



**Evaluation of Financial Statements of an Agro-based Firm:
A case Study of Okomu Oil Palm Company Plc (2017 – 2021).**

Okidim, I.A., Worlu,A.A. and Chinda,P.I.

Department of Agricultural and Applied Economics, Faculty of Agriculture, Rivers
State University, Port Harcourt.

Correspondence: adedoyinworlu@gmail.com / 08162512046

ABSTRACT

This study examined the “Evaluation of Financial Performance of an Agro-based Firm: A Case Study of Okomu Oil Palm Company PLC” The main objective was to compare and examine the financial statements of the company from the years 2017 to 2021 and determine its levels of profitability, solvency and liquidity. Secondary data sourced from the company’s official website was used to analyze the financial performance of the company using ratios (10 in total) such as Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), Debt-to-Equity Ratio(DER), Debt-to-Assets Ratio (DAR). This study found that results of profitability measures place the company on a good standing. Results indicated that the company was consistently improving and made good return on assets, satisfying shareholders and managing their operating expenses in 2017 and 2018. In the years 2019 and 2020 however, profitability declined but went back up in 2021. An overall analysis of liquidity and solvency measures showed that the company was less liquid, efficient in asset utilization, income generation, and managing its expenses and less risky in the years under consideration. However, the results also showed the company has great prospects in improving over time. The study recommends that management decisions should be reconsidered and the company should increase its revenue by increasing sales of goods while simultaneously reducing expenses as well as reassess loan repayment and procurement strategies.

Keywords: Palm Oil Company, Agro-Based Firm, Financial Statement.



INTRODUCTION

The Okomu Oil Palm Company PLC (OOPC) was initially established by the Federal Government of Nigeria in Edo State in 1976 before converting to a PLC in 1990. Its headquarters is located at Okomu's main estate in Ovia South-West Local Government Area of Edo state, Nigeria.

The principal activities of the company include the cultivation of oil palm, processing fresh fruit bunches into crude palm oil for resale, rubber plantation and processing of rubber lumps to rubber cake for export. (The Okomu Oil Palm Company PLC: Annual reports and Accounts 2019).

As of 2020 Okomu Oil Palm Company had three (3) concessions, currently planted with oil palm and rubber. The size of the three concessions equals about 33,112 hectares of land in which 19,061 hectares have been used to plant oil palm while 7,335 hectares have been used to plant rubber, leaving 3,231 hectares unplanted. (The Okomu Oil Palm Company PLC: Annual Reports and Accounts 2020).

The company being a PLC means that its shares can be bought and owned by the public. It is on this note that the laws of Luxembourg holds 62.69% of the shares and the remaining 37.31% are held by a diversified spread of Nigerian and International shareholders. The company uses its financial statement to measure its performance (Maggina 2008).

According to Metcalf and Titard (1976), the financial statements provide a summarized view of the financial position and operation of a firm. Financial statements provide



meaningful, useful and valuable information periodically regarding the financial position and future prospects of the business. Various parties can utilize the information provided by the financial statements for analysis and interpretation.

The term financial analysis refers to the process of determining the financial strengths and weaknesses of the firm by establishing strategic relationship between the items of the balance sheet, profit and loss account and other operative data. Financial analysis also refers to an assessment of the viability, stability and profitability of a business. The financial statements analysis generally involves common size analysis, ratio analysis (liquidity, turnover, profitability, amongst others .) and trend analysis (Laitinen, 2002).

The study highly paid attention to evaluating the changes observed and reflected in the financial statements of Okomu Oil Palm Company PLC. In addition, the study attempted to identify areas which need further improvement to maximize output.

Research has shown that not many studies have been made in relation to the financial performance analysis of agro-based companies. It is because of this that the researcher has tried attempted to fill this lack by extending the research to the specific context of the company.

Therefore, the study focused on the evaluation of the financial performance of Okomu Oil Palm Company PLC over the last five years with the following specific objectives to;

- i. determine the total assets and liabilities of Okomu Oil Palm Company.
- ii. assess the profitability or loss of Okomu Oil Palm Company .
- iii. ascertain the solvency of Okomu Oil Palm Company.



