

# Flour Mills of Nigeria Plc.

## First Glance: Q4-16/17 PAT; Narrow Escape

FLOURMILL released fourth quarter and 2016/17FY result late yesterday. Compared to the loss we expected, Q4 PBT of N179 million (vs. N1.5 billion in Q3) was reported. A net operating gain of N10.3 billion (vs. N11.8 billion loss as at end-December, owing to FX gain of N7.54 billion) and a finance charge of N14.8 billion (vs. Cordros' N4.7 billion) were the major surprises in the final quarter result. Overall, FLOURMILL reported net profit of N8.8 billion for the 2016/17FY, against a loss of N15.4 billion reported the previous year (excluding the gain on disposal of investment) and ahead of our estimate of N5.7 billion. The board has proposed a final dividend of N1.00, same as in the previous year.

Revenue in Q4 grew by 70.5% y/y, the highest in all quarters of the year, but compared to the Oct-Dec period, revenue was almost flat. The Food division remained resilient, growing by 50% y/y and 41% q/q. The introduction of new products, strong price increases, and the relatively less-cyclical demand for food-based products accounted for the impressive performance of this division. Also supporting the y/y topline growth in Q4 was the Packaging division, in continuation from the recovery in Q3. Management attributed the recent performance of this division to the slightly improved activities in the macro environment, but more importantly, to the performance of other divisions (accounting for up to 60% of total demand) within the Group. Asides from Food and Packaging (although revenue contracted q/q), all other business divisions performed poorly in revenue terms during the review period.

The first negative surprise from the Q4 result was the 287 bps y/y and 279 bps q/q declines in gross margin (GM) to 9.8%, the lowest during the year. While noting possible pricing pressure particularly in the Agro-Allied division (e.g the fertilizer market where the FGN was supplying at highly subsidized prices), we think the decline in GM may also be related to higher production cost. Raw materials and packaging costs increased by 68% y/y (although down 46% q/q), and notably, the 352% y/y and 48% q/q increases in fuel, gas, and oil costs are not unrelated to the increase (2.92% in Lagos) in diesel prices over the period. Gas supply to FLOURMILL's Apapa factory area is yet to improve.

Also a negative surprise in Q4 was the 119% q/q increase in finance charge to a quarterly record of N14.8 billion, contrary to our expectation of a slight reduction following the relatively high charge (N6.8 billion) incurred in Q3. We consider this worthy of note, considering that (1) FLOURMILL's total debt only increased by N8 billion during the quarter, (2) there was no material change in the interest rate environment, and (3) the NGN strengthened during the period (see significant FX gain above), making the case for huge FX loss on the company's cumulative USD42 million loan unlikely. Net debt as at end-2016/17 was N196.6 billion (vs. N132 billion in 2015/16FY).

Operating expenses increased 74% q/q to the year's peak of N9.3 billion. While this conforms with FLOURMILL's usually bloated opex in the final quarter, we note that the amount reported was below the N10.2 billion we had expected. The N836 million reported as other income was also above our estimated N551 million.

**Overall, while acknowledging FLOURMILL's impressive 2016/17FY performance, we note, also, the effect of low 2015/16 comparables. The consistent weakness of quarterly earnings is a concern noteworthy. Given our single-digit forecast of normalized revenue growth, FLOURMILL's management must at least, attain 2016/17FY margin, and most importantly, rein in finance charges, to achieve another impressive performance in the 2017/18F.**

FLOURMILL's stock has rallied (45.95%) alongside the broad buzz on the local bourse. We expect reaction to the result will be neutral.

# BUY

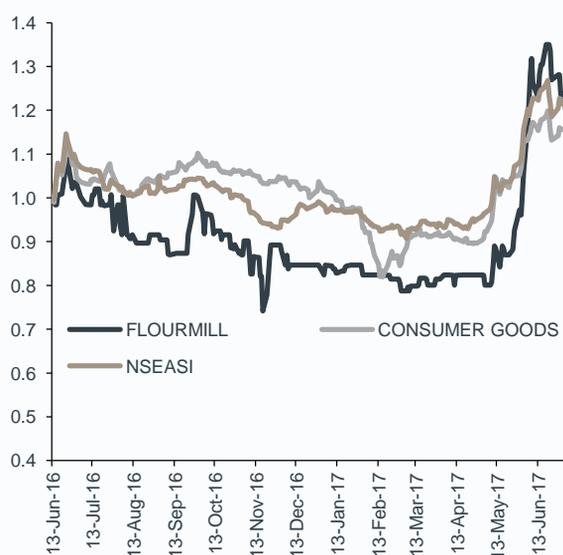
Target Price (N)	49.24
Current Price (N)	27.00
Implied Return (%)	82.38

