticipated to synchronize with population growth.

*...consumption is expected to outpace production as demand growth is anticipated to synchronize with population growth.*

## Domestic Market Consumption... Steady Population Growth Remains a Key Driver

With a population of over 200.0 million people, Nigerians consumed 2.6MMT of fats and oils with palm oil accounting for 68.1% of total fat and oils consumption in 2021. According to the Partnership Initiatives in the Niger Delta (PIND), Nigeria's oil palm market consists of only 3 oil palm products, namely:

- **Technical Palm Oil (TPO)** – TPO's Free Fatty Acid (FFA) content is higher than 5.0% and mostly produced by the small local farmers and mills.
- **Specialized Palm Oil (SPO)** – Better quality with FFA content below 5.0% and mostly produced by large and mechanized oil mills. However, SPO is mostly imported due to the low capacity of the local mills and refineries.
- **Palm Kernel Oil (PKO)** – This is extracted from the palm kennels and supplied mostly to the consumer goods industry for further processing.

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Demand is primarily driven by household consumers who use TPO for cooking and prefer it to SPO because of its flavorsome nature, which is due to higher concentration of fatty acids. Notably, 86.4% (1.5MMT) of the oil palm consumed in 2021 was for food use while industrial consumption accounted for only 13.6%. Unsurprisingly, TPO remains the most consumed variant of palm oil– four times larger than the SPO's consumption. Despite the decline in disposable income in 2021, consumption remained resilient given its inelastic demand nature – being a necessity. Overall, we opine that demand is driven by a mix of population growth and necessity nature of the commodity. In 2022, we anticipate an elevated food-use consumption of oil palm given that Nigeria's population is projected to grow by c2.6% in 2022 (according to World Bank). Although, per capita income is expected to remain pressured given the hazy growth outlook, oil palm's consumption would remain resilient given its essentiality in the Nigerian cuisine and manufacturing space.

Going forward, we expect local price movement to be shaped by global oil palm market dynamics, seasonality, geopolitical tension, cultivation yield and insecurity challenges. Prices are expected to remain stable in Q1:2022 due to below-average harvest and then rise faster from May till October (off-peak period). However, prices are expected to moderate slightly as harvest peaks. Overall, prices are anticipated to close 2022 slightly higher than 2021 level.

*In 2022, we anticipate an elevated food-use consumption of oil palm given that Nigeria's population is projected to grow by c2.6% in 2022 (according to World Bank).*

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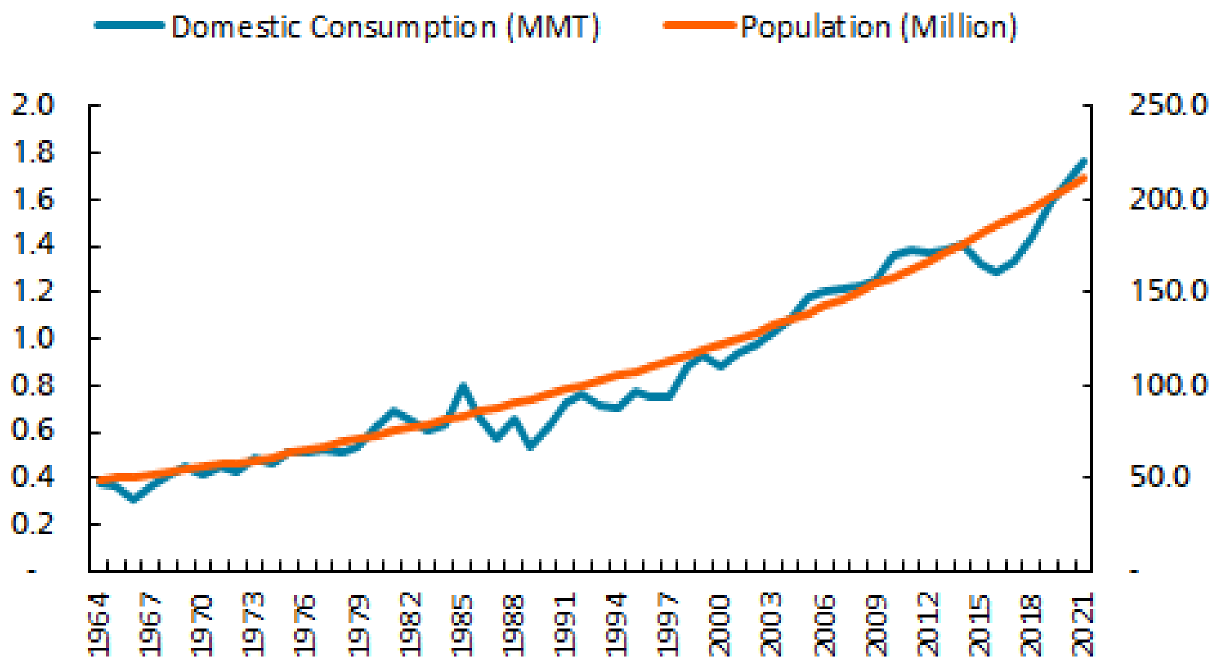
*Going forward, we expect local price movement to be shaped by global oil palm market dynamics, seasonality, geopolitical tension, cultivation yield and insecurity challenges.*

**Chart 7: Steady Population Growth... A Key Driver of Palm oil Consumption in Nigeria**




*Source: IMF, USDA, Afrinvest Research*

## Oil Palm Value Chain in Nigeria

Southern Nigeria is the home of cultivating oil palm (especially in Edo and Delta States) while other parts of the country houses secondary processing and final users of the end products, particularly Lagos and Northern Nigeria.

The oil palm production process begins with planting after oilseed selection. Out of the three varieties of oilseeds (Dura, Pisifera, and Tenera), tenera is recommended, and largely sourced from the Nigerian Institute for Oil-Palm Research (NIFOR). Nevertheless, oil palm growers in Nigeria still employ conventional ways to identify quality seeds which can only be done after the plants start producing FFB in 3 years. This major constraint weighs on the productivity of smallholders, translating to low yields per hectare. To boost productivity, Genomics technology (currently used in Southeast Asian countries like Indonesia) is recommended to select best seeds, thus improving yield.

At the production stage, the key players include harvesters or owners of farm areas (wild grooves, small, medium, and large farms)

