

OKOMU OIL PALM PLC

BLOOMBERG: OKOMUOIL NL

SELL

Resilient fundamentals amidst stretched valuation

Target Price: N1,066.34

Ref Price: N1,750.00

The operating environment for Okomu Oil Palm PLC (OKOMUOIL) is set to be slightly more challenging in FY'26, as headwinds from softer rubber prices and increased competition from importation activities are likely to temper revenue growth. Cost pressures are also re-emerging as the current geopolitical landscape continues to push up fertiliser and energy prices, both of which are negative for the company. However, the impact of a spike in energy prices is minimal compared to peers, as the company generates electricity from agricultural waste.

Revisions to our model, which reflect changes in assumptions such as a lower equity risk premium of 12.6% (formerly 13.8%), a lower risk-free rate of 16.2% (16.8% previously), a higher terminal growth rate of 4.5%, and a moderation in Beta to 0.48 (vs. 0.66 previously), have revealed a 12-month Target Price "TP" of N1,066.34. This translates to a 39.07% downside to our reference price, and we downgrade our recommendation to **SELL**.

Revenue outlook revised downwards

OKOMUOIL's revenue growth in FY'26 will likely slow to a 7-year low of 4.1%, the first single-digit growth in that period. Our view reflects expectations of lower CPO prices in the local market, as supply will likely increase due to higher imports and increased smuggling. For context, about 3 months ago, the Federal Government reduced import tariffs on crude palm oil to 28.75% from 35.00% to ease food price pressure and support the overall economy. By implication, we expect the lower tariff to boost CPO imports, especially from non-ECOWAS regions, where standard tariffs apply, while the ECOWAS trade liberalisation scheme will help keep import tariffs from ECOWAS countries at a single digit of 5.0%.

Elsewhere, we expect higher CPO supply to stem from increased smuggling activities. According to the National Palm Produce Association of Nigeria (NPPAN), there are more than 300 illegal land entry points for smuggling into the country, as well as about 30 maritime routes. From our channel checks, we noticed that smuggling activities appear to have become more prevalent since last year, as intense as those reported prior to the 2019 border closure (which reopened a long while ago). The combination of both factors is already impacting the company's business, with management stating that product prices have declined by almost 30.0% since December 2025. As such, we have downgraded our FY'26 CPO revenue growth expectation to 4.7% from 24.4% in our previous update.

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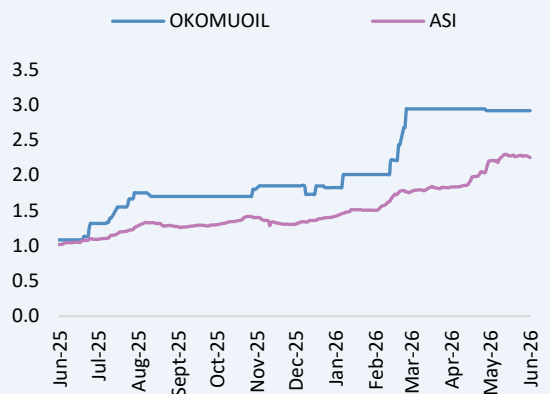
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Market Data

Market Cap (N'mn)	1,669,342.5
Last close price (N)	1,750.00
52-week high/low price (N)	1,765.00/650.00
Avg 3M daily volume (mn)	0.26

1-year price performance (rebased)



Source: Bloomberg, CardinalStone Research

That said, we expect rubber revenue to decline by 1.1% in FY'26, as lower volume will likely mask price increases. For context, our lower-volume expectation stems from management guidance that volumes could be lower this year due to scheduled plant maintenance in the first half. For rubber prices, we expect a sustained uptrend in FY'26, supported by interest from the electric vehicle industry. Also, negative shocks to the global rubber supply have become prevalent in recent weeks, with Thailand's meteorological department warning of a high risk of flooding, while Indonesia's meteorological agency sees a risk of below-average rainfall and a quicker-than-usual dry season. These diverse weather conditions across both countries (the first and second-largest rubber producers) will likely affect output and support rubber prices. Thus, we see FY'26 rubber revenue at N25.2 billion compared to N25.5 billion in FY'25. The combined expectations for the product should cascade into total revenue of N206.2 billion (vs N198.2 billion in FY'25).

