

# Flour Mills of Nigeria Plc.

## Thoughts on the Capital Raise

Yesterday, the management of FLOURMILL notified the NSE of its Board Approval in principle to commence with activities to raise additional funds through Rights Issue and Medium Term notes (Commercial Papers). Both announcements have been in the public place for a while.

A shelf programme was registered in H2 2016 to raise N40 billion in equity but was placed on hold. Perhaps the seeming improvement in the macroeconomic environment, a condition the management had said was necessary for the RI, may have prompted the need to commence the exercise. That said, market condition, in our view, remains unfavourable for the RI, as the price of FLOURMILL's stock has barely moved since the fund raising was first announced in August 2015 (charts 1 below). As such, while the stock price rallied yesterday, perhaps indicating the RI announcement appealed to investors, we would treat the latest display of intent by the management to progress with the fund raising, with caution.

Plan remains to raise the N40 billion in tranches, but there are no further communication on the time, and the amount to be raised in each tranche. At FLOURMILL's current market price, and applying the discounts on the recent RIs of the below highlighted companies (table 1), we assume the proposed rights will be offered between N19.04 and N24.85. This should result to the formation of additional 2 billion or 1.6 billion shares, potentially increasing FLOURMILL's gross outstanding shares to 4.7 billion or 4.2 billion.

Chart 1: Movement of FLOURMILL's share price (N)



Source: NSE, Bloomberg, Cordros research

At the analysts call following release of Q1-18 result, management disclosed that it was in the process of refinancing some short term facilities (we estimate N72 billion) which matured during the period, hence the upcoming CP (N70 billion proposed, but tenors are yet to be disclosed). Consequentially, from N190 billion as at June ending, gross debt

## HOLD

Target Price (N)	28.80
Current Price (N)	27.00
Implied Return (%)	3.33

### Company Data

NSE Code	FLOURMILL
Bloomberg Code	FLOURMILL:NL
Reuters Code	FLOURMIL.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	73.14
Free Float (%)	47.82

Table 1	Market price (N)	RI offer price (N)	Discount
GUINNESS	65.05	58.00	-11%
LAFARGE	49.78	42.50	-15%
UBN	6.00	4.10	-32%
UNILEVER	40.85	30.00	-27%

should increase to N260 billion upon completion of the CP programme, and assuming existing overdraft facilities (N49 billion) are not repaid. We had revised estimate for financing cost higher to N32 billion (from N20 billion) following a quarterly record finance charge of N8.9 billion reported by the group in Q1-18 (due to high interest rate, according to management).

**Whilst we await the outcome of the CP, we think it is unlikely to be a cheaper alternative funding, as expected by management.** Notwithstanding the (1) recent softening of the naira yield curve and (2) improvement in FLOURMILL's cashflow, investors are unlikely to price the proposed offering at a rate below the cost of the matured loans (between 13-15%), given (1) concerns about the frequency of the group's participation in the debt market, (2) deteriorated solvency and liquidity ratios (see charts 2 and 3 below), yet, (3) lack of either a coherent strategy or the will on the part of management to address the group's debt overhang condition. Moreso, government treasury bills maturing between 90, 182, and 270 day currently yield 18.45%, 19.75%, and 18.75% respectively.

