

Okomu Oil Palm Plc

HOLD

Stable growth anticipated after exceptional cycle

Target Price: N1,083.14

Ref Price: N1,080.20

The Okomu Oil Palm Plc (NGX: OKOMUOIL) is projected to sustain its strong earnings momentum into FY'26, underpinned by elevated CPO prices, steady volume growth, and cost management. The company is now entering a phase of stable expansion, based on efficiency gains and strong cash generation, after two years of outstanding performance driven by pricing adjustments amid macroeconomic instability. Growth will likely stem from increasing utilisation rates, better yields, and smallholder integration due to limited room for plantation expansion. It is anticipated that stable input prices, slowing inflation, and ongoing demand for palm oil products would maintain margin strength, setting OKOMUOIL up for steady profitability and attractive medium-term returns for shareholders. Revisions to our model estimates reveal a 12-month Target Price (TP) of N1,083.14 (vs. N947.22 previously), which is a 0.3% upside to the reference price. We upgrade our recommendation to a HOLD.

Revenue outlook remains solid, maintained by pricing tailwinds...

In line with market dynamics and operational efficiencies, OKOMUOIL sustained its earnings momentum through 9M'25, with both revenue and profit expanding by 67.3% and 58.1%, respectively. The main drivers for this exceptional performance were global and local increases in CPO prices, which remained elevated. Specifically, average Malaysian benchmark CPO prices rose 15.36% YoY during the period, while local prices also stayed strong. Persistent demand for palm oil and its derivatives further reinforced this favourable pricing environment, benefiting local producers. For 9M'25, average revenue per tonne reached N2.5 million, compared to the FY'24 average of N1.4 million per tonne. Stronger-than-expected realised prices have led to an upward revision of our FY'25E average revenue per tonne forecast to N2.4 million (from N2.2 million).

Volume growth was solid, with 60,946 tonnes delivered in the review period. We expect a strong finish for the year, though Q4 is usually a weaker quarter due to low yields. Based on reported data and past Q4 volume trends, we project total FY'25E CPO output of 78,012 mt (vs. 86,512 mt before). Our FY'25E rubber volume forecast remains at 10,778 tonnes, with possible growth if smallholder purchases resume as the company addresses EUDR compliance and awaits regulatory updates.

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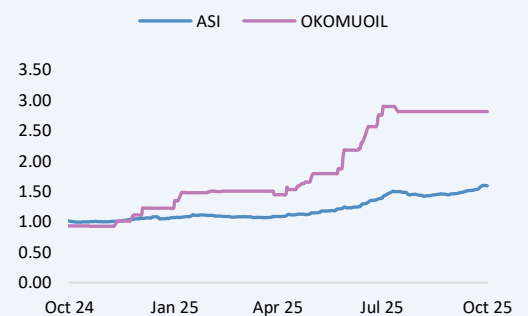
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Market Data

Market Cap (N'mn)	1,030,413.6
Last close price (N)	1080.20
52-week high-low price (N)	1120.00/336.10
Avg 3M daily volume (mn)	0.29

1-year price performance (rebased)



Source: Bloomberg, Cardinalstone Research

However, we have downgraded our revenue per tonne for the rubber segment to N2.6 million per tonne (vs. N2.9 million previously), given 9M'25 performance, and the impact of the strengthening naira on the export-oriented segment. Overall, FY'25E revenue projections have been moderated slightly to N219.5 billion (vs. N221.9 billion previously). Subsequently, we expect revenue to achieve a 5-year CAGR of 25.6% over the forecast horizon

... while growth should normalise after the exceptional cycle

Following two years of exceptional topline expansion driven by macroeconomic volatility and inflation pass-through, growth is expected to stabilise over the medium term as operating conditions normalise. With limited land expansionary projects, future growth is expected to be driven by improving utilisation rates, overall operational efficiency in the farmlands and mills, and support from purchases from smallholder farmers. We project yield per hectare to average 16.8 tonnes (+4.0% YoY) in FY'26, which would result in a total CPO production of c.83,330 tonnes. Meanwhile, in the rubber segment, we expect an improvement in yield per hectare (+5.0% YoY) to 1.88 tonnes. This should translate into rubber sales of 11,317 tonnes in FY'26.