Figure 1: Global CPO prices



Source: Bloomberg, CardinalStone Research

Figure 2: Global rubber prices (USD and JPY)

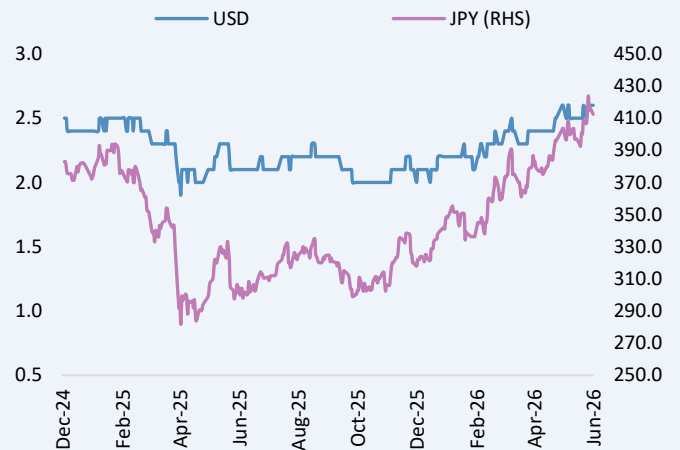
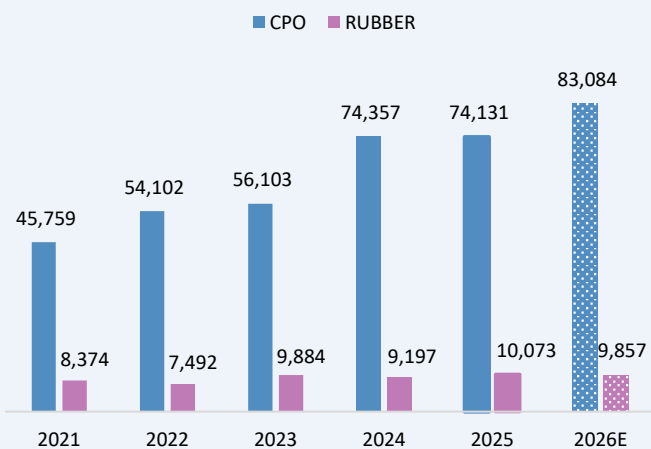
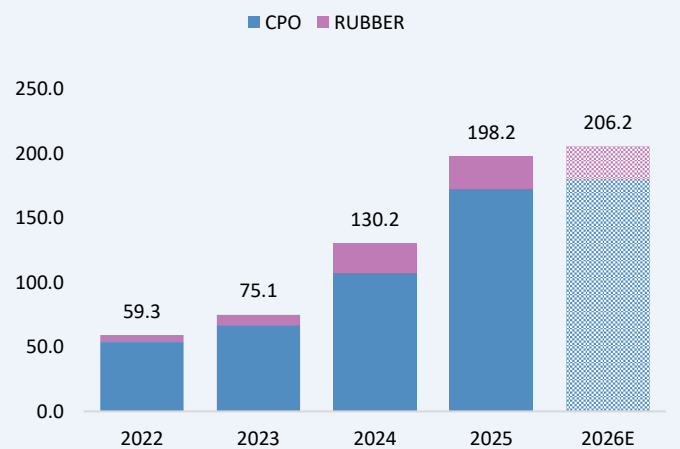


Figure 3: CPO and rubber production forecast in tonnes



Source: Company's financials, CardinalStone Research

Figure 4: Revenue projections across segments (N'billion)

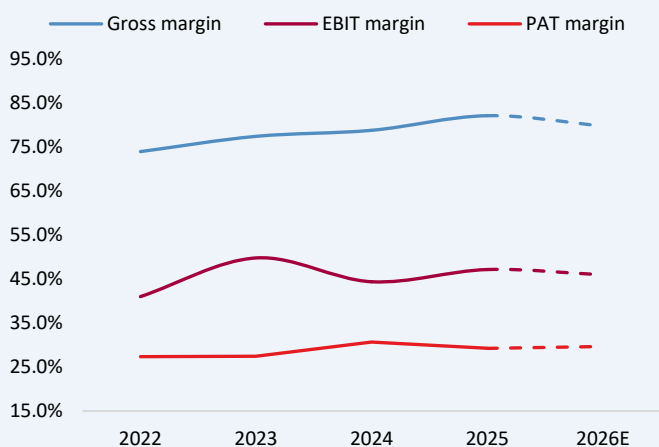


Margins to slip as prevailing geopolitical tensions

Cost pressures are re-emerging as the current geopolitical landscape continues to push up fertiliser and energy prices, both of which are negative for the company. However, the impact of a spike in energy prices is minimal compared to peers, as the company generates electricity from agricultural waste. We project the cost-to-sales to increase to reach 20.2% in FY'26, 233bps higher than the prior year. Also, we revise our gross margin to 79.8% from our prior estimates of 81.5%.