Chart 2: Solvency Ratios

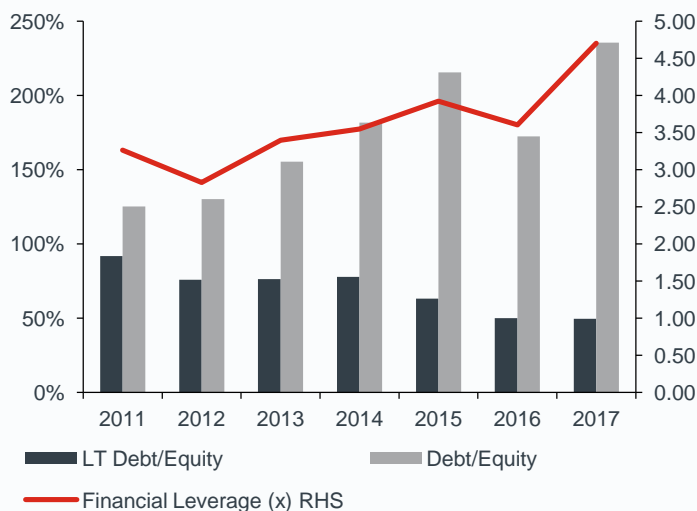
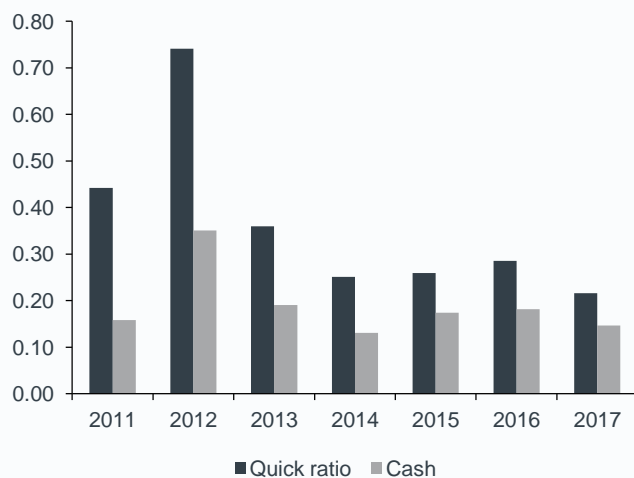


Chart 3: Liquidity Ratios (x)