Figure 1: CPO and rubber projections (tonnes)

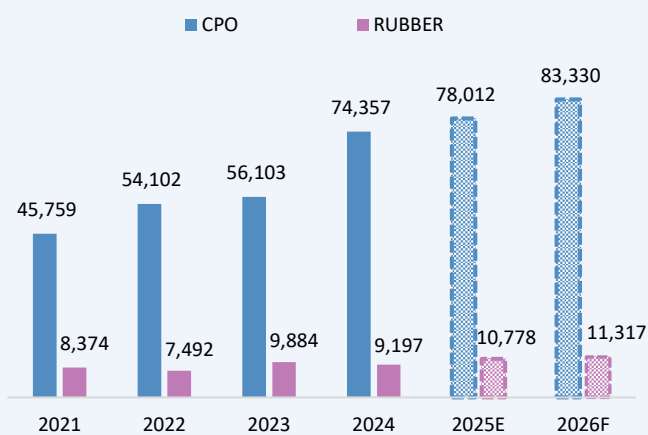
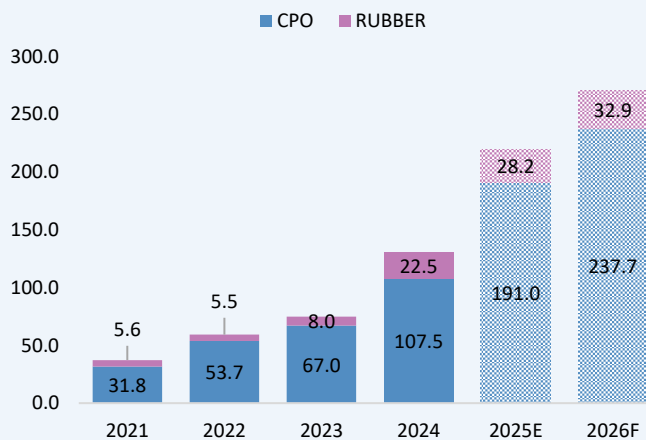


Figure 2: Revenue projections for various segments (N'billions)



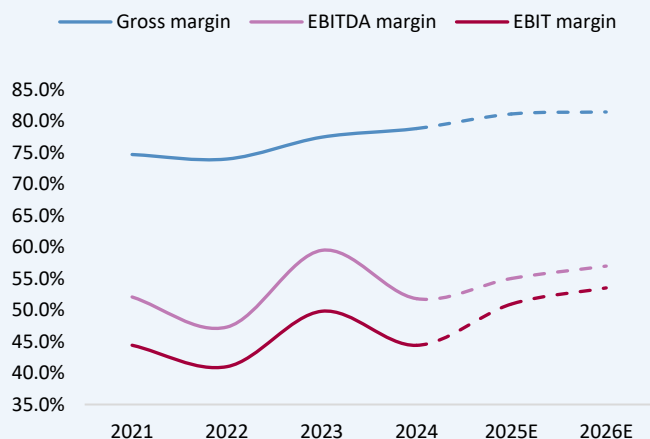
Source: Company Financials, management guidance, CardinalStone Research

Margins supported by easing cost pressures

The moderation in inflation and relative macroeconomic stability has translated into subdued cost growth in recent quarters. Cost of raw materials inputs and services, which surged 84.0% YoY to N51.9 billion in FY'24, is expected to, in FY'25E, rise at a much slower pace of 33.4% to N69.2 billion, in line with recent cost trends and inflationary outlook. In the coming year, we anticipate relative stability in cost growth, and we project the cost of materials and services to reach N82.6 billion (+19.4% YoY).

Other operating expenses are also expected to grow at a measured pace of 11.1% YoY in FY'25E and 12.8% YoY in FY'26, significantly below the 76.2% YoY growth recorded in FY'24. The cost moderation should support margin resilience, with Gross margins expected to settle at 81.2% (+2.3 ppts YoY) in FY'25E and 81.5% in FY'26. EBIT margins are forecasted to improve to 51.0% in FY'25E (+6.6ppts YoY) and 53.5% in FY'26E, and we also forecast the Gross and EBIT margins to average 82.6% and 56.6% respectively, across the 5-year forecast horizon.

