CARDINALSTONE

Nigeria | Equity Research | Oil Palm | Sector Update

March 17, 2025

Oil Palm

Prices to remain elevated in H1’25 on supply constraints

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The oil palm market in 2025 is expected to maintain elevated CPO prices, particularly in the first half, driven by robust demand from biodiesel mandates, festive seasons and geopolitical factors affecting some substitute oils. However, supply-side improvements, particularly from favourable weather conditions, may temper prices in the latter half of the year. Locally, we expect prices to remain elevated on account of rising demand and elevated FX rates, which bodes well for the local players.

In 2024, the global palm oil market experienced a supply squeeze and policy-driven demand growth, leading to higher prices. Indonesia's transition from B35 to B40 biodiesel reduced export volumes, while severe flooding in Malaysia lowered production estimates from 19.8 MMT to 19.2 MMT. These disruptions propelled crude palm oil (CPO) prices to a peak of \$1,200/t in December, bringing the annual average to \$925.78/t—an increase of 10.66% from the previous year.

In 2025, our outlook for CPO prices remains bullish, driven by strong global demand and limited substitutes. On the former, Ramadan activities, coupled with the higher summer demand from India, are likely to propel demand in the first half of 2025. Additionally, demand in India and China is likely to improve on the back of better macroeconomic conditions. The United States Department of Agriculture (USDA) has projected consumption to reach 46.3 MMT, a 2.1% increase from the prior year.

Figure 1: Global CPO price may gather pace in 2025 ($/t)

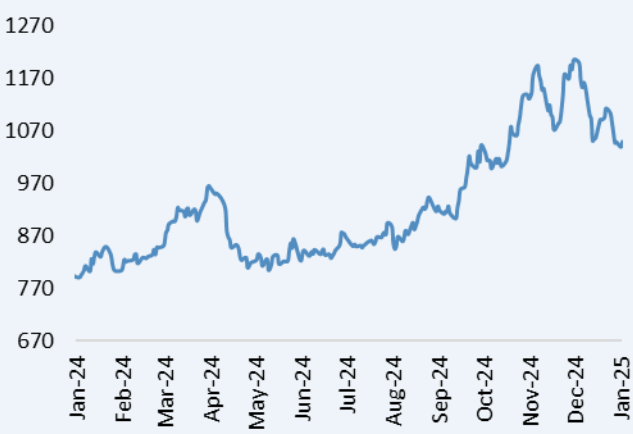
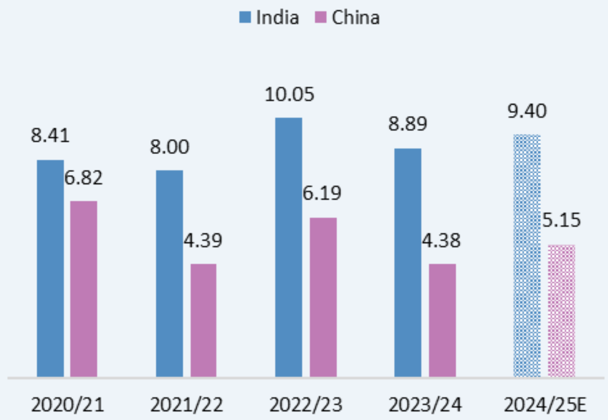


Figure 2: Projected increase in import volumes from world’s largest importers (MMt)



Source: Bloomberg, USDA, CardinalStone Research

Typically, when CPO prices trade at a premium to substitutes like Sunflower oil and Soybean oil for an extended period—such as the past six months—major vegetable oil-importing countries would pivot to more affordable alternatives. However, supply constraints have limited this shift. Ukraine's high-oleic Sunflower oil exports are expected to decline in the 2024/25 season as the ongoing war disrupts production. Meanwhile, interest in Russian Sunflower oil may wane due to recent increases in export duties. Similarly, Soybean oil production faces challenges, with unfavorable weather conditions in Brazil and Argentina likely to dampen output.

CPO supply to improve but unlikely to change price expectation

Global CPO supply is expected to rise to 79.5 million metric tons (MMt) in 2024/25, up from 76.2 MMt in 2023/24, with favorable weather conditions playing a key role in the increase. However, the growth will be modest due to Indonesia's biodiesel mandate and a weaker output forecast for Malaysia.

