



1 Rides On Palm ce Spike



Oil palm plantation in Nigeria not enough for the market

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Okomu Oil, one of the two commercial palm oil producers listed on the local bourse, is reaping the benefits of current rise in the price of palm oil.

This is reflected in the company's first-quarter result for the three months ended, March 31, 2022 that shows a sterling 63.2 per cent growth in revenue to N20.49 billion, just as profit after tax jumped by 80.2 per cent to N9.50 billion in the first three months of the year, from N5.27 billion in the same period last year. This shows a jump in earnings per share to N9.96, from N5.53, according to an analysis by Cordros Research.

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The three-month revenue of N20.49bn is the

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noted in a statement emailed to its clients on Wednesday.

Vetiva Research has the same attribution: “Amid the supply crunch of edible oils, driven by the ongoing Russia-Ukraine crisis, global CPO prices advanced by 32 per cent from an average of \$1,344/mt to \$1776/mt. The price increase during the period was fuelled by increased demand for CPO due to shortages of cheaper rival edible oils,” it stated in the note to its clients on Wednesday.

Vetiva Research also noted the record-high sales of Okomu Oil, which is reflective of the global surge in palm oil price. The analysts noted stronger demand for edible oil and biofuels, given the consistent rise in the price of crude oil.

Abiola Rasaq, a Lagos-based financial analyst, noted, “There is a positive correlation between crude oil and palm oil price. This established



as crude palm oil is a composite commodity used in many food and cosmetic products.”

While shareholders of Okomu and Presco are up for a great harvest, in the form of capital appreciation on the stock price and potentially higher cash dividends, corporations like Unilever, PZ, Flourmill, Nestle, which use crude palm oil and its derivatives in their products, may see a varied negative impact on profit margins, especially as it may be tricky and challenging to pass any increase in production cost to final consumers at this time of double whammy when the purchasing power of Nigerians has been significantly eroded by inflation and income of most households have either stagnated or plummeted, Rasaq noted.

Okomu had previously reported an equally sterling result for the full year to December 31, 2021, which showed revenue rose 60 per cent to N37.4bn from N23.4bn a year earlier. Its

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contracted by 10.5 percentage points to 85.7

per cent in the first quarter (from 96.2% in 2021), as the cost of sales (504.1% year-on-year growth) rose faster than the 63.2 growth in revenue, indicating the rising cost of fertilizers, pesticides and other farm inputs, many of which are imported.

Indeed, the price of fertilizer may rise further in the new planting season due to the Russia-Ukraine war, even as the Nigerian government seeks alternative import of potash, a key raw material for fertilizer production from Canada as a replacement for the lost supplies from Russia's Uralkali, which has been the country's main supplier of potash in the past three years.

Vetiva expects global CPO prices to remain elevated on the back of the export ban by the Indonesian government, which came into effect on April 28, coupled with the supply disruption of other edible oils. "Accordingly, we expect this to trigger a price increase in

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prices in the coming quarters .

Noting the exigency of having an integrated economic reform to address the key issues of food sustainability, security and broader standards of living, Rasaq observed that “as a country, we must refine our agricultural policies and ensure full integration and synergy of key economic growth poles, where Nigeria has a competitive advantage; and this goes beyond just writing a grandiose policy document; rather it is about execution.”

“Imagine a scenario where we get things right in the oil and gas sector and Nigeria can leverage its oil and gas production to ensure self-sufficiency in fertilizer production, which can be channelled into the agricultural sector for improved yield at a much lower cost.”

On the back of the strong earnings, the shares of Okomu Oil rallied further, gaining 5.13 per cent to close at N170.00 per share at the close of trading on the Nigerian Exchange on May 5, 2022. Year-to-date, the stock has gained

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has seen a notable appreciation of 55.02 per

cent year-to-date, ranking the fifth best performing stock thus far in the year.

Vetiva, therefore, put a target price of N178.75, from the current price of N161.70, with a rating of HOLD. Cordros said its estimates were under review.

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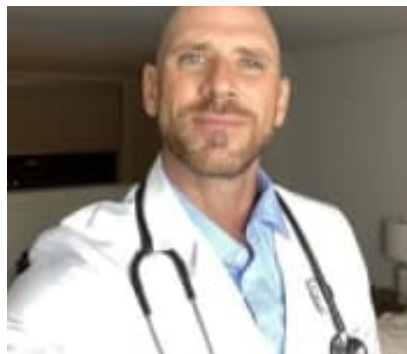
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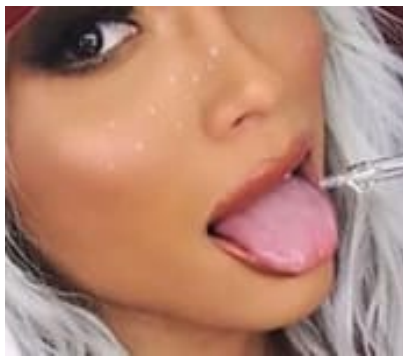


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