Our EBIT margin expectation has also been revised downward to 46.0% (53.5% previously). This is partly due to the company taking on a new short-term property lease in 2025, which led to higher-than-expected depreciation costs in FY'25 and is likely to continue in FY'26. Combined with a relatively flat net finance cost profile, owing to the company's low-leverage stance, we project a marginal 5.6% YoY increase in PAT to N61.2 billion (EPS of N64.16).

Figure 5: Projections for Gross, EBIT and PAT margins



Source: Company's financials, CardinalStone Research

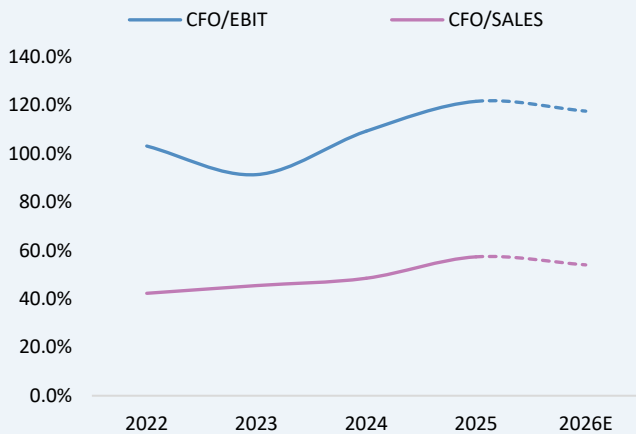
Working capital to strengthen in FY'26

In its unaudited Q1'26 results, OKOMUOIL's annualised cash conversion cycle expanded significantly to 163 days (vs 49 days in FY'25). This is consistent with the company's policy of front-loading inventory during its peak season in Q1 to cater for demand in its lean period in the latter quarters of the year. Total inventory increased by 2.2x in the quarter to N39.9 billion, largely driven by the ramp-up of finished goods (+3.9x to N25.3 billion). We expect the cash conversion cycle to return to normal levels by the end of the year as the seasonal cycle plays out, and free up cash for other company obligations later in the year. We forecast a cash conversion cycle of 46 days in FY'26 in line with the 3-year average of 47 days.

Cash generation supports dividend distributions amid steady CAPEX

OKOMU’s high-quality, cash-backed earnings, largely driven by its retail business model, have supported robust cash generation over the years. The company continues to maintain its ambition to generate stable, sustainable cash inflows, which in turn enable it to return value to shareholders through robust dividends. The company has maintained a consistent dividend policy with a high payout ratio, announcing a final dividend of N15.00 per share for FY’25, translating to a total dividend of N55.00 (90.5% payout ratio). We estimate the company’s maintenance CAPEX of c.N19.6 billion in FY’26E, resulting in a 9.5% CAPEX intensity (vs 9.3% in FY’25). We predict the company to continue to prioritise rewarding shareholders through robust distributions, with no significant expansion or acquisition in the foreseeable future. Our conservative forecast for total dividend distribution for FY’26 is at N54.53 per share (85.0% payout ratio vs a 3-year average of 87.3%).

Figure 6: Quality cash-backed earnings supports cash generation



Source: Company’s financials, CardinalStone Research

Valuation

Adjustments to our model resulted in a new 12-month TP of N1,066.34 (vs N1,083.14 previously), implying a 39.07% downside to the reference price of N1,750.00. Key adjustments include:

- A lower equity risk premium of 12.6% (formerly 13.8%) and a higher terminal growth rate (4.5%), aligned with macroeconomic and market trends.
- A moderation in Beta to 0.48 (vs 0.66 previously).

OKOMUOIL currently trades at an LTM P/E of 27.91x, which is significantly above the MEA peer average of 14.40x, according to S&P Capital IQ, suggesting the market is pricing the company at a premium relative to peers.

Our target price also implies an exit P/E of 13.33x, which is higher than the company’s 10-year historical average of 11.15x.

Considering the significant price movements since our last update and the recent earnings underperformance relative to previous FY’25 and FY’26 forecasts, we downgrade our recommendation to SELL.