Indonesia, the world's largest palm oil exporter, requires the blending of palm oil-based biodiesel with conventional diesel as part of its effort to reduce emissions and decrease energy imports. In 2024, the country enforced the B35 biodiesel mandate, with a planned transition to B40 initially set for January 1, 2025, but later delayed to February. As of now, 79 out of 88 fuel terminals in Indonesia are distributing B40, with the remaining eight in preparation and one undergoing facility upgrades. As a result, increased domestic palm oil consumption is expected in both the short and long term due to higher biodiesel blending rates.

Meanwhile, Malaysia's palm oil output is forecast to moderate in 2025 due to weather-related disruptions. The latest report from the Malaysian Palm Oil Board (MPOB) revealed that palm oil inventories in February fell for the fifth consecutive month, reaching their lowest level in nearly three years. This decline was driven by flooding, which hindered the harvesting and transportation of fresh fruit.

Figure 3: World Oil Palm production (MMt)

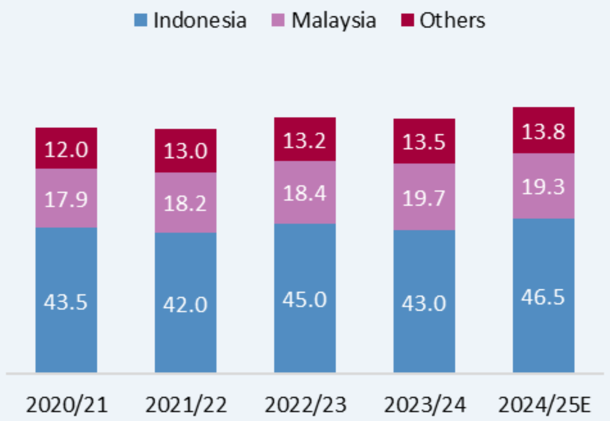
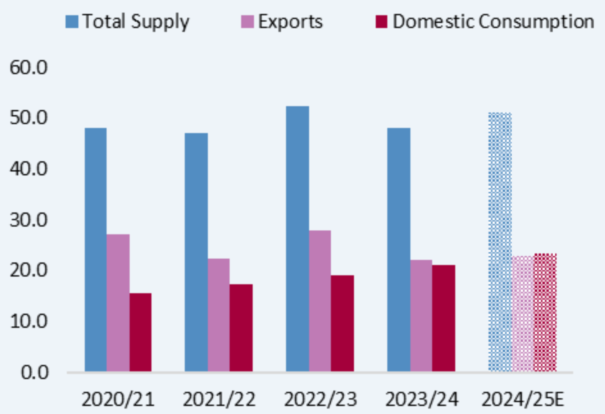


Figure 4: Indonesia's total supply , exports and domestic consumption of oil palm (MMt)



Source: USDA, Bloomberg, CardinalStone Research

Local prices to remain high amid growing demand in the local market

Local crude palm oil (CPO) prices remain elevated due to the high exchange rate in the country. This persistent upward trend is primarily driven by the unique structure of Nigeria's CPO market. Despite being one of the world's largest producers of palm oil, Nigeria still relies on imports for over half of its domestic demand. As a result, importers hold significant influence over local prices, causing currency fluctuations to be directly passed on to consumers through higher price.

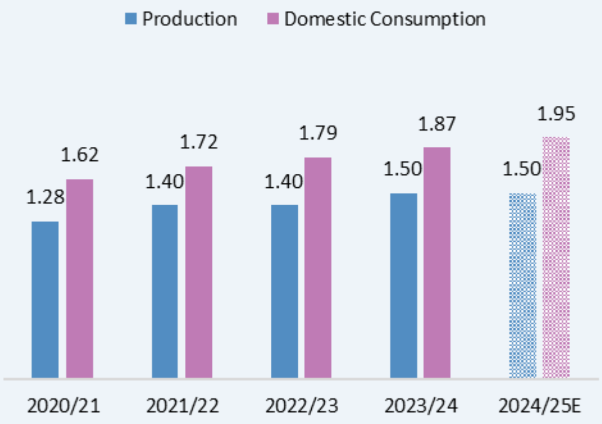
While the Naira's outlook appears more stable, local palm oil producers are expected to benefit from a bullish global CPO market. Additionally, domestic demand is likely to provide further support, driven by sustained use in cosmetics and industrial applications, as well as rising food consumption from a growing population. Overall, we forecast CPO prices to average approximately N1,780,067 per ton in 2025 (vs 1,554,608.58 per ton in 2024).