- iv. examine the liquidity of Okomu Oil Palm Company.

METHODOLOGY

Study Area

This study is Okomu Oil Palm Company PLC. Its headquarters is located at Okomu's main estate in Ovia South-West Local Government Area of Edo state, Nigeria. The principal activities of the company include the cultivation of oil palm, processing fresh fruit bunches into crude palm oil for resale, rubber plantation and processing of rubber lumps to rubber cake for export. As of 2020, the company had nearly 2,000 workers directly, five times that, indirectly, together with several hundred independent sub-contractors who provide essential support services to the company.

Sampling Procedure and Sample Size

Judgmental sampling technique was used to collect samples from the population of the study.

Single-stage sampling was used in selecting the sample size of the study. The financial statements of the past five (5) years out of the several were used as the sample size of this study.

Types and Sources of Data

The source of data for this study was predominantly from secondary sources. The audited annual financial reports of the company from the year 2017 to 2021 were used as a source of secondary data in order to evaluate the financial performance of Okomu Oil Palm Company PLC. Help of other sources like literature from various books, journals, reports



of the Okomu Oil Palm Company PLC and various websites, were also used as a source of secondary data.

Analytical techniques

Objectives (i) and (ii) were achieved using different leverage and solvency ratios, objective (ii) was achieved using selected profitability ratios. Objective (iv) was achieved using two major liquidity ratios.

Model Specification

1. Leverage Ratio

Debt-to-Assets Ratio (DAR)

$DAR = \text{Total Liabilities} / \text{Total Assets}$

Decision Rule: A DAR of 30% or lower is considered good, above 60% indicate risk.

Debt-to-Equity Ratio (DER)

$DER = \text{Total Liabilities} / \text{Total Shareholders' Equity}$

Decision Rule: An acceptable DER is below 1 or 100% but not above 2 or 200%

Debt EBITDA (Earnings before Interests, Taxes, Depreciation and Amortization) Ratio

$\text{Debt EBITDA} = \text{Total Liabilities} / \text{EBITDA}$

Decision Rule: A Debt EBITDA ratio lower than 3.0 is considered good, above 3.0 or 4.0 serve as red flags.

Net-Worth



Net-Worth = Total Assets – Total Liabilities

Decision Rule: A company's net-worth should be at least 50% of its total assets.

2. Profitability Ratios

Net Profit Margin (NPM)

$$\text{NPM} = (\text{Revenue} - \text{Cost}) / \text{Revenue} \times 100$$

Decision Rule: A NPM of 10% - 20% is acceptable, above 30% is excellent.

Return on Assets (ROA)

$$\text{ROA} = \text{Net Income} / \text{Total Assets}$$

Decision Rule: A ROA ratio of 5% is considered good, 20% and above is excellent.

Return on Equity (ROE)

$$\text{ROE} = \text{Net Profit after Tax} / \text{Shareholders' Equity}$$

Decision Rule: A ROE ratio of 15% - 20% is considered good. A ROE ratio of above 20% is great.

Return on Capital Employed (ROCE)

$$\text{ROCE} = (\text{EBIT} / (\text{Total Assets} - \text{Current Liabilities})) \times 100$$

Decision Rule: A ROCE ratio of within 20% - 30% is considered good, above 35% is excellent.

3. Liquidity Ratios

Current Ratio

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$



Decision Rule: A current ratio within 1.5 – 3 is considered good, above 35% is excellent.

Quick Ratio

Quick Ratio = Current Assets – Inventory / Current Liabilities

Decision Rule: A quick ratio within 1.2 – 2 is acceptable, above 2 – 2.5 are risky.

RESULTS AND DISCUSSION

Profitability Ratios

In order to show how profitable OOPC has been, the study used four types of profitability ratios namely, Net Profit Margin (NPM), Return on Assets (ROA), Return on Equity (ROE) and Return on Capital Employed (ROCE)

Net Profit Margin (NPM)

Table 1 below shows the net profit margin results. It was calculated by subtracting costs from total revenue, dividing by the total revenue and multiplying by 100. (Revenue – Cost) / Revenue x 100).