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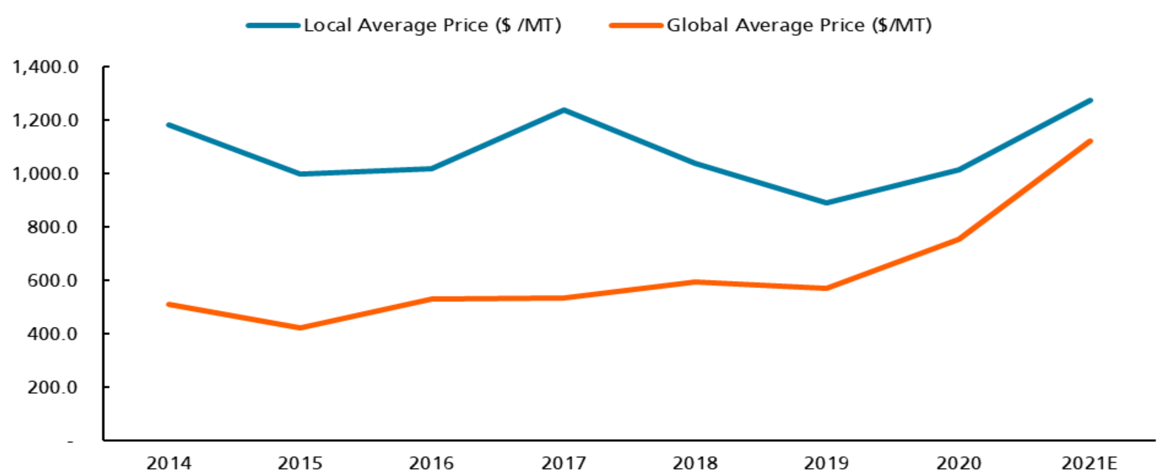
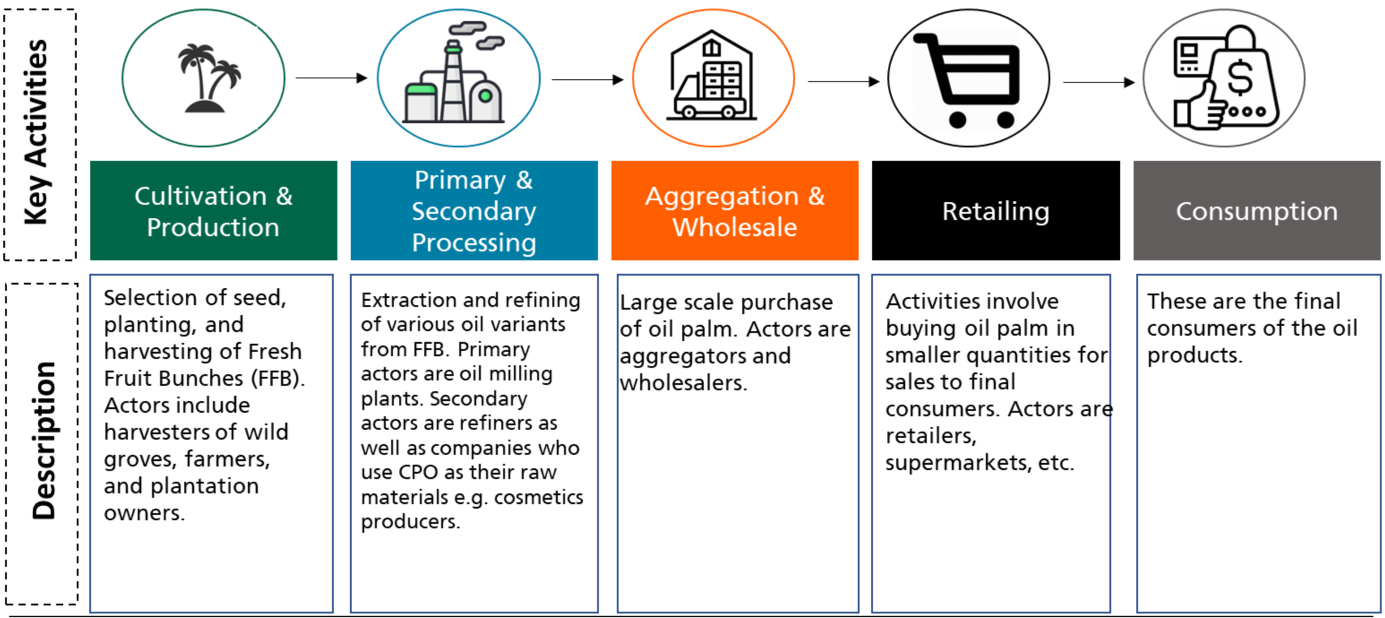
**Chart 8: Trajectory of CPO's Local and Global Average Price ($/MT)**




*Source: Okomu's report, Investing.com, Afrinvest Research* and estates (small, medium, and large estates). This stage requires two important inputs - fertilizer and chemicals (herbicides and pesticides) for growing seedlings. Two to three bags of fertilizer are required per hectare and a 50kg bag of triple super phosphate (the most recommended type) costs between ₦9,000 to ₦12,000 as of the time of this analysis. Although, the government provides subsidies on fertilizers supplied by NIFOR, this regimented channel also creates opportunity for middlemen and distributors to engage in price arbitrage. Oil palm seeds mature between 3–5 years after which they are harvested. Due to the use of crude harvest technologies by smallholder farmers, the harvest process is inefficient – leading to lower yield compared to large plantations. To improve productivity, countries like Malaysia and Indonesia use the Mechanical Adjustment Harvesters (MAH) and Malaysian Knives (MK). Although some growers in Nigeria use MAH and MK, we believe that there is a dire need to invest more in these technologies to reduce harvest wastage.

*Although, the government provides subsidies on fertilizers supplied by NIFOR, this regimented channel also creates opportunity for middlemen and distributors to engage in price arbitrage.*

**Chart 9: Key Activities in the Nigerian Oil Palm Industry**




*Source: FAO, Afrinvest Research*

Following the harvest of FFBs, oils are extracted at oil mills. Oil extraction is a complex process and the variety and level of technologies used vary by production system. Extraction rate of oil millers, which depends mostly on the sophistication of technologies employed, is relatively lower in Nigeria. Although the recent local-

*Although some growers in Nigeria use MAH and MK, we believe that there is a dire need to invest more in these technologies to reduce harvest wastage.*

**Chart 10: Classification of Production System in the Nigerian Oil Palm Industry**

| | Classification | Description | Technology Level | Yield |
|---|---|---|---|---|
| Farm Area | **Wild Groves** | • Oil palm plantation owners lease out plantations to individuals to harvest the fruits<br>• Usually, 1 to 10ha of planted area<br>• Mostly the Dura variety of oil palm | • Low-level technology | • 1.5 MT/ha annually |
| Farm Area | **Small Scale Farmers** | • Owners of 1-10 ha of planted palm | • Low-level technology<br>• The use of manual labor and proper spacing of plants are common practice | • 3 MT/ha in a year |
| Farm Area | **Medium Scale Farmers** | • Owners of 10-25 ha of planted palm | • Manual production technology | • 3 MT/ha in a year |
| Farm Area | **Large Scale Farmers** | • Owners of 25-100 ha | • Adoption of small mechanization and herbicides application | • 5 MT/ha in a year |
| Estates | **Small Estates** – Okada Wonderland (125 ha), Satum Farms (475 ha), Iyare Oil (500 ha), and Augustine Efionayi (500 ha). | • 100 – 1000 ha owned by individuals and cooperatives | • Reasonable mechanization level but supply bottlenecks of fertilizer is a challenge | • 5 MT/ha in a year |
| Estates | **Medium Estates** – A & Hartman (4,000 ha), Aden Rivers (1,050 ha), Ore-Irele (3,103 ha), Investment Holding Company Irele (1,220 ha), and Investment Holding Araromi (1,271 ha). | • 1,000 and 5,000 ha owned by corporations or State governments | • Mid-level production technology | • 5 MT/ha in a year |
| Estates | **Large Estates** – Okitipupa Oil Palm Plc (10,468 ha), Okomu Oil (10,000 ha), PRESCO (9,841 ha), and Obasanjo Farms (8,670 ha). | • The area under cultivation per holding is greater than 5,000 ha and some are integrated into large scale processing. | • Technological intensive and some are integrated into large scale processing. | • 5 MT/ha in a year |

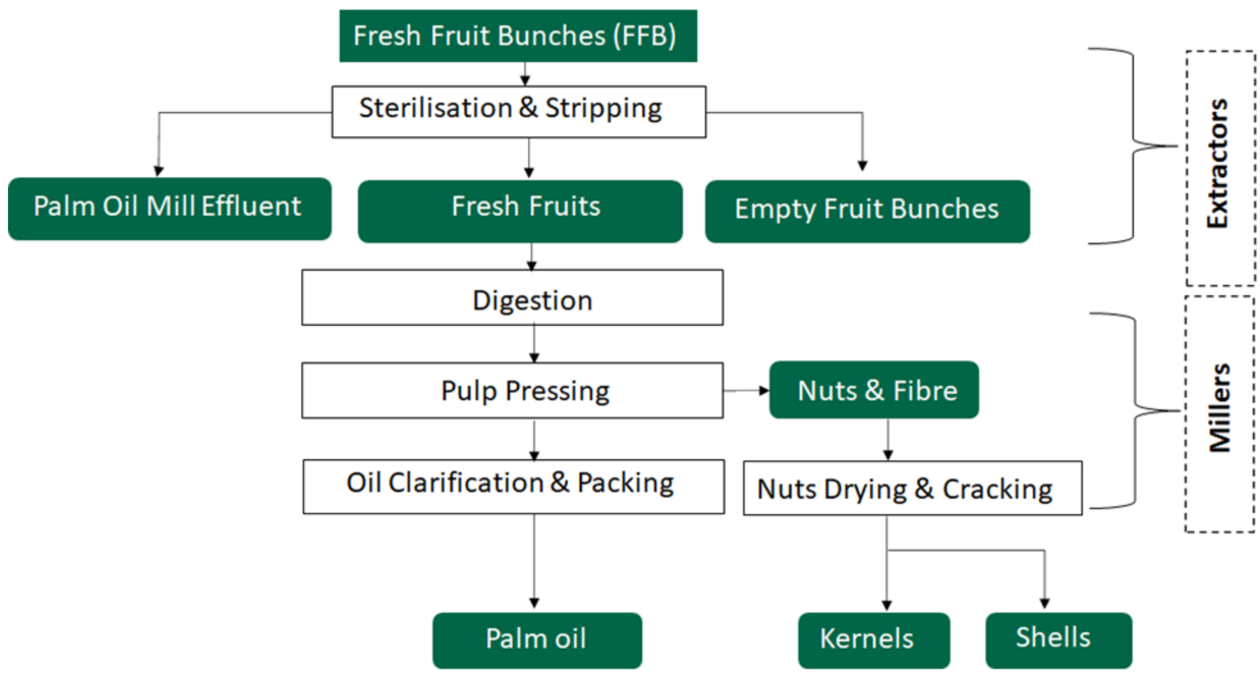
*Source: Partnership Initiatives in the Niger Delta (PIND), Afrinvest Research* ly invented Small-Scale Processing Equipment (SSPE) has an extraction rate of 15.0% (better than the traditional means with 11.0% extraction rate), Nigerian millers are underperforming the extraction rate of 24.0% in countries like Indonesia and Malaysia. As such we believe increased investment in improved technologies is pertinent to boost extraction rate locally.