Local supply growth hampered by capacity of small holder farmers

Nigeria's palm oil industry remains highly fragmented, with smallholder farmers contributing approximately 80.0% of total production. However, their dependence on traditional, labour-intensive methods have led to low yields and inconsistent quality, hindering the sector's ability to scale and fully exploit market opportunities. This structural challenge is likely to persist in the near term, limiting output growth.

In 2025, a modest increase in production is anticipated, driven by listed players—who contribute less than 10.0% of supply—benefiting from higher extraction rates and improved Fresh Fruit Bunch (FFB) yields at Okomu, alongside Presco's inorganic expansion efforts. While long-term prospects may improve through modernization initiatives and the adoption of high-yielding seed varieties, short-term growth remains hindered by security concerns, limited access to capital, and a high-interest rate environment among others. Reflecting these challenges, the USDA projects Nigeria's palm oil production to remain flat at 1.5 million metric tons (MMT) in the coming year.

Figure 5: Oil palm production deficit to widen in 2024/25 (MMt)



Source: USDA, CardinalStone Research

...But listed players set to report volume growth

We expect Okomu to achieve CPO volume growth in the near term, primarily driven by a higher extraction rate and improved Fresh Fruit Bunch (FFB) yields from existing mature oil palm trees. Given that the company has no arable land available for new planting and management has confirmed no plans for expansion in the foreseeable future, as all existing trees, particularly in Ext 2, have reached maturity.

Okomu's extraction rate has historically remained stable at around 20.0%–22.0% of FFB weight. However, management has noted a significant improvement in recent quarters, leading us to forecast an average extraction rate of 23.0%–24.0% over the next five years. Based on this, we project CPO volumes to reach 79,997 tons in 2025, with an average of 98,767 tons over the five-year period.

Presco is set to continue benefiting from its inorganic expansion strategy. With the recent acquisition of Ghana Oil Palm Development Company (GOPDC), the company's total land area has expanded by 21,000 hectares. Additionally, its processing capacity, which includes a 60-metric-ton-per-hour oil mill, is expected to further support CPO output.

Based on Presco's historical FFB yield of 10.2 tons per hectare (3-year average) and its 2024 CPO production of 31,064 tons, we project total CPO output to reach 53,612 tons in 2025, reflecting a 72.6% year-on-year increase due to the acquisition. Over the next five years, we forecast average CPO volumes of 72,863 tons.

Moderation in inflation to further support margins

Cost pressures remain a key concern, with rising input, crushing, and milling costs driven by higher fertilizer and energy prices over the past year. In FY'24, general expenses for Okomu surged by 76.5%, while Presco saw a 58.1% increase. However, despite these rising costs, both companies experienced little to no margin contraction, supported by strong topline growth (Okomu: 73.4%, Presco: 93.5%).

Looking ahead, a high base effect of cost and a more stable foreign exchange environment are expected to ease cost pressures for both companies. We forecast an average EBITDA margin of 53.8% in 2025, with a five-year average of 54.59%, compared to a historical five-year mean of 50.0%.

Figure 6: CPO projections for local players (Kt)

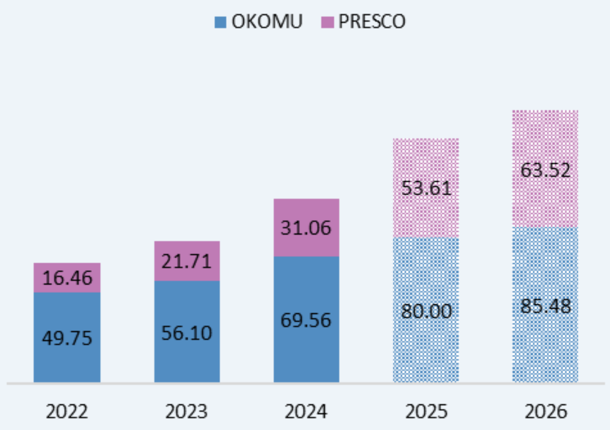
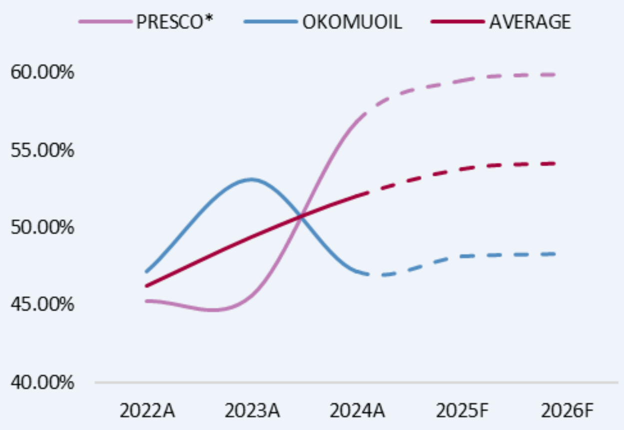