Table 1: Net Profit Margin Results

Year	Revenue (per year)	Cost (per year)	Ratio (in %)
2017	20,261,918	13,460,721	33.5%
2018	20,257,669	13,813,113	31.8%
2019	18,867,271	14,260,729	24.4%
2020	23,410,680	16,268,831	30.5%
2021	37,394,507	23,562,389	36.9%
Total	120,192,045	81,365,783	32.3%

Source: Researcher's own computation from the financial statements, 2022.

Benchmark: A NPM of 10% –20% is acceptable, above 30% is excellent.



At a quick glance, it is observed that the overall NPM of OOPC is on excellent standing. In the year 2017, the NPM was 33.5%. This shows that the company efficiently utilized its revenue and was able to make profits. The ratio dropped to 31.8% in 2018 as a result of increase in costs and a slight decrease in revenue. Also, the company experienced an increase in tax charges which simultaneously led to a decrease in their profits after tax. The ratio further dropped to 24.4% in 2019 because of an increase in costs and a decline in revenue. This may also have been caused by the increase in inventory which means a decrease in cost of goods sold. However, the ratio increased significantly in 2020 with an increase in costs but an even more increase in revenue. The company experienced yet another increase in 2021 with 36.9%. This was because the company was able to increase their profits either by managerial efficiency or productive efficiency. In general, the company has a NPM of 32.3% this means that OOPC is capable of generating profits from its revenue.

Return on ASSETS (ROA)

Table 2 below shows the return on assets result, it is measured by dividing the Net Income by the Total Assets. ((Net Income / Total Assets) x 100).

Table 2: Return on Assets Results

Year	Net Income	Total Assets	Ratio (in %)
2017	9,092,186	31,273,705	29.0%
2018	8,239,903	38,417,953	21.4%
2019	5,368,348	43,595,792	12.3%
2020	2,054,076	55,363,679	3.7%
2021	12,099,655	65,772,444	18.3%
Total	36,854,168	234,423,573	15.7%

Source: Researcher's own computation from the financial statements, 2022.

Benchmark: A ROA ratio of 5% is considered good, 20% and above is excellent



In the year 2017, the company's ROA was 29.0% .This indicates that the company had a high earning when compared to its assets. In 2018, the ratio decreased to 21.4% because of a decrease in earnings even with an increase in assets. This may also be due to an increase in account receivables and cash equivalents which means the company has funds that may have been converted to earnings if they had been received. In 2019, the ratio decreased drastically to 12.3%. Although within the benchmark, in comparison to the previous years, this is one of the lowest. This was as a result of an even more decrease in earnings. The company has about 4 million as advance to suppliers and this may be the cause of the low earnings. The ratio dropped below the benchmark in 2020 with 3.7%. The earnings were extremely low compared to the value of the assets and this may have been caused by an increase in inventories and an increase in cash and bank equivalents. Also, the company spent more than half of the value of its revenue financing costs. In 2021 however, the ratio increased significantly to 18.3% as can be evident from an increase in the earnings as compared to the increase in the value of assets. This indicates that OOPC was able to make good use of its assets in generating profits

Ultimately, the overall value for ROA being 15.7 indicates that the company is making good use of its asset base in generating profits but better management decisions need to be made in the future.

Return on Equity (ROE)

Table 3 showed return on equity of Okomu palm.



Return on Equity was gotten by dividing the Net Profit after Tax by Shareholders' Equity. $(\text{Net Profit after Tax} / \text{Shareholders' Equity}) \times 100$. NPAT/SE x 100.

Table3: Results for Return on Equity

Year	Net Profit after Tax	Shareholders' Equity	Ratio (in %)
2017	9,092,186	23,135,981	39.2%
2018	8,239,903	28,514,154	28.8%
2019	5,368,348	29,180,280	18.3%
2020	2,942,468	28,629,671	10.2%
2021	11,538,968	34,051,956	33.8%
Total	37,181,873	143,512,042	25.9%

Source: Researcher's own computation from the financial statements ,2022.

Benchmark: A ROE ratio of 15% - 20% was considered good. A ROE ratio of above 20% is great.

