

Okomu Oil Earnings Review Q1 2020

Stock rating: BUY
Target Price: N89.41/s
Closing Price: N55.05/s

Company Information

TTM P/S (x)	2.4x
TTM P/B (x)	1.7x
TTM P/E (x)	8.0x
EV/EBITDA (x)	6.0x
Dividend Yield	3.6%
Free Float	94.6%
Market Cap (N'bn)	52.5

Q1 2020: Revenue and profit surge on domestic sales recovery

- Revenue growth of 65.5% y/y
- Profit before tax grew by 137.9% y/y
- Net Income grew by 31.8% y/y slowed by higher tax expenses

CPO volume growth drives accelerated Revenue growth

In its recently released Q1 2020 financials, Okomu oil reported a 65.5% y/y increase Revenue to N7.0bn in Q1 2020 from N4.2bn in Q1 2019. The recovery in Revenue was remarkable and beat our forecast as annualised Q1 2020 Revenue of N27.9bn prints above our FY forecast of N26.5bn by 5.3%. We note the remarkable recovery in Revenue was driven by increased local sales (+81.6% y/y to N6.4bn) while export sales continues to remain pressured (-12.5% to N0.6bn). The surge in local exports remains driven by the closure of the land borders which has prevented importation of illegal olein used in crude palm oil (CPO) production. Export sales to international markets remain pressured with largest importer of CPO, India, implementing import tariffs on CPO imports into the country. CPO prices have also been trending higher with PKO price climbing 16.4% y/y to US\$820.58/MT in Q1 2020.

Margins expand on lower cost of sales

The company's cost of sales dipped significantly, declining 69.9% y/y to N0.3bn in Q1 2020 from N0.8bn in Q1 2019. The decline in cost of sales was broad based with cost of sales on Oil Palm (down 67.0% y/y) and Rubber (down 84.1% y/y) declining. Against this backdrop, Gross Profit jumped 99.1% to N6.7bn in Q1 2020 from N3.4bn in Q1 2019. In the same vein, gross margin expanded by 16.3ppts to 96.4% in Q1 2020.

Operating performance strengthens despite spike in Opex

In Q1 2020, Okomu oil recorded significant spike in Net Operating Expenses which climbed 71.0% y/y to N3.5bn from N2.1bn in Q1 2019. The company's quarterly financials don't provide breakdown of the Net Operating Expenses, however, we note higher volumes sold within the quarter would have impacted Material costs and Technical fees. Despite the spike in Opex, faster growth in Gross Profit ensured Operating profit accelerated 142.6% y/y to N3.2bn in Q1 2020 from N1.3bn in Q1 2019.

Finance cost jumps on higher leverage

Net finance cost jumped by 251.8% y/y to N0.2bn in Q1 2020 from N0.05bn in Q1 2019. This was primarily driven by a spike in Finance cost (up 153.7%). The growth in Finance cost was down to higher Loans and Borrowings taken by the company to support its Capital expenditure spend. Nevertheless, Pre-Tax profits climbed 137.9% y/y to N3.0bn in Q1 2020 from N1.3bn in Q1 2019. The company has seen its Tax holiday expire and as a result recorded a tax expense of N1.0bn rather than a tax credit of N0.3bn in Q1 2019. While this impacted on Net margin (down 7.4ppts to 29.0%), Net profit grew 31.8% y/y to N2.0bn in Q1 2020 from N1.5bn in Q1 2019.

Outlook: Outlook remains promising on volume and price growth

Volume & Price growth to sustain accelerated revenue

We remain very positive on Okomu oil going forward reflected in our 40.7% y/y forecast for Revenue growth. Our optimism on the company's Revenue growth is premised on strong growth in volumes and price. We forecast a 29.7% y/y growth in CPO volumes sold to 59,928MT while we forecast prices would remain sturdy with a 15.0% growth. However, we expect Rubber volumes to remain weak as we forecast a 6.3% y/y decline to 8,641MT while prices are forecasted to remain fairly stable.