Figure 7: Sector EBITDA margins expected to improve in 2025



Source: Company's financials, management guidance, CardinalStone Research

*EBITDA margins are calculated without revaluation gains and exchange gains for PRESCO

Figure 8: Sector valuation metrics

TICKER	EPS FY'24 (N)	PE (LTM)	5year Mean PE	BVPS (N)	12-month TP (N)	Peer PE (Mean)	ROE (LTM)	EV/EBITDA (LTM)	Link to latest Report
PRESCO	104.28	7.5x	8.5x	130.84	903.16	8.4x	90.80%	9.6x	Click here
OKOMUOIL	35.93	15.2x	11.3x	53.06	UR	12.7x	76.60%	6.2x	Click here

Source: Capital IQ, Bloomberg, CardinalStone Research

Chart Pack

Profitability ratios— Profitability of OKOMU and PRESCO outperformed peers in 2024

Figure 9: LTM Gross Margin

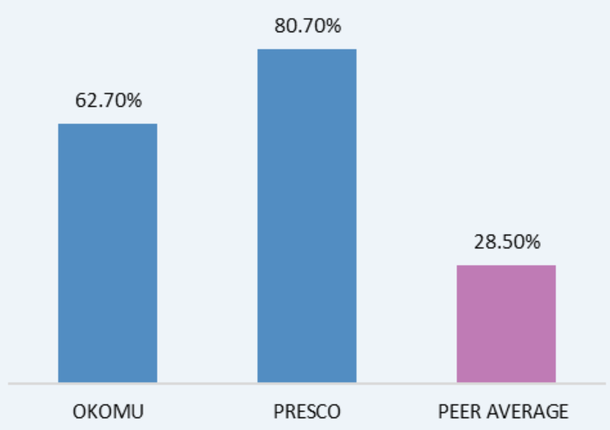
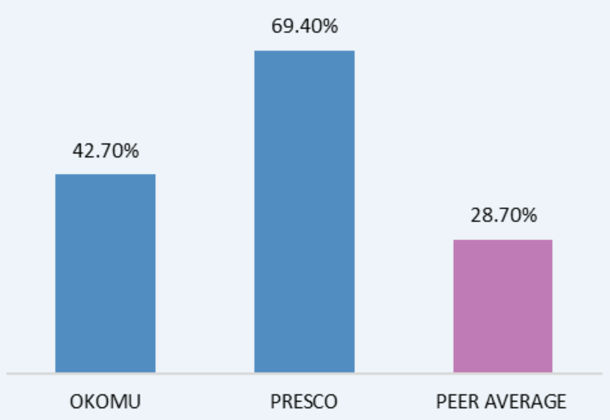