## Industry Financial Performance

Revenue of listed industry players, OKOMUOIL and PRESCO, grew 79.0% y/y to ₦84.7bn in 2021 – culminating into a 3-year CAGR of 19.4%. The growth was supported by capacity expansion (by PRESCO), higher oil palm prices, and increased domestic demand. Notably, PRESCO contributed 49.3% of the industry's revenue growth (79.0%) in 2021, consolidating its position as the market leader. Industry's gross profit surged 80.7% y/y to ₦57.0bn in 2021 de-

*Revenue of listed industry players, OKOMUOIL and PRESCO, grew 79.0% y/y to ₦84.7bn in 2021 –culminating into a 3-year CAGR of 19.4%.*

**Chart 11: Input-Output Representation of the Oil Palm Processing**




*Source: FAO, Afrinvest Research*

spite inflation-induced increase in cost of sales (75.8% y/y to ₦27.7bn). Furthermore, administrative costs (which on average accounted for 79.8% of OPEX over a 5-year period) was up 33.0% y/y to ₦14.1bn in 2021. OPEX ratio moderated from 25.1% in 2020 to 19.1% despite the high inflationary pressure. The moderation in OPEX ratio was due to improved cost management and a stronger build-up in revenue. Also, operating margin improved to 48.2% in 2021 (2020: 41.7%), supporting a 153.0% y/y surge in PAT to ₦33.0bn (2020: 46.7% y/y). As such, net profit margin expanded to 39.0% – highest in almost half a decade.

*Also, operating margin improved to 48.2% in 2021 (2020: 41.7%), supporting a 153.0% y/y surge in PAT to ₦33.0bn (2020: 46.7% y/y). As such, net profit margin expanded to 39.0% – highest in almost half a decade.*

## Market Pricing and Valuation

Our two coverage companies outperformed the broader equities market in 2021 due to recovery in economic activities and impressive earnings. OKOMUOIL gained the most (56.0% y/y), followed by PRESCO (23.7% y/y) in 2021 while the NGX ended the year with a 6.1% gain. Oil palm industry's price-to-earnings (P/E), proxied by

**Chart 12: SWOT Analysis of the Nigerian Oil Palm Industry**

**STRENGTHS**

- Ruggedness and longevity of the crop
- Multi-usage nature of the products
- Increasing price discovery

**WEAKNESSES**

- Inadequate access to technology for production and storage
- Insecurity issues within host communities
- Shortage of quality seedlings

**OPPORTUNITIES**

- Increasing population
- Huge demand deficit
- Substitution of imported SPO
- Increased govt intervention and favourable policies

**THREATS**

- Rising prices of fertilizers
- Climate Change
- Illegal cross-border inflows of CPO and other by-products
- Negative impact of FX shocks on key inputs
- Depressed per capita income

*Source: Afrinvest Research*

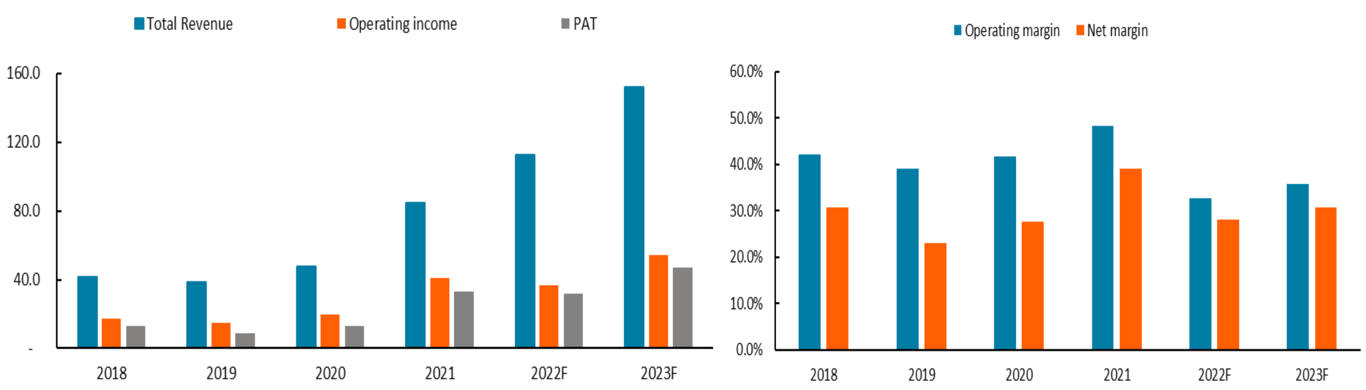
our coverage companies' average, declined from 12.62x to 7.15x in 2021 due to 158.4% y/y jump in earnings relative to average y/y gain of 39.9% in prices. Compared to peers in Singapore and Malaysia, with average P/E of 7.54x and 13.88x respectively, the sector is relatively undervalued. The undervaluation resounds investment opportunities and potential in the sector.

In 2022, we expect the listed companies to collectively grow their top-lines by 32.7% to ₦112.4bn  given the elevated CPO prices as well as their capacity expansion. Although costs are projected to remain elevated with a 23.6% y/y growth due to persistent inflation, bottom-lines are expected to remain resilient supported by faster growth in revenue. Specifically, we expect the industry's net margin to improve to 40.6% from 38.8% in the prior year aided by PRESCO's improved profitability.

*Compared to peers in Singapore and Malaysia, with average P/E of 7.54x and 13.88x respectively, the sector is relatively undervalued*

