PRESCO PLC

NIGERIA'S OTHER OIL

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West Africa's largest economy is not entirely defined by its offshore resources: Presco Plc has been helping to reverse the decline in agricultural staples, and in particular the versatile fruit of the oil palm

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Historically, Nigeria is an agrarian society. During the colonial era Nigeria was a leading exporter of palm kernel, and a major producer and exporter of palm oil. During that time, smallholder farmers collectively produced 90 per cent of the country's food needs and 70 per cent of Nigeria's export earnings—a dominant share of the country's GDP.

Then came the other kind of oil: the discovery of crude oil in 1956 paved the way for the gradual neglect of agriculture by successive governments. During the 1980s the contribution of agriculture to the GDP plummeted to 22.2 per cent. That has gone up a bit since then but today Nigeria only produces 1.7 per cent of global production—not enough for domestic consumption, which stands at around 2.7 per cent. Malaysia, which built its palm oil industry on Nigerian seedlings, has overtaken Nigeria: between them Malaysia and Indonesia account for 83 per cent of global palm oil production.

It was to counteract this decline that in the 1970s the government of the former Bendel State of Nigeria (now divided into Edo State and Delta State) initiated a programme for the development of oil palm with the financial support of the World Bank. The state-owned Oil Palm Company Ltd (OPC) established Obaretin Estate, a plantation 22 kilometres to the south of Benin City, among others. Presco was incorporated in 1991, and listed on the Nigerian Stock Exchange in 2002 with 60 per cent of its shares held by sa SIAT nv, the Belgian agricultural group. Since then, Presco has followed a strategy of growth through further land acquisition and planting, says managing director Uday Pilani. "Roughly, we aim to add 1,500 hectares of oil palm a year: our focus is to plant as much as we can manage to process."

12,500 HECTARES

Size of Presco's oil palm plantation in Edo and Delta States

Given the fundamentals, there is plenty of room in the domestic market for more palm oil products, which are sold directly to food processing industries, ranging from biscuit and bread manufacturers to the makers of dairy products, margarine, soap and detergents. There is no export market for these products at present, though, because the cost of production is considerably higher here than in the Far East. Today Presco has more than 12,500 hectares of oil palm plantation at its locations in Edo and Delta States, while its sister company in the SIAT Group, SIAT Nigeria Limited (SNL) has over 15,500 hectares of oil palm in Rivers State, feeding a central palm oil mill, palm kernel crushing plant and vegetable oil refining plant.

Supported by its own fleet of stainless steel tankers, its own water supply and even its own energy generation facilities, Presco is the only fully integrated oil palm operation in Nigeria. Self sufficiency makes a lot of sense in Nigeria where the grid is notoriously


Oil palm plantation

unreliable: Presco is not even connected to the grid, enhancing its green credentials by recycling its waste. "We are the largest converters of agricultural by-products in Nigeria," states Pilani. "The empty fruit bunches, the stem and the shell that are left over after the oil has been extracted have a high calorific value and we burn them to make steam to drive the turbines at our plant." Right now this green energy provides 55 per cent of Presco's annual energy needs, the shortfall being supplied by diesel generators; however, a new 2.5 GW turbine is being built, fuelled by methane from decomposing biomass. By the middle of 2013, he says, the company will be able to dispense altogether with fossil fuel—last year the plant saved $1 million—and once the new biofuel plant is in place the annual saving on energy will be twice that amount.

The harvested palm fruits are transported from the three Edo/Delta State plantations (Obaretin, Cowan and Ologbo) to the head office plant. A new plant will be built near Port Harcourt, where the company has recently acquired a land holding of 18,000 hectares from the government of Rivers State. However about half of this new holding will be dedicated to a different crop: rubber. Though not a native plant, rubber is no stranger to Nigeria, and SIAT has plenty of experience, being a major rubber exporter from its plantations in other West African countries like Côte d'Ivoire and Gabon.

Moving into rubber will give the company an export crop to balance the domestically traded palm. World demand for rubber will remain firm as long as the number of motor

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vehicles grows, and it is relatively simple to process and bale the rubber for shipping from Nigeria's ports. It takes around five years for a rubber plantation to become productive, as opposed to three for oil palm. Planting at a rate of 1,500 hectares per annum, Presco's rubber programme is secure for at least 10 years—and once mature the trees will produce for 30 years before they need replacing. The population may not be familiar with rubber husbandry, but there is plenty of expertise at the supervisory level within the country, and Presco's training programme will take care of the skills needed by the workforce. Some 5,000 additional workers will be needed to look after the new plantations at Port Harcourt, giving a much-needed boost to local employment.

The rubber nursery is already planted out at Edo State—the young plants will be ready to plant out after about 18 months. Presco is initially putting some $20 million into the rubber programme—the total investment at Port Harcourt, divided more or less equally between rubber and palm, will be as much as $50 million, but after six years, revenues will be sufficient to fund the ongoing planting, he says. The total land bank with SIAT Group in Nigeria is touching 70,000 hectares including the recent additions of Nsadop and Boki estates in Nigeria's Cross River State.


Employees using machinery


Processing plant

Rubber is exported crude, but there's much that can be done to add value to palm oil; and Pilani is keen to achieve the better margins that can be gained this way. Adding hectares produces steady and predictable results; but supplying the food industry with more than a basic commodity goes straight to the bottom line. The oil palm produces two distinct products: palm oil and palm kernel oil—the latter a particularly healthy product, with uses in high-end bakery products. "We used to sell only crude palm kernel oil but we now fractionate it to produce an ingredient that they use for the cream that goes into biscuits, for example. And we are building a plant to pelletize the palm kernel 'cake' that is left after the oil has been removed." This can be sold as cattle food, he explains, a product that can find an export market.

Next year will see the completion of an addition to the processing plant—a bottling unit that will enable Presco to move into retail and sell its own-brand products direct to the consumer. "It's important to look for every opportunity to add value, increase the size of the operation, reduce the cost-per-ton and become more efficient," he says.

In the final analysis, Presco is a remarkably successful company. Among the largest 100 companies in Nigeria, it returned a profit of $8.5 million on a turnover of $35 million in 2010. It is, however, at the mercy of global pricing and to some extent vulnerable to competition from the Far East, where the deforestation that has given a bad name to palm oil takes place. Nigerian palm oil is sustainable but dear—Pilani would love to see the Nigerian people getting a better deal. "I am not happy that the prices are high. It means profit for us, but we really should not overlook the social consequences."

["WE ARE THE LARGEST CONVERTERS OF AGRICULTURAL BY-PRODUCTS IN NIGERIA"]

For more information about Presco Plc visit: www.presco-plc.com

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