Figure 7: Expected cash movements in FY’26 (N’billion)

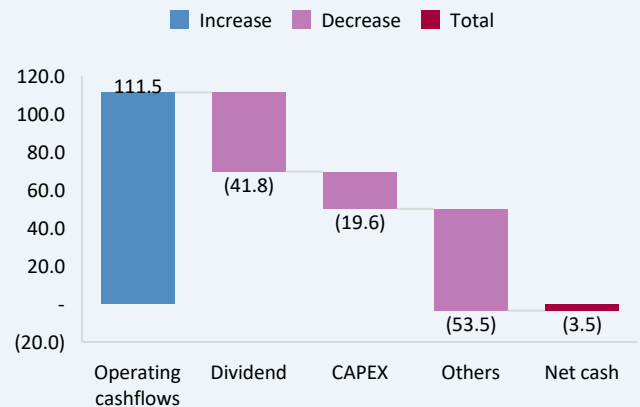
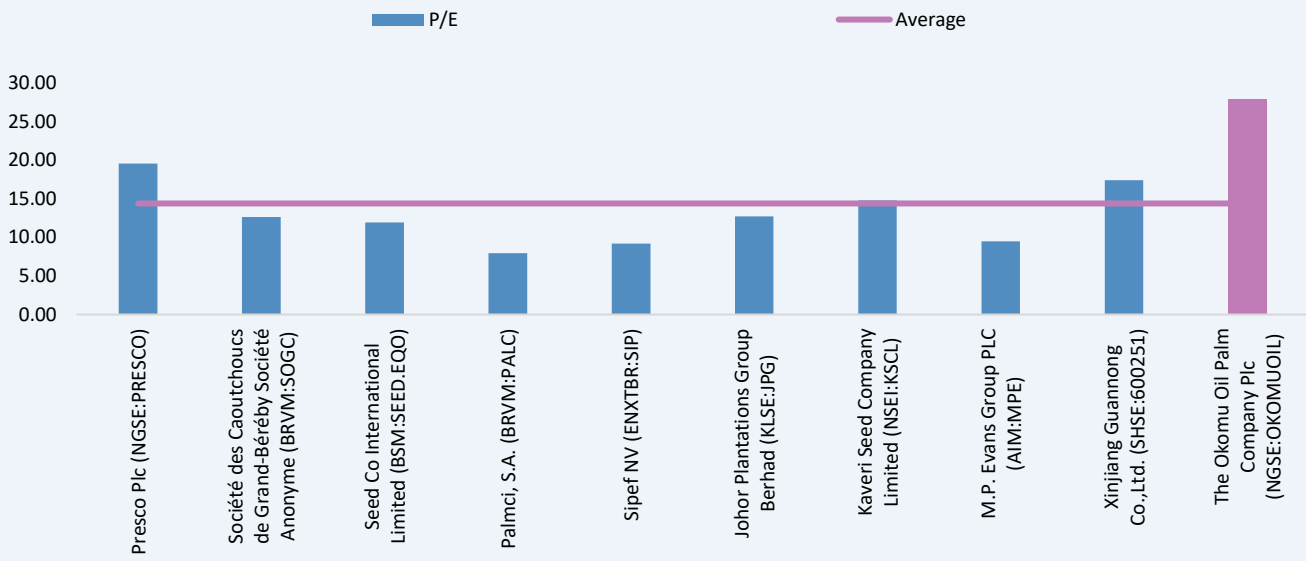