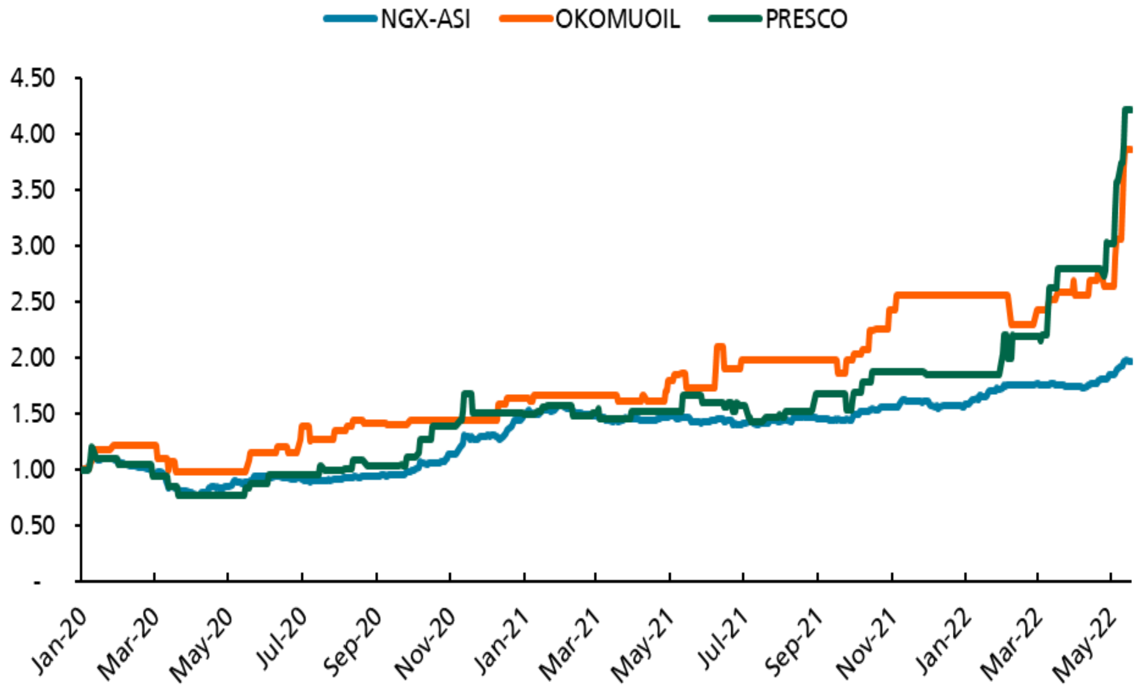
*In 2022, we expect the listed companies to collectively grow their top-lines by 32.7% to ₦112.4bn  given the elevated CPO prices as well as their capacity expansion*

**Chart 13: Financial Highlights of Industry Coverage**




*Source: Company Financials, Afrinvest Research*

**Chart 14: Performance of NGX-ASI and Coverage Stocks in 2021**




*Source: Afrinvest Research*

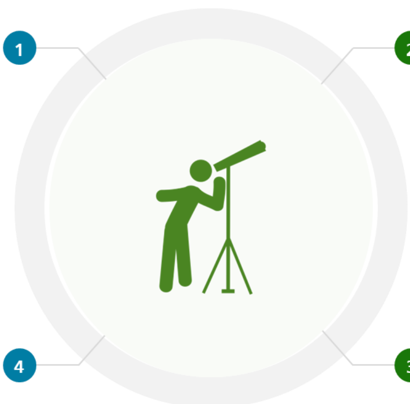
**Chart 15: Outlook for 2022... Factors to Shape the Nigerian Oil Palm Industry**

**1 Dangote Fertilizer Plant**

The plant has a robust capacity of 3.0m tonnes per annum while Nigeria consumes an average of 1.1m tonnes per annum. Hence, this would reduce or halt the industry's dependence on imported fertilizer which is expensive due to FX shortage. As such, costs of industry players are expected to moderate.

**2 Strategic Partnership and Investment**

About 70.0% of Oil palm in Nigeria comes from the smallholder farmers – leaving only 30.0% market share with large plantations. We recommend strategic partnership and investments in local farmers to improve village plantations and rural development. This is expected to help our coverage companies to expand and consolidate market share.



**3 Positioning in AfCFTA**

The African Continental Free Trade Area (AfCFTA) is expected to support the performance of Nigerian oil palm industry due to reduced tariff (c90.0% reduction) and exposure to larger market.

**4 Biofuels / Green Energy**

Demand for oil palm for biofuel use is gradually growing and is expected to be sustained. Indonesia currently places export tariff on CPO to avail product for domestic biofuel demand. This translates to reduced supply globally but poses opportunity to be explorable opportunities for Nigeria.

*Source: Afrinvest Research*

AFRINVEST RESEARCH

# Oil Palm Sector Update

# July 2022

## Company Profiling

### Okomu Oil Palm Plc

### Faster Revenue Growth to Support Margins

### Company Overview and Strategy

Okomu Oil Palm Plc ("the Company" or "OKOMUOIL") is one of the leading oil palm producers in Nigeria. The company was established in 1976 by the Federal Government and incorporated in 1979. As of 2021, the Company owns about 33,000 hectares of land across its 3 plantations in Edo state – main plantation (16,000 hectares), Extension-1 (6,000 hectares), and Extension-2 (11,000 hectares). Although OKOMUOIL predominantly cultivates oil palm on these plantations to produce CPO, it also cultivates a small-scale rubber plantation. The Company, through its oil palm plantation and 90.0MT/h oil mill, produces Crude Palm Oil (CPO), Palm Kernel (PK), Palm Kernel Oil (PKO), and Palm Kernel Cake (PKC) which are sold mostly to the local market for both food and industrial use. Meanwhile, the Company produces its rubber products (NOKO10) at its 2.5MT/h factory and exports to foreign companies such as Michelin and Goodyear.

As part of its productivity and efficiency strategies, OKOMUOIL recently obtained the Roundtable for Sustainable Palm Oil (RSPO) certification – emerging the foremost RSPO certified palm oil company in Edo state. The key benefit of the certification is that it helps to improve the operational quality, thereby, increasing the credibility and acceptability of the products. This is expected to translate into a premium selling price for the Company's oil palm products in the local market,

| Company Data | |
|---|---|
| Ticker (NGX) | OKOMUOIL |
| Ticker (Bloomberg) | OKOMUOIL NL EQUITY |
| Share Price (7/25/2022) | 216.90 |
| 2022 Target Price (₦) | 246.67 |
| Rating | ACCUMULATE |
| Upside Potential | 13.7% |
| 52 Wks High (₦) | 216.90 |
| 52 Wks Low (₦) | 104.00 |
| Outst. Shares (bn) | 1.0 |
| Mkt Cap (₦'bn) | 206.9 |
| Mkt Cap (US$'m) | 497.36 |
| Trailing EPS (₦) | 14.7 |
| Trailing P/E (x) | 14.7 |
| Forward P/E (x) | 11.8 |

| Profitability and Valuation Metrics | FY2021A | FY2022F | FY2023F |
|---|---|---|---|
| Revenue (₦'bn) | 37.5 | 47.6 | 57.8 |
| EBITDA (₦'bn) | 19.1 | 24.5 | 29.8 |
| EBIT (₦'bn) | 16.1 | 21.6 | 26.2 |
| PAT (₦'bn) | 14.0 | 17.6 | 21.1 |
| Total Assets (₦'bn) | 65.7 | 80.3 | 101.5 |
| Shareholder Funds | 42.3 | 55.5 | 72.3 |
| OPEX Ratio | 25.9% | 25.6% | 24.8% |
| Cost of Sales Margin | 31.1% | 29.0% | 29.9% |
| EBITDA Margin | 51.1% | 51.5% | 51.6% |
| PAT Margin | 37.5% | 36.9% | 36.5% |
| ROAE | 36.4% | 35.9% | 33.0% |
| ROAA | 23.3% | 24.1% | 23.2% |
| EPS (₦) | 14.7 | 18.4 | 22.1 |
| DPS (₦) | 7.00 | 4.67 | 4.50 |
| Earnings Yield | 6.8% | 8.5% | 10.2% |
| Dividend Yield | 3.2% | 2.2% | 2.1% |

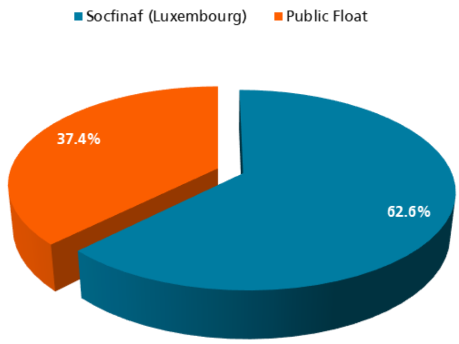
**Sensitivity Analysis**

| | | Cost of Equity | | | | |
|---|---|---|---|---|---|---|
| TP | ₦246.67 | 11.7% | 12.7% | 13.7% | 14.7% | 15.7% |
| Terminal Growth Rate | 1.0% | 255.76 | 243.92 | 233.74 | 224.87 | 217.03 |
| | 1.5% | 264.23 | 251.07 | 239.87 | 230.18 | 221.69 |
| | 2.0% | 273.84 | 259.09 | 246.67 | 236.03 | 226.79 |
| | 2.5% | 284.82 | 268.14 | 254.27 | 242.52 | 232.40 |
| | 3.0% | 297.51 | 278.44 | 262.82 | 249.74 | 238.59 |

*Source: Afrinvest Research*

given that local consumption absorbs the Company's entire production annually. Furthermore, OKOMUOIL commissioned one of its two new 30MT/h oil mills in extension 2 in 2021 – a major step toward doubling the production of CPO to reach 80,000MT per annum by 2025. The combination of these two strategic events, we believe, would support revenue growth in the medium to long-term.

