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COLLEGE-SMS

LEVEL —200

COURSE— AFE 202

DERIN AND LANDS LTD

PALM KERNEL PRODUCTION

Outline

1. Executive Summary

2. Industry Overview

3. Palm Kernel Oil Process

4. About Button & Lands Ltd

5 Button & Lands Ltd Proposed Production Plan

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Executive Summary

Background

•George &sons Ltd was registered in July,2010 with the CAC;

•It is a manufacturing company focused on palm kernel oil, palm kernel cake and sludge production;

•Annual forecasted Production Volume;

3000 tons of  Palm Kernel Oil

2200 tons of Palm Kernel Cake

500 tons of Palm  Kernel Sludge

Investment Rationale

•Competent Management team;

•An attractive IRR of 31%.

•Easy entry into the Palm Kernel Market

•Unlimited demand for the Palm Kernel Products

Investment

Structure

•Loan size – ₦5,000,000

•Interest Rate- 23%

•Tenor – 1year

•IRR -31%

•1 month moratorium period on capital repayment

•Monthly Redeemable amount  - ₦454,545

Management

Team

•Nzeribe Somtochukwu– Chairman

• Nzeribe Somtochukwu– -  CEO & MD

•Nzeribe Anaya– Director of Finance

•Sean Michael Nwosu – Marketing Director

• Dumaga Nwabueze- Consultant

INDUSTRY OVERVIEW

●Palm Oil accounts for 34% of the world’s annual production of vegetable oil and 63% of the global exports of vegetable oils1. It is produced in tropical climates and in 42 countries across the world;

●Globally, Indonesia and Malaysia are the leading producers/exporters of Palm Kernel Oil accounting for 87% of world production in 2011/2012., while India and China are the leading consumers/importers of Palm Oil ;

●The market for Palm Kernel Oil (PKO) is very large. About 80% of all the edible vegetable oil consumed in Nigeria is made from refined palm kernel oil;

●Palm Kernel Oil is the main output from Palm Kernel processing while the  Palm Kernel Cake (PKC) and the Pam Kernel Sludge (PKS) are by-products;

●Palm Kernel nuts contain between 40% and 48% of oil, 55% and 47% of cake and 5% of sludge and debris;

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1. United States Department of Agriculture

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Source: United States Department of Agriculture

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Global Palm Kernel Oil consumption by countries (2010) (1000MT)

●Palm Oil products are used in Nigeria for food and non food consumption, there are four Palm oil products are marketed in Nigeria, The Technical Palm Oil, The Special Palm Oil, Palm Kernel Oil and Refined Bleached Deodorized Oil;

●In 2010, Palm Oil was the main vegetable oil produced in Nigeria. Nigeria’s output represents only 3% of the world production in 2010 (FAOSAT,2012). As regards palm production in Africa, Nigeria's production is estimated at 55% of the African output;

●Nigeria’s Palm Oil products current output is 1.3million tonnes and is a net importer of 700,000 tonnes to meet the national shortage. The national demand has grown faster than the domestic supply. Production deficit is about 600,000 tonnes per annum (PIND2010);

●Palm Kernel oilseed production volume stood at 715MT as at April 2013, which is a 2.16% increase from 2012’s volume. As at 2012, production volume increased by 7% when compared to the 2011’s total production volume. While Palm Kernel Oil production volume remained constant between 2007- 2012 at 305 MT ; Nigeria is assumed to be the  6th largest consumer of Palm Kernel Oil.

●Palm Kernel Oil is used for food, medicine, fuel, industrial products, and cosmetics;

●The key players in the Nigerian Palm Oil Industry are Okomu Oil, and  Presco Plc

Source: United States Department of Agriculture

Source: United States Department of Agriculture

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Nigeria Palm Kernel Oilseed Production

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Nigeria Palm Kernel Oil Production

PALM KERNEL OIL PROCESSING

●Raw materials

oPalm Kernel is the main raw material needed for production of Palm kernel oil.;

oThe incoming Palm kernel undergoes several tests to ensure the quality of the palm kernel is within stipulated speculation;

●Crushing

oThe  palm kernels are discharged into silos, which are then flowed down by gravity to the crushing machines;

oThe Palm Kernel is then goes through its 1st pressing as well as the 2nd pressing to maximize the extraction of Palm Kernel Oil.

oThe Palm Kernel Oil is then conveyed to the oil pit and further channeled to the filter press for filtration process

oThe oil collected will be filtered and kept in a storage tank ready for sale while the cake will be bagged ready for sale to feed millers and exports;

oThe sludge extracted will be weighed in large basins and will be stored in a storage pit for sale.

also from Ogun State University.

•His over 10 years professional experience was acquired while working with FCMB, WEMA Bank and Superflux International Limited in their various marketing departments.

•He started BLL in 2010 as an unregistered outfit and he carried out the production of PKO, PKC and PKS with locally produced machines while still in paid employment.

•Based on the success of the outfit, Gbenga registered BBL in July 2011 with the CAC as a limited Liability Company and resigned from paid employment to focus on running the business as a Going-concern.

•He co-owned the company with is wife – Mrs. Bisi Sonubi.

•She is 26 years old, holds a first degree in Economics from Ogun State University (200X).

•She worked with Tai Solarin Microfinance Bank for about 2 years before resigning to her outfit called Delight Ventures; a major distributor of Nestle Foods.

•She will work as the head of Finance.