Figure 3: Margin growth expected in the forecast period



Source: Company Financials, CardinalStone Research

Low leverage tailwind for profitability

OKOMUOIL continues to maintain its stance on low leverage, as it progressively pays down existing borrowings. This approach has helped in terms of lower borrowing costs, with interest expense on loans declining by 9.7% YoY to N579.7million in 9M'25. We project total finance costs (including lease liabilities) to decline by 21.4% YoY to N3.6 billion in FY'25E and by another 33.2% to N2.4 billion in FY'26, assuming the entity maintains its conservative funding structure. At the current rate, the company is expected to pay down its existing loans by 2029

The low leverage is expected to support margin expansion and profitability, with PBT margin forecast to increase by 8.2ppts to 49.3% in FY'25E and a further 3.3 ppts to 52.6% in FY'26E

Strong cash flows enable consistent shareholder returns

OKOMUOIL continues to commit to maximizing shareholder return, which underpinned its total interim dividend of N40.00 per share in 2025 (N30.00 in H1 and an extra N10.00 in 9M), the highest payout so far. Its robust cash generation, which has been boosted by its quality cash-backed earnings, alongside its limited investments and minimal leverage, has helped sustain this payout strategy. In FY'25, we forecast a total dividend of N83.7 (N43.7 final) per share, which would bring its payout ratio to 105.4%. We forecast consistent and healthy payouts to remain a key feature of Okomu's policy to return value to shareholders in the coming years.

Figure 4: Effect of OKOMUOIL’s low leverage stance

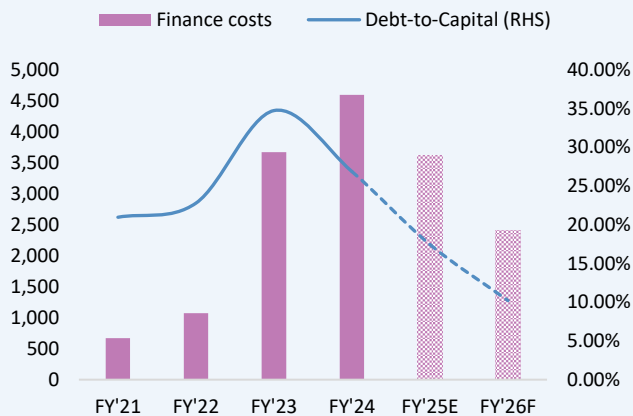


Figure 5: Quality cash-backed earnings supports cash generation

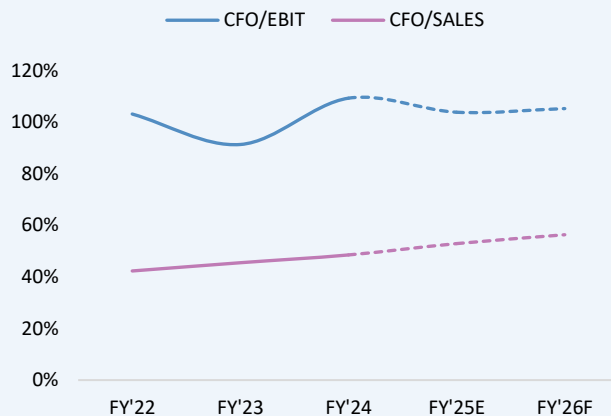


Figure 6: Stronger margins and efficiency sustain ROE despite reduced leverage

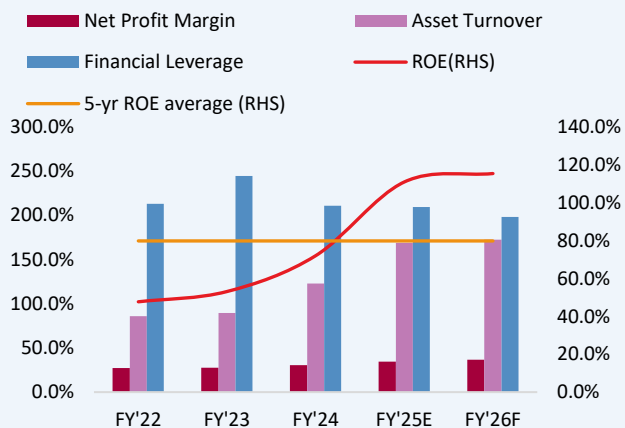
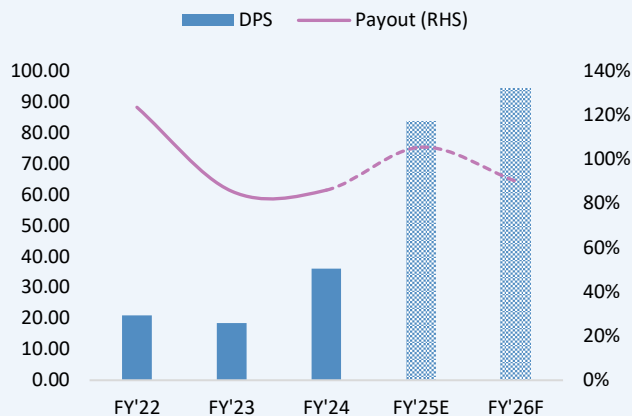