Figure 8: OKOMUOIL trades at a significant P/E multiple compared to peers



Source: Company's financials, CardinalStone Research

Figure 9: Summary of Financials

Income Statement (N'million)					Cash Flow Statement (N'million)				
	2024A	2025A	2026E	2027F		2024A	2025A	2026E	2027F
Revenue	130,211	198,153	206,226	240,414	Cash flow from operating activities	51,294	99,102	82,655	100,503
COGS	(27,537)	(35,321)	(41,561)	(44,905)	o/w Depreciation & amortization	9,328	20,129	18,718	13,291
Gross profit	102,673	162,832	164,665	195,510	o/w Changes in working capital	(1,736)	389	1,107	1,474
Other Income	15,336	12,578	12,093	13,808	Cash flow from investing activities	(13,156)	(23,085)	(24,742)	(25,238)
OPEX	(60,193)	(81,925)	(81,929)	(84,799)	o/w Capital expenditure	(10,269)	(18,329)	(19,592)	(19,233)
EBIT	57,816	93,485	94,830	124,520	as % of sales	7.9%	9.3%	9.5%	8.0%
Gain on Biological asset revaluation	333	1,776	-	-	Cash flow from financing activities	(31,774)	(82,149)	(61,429)	(68,018)
Net Interest	(4,594)	(4,614)	(4,832)	(3,329)	o/w Dividends paid	(22,894)	(62,958)	(41,848)	(57,443)
PBT	53,555	90,647	89,998	121,190	o/w Debt issued/(repaid)	(8,049)	(18,516)	(18,590)	(9,947)
Tax	(13,598)	(32,695)	(28,799)	(38,781)	Opening Cash and cash equivalents				
PAT	39,958	57,952	61,198	82,409	(incl. FX diff.)	10,970	19,079	12,946	9,430
EPS	41.89	60.75	64.16	86.39	Net change in cash	6,365	(6,132)	(3,516)	7,247
DPS (NGN)	36.00	55.00	54.53	73.43	Closing Cash and cash equivalents	17,335	12,946	9,430	16,678
Payout ratio	85.9%	90.5%	85.0%	85.0%					
Shares outstanding ('million)	953.91	953.91	953.91	953.91					
Balance Sheet (N'million)					Ratio Analysis				
	2024A	2025A	2026E	2027F		2024A	2025A	2026E	2027F
Cash and cash equivalents	17,335	12,946	9,430	16,678	Gross Margin	78.9%	82.2%	79.8%	81.3%
Accounts receivable	3,121	3,593	3,673	4,281	EBITDA Margin	51.8%	58.2%	55.1%	57.3%
Inventories	11,967	18,320	21,521	20,299	EBIT Margin	44.4%	47.2%	46.0%	51.8%
Other current assets	7,623	6,965	8,289	8,802	Net Profit Margin	30.7%	29.2%	29.7%	34.3%
Current assets	40,046	41,824	42,912	50,060	ROE	72.0%	118.7%	89.8%	88.5%
PP&E	48,248	61,872	76,168	89,391	ROA	34.1%	41.7%	39.7%	45.6%
ROU assets	9,224	11,938	7,972	9,534	ROIC	63.4%	64.1%	74.6%	88.4%
Biological assets and bearer plants	19,520	23,219	27,167	31,547	ROCE	72.4%	133.5%	118.5%	107.7%
Total assets	117,038	138,853	154,219	180,532	OPEX/Sales	46.2%	41.3%	39.7%	35.3%
Short-term borrowings	1,541	1,793	1,795	1,429	Net debt/Equity (x)	0.06	0.24	0.13	0.02
Payables	10,369	14,569	17,080	18,454	Net debt/EBITDA (x)	0.05	0.10	0.08	0.01
Other short-term liabilities	18,332	40,864	33,394	34,101	Sales/Assets (x)	1.23	1.55	1.41	1.44
Current liabilities	30,242	57,227	52,269	53,984	Assets/Equity (x)	2.11	2.84	2.26	1.94
Long-term debt	6,391	4,627	2,796	1,368	Interest cover (x)	12.57	20.24	19.60	37.34
Other long-term liabilities	24,926	28,189	30,994	32,054	Tax Rate	25.4%	36.1%	32.0%	32.0%
Total liabilities	61,560	90,043	86,059	87,405	Revenue Growth	73.4%	52.2%	4.1%	16.6%
Shareholders' equity	55,478	48,810	68,161	93,127	EBITDA Growth	51.0%	71.0%	-1.6%	21.4%
					EPS Growth	93.5%	45.0%	5.6%	34.7%
Total liabilities & equity	117,038	138,853	154,219	180,532					
BVPS	58.16	51.17	71.45	97.63	Valuation				
						2024A	2025E	2026F	2027F
Net debt	3,061	11,752	8,773	1,498	P/E (x)	8.67	18.02	27.28	20.26
					P/BV (x)	6.24	21.40	24.49	17.93
					EV/EBITDA (x)	5.18	9.15	14.78	12.12
					Dividend Yield	9.9%	5.0%	3.1%	4.2%

Source: Company reports, CardinalStone Research estimates

Note: N in millions (except per-share data). Fiscal year ends in December. o/w - out of which

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Sell $<$ 0.00% expected share price performance with weak fundamentals

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