In 2017, the company's ROE was 39.2% and from the benchmark is an excellent ratio. The ratio dropped to 28.8% in 2018 as a result of a decrease in profits which may also have resulted from an increase in costs. The ratio further dropped to 18.3% in 2019, this is as a result of a further decrease in profits. In 2020, the ratio dropped below the benchmark to 10.2% because of an even lesser value of earnings. This may have been due to an increase in costs and expenses and an increase in account receivables. The ratio greatly increased in 2021 to 33.8% as the company experienced an increase in profits. On an average, the company's ROE is 25.9 and this ratio will serve as a good indicator to investors who are willing to invest in the company.

Return on Capital Employed (ROCE)



Return on Capital Employed was calculated by dividing the company's EBIT (Earnings before Interest and Tax) by the Total Assets minus the Current Liabilities (EBIT / (Total Assets – Current Liabilities) x 100).

Table 4: Return on Capital Employed Results

Year	EBIT	Total Assets	Current Liabilities	Ratio (in %)
2017	11,140,142	31,273,705	5,040,860	42.4%
2018	10,337,171	38,417,953	4,922,729	30.8%
2019	7,523,187	43,595,792	3,531,097	18.7%
2020	8,694,913	55,363,679	7,398,513	18.1%
2021	16,114,778	65,772,444	8,844,843	28.3%
Total	53,810,191	194,423,573	29,738,042	33.0%

Source: Researcher's own computation from the financial statements,2022.

Benchmark: A ROCE ratio of within 20% - 30% is considered good, above 35% is excellent.

In 2017, the ratio was 42.4%. This is as a result of high EBIT value and a relatively low value of current liabilities. The ratio decreased to 30.8% in 2018 which is evident from the decrease in EBIT even with a decrease in current liabilities. In 2019 and 2020, the ratio decreased below the benchmark to 18.7% and 18.1% respectively. This is a result of a decrease in EBIT and an increase in costs and expenses In 2021, the ratio increased to 28.3% as the company experienced an increase in EBIT.

In general, a high ROCE value indicates that a larger chunk of profits could be invested back into the company for the benefit of shareholders. The reinvested capital is employed again at a higher rate of return, which helps produce higher earnings-per-share growth.

On average, the ROCE is 33.0 and this is a sign of a successfully growing company.



Leverage Ratios

Debt-to-Asset Ratio (DAR)

The formula is Total Liabilities divided by Total Assets. ((Total Liabilities / Total Assets) x 100).

Table 5: Debt-to-Assets Ratio Results

Year	Total Liabilities (N)	Total Assets (N)	Ratio (in%)
2017	8,137,724	31,273,705	26.0%
2018	9,903,799	38,417,953	25.7%
2019	14,415,512	43,595,792	33.0%
2020	26,734,008	55,363,679	48.2%
2021	31,720,488	65,772,444	48.2%
Total	90,911,531	234,423,573	38.7%

Source: Researcher's own computation from the financial statements ,2022.

Benchmark: A DAR of 30% or lower is considered good, above 60% indicate risk.

In 2017, the ratio is 26.0%. This is good because the company could be able to meet up its financial obligations at that time with the value of its asset base. In 2018, the ratio decreases to 25.7% and this indicates that more of the company's assets were financed by equity. In 2019, the ratio rises to 33.0%. This is as a result of the company's increased producing activities and expenses. In 2020 and 2021, the ratio is the same at 48.2%. The steady rise in this ratio means that the company experienced more producing activities which prompted them to increase their liabilities. Although the company would be able to meet their financial obligations, they may experience difficulty in continuing operations afterwards.



At an average of 38.7%. OOPC has shown to be capable of handling their growth and keeping their debt financing at an acceptable rate.

Debt to Equity Ratio

This ratio was measured by dividing Total Liabilities by Total Shareholders' Equity. ($(\text{Total Liabilities} / \text{Total Shareholders' Equity}) \times 100$).

Table 6: Debt to Equity Ratio Results

Year	Total Liabilities	Total Shareholders' Equity	Ratio (in %)
2017	8,137,724	23,135,981	35.1%
2018	9,903,799	28,514,154	34.7%
2019	14,415,512	29,180,280	49.4%
2020	26,734,008	28,629,671	93.3%
2021	31,720,488	34,051,956	93.1%
Total	90,911,531	143,512,042	63.3%

Source: Researcher's own computation from the financial statements ,2022.