Source: Company Account, Cordros Research

# Financial Statement (N'billion).

Income Statement (N'bn)						Profitability Ratios					
	2016a	2017a	2018e	2019e	2020e		2016a	2017a	2018e	2019e	2020e
Revenue	342.59	524.46	564.23	616.00	674.18	Gross profit margin	10.98%	12.72%	12.70%	12.71%	12.72%
Cost of sales	-304.96	-457.78	-492.55	-537.70	-588.43	EBITDA margin	6.93%	10.79%	9.44%	9.50%	9.79%
Gross profit	37.62	66.69	71.68	78.30	85.75	Operating profit margin	2.64%	7.90%	7.43%	7.51%	7.81%
Operating expenses	-20.85	-23.76	-28.38	-30.67	-33.23	PBT margin	3.35%	2.00%	1.98%	3.26%	4.51%
Other operating income	-7.72	-1.49	-1.40	-1.39	0.16	Net profit margin	4.21%	1.68%	1.39%	2.28%	3.16%
Operating profit	9.05	41.44	41.90	46.24	52.68	RoAE	15.74%	8.91%	7.44%	12.48%	17.05%
Investment income	1.10	1.56	1.60	1.69	1.78	RoAA	4.19%	2.13%	1.61%	2.80%	4.05%
Finance costs	-22.40	-32.53	-32.32	-27.86	-24.03						
Profit before tax	11.49	10.47	11.17	20.06	30.43	Liquidity Ratios					
Taxation	2.93	-1.64	-3.35	-6.02	-9.13	Working capital (N'bn)	-58.35	-52.61	-55.58	-60.23	-59.84
<b>Profit after tax</b>	<b>14.42</b>	<b>8.84</b>	<b>7.82</b>	<b>14.04</b>	<b>21.30</b>	Current ratio	0.68x	0.83x	0.82x	0.82x	0.83x
						Quick ratio	0.36x	0.45x	0.44x	0.44x	0.45x
						Cash ratio	0.18x	0.15x	0.15x	0.14x	0.15x
Financial Position (N'bn)						Efficiency Ratios					
	2016a	2017a	2018e	2019e	2020e		2016a	2017a	2018e	2019e	2020e
Property, plant, equipment	213.56	216.87	220.48	230.69	242.38	Fixed assets turnover	1.60x	2.42x	2.56x	2.67x	2.78x
Investments	0.05	1.93	2.98	3.12	3.29	Current assets turnover	2.75x	2.06x	2.18x	2.27x	2.36x
Deferred tax assets	0.07	1.85	1.88	1.97	2.08	Total assets turnover	0.99x	1.09x	1.15x	1.20x	1.25x
Goodwill	4.88	4.36	4.44	4.38	4.40	Inventory turnover	4.80x	5.20x	4.16x	4.41x	4.60x
Biological assets	0.35	0.03	0.03	0.04	0.05	Receivables turnover	19.95x	25.98x	26.14x	27.66x	28.87x
Other long term assets	1.75	1.70	1.74	1.82	1.92	Payables turnover	7.18x	6.31x	5.19x	5.49x	5.71x
Longterm receivables	0.00	0.99	1.00	2.00	3.00	Days inventory outstanding	76	70	88	83	79
<b>Non-current assets</b>	<b>220.66</b>	<b>227.72</b>	<b>231.55</b>	<b>242.03</b>	<b>254.12</b>	Days collection/sales outstanding	18	14	14	13	13
Inventories	58.70	117.30	119.25	124.78	131.10	Days payable outstanding	23	17	16	15	15
Biological assets	0.18	0.56	0.57	0.60	0.64	Cash conversion cycle	72	67	85	81	77
Trade and other receivables	18.97	21.40	21.76	22.78	23.94						
Amount from related coys	0.00	0.00	0.00	0.00	0.00	Investment Ratios					
Non-current asset for sale	0.00	0.00	0.00	0.00	0.00	Earnings per share (N)	5.57	3.03	2.98	5.35	8.12
Other assets	0.00	0.00	0.00	0.00	0.00	Dividend per share (N)	1.00	1.00	1.94	2.14	2.15
Deposit for FCY/imports	13.63	69.85	71.79	75.11	78.92	Payout	18%	33%	65%	40%	27%
Cash and bank balances	33.21	45.02	45.71	48.04	50.62	Dividend yield	5.17%	5.62%	6.68%	7.38%	7.42%
<b>Current assets</b>	<b>124.69</b>	<b>254.88</b>	<b>259.09</b>	<b>271.31</b>	<b>285.22</b>						
<b>Total Assets</b>	<b>345.35</b>	<b>482.60</b>	<b>490.63</b>	<b>513.33</b>	<b>539.34</b>						
Trade and other payables	50.42	94.57	95.25	100.62	105.31						
Customer deposits	11.03	15.95	50.08	85.02	113.89						
Bank OD	16.41	49.02	41.15	34.54	29.00						
Borrowings	100.83	141.70	121.86	104.80	90.13						
Unsecured fixed rate bond	0.00	0.00	0.00	0.00	0.00						
Deferred revenue	1.08	2.09	2.11	2.19	2.25						
Current tax liabilities	1.34	2.14	2.16	2.24	2.30						
Dividend payable	1.94	2.03	2.05	2.13	2.19						
<b>Current liabilities</b>	<b>183.04</b>	<b>307.50</b>	<b>314.66</b>	<b>331.53</b>	<b>345.06</b>						
Borrowings	48.01	50.88	46.27	42.07	38.26						
Unsecured fixed rate bond	0.00	0.00	0.00	0.00	0.00						
Deferred revenue	7.09	8.62	8.68	8.99	9.23						
Deferred tax liabilities	5.77	7.82	7.88	8.16	8.38						
Retirement benefit obligation	4.08	3.68	3.71	3.84	3.95						
Long service award	1.59	1.57	1.58	1.64	1.69						
<b>Non-current liabilities</b>	<b>66.54</b>	<b>72.56</b>	<b>68.12</b>	<b>64.71</b>	<b>61.50</b>						
<b>Total Liabilities</b>	<b>249.58</b>	<b>380.06</b>	<b>382.78</b>	<b>396.24</b>	<b>406.56</b>						
Equity (N'bn)											
Share capital	1.31	1.31	1.31	1.31	1.31						
Share premium	36.81	36.81	36.81	36.81	36.81						
Fixed assets revaluation	-0.09	-0.11	0.00	0.00	0.00						
Capital reserves	0.00	0.00	0.00	0.28	0.28						
Retained earnings	54.90	60.45	65.65	74.61	90.29						
Non-controlling interests	2.83	4.08	4.08	4.08	4.08						
<b>Total Equity</b>	<b>95.77</b>	<b>102.54</b>	<b>107.85</b>	<b>117.09</b>	<b>132.78</b>						

Source: Company accounts, Cordros research estimates

# Disclosures

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