## Company Data

NSE Code	FLOURMILL
Bloomberg Code	FLOURMILL:NL
Reuters Code	FLOURMILL.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	70.85
Free Float (%)	47.82

Ratios	Q4-17	Q4-16	2017FY
Gross margin	9.81%	12.60%	12.72%
Opex margin	6.90%	11.130%	4.53%
EBIT margin	10.54%	-4.35%	7.90%
PAT margin	1.07%	-5.81%	1.68%
RoAE	7.83%	15.96%	7.83%
EPS (N)	0.53	-13.06	3.03

## Price movement (FLOURMILL vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

# Financial Statement (N'billion).

Income Statement (N'bn)						Profitability Ratios					
	2014a	2015a	2016a	2017e	2018e		2014a	2015a	2016a	2017e	2018e
Revenue	332.1	308.8	342.6	517.9	564.2	Gross profit margin	13.1%	11.5%	11.0%	13.5%	12.7%
Cost of sales	-288.5	-273.4	-305.0	-448.0	-492.5	EBITDA margin	9.5%	7.2%	6.9%	7.5%	8.9%
Gross profit	43.7	35.4	37.6	69.9	71.7	Operating profit margin	5.8%	3.3%	2.6%	5.5%	6.8%
Operating expenses	-28.2	-24.5	-20.9	-24.7	-29.7	PBT margin	2.5%	2.5%	3.4%	1.5%	3.5%
Other operating income	3.9	-0.7	-7.7	-16.5	-3.8	Net profit margin	1.6%	2.7%	4.2%	1.1%	2.4%
Operating profit	19.4	10.2	9.1	28.7	38.2	RoAE	6.0%	9.9%	15.7%	6.0%	13.5%
Investment income	5.0	2.3	1.1	1.3	1.3	RoAA	1.7%	2.7%	4.2%	1.4%	2.8%
Finance costs	-16.1	-18.7	-22.4	-22.4	-20.1						
Profit before tax	8.2	7.7	11.5	7.6	19.5	Liquidity Ratios					
Taxation	-2.9	0.7	2.9	-1.9	-5.8	Working capital (N'bn)	-27.8	-55.6	-58.4	-29.7	-34.9
<b>Profit after tax</b>	<b>5.4</b>	<b>8.5</b>	<b>14.4</b>	<b>5.7</b>	<b>13.6</b>	Current ratio	0.8x	0.7x	0.7x	0.9x	0.9x
						Quick ratio	0.3x	0.3x	0.4x	0.5x	0.5x
						Cash ratio	0.1x	0.2x	0.2x	0.2x	0.2x
Financial Position (N'bn)						Efficiency Ratios					
	2014a	2015a	2016a	2017e	2018e		2014a	2015a	2016a	2017e	2018e
Property, plant, equipment	169.3	208.9	213.6	213.0	222.0	Fixed assets turnover	2.0x	1.5x	1.6x	2.4x	2.5x
Investments	7.8	0.0	0.0	0.1	0.1	Current assets turnover	3.3x	2.5x	2.7x	2.1x	2.2x
Deferred tax assets	0.0	0.0	0.1	0.2	0.2	Total assets turnover	1.1x	0.9x	1.0x	1.1x	1.2x
Goodwill	4.7	4.6	4.9	4.8	4.9	Inventory turnover	4.5x	4.1x	4.8x	5.3x	4.4x
Biological assets	0.6	0.1	0.4	0.3	0.4	Receivables turnover	19.3x	20.0x	20.0x	29.9x	35.3x
Other long term assets	1.9	1.7	1.7	1.6	1.7	Payables turnover	6.5x	7.5x	7.2x	5.7x	4.5x
Long term receivables	11.5	3.9	0.0	0.0	1.0	Days inventory outstanding	82	88	76	68	83
<b>Non-current assets</b>	<b>195.7</b>	<b>219.2</b>	<b>220.7</b>	<b>220.0</b>	<b>229.2</b>	Days collection/sales outstanding	19	18	18	12	10
Inventories	63.7	68.4	58.7	109.2	113.8	Days payable outstanding	20	21	23	13	12
Biological assets	0.1	0.4	0.2	0.1	0.1	Cash conversion cycle	81	86	72	68	81
Trade and other receivables	15.5	15.4	19.0	15.6	16.3						
Amount from related coys	0.7	1.7	0.0	0.0	0.0	Investment Ratios					
Non-current asset for sale	0.0	3.5	0.0	0.0	0.0	Earnings per share (N)	2.3	3.2	5.5	2.2	5.2
Other assets	4.0	3.1	0.0	0.0	0.0	Dividend per share (N)	2.1	2.1	1.0	1.7	3.4
Deposit for FCY/imports	0.0	0.0	13.6	61.9	64.5	Payout	93%	65%	18%	80%	65%
Cash and bank balances	16.8	31.1	33.2	63.9	66.6	Dividend yield	1.0%	6.0%	5.2%	9.8%	19.0%
<b>Current assets</b>	<b>100.8</b>	<b>123.6</b>	<b>124.7</b>	<b>250.8</b>	<b>261.4</b>						
<b>Total Assets</b>	<b>296.6</b>	<b>342.8</b>	<b>345.3</b>	<b>470.8</b>	<b>490.6</b>						
Trade and other payables	38.1	34.6	50.4	105.9	110.9						
Customer deposits	0.0	8.1	11.0	70.6	95.4						
Bank OD	0.0	59.7	16.4	26.9	22.6						
Borrowings	76.4	54.2	100.8	70.6	60.7						
Unsecured fixed rate bond	10.4	19.2	0.0	0.0	1.0						
Deferred revenue	0.9	1.5	1.1	1.6	1.7						
Current tax liabilities	2.7	1.8	1.3	2.0	2.1						
Dividend payable	0.1	0.1	1.9	2.9	3.0						
<b>Current liabilities</b>	<b>128.7</b>	<b>179.2</b>	<b>183.0</b>	<b>280.5</b>	<b>296.3</b>						
Borrowings	48.6	55.3	48.0	66.1	60.3						
Unsecured fixed rate bond	16.5	0.0	0.0	0.0	1.0						
Deferred revenue	3.1	7.2	7.1	10.6	11.0						
Deferred tax liabilities	11.1	9.2	5.8	8.7	8.9						
Retirement benefit obligation	3.7	3.2	4.1	6.1	6.3						
Long service award	1.3	1.3	1.6	2.4	2.5						
<b>Non-current liabilities</b>	<b>84.3</b>	<b>76.2</b>	<b>66.5</b>	<b>93.9</b>	<b>88.9</b>						
<b>Total Liabilities</b>	<b>213.0</b>	<b>255.4</b>	<b>249.6</b>	<b>374.4</b>	<b>385.2</b>						
Equity (N'bn)											
Share capital	1.2	1.3	1.3	1.3	1.3						
Share premium	36.8	36.8	36.8	36.8	36.8						
Fixed assets revaluation	0.0	0.0	-0.1	0.0	0.0						
Capital reserves	0.3	0.3	0.0	0.3	0.3						
Retained earnings	41.6	45.9	54.9	55.1	64.2						
Non-controlling interests	3.6	3.1	2.8	2.8	2.8						
<b>Total Equity</b>	<b>83.6</b>	<b>87.4</b>	<b>95.8</b>	<b>96.3</b>	<b>105.4</b>						