Benchmark: An acceptable DER is below 1 or 100% but not above 2 or 200%.

In the year 2017 and 2018, the DER is 35.1% and 34.7% respectively. At a glance, it is a good ratio but it may also indicate that the company may not have made efficient use of debt for expansion.

In the year 2019, the ratio rises to 49.4%. The company had a stronger debt base and could be said to be on a clear standing. In 2020 and 2021, the ratio increased to 93.3% and 93.1% respectively. Although this ratio is within the benchmark, it indicates that the company's debt base was rising and although the value of assets also increased the company might be at risk in a case of increased interest rate as the company may not be able to pay back the loans without going liquid or stopping operations.



Debt EBITDA Ratio

It was calculated by dividing Total Liabilities by EBITDA. (Total Liabilities / EBITDA).

Table 7: Debt EBITDA Results

Year	Total Liabilities	EBITDA	Ratio
2017	8,137,724	11,128,186	0.7
2018	9,903,799	10,259,924	0.9
2019	14,415,512	7,354,314	1.9
2020	26,734,008	8,694,913	3.0
2021	31,720,488	16,114,778	1.9
Total	90,911,531	45,729,693	1.9

Source: Researcher's own computation from the financial statements ,2022.

Benchmark: A Debt EBITDA ratio lower than 3.0 is considered good, above 3.0 or 4.0 serve as red flags

In 2017, the ratio was at 0.7% The company's debt load wasn't heavy and the value of the EBITDA was higher than the total liabilities. The ratio increased in 2019 to 0.9% which signals an increase in the debt load of the company and a decrease in EBITDA. In 2019, the ratio increased to 1.9%, an indicator of the company's increase in liabilities with a decrease in EBITDA. This also signals an increase in the company's raw materials and consumables expense

In the year 2020 with a ratio of 3.0%., it is evident that the company had a too-heavy debt load. The EBITDA was much lower than the debt, hence the company may not have been able to sufficiently service its debts. However, in the following year, the ratio decreased to 1.9 % This is commendable, considering the high value of the ratio in the previous year. The value however is affected by the previous years' debt load and low earnings. The company managed to increase their EBITDA even as their debt increased.



Overall, the company has a ratio of 1.9%. This indicates that the company may not be able to sufficiently generate income to service debts, cover interest, taxes, depreciation and amortization.

Net Worth

It was calculated by removing the values of the total liabilities from the value of the total assets. (Total Assets – Total Liabilities).

Table 8: Net-Worth of Okomu Oil Palm Company

Year	Total Assets	Total Liabilities	Net Worth
2017	31,273,705	8,137,724	23,135,981
2018	38,417,953	9,903,799	28,514,154
2019	43,595,792	14,415,512	29,180,280
2020	55,363,679	26,734,008	28,629,671
2021	65,772,444	31,720,488	34,051,956
Total	194,423,573	90,911,531	103,512,042

Source: Researcher's own computation from the financial statements, 2022.

Benchmark: A company's net worth should be at least 50% of its total assets.

According to Table 8, OOPC was in clear standing as each year, the value of their Net Worth was more than 50% of its assets. If anything, the company is capable of staying in operation for a long time, provided they employ efficient management.

Liquidity Ratios

These ratios measure a firm's capability to meet its short-term obligations. In general, a higher value of this level of indicates that the firm has a larger safety margin to cover its short-term obligations. Among the various liquidity ratios, the study focuses on the following.



Current Ratio

Current Ratio was calculated by dividing the value of current assets by the value of current liabilities. (Current Assets / Current Liabilities).

Table 9: Current Ratio Results

Year	Current Assets	Current Liabilities	Ratio
2017	7,158,496	5,040,860	1.4
2018	9,008,396	4,922,729	1.8
2019	11,471,742	3,531,097	3.2
2020	16,099,268	7,398,513	2.1
2021	15,697,223	8,844,843	1.7
Total	48,435,125	29,738,042	1.6

Source: Researcher's own computation from the financial statements ,2022.

