

# Flour Mills of Nigeria Plc.

## First glance: Q4-18 revenue and margins lower-than-expected; earnings disappointing

**Update:** FLOURMILL released Q4-18 and 2018FY results earlier today. The 2018FY result shows revenue grew by a marginal 3.5% while net profit increased by 54.1% over 2017FY numbers. Both were behind consensus estimates by 7% and 12% respectively. For Q4-18, revenue was down 14.4% y/y and 10.8% q/q while net profit was lower by 76% y/y and 91% q/q.

**Lower-than-expected Q4-18 revenue:** Although Q4 contributes the least to FLOURMILL's top-line, we were quite surprised by the much lower outcome this year - wherein sales came short of our estimate by 7% - considering (1) the strong trajectory over 9M-18 and (2) that prices were lowered in December 2017 to support sales in 2018. We note the surprise 6% q/q decline in Food revenue (vs. our 20% growth estimate), which bucked the quarterly growth trend of the last two years. Compared to Q3-18 also, Agro-allied revenue was lower by 32%, but better than we expected, considering the company had reported negative numbers on this line in the last two years.

**Margin slides in Q4-18, after three quarters of expansion:** Q4-18 gross profit margin came in at 11.1%, about 484 bps lower q/q. The margin is the lowest in 2018FY. Management had informed us in March that it was well on course to achieve minimum 13% gross margin in 2018FY, despite the price cuts implemented late last year. The 12.67% margin achieved in 2018FY is below the 13.7% we estimated. On the COGS line, we observe a significant increase in rent/rates in Q4 compared to previous quarters.

EBIT margin in Q4-18 stood at 3.7%, significantly lower than the 10.3% average achieved as at 9M-18. Gross opex margin rose to 7.8%, from 9M-18 average of 4.1% while other gains stood at NGN436 million, 96% lower y/y and below the NGN1.8 billion average achieved over 9M-18.

**In-line finance cost:** In Q4-18, finance cost came in at NGN7.54 billion, 2% ahead of our NGN7.4 billion estimate, and lower by 49% y/y and 15% q/q. Gross outstanding loan stood at NGN153.2 billion, from NGN200.8 billion as at 9M-18. Long-term borrowing and bank overdraft facilities reduced by 53% and 42% respectively compared to previous balances. Management said during our last meeting that the proceeds of the recent rights issue would be deployed fully to debt repayment.

**Comment:** We expect negative reaction to the result on likely downward earnings revision. Apart from 2018FY net profit coming behind consensus forecast by c.12% (as stated earlier), the reported Q4-18 EPS of NGN0.27 (would have been a loss, excluding NGN3.3 billion tax credit) was also way-below the NGN1.30 expected by consensus. Our estimates are under review

INCOME STATEMENT (N'bn)	31-Mar-18	31-Mar-17	change	Q4- 18	y/y	q/q
Revenue	542.67	524.46	3%	115.16	-14%	-11%
Cost of sales	-473.90	-457.78	4%	-102.42	-16%	-6%
Gross profit	68.78	66.69	3%	12.74	-3%	-38%
S&D	-6.18	-5.34	16%	-2.14	135%	69%
Admin	-20.12	-18.42	9%	-6.80	-19%	37%
Other income/(loss)	5.94	-1.49	-499%	0.44	-96%	1%
EBIT	48.42	41.44	17%	4.23	-70%	-71%
Finance costs	-32.70	-32.53	1%	-7.54	-49%	-15%
Finance income	0.82	1.56	-48%	0.35	-58%	83%
PBT	16.54	10.47	58%	-2.96	-1754%	-149%
Taxation	-2.93	-1.64	79%	3.33	165%	-256%
Profit/ (loss) from continued op.	13.62	8.84	54%	0.37	-74%	-91%
Profit for the year/period	13.62	8.84	54%	0.34	-76.10%	-91.28%

Source: Company account, Cordros Research estimates

# HOLD

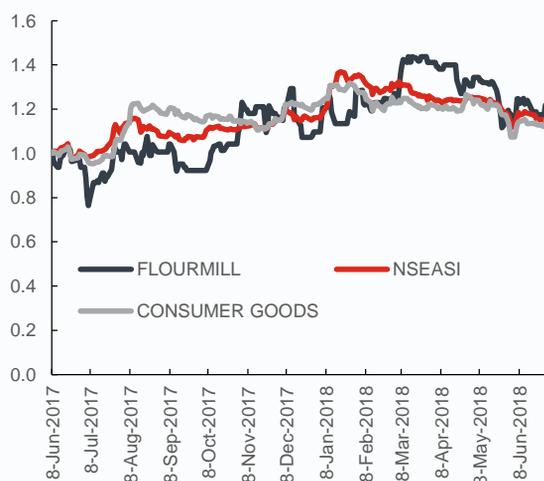
Target Price (NGN)	30.56
Current Price (NGN)	32.00
Implied Return (%)	-4.50

## Company Data

NSE Code	FLOURMILL
Bloomberg Code	FLOURMILL:NL
Reuters Code	FLOURMILL.LG
Sector	CONSUMER GOODS
Market Cap. (NGN'bn)	131.21
Free Float (%)	45.30

Ratios	Q4-18	Q4-17	2017FY
Gross margin	11.06%	12.68%	12.72%
Opex margin	7.77%	3.96%	4.53%
EBIT margin	3.67%	5.99%	7.90%
PAT margin	0.32%	0.69%	1.68%
RoAE	5.75%	20.23%	7.83%
EPS (NGN)	0.27	0.53	3.03

## Price movement (FLOURMILL vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

# Disclosures.

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