Figure 10: LTM EBITDA Margin



Source: CapIQ, Company financials, CardinalStone Research

Figure 11: LTM EBIT Margin

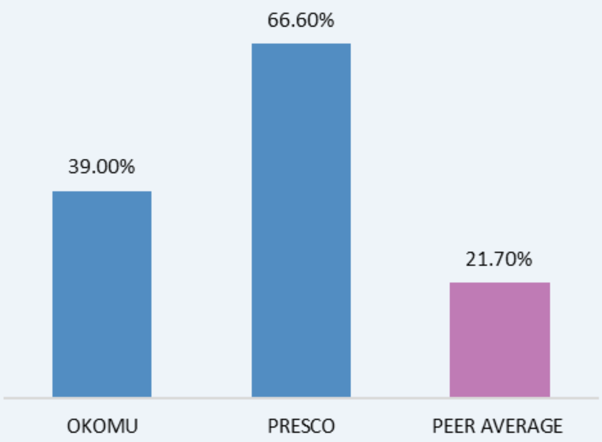


Figure 12: LTM Net Income Margin

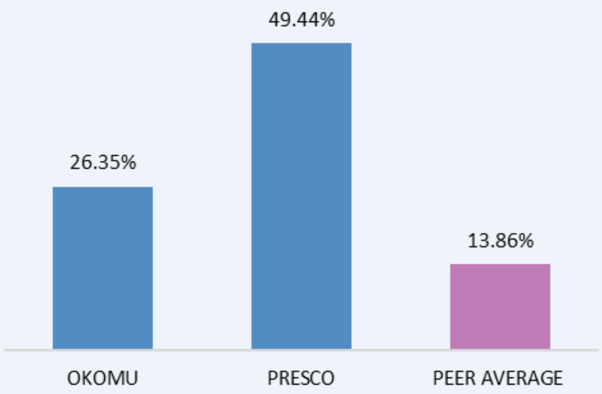


Figure 13: Return on Common Equity

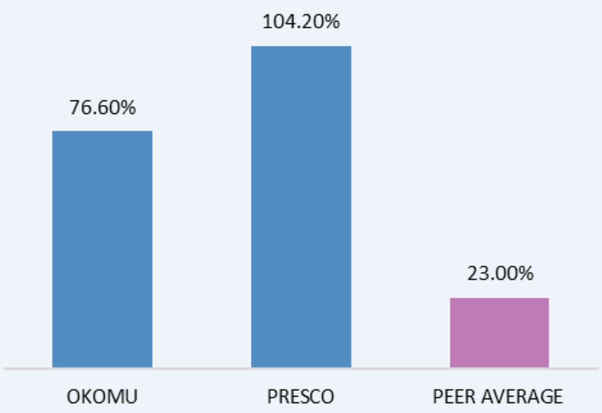
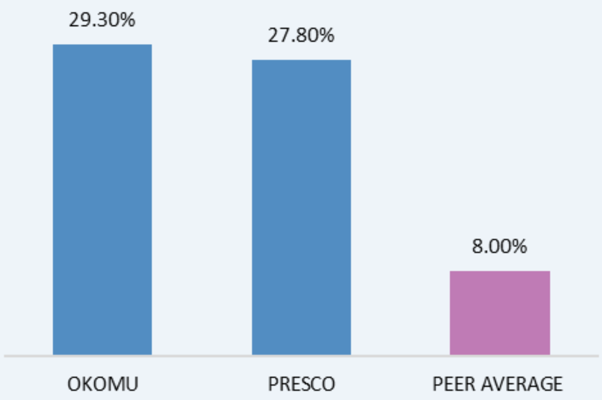


Figure 14: Return on Assets



Leverage ratios for Oil Palm players in Nigeria vs select EMEA peers

Figure 15: Total Debt to Capital*

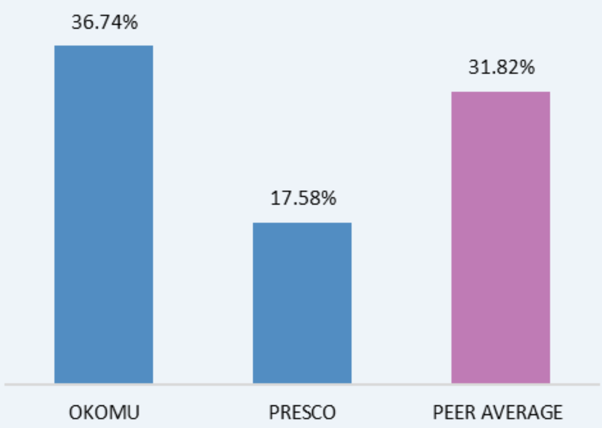
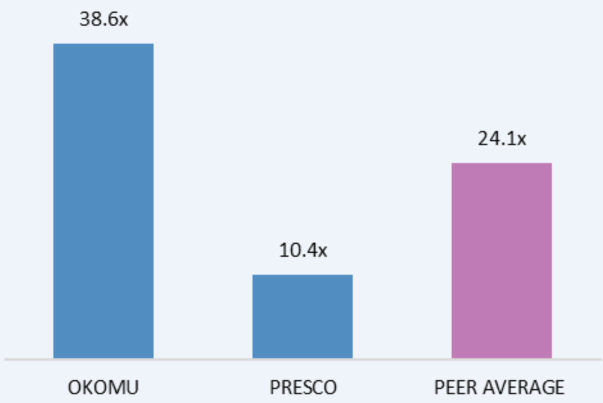


Figure 16: Interest Coverage



Source: CapIQ, Company financials, CardinalStone Research

All ratios are computed using FY'24 numbers

* PRESCO'S capital structure is exclusive of N100 billion bond raise

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