Benchmark: A current ratio within 1.5 – 3 is considered good, above 3.0 serve as a red flag

The company did not record any ratio of less than one, which means it has the capital on hand to meet its short-term obligations. In the year 2017, the company had a ratio of 1.4, slightly less than the benchmark. It is acceptable because it is better to have a low current ratio than a higher one.

In the year 2019, the company experienced a very high ratio of 3.2, higher than the acceptable margin. This indicates that the company can cover its current debts thrice and may indicate that the company did not use its current assets efficiently or did not properly manage its working capital. The following year, the ratio reduced to 2.1 as evident in the values of Current Liabilities and Current Assets before levelling out to 1.7 in 2021.

Overall, the company's Current Ratio falls at 1.6 and it indicates the company is in a healthy position to offset its current debts when due.



Quick Ratio

The quick ratio was calculated by subtracting the value of inventories from the value of current assets and dividing by the value of current liabilities. ((Current Assets – Inventory) / Current Liabilities).

Table 10: Quick Ratio Results

Year	Current Assets	Inventories	Current Liabilities	Ratio
2017	7,158,496	2,687,196	5,040,860	0.8
2018	9,008,396	3,148,880	4,922,729	1.1
2019	11,471,742	3,734,734	3,531,097	2.1
2020	16,099,268	4,420,942	7,398,513	1.5
2021	15,697,223	4,717,732	8,844,843	1.2
Total	484,351,251	8,709,484	29,738,042	0.9

Source: Researcher's own computation from the financial statements

Benchmark: A quick ratio within 1.2 – 2 is acceptable, above 2 –2.5 are risky.

Ratios less than one as seen in the year 2017 indicate that the company couldn't pay its loans with liquid assets. The year 2018 shows a ratio of 1.1 shows that the company will be able to meet its short term obligations with liquid cash but with some difficulty. In 2020 and 2021 with 1.5 and 1.2 respectively shows a healthy ratio and 2019 having the highest ratio of 2.1 indicates that the company did not invest in revenue generating activities.

Finally, with an average ratio of 0.9, the company may not be able to quickly convert its assets to cash in order to meet its short-term obligations



CONCLUSION

This study examined the performance of OOPC for the past five years. The company showed different levels of profitability, leverage and liquidity. The focus of the company on sales and revenue growth while containing the costs of expenses will enable the company improve in its debt financing, as evident from the results of the Debt to Asset Ratio

Also, an increase in inventory management practices will improve the company's position on loan repayment capacity and increase its earnings.

Finally, the ROE ratio is considered the most comprehensive measure of profitability of a firm; it considers the operating and investing decisions made as well as the financing and tax related decisions. From the results, the company would have to reduce taxes and overhead expenses and improve its profit margins so as to enable it stay in operation and produce profits.

RECOMMENDATIONS

Based on the results and conclusions made in the previous sections, the following recommendations were made to improve the company's performance.

1. It was recommended that the company distributes idle cash. Idle cash in excess of what the business needs to continue operations reduces the apparent profitability of the company when measured by Return on Equity. Distributing idle cash to shareholders is effectively a way to leverage a company, and boost its return on Equity.



2. Financial Leverage should be utilized to improve the Return on Equity. Financial leverage increases a company's return on equity so long as the after-tax cost of debt is lower than its return on equity.
3. The company needs to increase its revenue by increasing the sales of goods and simultaneously reducing its expenses. This would improve the net profit margin and the overall profitability of the company.

REFERENCES

Okomu profile: <https://okomunigeria.com/profile/>

Laitinen, E. K. (2002). A dynamic performance measurement system: evidence from small Finnish technology companies, *Scandinavian Journal of Management*, 18(1), 65-99.

Maggina, A. G. (2008). On the distributional property of financial ratios on annual reports of Greek listed companies. *International Journal of managerial and financial accounting*, 1(2), 166-183.

Metcalf, R.W. & Titard, P.L.(1976). *Principles of Accounting*. Philadelphia W.B. Saunders Company 26, 1023.

The Okomu Oil Palm Company PLC: Annual Reports and Accounts. (2019).

The Okomu Oil Palm Company PLC: Annual Reports and Accounts. (2020).