**Shareholder's Structure**




*Source: Company Filings, Afrinvest Research*

## Financial and Operational Performance

### CPO Prices to Buoy Revenue Growth

OKOMUOIL grew its revenue by 60.0% y/y to ₦37.5bn in 2021 (a 3-year CAGR of 25.7%), largely driven by uptick in CPO (53.0% y/y) and rubber prices (39.0% y/y). CPO's high contribution to total revenue was sustained as it accounted for 85.2% of revenue in 2021, although declining from 87.3% in 2020. Up from a 3-year CAGR of 28.0%, cost of sales grew by 46.6% y/y to ₦11.7bn in 2021, faster than the 43.1% y/y growth in 2020. This increase can be attributed to rising cost of raw materials such as fertilizer (both locally sourced and imported). In terms of contribution to overall costs, oil palm accounted for 84.0% of OKOMUOIL's total cost of sales in 2021. Cost to sales ratio slowed to 31.1% in 2021 from 34.0% in 2020 as revenue grew faster than cost of sales. Consequently, gross profit margin improved to 68.9% from 66.0% a year ago. This translated into higher gross profit of ₦25.8bn in 2021, up 66.9% y/y.

In 2022, CPO prices are expected to remain high due to anticipated boost in demand amid a strained supply given the negative impact of La Nina weather conditions and Russia-Ukraine war. Furthermore, more expensive alternative oil such as sunflower and rapeseed oils are expected to spur demand for oil palm. As such, we forecast oil palm revenue to grow by 26.9% y/y to ₦40.5bn. However, revenue from rubber is projected to expand by 28.2% y/y to ₦6.8bn, slower than the 83.4% growth in 2021 as insecurity issues linger. Overall, total turnover is estimated to grow at a faster pace of 27.1% y/y to ₦47.6bn against cost of sales y/y growth of 18.5% to ₦13.8bn. Hence, we modelled gross profit to grow 31.0% y/y to ₦33.8bn in 2022.

### Impressive Profitability Despite Rising Operating Costs

Operating profit grew at a faster pace of 81.0% y/y in 2021 to ₦16.1bn from ₦8.9bn the prior year. This came despite the 48.1% y/y increase in OPEX to ₦9.7bn as administrative expenses rose 36.8% y/y to ₦5.5bn. Given the robust growth in operating profit, operating margin recovered to 43.1% from 39.0% and 38.1% in 2019 and 2020 respectively. Profit before tax (PBT) also expanded in 2021 with a y/y growth of

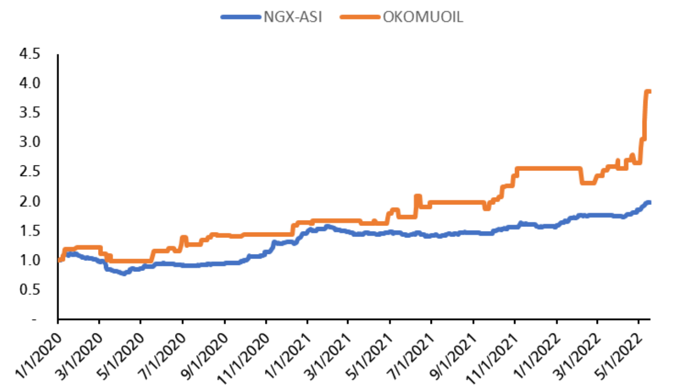
84.1% to reach ₦16.3bn. Overall, the Company's profit after tax (PAT) rose 80.5% y/y to ₦14.0bn in 2021.

For 2022, we expect the Company's OPEX to increase by 25.5% y/y to ₦12.2bn as inflationary pressure is expected to persist amid FX illiquidity. Notwithstanding, operating profit is expected to improve by 34.4% while operating margin is estimated to expand to 45.4% given the anticipated faster growth in topline relative to costs. Likewise, we estimate PBT to print at ₦21.7bn, up 33.5% y/y given the company's aggressive expansionary plans while PAT growth is projected at 25.2% (to ₦17.6bn). This translates to an EPS of ₦18.43 (2021: ₦14.72).

**Valuation Summary**

| Valuation Methodologies | | | Weighting |
|---|---|---|---|
| **Absolute Valuation Methodology** | | | |
| **Valuation Metrics** | | ***Weighting*** | |
| *Risk Free Rate (%)* | *12.4%* | | |
| *Beta* | *0.14* | | |
| *Risk Premium (%)* | *9.7%* | | |
| *Cost of Equity (%)* | *13.7%* | | |
| *Sustainable Growth Rate (%)* | *2.0%* | | |
| **Discounted Cashflow Model** | **₦ 322.19** | **70.0%** | 65.0% |
| **Net Asset Model** | **₦ 128.29** | **30.0%** | |
| | | | |
| *12-month Blended Target Price* | ₦ 264.02 | | |
| **Relative Valuation Methodology** | | | |
| **P/E Valuation Methodology** | | **60.0%** | 35.0% |
| *Comparable P/E Multiple* | *11.6x* | | |
| *Implied Equity Value [₦'000]* | *162,994,390.0* | | |
| *Target Price* | ₦ 170.87 | | |
| **EV/EBITDA Valuation Methodology** | | **40.0%** | |
| *Comparable EV/EBITDA Multiple* | *6.7x* | | |
| *Implied Equity Value [₦'000]* | *124,538,161.8* | | |
| *Target Price* | ₦ 130.56 | | |
| *Relative Valuation Blended Target Price* | ₦ 154.74 | | |
| **Blended Target Price** | | | **246.67** |
| **Upside Potential** | | | **13.7%** |

**OKOMUOIL vs NGX ASI**




*Source: Bloomberg, Afrinvest Research*

**DuPont Analysis… Improved Profitability Supports ROE**

The improvement in OKOMUOIL's net margin and asset turnover bolstered ROE to 36.4% in 2021 from 24.3% in the prior year. From a 3-year average of 32.5%, net margin rose to 37.5%, supported by rising CPO prices and capacity expansion. Similarly, asset turnover improved to 0.6x from 0.5x in the prior year, indicating an improved level of asset conversion. In terms of leverage, however, the equity multiplier moderated to 1.55x in 2021 from 1.58x in the prior year given the 21.7% y/y increase in equity to ₦42.3bn.

Looking ahead, we expect ROE to slow down to 36.0% in 2022. This is premised on the expected decline in net margin to 36.9% as OPEX growth weighs on earnings. Nevertheless, asset turnover is projected to improve to 0.7x while equity multiplier is expected to moderate to 1.45x.

## Valuation and Recommendation

We employed a mix of absolute and relative methodologies in determining the value of OKOMUOIL. Absolute valuation comprises a blend of Discounted Cash Flow (DCF) and net asset models with the assumptions of 12.4% risk free rate, 9.7% risk premium, 0.14 beta, 13.7% cost of equity and 2.0% sustainable growth rate over our forecast period. Using a ratio of 70:30 for DCF and net asset models respectively, the absolute valuation resulted in a blended fair value of ₦264.02. The relative valuation methodology employed a P/E (11.6x) and EV/EBITDA (6.7x) multiples of global comparable. Using a 60:40 weighting for P/E and EV/EBITDA multiples respectively, we obtained a fair value of ₦154.74. We derived a 12-month target price of ₦246.67, blended by a 65:35 weighting to absolute and relative methodologies respectively. From a market price of ₦216.90 as of July 25th, 2022, this implies an upside potential of 13.7%. Hence, we rate the stock "ACCUMULATE".