Figure 7: Dividend payout expected to remain healthy



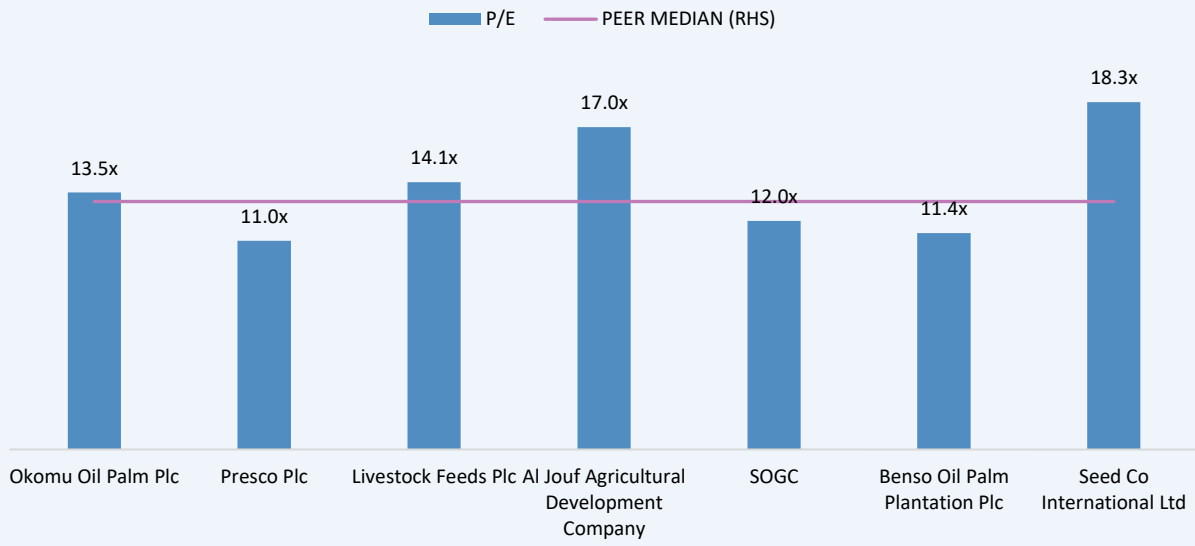
Source: Company Financials, CardinalStone Research

Valuation and recommendation

We have adjusted our model to reflect a lower risk-free rate assumption of 16.4% (vs. 18.0% previously) in line with the decline in FGN bond yields. Consequently, revisions to our assumptions have revealed a 12-month TP of N1,083.14 (vs. N947.22 previously), implying a 0.3% upside to the reference price of N1,080.20. We upgrade our recommendation to a HOLD (vs. a SELL previously)

OKOMUOIL currently trades at a LTM P/E of 13.5x, marginally above the peer average of 13.0x (S&P Capital IQ). Our target price also implies a conservative exit of P/E of 10.3x, which is in line with the company’s 10-year historical average of 10.7x

Figure 8: OKOMUOIL and select MEA peers (P/ LTM EPS)