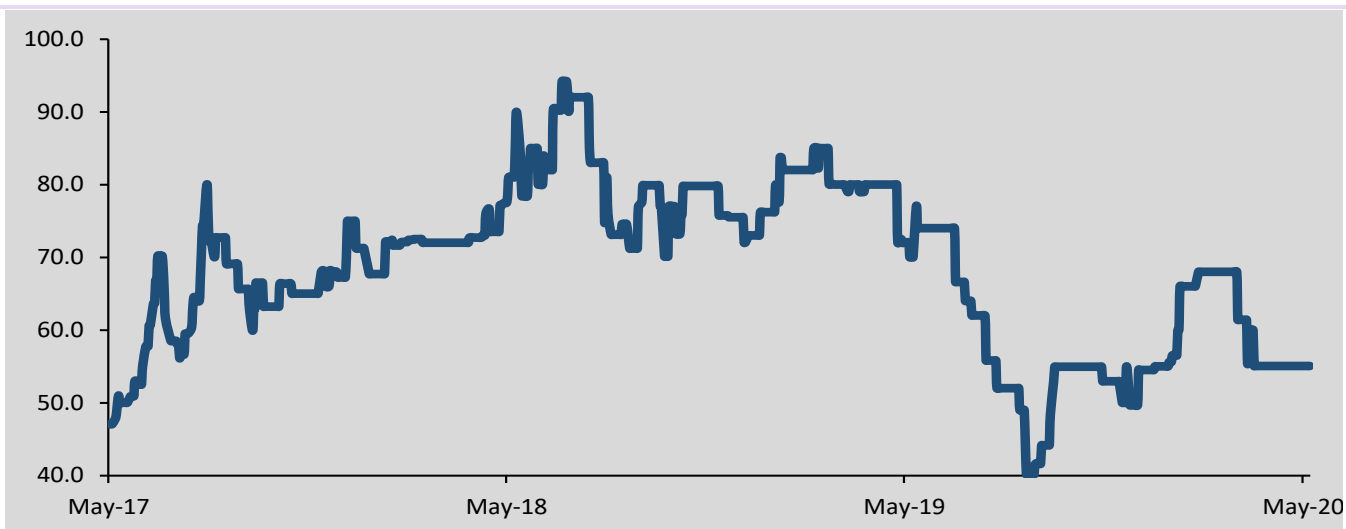
EPS forecasted to print at N8.45/s

We note the company now operates higher financial leverage but remains insignificant and thus, we do not expect higher Finance cost to impact on the company's Net Income. However, with the company's tax holiday over, we expect Okomu oil will record higher tax expense in 2020. In addition, we note further devaluation of the naira would impact on the company's costs. Nevertheless, we do not expect the pressures to outweigh the company's Revenue growth. Against this backdrop, we forecast a 59.7% y/y increase in Net Income to N8.1bn while we forecast EPS will print at N8.45/s in 2020.

BUY recommendation with a target price of N89.41/s

We have a target price of N89.41/s on Okomu oil which represents a 62.4% upside on Friday's closing price of N55.05/s. We place a BUY recommendation on the stock. Our recommendation hinges on the company's above average fundamentals across Revenue growth, Net Income growth, Return on Equity and Low financial leverage. Our EPS forecast implies Okomu oil trades at an implied forward PE multiple of 6.5x which is a steep 174.0% discount to our peer average of 17.8x. Furthermore, the stock has a negative 1-Year return of 18.2%, with EPS forecasted to grow at 59.7%, we see the stock as deeply discounted with a decent upside.

Okomu Oil Historical Price Movement



Source: Bloomberg, FSDH Research

Okomu Oil Plc Plc Earnings Highlight Q1 2020

N'm	Q1 2020	Q1 2019	y/y
Revenue	6,985	4,220	65.5%
Other Income	(252)	(838)	-69.9%
Gross Profit	6,733	3,382	18.3%
Net Operating Expenses	(3,514)	(2,055)	71.0%
Profit from continuing operations	3,219	1,327	142.6%
Gain on disposal of Assets	-	-	n/a
	3,219	1,327	142.6%
Finance Income	3	22	-88.1%
Advertisements, Sponsorships % Sales Promotions	(193)	(76)	153.7%
Net Finance Income/(Cost)	(190)	(54)	n/m
Pre-Tax Profit	3,029	1,273	137.9%
Income Tax (Expense)/Credit	(1,001)	266	-476.0%
Profit for the period	2,028	1,539	31.8%
Profit for the period attributable to:			
Owners of the Company	2,028	1,539	31.8%
Non-Controlling Interests	-	-	n/a
	2,028	1,539	31.8%
Other Key Inputs	Q1 2020	Q1 2019	y/y
Earnings Per Share	2.13	1.61	5.6%
EBITDA	3,780	1,730	15.3%
Margins	Q1 2020	Q1 2019	y/y
Gross Margin	96.4%	80.1%	
EBITDA Margin	54.1%	41.0%	-0.6ppt
Operating Margin	46.1%	31.4%	0.5ppt
Net Margin	29.0%	36.5%	-1.6ppts
No of Outstanding Shares	954	954	