AFRINVEST RESEARCH

# Oil Palm Sector Update

July 2022

## Presco Oil Palm Plc

### Aggressive Capacity Expansion to Supports Profitability

### Company Overview and Strategy

Presco Plc ("the Company" or "PRESCO") is an oil palm producing company incorporated under Nigerian law in 1991 and subsequently listed on the Nigerian Stock Exchange (now Nigerian Exchange Limited) in 2002. Currently, the Company owns three estates in Edo – Obaretin Estate (6,387 hectares), Ologbo Estate (13,545 hectares), Sakponba Estate (16,797 hectares) – and Cowan Estate (2,800 hectares) in Delta State. In addition, PRESCO refines CPO from its 90MT/h capacity oil mill, 500MT/d refinery plant, 105MT/d refinery fractionation plant, and 300MT/d palm kernel crushing plant.

To drive long-term growth and profitability, PRESCO acquired a 100% stake in SIAT Nigeria Limited (SNL), a private agricultural company, for a ₦23.0bn cash consideration. This strategy is expected to increase the Company's cultivation area and milling capacity by 15,215 hectares and 60MT/h respectively, thus improving operational efficiency and increasing production volume.

### Financial and Operational Performance

#### Operating Profitability at the Mercy of Operating Expenses

In 2021, PRESCO grew its revenue by 97.7% y/y to ₦47.3bn – faster than the 21.1% y/y growth in 2020.

| Company Data | |
|---|---|
| Ticker (NGX) | PRESCO |
| Ticker (Bloomberg) | PRESCO NL EQUITY |
| Share Price (7/25/2022) | 158.40 |
| 2022 Target Price (₦) | 222.15 |
| Rating | BUY |
| Upside Potential | 40.2% |
| 52 Wks High (₦) | 200.00 |
| 52 Wks Low (₦) | 70.00 |
| Outst. Shares (bn) | 1.0 |
| Mkt Cap (₦'bn) | 158.4 |
| Mkt Cap (US$'m) | 380.77 |
| Trailing EPS (₦) | 19.0 |
| Trailing P/E (x) | 8.4 |
| Forward P/E (x) | 5.5 |

| Profitability and Valuation Metrics | FY2021A | FY2022F | FY2023F |
|---|---|---|---|
| Revenue (₦'bn) | 47.2 | 64.7 | 75.8 |
| EBITDA (₦'bn) | 25.1 | 43.2 | 49.3 |
| EBIT (₦'bn) | 24.7 | 43.0 | 48.8 |
| PAT (₦'bn) | 19.0 | 28.6 | 29.8 |
| Total Assets (₦'bn) | 122.9 | 153.7 | 190.4 |
| Shareholder Funds (₦'bn) | 46.9 | 73.4 | 100.6 |
| OPEX Ratio | 13.8% | 14.9% | 17.5% |
| Cost of Sales Margin | 33.9% | 31.4% | 31.1% |
| EBITDA Margin | 53.1% | 66.8% | 65.1% |
| PAT Margin | 40.1% | 44.2% | 39.3% |
| ROAE | 48.6% | 47.6% | 34.2% |
| ROAA | 19.3% | 20.7% | 17.3% |
| EPS (₦) | 19.0 | 28.6 | 29.8 |
| DPS (₦) | 3.00 | 2.33 | 2.50 |
| Earnings Yield | 12.0% | 18.1% | 18.8% |
| Dividend Yield | 1.9% | 1.5% | 1.6% |

**Sensitivity Analysis**

| | | Cost of Equity | | | | |
|---|---|---|---|---|---|---|
| TP | ₦222.15 | 17.5% | 18.5% | 19.5% | 20.5% | 21.5% |
| Terminal Growth Rate | 1.0% | 229.10 | 222.82 | 217.16 | 212.04 | 207.37 |
| | 1.5% | 232.16 | 225.52 | 219.57 | 214.19 | 209.30 |
| | 2.0% | 235.46 | 228.43 | 222.15 | 216.48 | 211.36 |
| | 2.5% | 239.04 | 231.57 | 224.92 | 218.94 | 213.55 |
| | 3.0% | 242.94 | 234.97 | 227.90 | 221.59 | 215.91 |

*Source: Afrinvest Research*

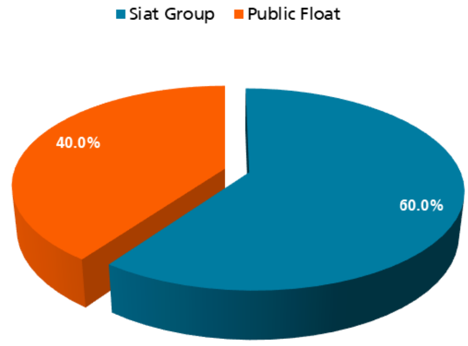
This growth was supported by the relatively high CPO prices in the review period. Likewise, PRESCO's cost of sales grew at a 3-year CAGR of 31.8% and 105.6% y/y to ₦16.0bn in 2021, a surge from the 11.5% y/y growth in 2020. The increased cost can be linked to the rising price of raw materials and consumables such as fertilizer and oilseeds (both locally sourced and imported). Despite the jump in the cost of sales, the Company reported a gross profit of ₦31.2bn (up 93.9% y/y).

This year, we expect CPO prices to extend its increase as demand for the commodity continues to outweigh supply given the La Nina weather conditions and strain caused by Russia-Ukraine war. Hence, we project a 37.1% y/y growth in revenue to ₦64.7bn in 2022. Following the SNL acquisition, PRESCO's overhead costs are expected to moderate due to operational synergies. However, prevailing inflationary environment is a major threat to the expected gains from the synergy. Nonetheless, we project a slower cost of sales growth of 27.2% y/y. This would translate to 42.1% y/y growth in gross profit to ₦44.4bn.

**Operational Efficiency Analysis**

PRESCO's operating profit grew 129.0% y/y to ₦24.7bn in 2021 even as OPEX expanded 24.1% y/y to ₦6.9bn. Following the resilience in operating profit, operating margin improved to 52.1% from 45.2% in the prior year. As a result, PBT grew 174.3% y/y to ₦23.8bn due to the 67.8% y/y decline in interest expense. Despite the increase in tax paid, PAT grew by 260.3% y/y to ₦18.9bn.

**Shareholder's Structure**




*Source: Company Filings, Afrinvest Research*

In 2022, OPEX is expected to rise by 48.0% y/y to ₦9.6bn on the back of lingering FX illiquidity and elevated prices. Albeit, we anticipate a 73.9% y/y increase in operating profit to ₦43.0bn – translating to a higher operating margin of 66.4% from 52.1% in the prior year. Consequently, we project that PRESCO's PBT and PAT would increase by 56.9% and 51.0% y/y respectively to ₦37.4bn and ₦28.6bn.

**DuPont Analysis… Improved ROE Supported by Profitability and Leverage**

The improvement in PRESCO's net income margin, asset turnover and leverage position supported ROE's growth to 48.6% in 2021 (17.9% in 2020). Net margin rose to 40.1% from 22.0% in the prior year, supported by the robust revenue growth. Likewise, asset turnover strengthened to 0.5x from 0.3x in 2020, supported by the 97.7% y/y jump in turnover relative to 66.6% growth in total assets – implying a more efficient use of assets. In terms of financial leverage (which is computed as total assets to net assets), PRESCO's position rose to 2.62x from 2.38x due to the 137.2% y/y increment in the use of debts (₦31.4bn) to fund assets.

In 2022, we expect ROE to fall mildly to 47.6% due to an expected moderation in asset turnover to 0.47x as total assets is anticipated to grow 25.0% following the capacity expansion drive. Meanwhile, net margin is projected to improve to 44.2% while financial leverage is expected to moderate to 2.1x in 2022.

