



Sahel Capital (Mauritius) Limited

Sahel Capital Partners & Advisory Limited

Creating Value, Building Businesses, Transforming Communities...



Unlocking the Palm Oil Potential in West Africa

Indigenous to West Africa, oil palm is an important crop for both industrial, retail and consumer markets. In 2013, West Africa's palm oil output was 2.2 million metric tons (MT), which accounts for only 3.5% of global output. Today, the demand for palm oil in the West African region exceeds its supply, and the region is a net importer of palm oil, with a deficit of 850,000 to 900,000 tons, per year that is provided for by imports from countries such as Malaysia and Indonesia. Cote D'Ivoire is the only net exporter in West Africa, and exports an estimated 275,000 MT with about 75% of its export going to West Africa.

The palm products generated in the region include: a) Crude Palm Oil (CPO) which can be further processed or refined into a range of derivative products including olein and stearin, b) Palm Kernel Oil (PKO) is processed from the seed of the palm nut for the industrial market, c) Others: Palm kernel cake and sludge are significant by-products that are used by the feed industry. CPO is either deemed to be Technical Palm Oil (TPO) or Special Palm Oil (SPO) based on how it is processed and the quantity of free fatty acid. TPO is low quality palm oil, and it is processed for meal preparation by households, hotels and caterers and for direct sale as unprocessed oil, while SPO is premium grade palm oil, which is processed for use in the food industry and produced and refined by large mills.

The major challenges impeding the growth of the West African palm oil industry include ageing oil palm trees, uncertain land tenure systems that affect allocation of land for cultivation, and productive inefficiencies which lead to less competitive pricing.

Despite the challenges facing the West African palm oil sector, a range of investors, especially multinational companies, have been attracted to the potential in the production and processing of oil palm. This rise in investment interest is driven by oil palm companies from Indonesia and Malaysia seeking suitable land for oil palm cultivation, while also facing tighter deforestation regulations in their countries. For example, Singapore-based Wilmar International and PZ



Nigeria entered into a joint venture called PZ-Wilmar, in December 2010 and is investing \$650 million in oil palm plantations and processing facilities in Nigeria. In addition, Wilmar acquired Benso Oil Palm plantation in Ghana in 2011 and is also invested in Ivory Coast through a JV with Olam International. Furthermore, Wilmar also acquired a 50.5% stake in the largest Ivorian palm oil refinery, Newco. It is expected that other major Asian palm oil producers will follow this example in subsequent years.

While a large part of the investments have been in oil palm plantations, there has also been significant investment in palm oil processing. Some of these processing facilities include Wilmar's \$16 million 1,000 MT per day palm oil refinery in Tema, Ghana, as well as Sime Darby's 60 tons per hour oil mill in Liberia that is currently undergoing construction.

Nigerian Oil Palm Industry

Context

The production of palm oil in Nigeria in 2013 was 930,000 tons, significantly below the country's estimated consumption of 1.4 million tons. The majority of the palm oil in Nigeria comes from groves and smallholder plantations rather than industrial plantations, with about 80% of production from dispersed smallholders who harvest the semi-wild plants in the groves and process the oil palm using manual techniques. Dura and Tenera are the most cultivated specie varieties in the country. The Dura is a thick-shelled variety with a thin mesocarp. Tenera, a variety with a thicker mesocarp and a thinner shell, is more suitable for industrial and economic purposes, as it produces much more oil and has a gestation period of three to five years compared to the Dura breed with six to seven years. Groves and smallholder plantations are dominated by the Dura variety, with an estimated yield of 1-5 fresh fruit bunch (FFB)/ha /year and 6-10 FFB/ha/year respectively, while large industrial plantations utilize the improved Tenera variety, with an estimated yield of 12-19 FFB/ha/year.

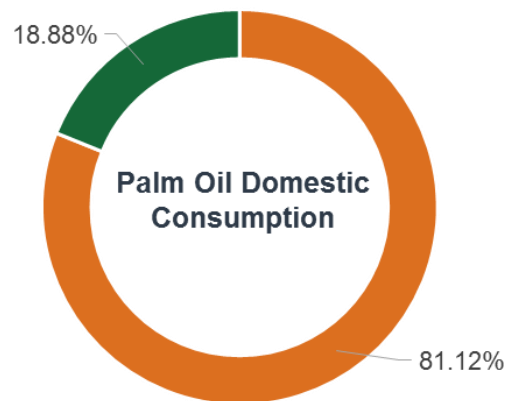
Major challenges facing the industry include the use of unimproved seedlings, difficulty in acquiring land due to the land tenure system, inefficient milling methods with poor oil extraction rates and, low levels of mechanization. These combined challenges reduce the competitiveness of locally produced crude palm oil (CPO) and influence high prices compared to imported CPO even with the 35% import tariff duty on imported CPO.

Opportunities

Nigeria's population, expected to reach 450 million by 2050, will drive continued demand for oil palm oil and its derivatives.