Source: Company Financials, FSDH Research

FSDH Forecast

Nm (unless otherwise stated)								
Income Statement	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Revenues	20,262	20,258	18,867	26,539	31,765	34,727	38,115	39,923
Operating Expenses	(8,011)	(8,675)	(10,013)	(13,035)	(15,543)	(16,965)	(18,591)	(19,459)
EBITDA	12,251	11,583	8,854	13,504	16,222	17,762	19,524	20,464
Depreciation & Amortisation	(1,276)	(1,506)	(1,695)	(1,812)	(2,052)	(2,326)	(2,627)	(2,949)
Operating Profit	10,975	10,076	7,160	11,693	14,170	15,436	16,987	17,515
Other Income	154	184	195	212	254	278	305	319
EBIT	11,128	10,260	7,354	11,905	14,424	15,714	17,202	17,834
Net Finance (cost)/ income	12	77	169	(385)	(237)	(169)	(66)	193
PBT	11,140	10,337	7,523	11,520	14,187	15,545	17,136	18,027
Taxation	(1,826)	(1,835)	(2,474)	(3,456)	(2,554)	(2,798)	(3,084)	(5,408)
Net Profits	9,317	8,502	5,050	8,064	11,633	12,747	14,052	12,619
EPS, N	9.76	8.91	5.29	8.45	12.20	13.36	14.73	13.23
DPS, N	3.00	3.00	2.00	2.96	4.27	4.68	5.16	4.63
Dividend Sum	2,862	2,862	1,908	2,822	4,072	4,461	4,918	4,417

Balance Sheet	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Property, Plant & Equipment	11,217	13,392	13,923	15,109	16,642	18,272	20,023	21,720
Bearer Biological Assets	12,899	16,017	18,201	21,838	26,194	30,920	36,071	41,406
Non-Current Assets	24,115	29,410	32,124	36,947	42,836	49,192	56,094	63,126
Current Assets:								
Inventories	2,687	3,149	3,735	3,968	4,749	5,192	5,698	5,968
Trade Receivables	465	744	4,234	531	635	695	762	798
Intercompany Receivables	498	448	98	98	98	98	98	98
Other Receivables	513	538	720	720	720	720	720	720
Cash & Bank Balances	2,995	4,129	2,684	4,335	5,604	5,491	5,845	7,584
	7,158	9,008	11,472	9,652	11,807	12,196	13,125	15,170
Total Assets	31,274	38,418	43,596	46,599	54,643	61,388	69,218	78,295

Non Current Liabilities:								
Deferred Tax Liability	1,660	1,548	1,685	1,685	1,685	1,685	1,685	1,685
Post Employment Benefit Obligation	671	1,166	935	935	935	935	935	935
Borrowings	765	2,267	8,264	5,507	4,723	3,871	3,089	2,028
	3,097	4,981	10,884	8,127	7,343	6,491	5,709	4,648
Current Liabilities:								
Trade Payables	488	1,548	1,253	1,104	2,174	1,401	875	3,122
Other Current Payables	28	61	52	52	52	52	52	52
Current Provision & Accruals	440	320	354	354	354	354	354	354
Borrowings	486	464	709	1,377	1,574	1,659	1,663	1,352
Current Tax Payables	3,599	2,529	1,148	1,148	1,148	1,148	1,148	1,148
Dividend Payable	-	-	-	-	-	-	-	-
Intercompany Payables	-	-	16	16	16	16	16	16
	5,041	4,923	3,531	4,050	5,317	4,629	4,107	6,043
Total Liabilities	8,136	9,904	14,416	12,178	12,660	11,119	9,816	10,691
Share Capital	477	477	477	477	477	477	477	477
Share Premium	1,867	1,867	1,867	1,867	1,867	1,867	1,867	1,867
Revenue Reserves	20,771	26,412	26,759	32,001	39,562	47,848	56,981	65,183
Non Distributable Reserves	20	(242)	77	77	77	77	77	77
Shareholders' Funds	23,136	28,514	29,180	34,422	41,983	50,269	59,402	67,605
Total equity and liabilities	31,274	38,418	43,596	46,599	54,643	61,388	69,219	78,296

Cash Flow	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Operating Cash Flow	9,632	9,315	1,424	13,198	13,868	13,799	15,578	17,508
Investing Cash Flow	(6,769)	(6,799)	(4,409)	(6,635)	(7,941)	(8,682)	(9,529)	(9,981)
Financing Cash Flow	(2,968)	(1,382)	1,540	(4,912)	(4,658)	(5,229)	(5,695)	(5,789)
Free Cash Flow	3,778	4,311	8,115	131	5,882	7,981	8,585	4,019

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