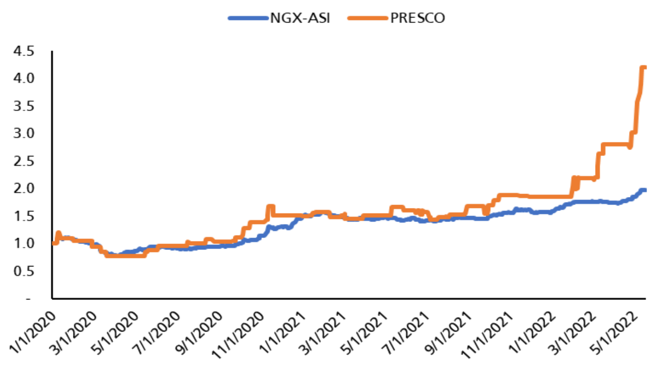
## Valuation and Recommendation

In determining the value of PRESCO, a mix of absolute and relative valuation methodologies were used. Absolute valuation employed a blend of DCF (10.0%), and net asset (90.0%) models, using assumptions of 12.4% risk free rate, 9.7% risk premium, 0.74 beta, 19.5% cost of equity and 2.0% sustainable growth rate over our forecast period. The absolute valuation jointly resulted in fair value of ₦190.93. Relative valuation employed P/E (11.6x) and EV/EBITDA (6.7x) multiples of global comparable. Using a 40:60 weighting to P/E and EV/EBITDA multiples, we obtained a fair value of ₦196.27. With an assigned weight of 60:40 to absolute and relative valuation methodologies respectively, we derived a 12-month target price of ₦222.15. As such, we recommend a "BUY" as our 12-month target price translates to an upside potential of 40.2% compared to the closing price of ₦158.40 as of July 25th, 2022.

**Valuation Summary**

| Valuation Methodologies | | | Weighting |
|---|---|---|---|
| **Absolute Valuation Methodology** | | | |
| **Valuation Metrics** | | **Weighting** | |
| *Risk Free Rate (%)* | *12.4%* | | |
| *Beta* | *0.74* | | |
| *Risk Premium (%)* | *9.7%* | | |
| *Cost of Equity (%)* | *19.5%* | | |
| *Sustainable Growth Rate (%)* | *2.0%* | | |
| **Dicounted Cashflow Model** | **₦ 812.02** | **10.0%** | 60.0% |
| **Net Asset Model** | **₦ 121.92** | **90.0%** | |
| | | | |
| *Fair Value price* | ₦ 190.93 | | |
| **Relative Valuation Methodology** | | | |
| **P/E Valuation Methodology** | | **40.0%** | 40.0% |
| *Comparable P/E Multiple* | *11.6x* | | |
| *Implied Equity Value [₦'000]* | *220,030,941.4* | | |
| *Fair Value per Share* | ₦ 220.03 | | |
| **EV/EBITDA Valuation Methodology** | | **60.0%** | |
| *Comparable EV/EBITDA Multiple* | *6.7x* | | |
| *Implied Equity Value [₦'000]* | *180,421,496.0* | | |
| *Fair Value Per Share* | ₦ 180.42 | | |
| *Relative Valuation Blended Target Price* | ₦ 196.27 | | |
| **Blended Target Price** | | | **222.15** |
| **Upside Potential** | | | **40.2%** |

**PRESCO vs NGX ASI**




*Source: Bloomberg, Afrinvest Research*

## Appendix

### OKOMU OIL PALM PLC

| OKOMU OIL PALM PLC | 2018 | 2019 | 2020 | 2021 | 2022F | 2023F | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|---|---|---|---|
| **Financial Metrics (₦'000)** | | | | | | | FORECAST HORIZON | | |
| Turnover | 20,257,669 | 18,867,271 | 23,410,680 | 37,456,917 | 47,598,636 | 57,755,320 | 67,194,754 | 76,788,023 | 85,918,696 |
| Gross profit | 15,299,872 | 13,310,358 | 15,458,388 | 25,799,385 | 33,788,080 | 40,504,621 | 47,035,051 | 54,036,988 | 60,462,392 |
| EBITDA | 11,766,294 | 9,048,867 | 11,211,603 | 19,122,970 | 24,498,205 | 29,823,405 | 34,528,928 | 39,543,820 | 44,429,986 |
| Operating Profit (EBIT) | 10,259,924 | 7,354,314 | 8,908,654 | 16,099,968 | 21,618,652 | 26,169,373 | 29,955,807 | 34,347,078 | 38,053,432 |
| Profit before Tax | 10,337,171 | 7,523,187 | 8,845,552 | 16,287,396 | 21,725,616 | 26,184,930 | 29,925,575 | 34,320,952 | 37,968,877 |
| Profit After Tax | 8,501,849 | 5,049,637 | 7,780,521 | 14,043,493 | 17,573,263 | 21,091,375 | 25,108,891 | 28,448,859 | 31,156,326 |
| Non-current Asset | 29,409,557 | 32,124,050 | 38,912,116 | 49,659,268 | 59,413,232 | 70,249,283 | 78,456,697 | 92,408,010 | 109,402,039 |
| Total Asset | 38,417,953 | 43,595,792 | 55,011,848 | 65,728,495 | 80,333,270 | 101,541,014 | 123,758,638 | 151,462,102 | 180,884,397 |
| Net Asset | 28,514,154 | 29,180,280 | 34,777,784 | 42,341,899 | 55,463,582 | 72,262,362 | 90,693,882 | 114,002,226 | 139,788,392 |
| **Profitability Ratios** | | | | | | | | | |
| Gross Profit Margin | 75.5% | 70.5% | 66.0% | 68.9% | 71.0% | 70.1% | 70.0% | 70.4% | 70.4% |
| EBITDA Margin | 58.1% | 48.0% | 47.9% | 51.1% | 51.5% | 51.6% | 51.4% | 51.5% | 51.7% |
| OPEX Margin | 24.9% | 31.6% | 28.0% | 25.9% | 25.6% | 24.8% | 25.4% | 25.6% | 26.1% |
| Operating Profit Margin | 50.7% | 39.0% | 38.1% | 43.0% | 45.4% | 45.3% | 44.6% | 44.7% | 44.3% |
| PBT Margin | 51.0% | 39.9% | 37.8% | 43.5% | 45.6% | 45.3% | 44.5% | 44.7% | 44.2% |
| Net Margin | 42.0% | 26.8% | 33.2% | 37.5% | 36.9% | 36.5% | 37.4% | 37.0% | 36.3% |
| ROAE | 29.8% | 17.5% | 24.3% | 36.4% | 35.9% | 33.0% | 30.8% | 27.8% | 24.6% |
| ROAA | 22.1% | 12.3% | 15.8% | 23.3% | 24.1% | 23.2% | 22.3% | 20.7% | 18.7% |
| **Liquidity Ratios** | | | | | | | | | |
| Current Ratio (x) | 2.02x | 4.07x | 2.74x | 2.26x | 2.94x | 3.82x | 4.83x | 5.56x | 6.24x |
| Quick Ratio (x) | 1.31x | 2.74x | 1.92x | 1.56x | 1.84x | 2.70x | 4.78x | 5.49x | 6.17x |
| Cash ratio (x) | 0.93x | 0.95x | 0.78x | 1.41x | 1.48x | 2.42x | 3.49x | 4.10x | 4.77x |
| **Du-Pont Analysis** | | | | | | | | | |
| *ROE* | 29.8% | 17.5% | 24.3% | 36.4% | 35.9% | 33.0% | 30.8% | 27.8% | 24.6% |
| Net Margin | 42.0% | 26.8% | 33.2% | 37.5% | 36.9% | 36.5% | 37.4% | 37.0% | 36.3% |
| Asset Turnover (x) | 0.53x | 0.46x | 0.47x | 0.62x | 0.65x | 0.64x | 0.60x | 0.56x | 0.52x |
| Leverage (x) | 1.35x | 1.49x | 1.58x | 1.55x | 1.45x | 1.41x | 1.36x | 1.33x | 1.29x |