Source: Company accounts, Cordros research estimates

# Disclosures

**Analyst:**

**Christian Orajekwe** (*christian.orajekwe@cordros.com*)

**Analyst's Certification and Disclaimer**

The research analyst(s) whose name(s) appear(s) on the cover of this report certifies (y) that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers;
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report; and
- (3) all analysis made by the analyst(s) were in good faith and the views expressed reflect their opinion, without undue influence or any intervention.

**Rating Summary & Definitions**

Cordros Capital uses the following rating system:

**BUY (OVERWEIGHT)** - Over the next twelve months, we expect the stock to return at least 20% above the current market price.

**HOLD (NEUTRAL)** - Over the next twelve months, we expect the stock to range between <-10% and <+20% from the current market price.

**SELL (UNDERWEIGHT)** - Over the next twelve months, we expect the stock to be more than 10% below the current market price.

**Important Disclosure**

This document has been issued and approved by Cordros Capital (Cordros) and is based on information from various sources that we believe are reliable. However, no representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or fact or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction.

Investments discussed in this report may not be suitable for all investors. This report is provided solely for the information of Cordros clients who are then expected to make their own investment decisions. Cordros conducts designated investment business with market counter parties and customers and this document is directed only to such persons. Cordros accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only and may not be reproduced, distributed or published by any recipient for any purpose without prior express consent of Cordros. Users of this report should bear in mind that investments can fluctuate in price and value. Past performance is not necessarily a guide to future performance.

Cordros and/or a connected company may or may not have a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Cordros is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.