Source: S&P Capital IQ, CardinalStone Research

Figure 9: Summary of financials

Income Statement (N'million)					Cash Flow Statement (N'million)				
	2024A	2025E	2026F	2027F		2024A	2025E	2026F	2027F
Revenue	130,211	219,469	270,978	333,679	Cash flow from operating activities	51,294	98,343	120,188	149,587
COGS	(27,537)	(41,336)	(50,170)	(58,091)	o/w Depreciation & amortization	9,328	8,928	9,386	10,612
Gross profit	102,673	178,133	220,808	275,588	o/w Changes in working capital	(1,736)	(4,661)	(1,791)	(1,651)
Other Income	15,336	1,411	1,626	2,002	Cash flow from investing activities	(13,987)	(22,600)	(25,737)	(31,693)
OPEX	(60,193)	(67,705)	(77,372)	(94,168)	o/w Capital expenditure	(10,269)	(19,313)	(21,678)	(25,026)
EBIT	57,816	111,838	145,062	183,422	as % of sales	7.9%	8.8%	8.0%	7.5%
Gain on Biological asset revaluation	333	-	-	-	Cash flow from financing activities	(30,943)	(72,533)	(88,615)	(106,057)
Net Interest	(4,594)	(3,610)	(2,408)	(1,558)	o/w Dividends paid	(22,894)	(62,958)	(81,611)	(100,851)
PBT	53,555	108,228	142,654	181,864	o/w Debt issued/(repaid)	(8,049)	(8,452)	(6,174)	(4,700)
Tax	(13,598)	(32,468)	(42,796)	(54,559)	Opening Cash and cash equivalents				
PAT	39,958	75,760	99,858	127,304	(incl. FX diff.)	10,970	17,335	20,545	26,381
EPS	41.89	79.42	104.68	133.46	Net change in cash	6,365	3,210	5,836	11,837
DPS (NGN)	36.00	83.68	94.21	120.11	Closing Cash and cash equivalents	17,335	20,545	26,381	38,218
Payout ratio	85.9%	105.4%	90.0%	90.0%					
Shares outstanding ('million)	953.91	953.91	953.91	953.91					
Balance Sheet (N'million)					Ratio Analysis				
	2024A	2025E	2026F	2027F		2024A	2025E	2026F	2027F
Cash and cash equivalents	17,335	20,545	26,381	38,218	Gross Margin	78.9%	81.2%	81.5%	82.6%
Accounts receivable	3,121	4,810	5,568	6,399	EBITDA Margin	51.8%	55.0%	57.0%	58.1%
Inventories	11,967	17,554	21,305	24,669	EBIT Margin	44.4%	51.0%	53.5%	55.0%
Other current assets	7,623	8,527	10,330	12,415	Net Profit Margin	30.7%	34.5%	36.9%	38.2%
Current assets	40,046	51,436	63,584	81,701	ROE	72.0%	111.0%	115.4%	112.7%
PP&E	48,248	63,170	79,333	97,785	ROA	34.1%	53.0%	58.2%	60.4%
ROU assets	9,224	5,859	3,286	713	ROIC	63.4%	84.0%	98.3%	104.6%
Biological assets and bearer plants	19,520	22,475	25,242	30,451	ROCE	72.4%	117.0%	125.8%	123.3%
Total assets	117,038	142,940	171,445	210,649	OPEX/Sales	46.2%	30.8%	28.6%	28.2%
Short-term borrowings	1,541	1,829	1,795	1,429	Net debt/Equity (x)	0.06	-0.09	-0.19	-0.28
Payables	10,369	14,722	19,243	23,873	Net debt/EBITDA (x)	0.05	-0.05	-0.11	-0.16
Other short-term liabilities	18,332	32,404	41,816	52,967	Sales/Assets (x)	1.23	1.69	1.72	1.75
Current liabilities	30,242	48,955	62,855	78,269	Assets/Equity (x)	2.11	2.09	1.98	1.86
Long-term debt	6,391	4,275	2,480	1,051	Interest cover (x)	12.57	30.93	60.10	117.19
Other long-term liabilities	24,926	21,430	19,583	18,349	Tax Rate	25.4%	30.0%	30.0%	30.0%
Total liabilities	61,560	74,660	84,918	97,669	Revenue Growth	73.4%	68.5%	23.5%	23.1%
Shareholders' equity	55,478	68,280	86,527	112,981	EBITDA Growth	51.0%	79.0%	27.9%	25.6%
					EPS Growth	93.5%	89.6%	31.8%	27.5%
Total liabilities & equity	117,038	142,940	171,445	210,649					
BVPS	58.16	71.58	90.71	118.44	Valuation				
Net debt	3,061	(6,108)	(16,535)	(32,014)	P/E (x)	25.79	13.60	10.32	8.09
					P/BV (x)	18.57	15.09	11.91	9.12
					EV/EBITDA (x)	15.32	8.48	6.56	5.15
					Dividend Yield	3.3%	7.7%	8.7%	11.1%

Source: Company financials, CardinalStone Research

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