### PRESCO PLC

| PRESCO PLC | 2018 | 2019 | 2020 | 2021 | 2022F | 2023F | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|---|---|---|---|
| **Financial Metrics (₦'000)** | | | | | | | FORECAST HORIZON | | |
| Turnover | 21,344,730 | 19,723,641 | 23,891,766 | 47,229,184 | 64,738,237 | 75,790,692 | 81,151,012 | 84,861,666 | 86,620,450 |
| Gross profit | 15,892,114 | 12,745,221 | 16,111,908 | 31,235,218 | 44,387,017 | 52,203,701 | 55,068,543 | 58,074,219 | 59,277,824 |
| EBITDA | 7,535,708 | 8,058,748 | 11,127,510 | 25,079,518 | 43,236,129 | 49,345,914 | 53,525,791 | 55,945,754 | 56,926,837 |
| Operating Profit (EBIT) | 7,270,489 | 7,740,275 | 10,800,327 | 24,734,623 | 43,006,771 | 48,815,827 | 53,160,629 | 55,571,619 | 56,515,027 |
| Profit before Tax | 6,321,010 | 6,059,683 | 8,690,351 | 23,839,033 | 37,407,832 | 41,262,956 | 44,742,866 | 46,578,582 | 46,899,738 |
| Profit After Tax | 4,284,188 | 3,838,746 | 5,261,929 | 18,957,726 | 28,625,928 | 29,791,424 | 34,041,377 | 34,903,675 | 34,895,943 |
| Non-current Asset | 43,172,364 | 49,859,826 | 53,734,094 | 77,936,592 | 77,363,406 | 77,097,983 | 77,290,168 | 77,378,399 | 77,460,957 |
| Total Asset | 59,260,448 | 70,732,623 | 73,768,995 | 122,891,602 | 153,713,947 | 190,423,033 | 217,375,819 | 248,471,485 | 275,287,972 |
| Net Asset | 24,174,342 | 27,887,876 | 31,051,454 | 46,919,178 | 73,351,860 | 100,643,284 | 131,684,661 | 163,977,224 | 196,169,464 |
| **Profitability Ratios** | | | | | | | | | |
| Gross Profit Margin | 74.5% | 64.6% | 67.4% | 66.1% | 68.6% | 68.9% | 67.9% | 68.4% | 68.4% |
| EBITDA Margin | 35.3% | 40.9% | 46.6% | 53.1% | 66.8% | 65.1% | 66.0% | 65.9% | 65.7% |
| OPEX Margin | 40.4% | 25.4% | 22.2% | 13.8% | 14.9% | 17.5% | 15.2% | 15.8% | 16.1% |
| Operating Profit Margin | 34.1% | 39.2% | 45.2% | 52.4% | 66.4% | 64.4% | 65.5% | 65.5% | 65.2% |
| PBT Margin | 29.6% | 30.7% | 36.4% | 50.5% | 57.8% | 54.4% | 55.1% | 54.9% | 54.1% |
| Net Margin | 20.1% | 19.5% | 22.0% | 40.1% | 44.2% | 39.3% | 41.9% | 41.1% | 40.3% |
| ROAE | 17.7% | 14.7% | 17.9% | 48.6% | 47.6% | 34.2% | 29.3% | 23.6% | 19.4% |
| ROAA | 7.2% | 5.9% | 7.3% | 19.3% | 20.7% | 17.3% | 16.7% | 15.0% | 13.3% |
| **Liquidity Ratios** | | | | | | | | | |
| Current Ratio (x) | 0.96x | 1.24x | 1.08x | 1.35x | 2.24x | 2.81x | 3.19x | 3.74x | 4.30x |
| Quick Ratio (x) | 0.75x | 1.05x | 0.89x | 1.21x | 2.05x | 2.62x | 3.02x | 3.58x | 4.14x |
| Cash ratio (x) | 0.17x | 0.31x | 0.14x | 0.68x | 1.63x | 2.23x | 2.61x | 3.16x | 3.72x |
| **Du-Pont Analysis** | | | | | | | | | |
| *ROE* | 17.7% | 14.7% | 17.9% | 48.6% | 47.6% | 34.2% | 29.3% | 23.6% | 19.4% |
| Net Margin | 20.1% | 19.5% | 22.0% | 40.1% | 44.2% | 39.3% | 41.9% | 41.1% | 40.3% |
| Asset Turnover (x) | 0.36x | 0.30x | 0.33x | 0.48x | 0.47x | 0.44x | 0.40x | 0.36x | 0.33x |
| Leverage (x) | 2.45x | 2.54x | 2.38x | 2.62x | 2.10x | 1.89x | 1.65x | 1.52x | 1.40x |

## About Afrinvest

**Afrinvest (West Africa) Limited** (Afrinvest or the Company) is a financial services holding company with a focus on West Africa and active in five principal areas: investment banking, securities trading, asset management, fund trust, and investment research & consulting. The Company was originally founded in 1995 as Securities and Trust Company Limited ("SecTrust") which grew to become a respected research, brokerage and asset management firm. Afrinvest has built a track record in executing transactions within its principal areas of business and prides itself in thorough knowledge of the Nigerian market, business communities and the regulatory environment; careful, fact-based analysis and recommendations; complete corporate independence and discretion; and the delivery of innovative solutions tailored to the specific needs of our clients. Afrinvest owns four operating subsidiaries.

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ANALYSTS' CERTIFICATION

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Fair Value Estimate

Our approach to establishing fair value takes into account a weighted average of price estimates derived from a blend of valuation methodologies including the Net Asset Valuation ("NAV"), Discounted Cash Flow ("DCF") and its variants as well as other relative/comparable trading multiples valuation models. However, we attach the most weight to EV/EBITDA valuation methodology, P/E Valuation Model, Free Cash Flow (FCF) model and Residual Income Valuation/Model ("RIV/RIM"). The utilization of comparable trading multiples is guided by the analysts' understanding of the company's fundamentals, as well as key price drivers from the firm, industry and macroeconomic perspectives.

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| COMPANY | SECURITY | DISCLOSURES |
|---|---|---|
| Okomu Oil Palm Plc | OKOMUOIL | - |
| Presco Plc | PRESCO | - |

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|---|---|
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| b. | One of the analysts on the coverage team (or an immediate relative) is a board member or officer of the issuer |
| c. | Afrinvest has a significant interest in the security or issuer |
| d. | Afrinvest has received compensation for investment banking or financial advisory services from the issuer within the last 12 months |
| e. | Afrinvest Investment Banking was a major or co-lead in the primary listing of the company's shares |
| f. | Afrinvest has co-managed or managed a public or private offering for this security, for which it received fee |
| g. | Afrinvest Investment Banking has a pending remuneration with the company or anticipates future remuneration from the company |
| h. | The content of this report was disclosed to parties in the company which thereafter caused a change in information about the company |
| i. | The issuer is, or during the past 12 months has been, a client of Afrinvest (West Africa) Limited or its subsidiaries |
| j. | Remuneration will be given to the analyst (s) responsible for the production of this report by the company analysed |
| k. | The issuer owns a stake in Afrinvest |

## Investment Ratings

**BUY:** The expected total return over the next 12 months is 25.0% or more. Investors are advised to take positions at the prevailing market price as at the report date.

**ACCUMULATE:** The expected total return over the next 12 months ranges between 10.0% and 25.0% or the upside potential is above industry average. However, cautious portfolio positioning is advised.

**HOLD:** Over the next 12 months, investors are advised to remain neutral as the expected total returns may not exceed 10.0% based on the prevailing market price as at the report date.

**REDUCE:** The expected total return of the stock ranges from nil to negative. Aggressive exit or entry may not be appropriate as the stock might fluctuate into a 10.0% decline over a 12-month horizon. Thus, the slim upside potential does not adequately compensate for the inherent risk.

**SELL:** The stock trades at a premium to its intrinsic value and is thus expected to lose up to 10.0% or more of its market value. Immediate exit is therefore advised at the prevailing market price as at the report date.

**Target Prices:** Target prices disclosed in this report are partly based on analysts' estimate of the company earnings. However, prices of securities could fluctuate if earnings miss estimate or due to general market, industry or macroeconomic risk factors.

For more details on company specific valuation methodologies, upside/downside risks to current valuation, contact the primary analyst or email research@afrinvest.com

**Ratings Summary**

| | BUY | ACCUMULATE | HOLD | REDUCE | SELL | Total |
|---|---|---|---|---|---|---|
| **Universe** | 1 | 1 | 0 | 0 | 0 | **2** |
| **% distribution** | **50.0%** | **50.0%** | **0.0%** | **0.0%** | **0.0%** | **100.0%** |

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