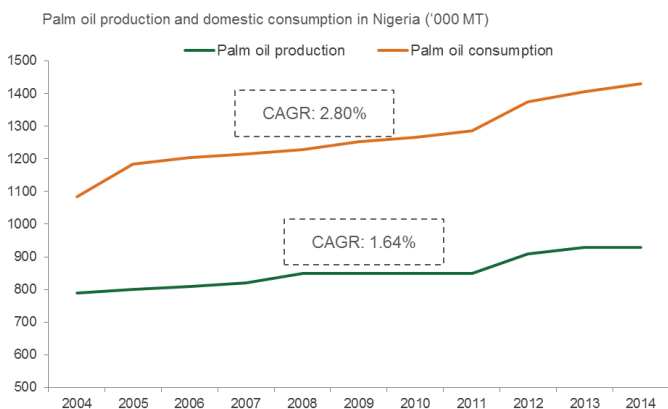
Sector	Products
Food	Edible oils, ice cream, margarine, instant noodles, confectioneries
Consumer	Soaps, detergents, tooth paste, moisturizers, lip gloss, shampoo

Although there are many companies involved in various aspects of the palm oil value chain (plantations, milling, refining, and distribution), the largest players in Nigeria are Presco, Okomu Oil and PZ-Wilmar. According to NIFOR, the gross value of the palm oil production at plantation level is between ₦180-₦250 billion annually. According to a Business Day newspaper article on Friday, February 20, 2015, a recent study from an independent research stated that an investment gap of ₦2 trillion is needed over the next 20 years for Nigeria to achieve self-sufficiency in oil palm production.

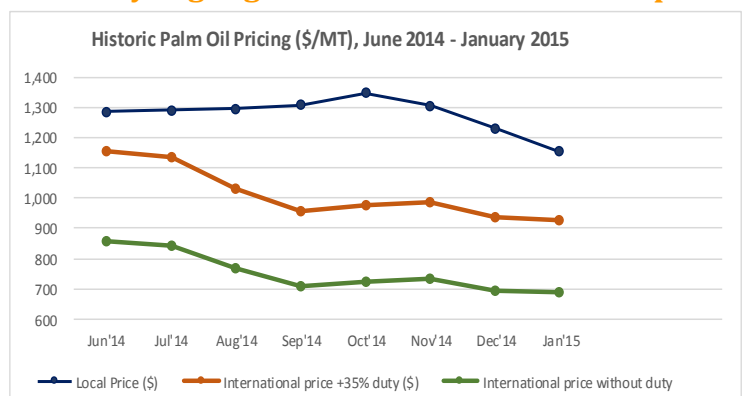


■ Food Domestic Consumption ■ Industrial Domestic Consumption
Source: United States Department of Agriculture, GAIN Report 2014

Palm Oil production and Consumption



Industry Highlights: Crude Palm Oil Price Update



Source: World Bank Commodity Price Data, Oanda, Presco PLC

Sustainable Palm Oil

Sustainable Palm oil refers to practices that help reduce the negative impact of oil palm cultivation on the environment and communities. These practices are defined by a set of standards, which delineate the legal, economic, environmental and social requirements of producing sustainable palm oil. The Roundtable of Sustainable Palm Oil (RSPO) was established by stakeholders from seven different sectors of the palm oil industry (including oil palm producers, palm oil processors or traders, consumer goods manufacturers, retailers, banks and investors, environmental NGOs and social NGOs) in 2004 to promote the production and use of palm oil, and develop and implement global standards for sustainable palm oil. Palm oil producers are certified through strict verification of the production process to the stringent RSPO Principles & Criteria. There are 8 Principles, and 39 criteria contained in the Principles, through which the RSPO is delivered. The 8 principles are:

(1) Commitment to transparency; (2) Compliance with applicable laws and regulations; (3) Com-

mitment to long-term economic and financial viability; (4) Use of appropriate best practices by growers and millers; (5) Environmental responsibility and conservation of natural resources and biodiversity; (6) Responsible consideration of employees, and of individuals and communities affected by growers and millers; (7) Responsible development of new plantings; and (8) Commitment to continuous improvement in key areas of activities.

Recently certified plantations include Cargill's West Kalimantan plantation in Indonesia and Wilmar's Benso Oil Plantation in Ghana, which were both certified in 2014.

The Roundtable on Sustainable Palm Oil Nigeria National Interpretation Working Group (RSPO-NNIWG), which was formally inaugurated in April 2014, is focused on interpreting and applying RSPO to the Nigerian context. The Working Group is expected to finalize its work in 2015, and the initiative is being led by Presco.

Sahel Speaks...

Seed Trade Associations (STA) Africa

Sahel Capital participated in an STA meeting convened by the Bill & Melinda Gates Foundation that took place at the Tribe Hotel in Nairobi, Kenya from January 21-22, 2015. The theme of the convention was "Developing a Comprehensive Program to Strengthen Seed Trade Associations in Africa".

Africa Business Conference, Harvard Business School 2015

Sahel Capital spoke on "Inclusive Growth" during the Africa Business Conference which took place at the Harvard Business School, Boston, USA on February 28, 2015. The theme of the conference was "A More Inclusive Africa: The Pursuit of Progress for All".

Seriously Speaking on Channels TV

Sahel Capital participated in the Seriously Speaking episode on "Agriculture; The New Oil". The episode aired on Channels TV on March 1, 2015.

BET Networks Leading Women Defined Summit

Sahel Capital spoke at the BET Networks Leading Women Defined Summit on March 4th, 2015, in Miami, USA. The panel discussion was on "Amplify Africa: International Opportunities To Lead".

Women Changing the World Annual Conference

Sahel Capital spoke on "Leading Change through Activism and Social Entrepreneurship" at the Women Changing the World Annual Conference at Barnard College on March 13th, 2015 in New York, USA.

IARSAF 18th Annual Symposium 2015

Sahel Capital will be speaking on "Public-private partnership in financing agricultural research and development" at the International Institute for Tropical Agriculture (IITA) on March 23rd, 2015.

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