 GEORGE &SONS LTD SHAREHOLDING STRUCTURE

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•The Chairman of DLL is Nzeribe Somtochukwu

• he holds a first degree from Afe Babalola University,ado-ekiti, an MBA from London school of economics .

•His professional experience was acquired while working in the marketing and consulting departments of several financial institutions .

• after, having enough of working full time, he opted for his passion in farm produce by buying business which he still does till date.

•She is currently the CEO of kingly Enterprises Limited, a renowned name in agricultural produce trading in Nigeria with its operational base at kano State and Lagos.

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 GEORGE &SONS LTD Proposed Production Plan

●Production

oWith a capacity of processing 18tons of palm kernel daily, the production capacity will be 96tons per week;

oAny shortfall in production would be made up of extension of production time on Saturday beyond 3pm to ensure that the production capacity of 96 tons is met on a weekly basis;

o96 tons crushed on a weekly basis will produce the following:

•Palm kernel Oil  -  38.4tons (2000 tons Annually)

•Palm Kernel Cake - 42.24 tons (2200 tons Annually)

•Sludge - 9.6 tons (500 tons Annually)

●Crushing

oThe crushing process will begin 7am on Monday mornings to 3pm on Saturdays (A total of 128hours per week);

oTwo stand by generators will be available to run the machines continuously for processing;

oThe Production Manager, Supervisor, Assistant Supervisor  and 8 factory workers(a total of 8perseons), will operate the factory during the hours;

oThe 8 factory workers will run two shifts and alternate on weekly basis. The Supervisor and the Assistant Supervisor will also alternate on a weekly basis;

●Future Projects

oBackward integration of sourcing raw materials by financing palm oil producers in automating their shelling process of their own by-product of palm kernels;

oExpanding the existing plant fro two crushers to six on the same site;

oEstablishing a bigger crushing plant in a bigger site;

oIncrease extraction capacity of Crude Palm Kernel Oil and Recycling sludge for re-processing.

Marketing Strategy

●The Market for Palm Kernel Oil consists of two major consumers;

oCompanies that refine palm kernel oil for local consumption and exportation

oSoap Producers

●Target Market

oOur market is focused  on consumer of Palm Kernel Oil who require it for vegetable oil and soap processing, Agro-Feed producers for Palm Kernel Cake and Piggery Farmers/micro-scale entrepreneur for further Extraction of Palm Kernel Oil for the Sludge

oNetworking with large consumers of palm kernel oil such as Slab Mark Nig Ltd, ST Soap in order to ensure regular and prompt sales;

oAlso networking with Cooperative Livestock Farmers to supply palm kernel cakes for their numerous livestock feed mills;

oSyndicating with Poverty Alleviation (Ijebu- North) cooperative Investment Society who wish to promote micro and small scale enterprises for soap;

oA 2paged handbill showing the range of products and contact details shall be printed and distributed to consumers;

oThe Marketing Manager is saddled with the responsibility of scouting for potential customers for the Palm Kernel Sludge;

●Selling Price

oSelling price shall be 15% of total cost of production + total cost of production;

oA market survey shall be conducted among similar factories to determine the prevailing market price and adjust accordingly (if necessary);

●Product Design and Packaging

oHire tanker trucks to supply Eva soap, PZ at Ikorodu, Avian Farms at Ibadan, Unilever Pl, S.T soap and Toto soap

oSupplies to cooperative soap manufacturers will be in metal and plastic drums or 30litres plastic kegs.

—-TOTAL PRODUCTION COST

1)—Machinery Cost 1

12,394,000

Done

2)—Rent

200,000

Done

3)—Installation Cost

200,000

Done

4)—Factory Construction Cost

357,000

Done

5)—Loan

5,000,000

Pending

TOTAL

18,151,000

1    A N3,500,000  loan  with an  eight months tenor  availed at 23% p.a. was received  earlier this year and has been fully paid for as at August,2013. This loan was used to part finance the acquisition of the  production machineries

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Total Project Cost

—FINANCIAL SUMMARY

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Financial Assumptions

Comments

Basis for Assumption

Profit and Loss

Revenue Growth

5%

Adopting a rate close to the consumption rate in the previous year which stood at 7.2%. Also the global palm kernel oil price has increased by 5.15% in the last 6 months

Cost of Sales

2.5%

COS is expected to increase as production volume increases, we estimate half of the revenue growth rate for COS

Operating Expenses

5%

OPEX is expected to increase at 5% on an annual basis based on increase in production volume

Tax

32%

Company Income Tax rate @ 30% and education tax rate @ 2%

Balance Sheet

Inventory Days

20days

Debtors Days

30days

Creditor Days

30days

ASSET ASSUMPTIONS

•It is assumed that the Oil  Presser & Filter will be acquired in 2014 at a N10,000,000;

•It is also assumed that a sum between N500,000- N10,000,000 will be used as maintenance capex on the machines acquired from 2014;

•Depreciation rate charged on all the assets is at 25% due to the extensive production volume carried out on a weekly basis;

•New assets are acquired in the 5th year to ensure continuation on production (see Appendix for Fixed Asset Schedule)

Conclusion

●We hereby request for  a N5,000,000 loan at 23% for  one (1) year based on the following:

oAn attractive IRR of 31% on the loan;

oThe potential growth in the Agricultural sector with the reforms currently taking place;

oThe Experienced and Competent Management team;

oEasy entry into Palm Kernel Industry;

oStructured and  Efficient Strategies put in place to ensure prompt sale of al products;

oPossibility of expanding and eventually listing on The Alternative Stock Exchange Market (ASeM).