

Flour Mills of Nigeria Plc.

Revision to Estimates

We revise 2018 forecasts for FLOURMILL following H1, wherein EBITDA and net profit were impacted by strong FX-linked net operating gains and double-digit revenue growth, which more than offset both weaker y/y gross margin and higher finance costs. While we look for relatively (to H1-18) weaker earnings in H2-18, we expect they would be stronger compared to H2-17. Overall, we raise our EBITDA and net profit forecasts by 10% and 72% respectively for 2018F. Upward revision to estimates was conservative (flattish and 2% respectively) for 2019-2020F. On net, we raise our TP for the stock by 35% to NGN38.89 and maintain HOLD rating.

We increase revenue growth forecast for 2018 to 8.9% (previously 7.6%) on stronger run rate of 17% in H1. The waning impact of prices on revenue was visible in Q2 growth rate (9.8%, the slowest pace since Q4-15/16), and management said – in obvious acknowledgement of the little room for price increases – it will leverage on increased sales volumes and marketing activities to boost top-line going forward. **We retain revenue growth forecast of 9.4% for 2019-2020, on continued resilience of the Food division, and stronger growth in the Agro-Allied and Packaging divisions, amidst the gradually recovering consumer purchasing power and spending from general elections.** Downside risks to volume, however, are (1) potentially intense competition (on improving dollar liquidity and FGN supply of subsidized fertilizers) and (2) the gridlock in Apapa (which negatively affects both the movement of goods out of FLOURMILL's factory and customers' access to the factory), on the back of the ongoing repair works, and the consequent congestion of the seaport.

We revise net operating gain forecast for 2018F to NGN7.7 billion (previously –NGN1.4 billion), following the strong formation (NGN5.1 billion) over H1, on the revaluation of liabilities (via FX hedges using NDFs and forwards) and biological assets (the sugar plantation). These items are excluded from our estimates for 2019-2020.

Notwithstanding the 331 bps q/q improvement in gross margin in Q2, we revise 2018 estimate lower by 69bps to 12.01% on slower-than-expected recovery (-237 bps in H1). While noting the risk from selling prices (given outlook for competition) and input cost (wheat prices for delivery in 12 months are higher by 14% for November contracts) pressures, we also point to tailwinds from (1) stable-strengthening exchange rate and (2) better energy mix from improved gas availability

We revise 2018F finance cost forecast lower by 4%, following the reduction of borrowings to NGN188.2 billion, from end-2017FY NGN241.6 billion. The modest revision of our forecast, including for 2019-2020, notwithstanding the sizeable reduction of outstanding loans, reflects the increased average interest rate (+226 bps since March ending) on more expensive debt mix. **FLOURMILL's management recently announced plans to raise NGN70 billion via Medium Term Notes. We have not factored this into our model, as management stated at the Q2 results analysts call that the signing will be in 2018, "depending on the evolution of interest rates."**

Income Statement (NGN'bn)	Q1-18a	Q2-18a	Q3-18e	Q3-18e y/y	Q4-18e	Q4-18e y/y
Revenue	149.0	149.5	140.2	4%	132.3	-2%
Cost of sales	-131.7	-131.2	-124.5	6%	-114.9	-5%
Gross profit	17.2	18.3	15.7	-8%	17.4	32%
OPEX	-5.3	-5.8	-7.7	45%	-7.9	-15%
Other gain/(loss)	3.2	1.9	1.3	-135%	1.3	-87%
EBIT	15.1	14.4	9.3	15%	10.7	-24%
Finance income	0.0	0.2	0.2	21%	0.2	-71%
Finance cost	-8.9	-7.3	-7.4	9%	-7.4	-50%
PBT	6.2	7.3	2.1	43%	3.6	1886%
Taxation	-1.7	-2.5	-0.8	39%	-0.8	-167%
PAT	4.53	4.82	1.35	45%	2.71	89%

HOLD

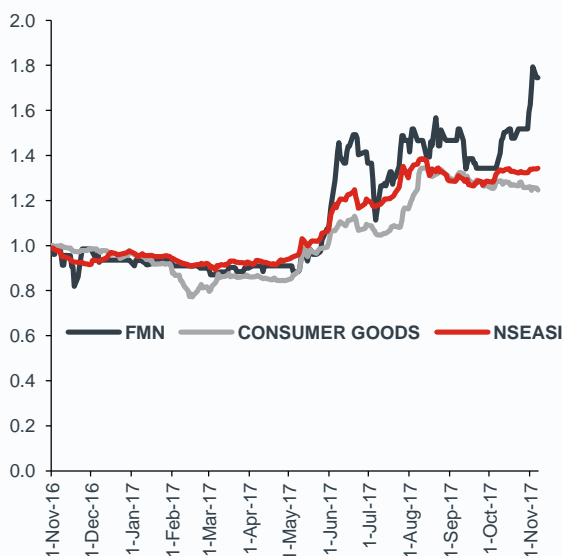
Target Price (NGN)	38.89
Current Price (NGN)	34.00
Implied Return (%)	14.40

Company Data

NSE Code	FLOURMILL
Bloomberg Code	FLOURMILL:NL
Reuters Code	FLOURMILL.LG
Sector	CONSUMER GOODS
Market Cap. (NGN'bn)	89.22
Free Float (%)	47.82

Ratios	Q2-18	Q2-17	2017FY
Gross margin	12.23%	15.54%	12.72%
Opex margin	3.89%	3.79%	4.53%
EBIT margin	9.63%	6.04%	7.90%
PAT margin	3.23%	1.51%	1.68%
RoAE	10.18	-6.31%	7.83%
EPS (NGN)	1.63	0.64	3.03

Price movement (FLOURMILL vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros research

Financial Statement (NGN'billion).

Income Statement						Profitability Ratios					
	2016a	2017a	2018e	2019e	2020e		2016a	2017a	2018e	2019e	2020e
Revenue	342.59	524.46	570.87	624.48	683.19	Gross profit margin	11.0%	12.7%	12.0%	12.0%	12.0%
Cost of sales	-304.96	-457.78	-502.29	-549.39	-600.95	EBITDA margin	6.9%	10.9%	11.4%	10.5%	10.5%
Gross profit	37.62	66.69	68.57	75.09	82.24	Operating profit margin	2.6%	7.9%	8.7%	7.8%	7.8%
Operating expenses	-20.85	-23.76	-26.76	-28.96	-31.33	PBT margin	3.4%	2.0%	3.4%	3.3%	4.5%
Other operating income	-7.72	-1.49	7.66	2.41	2.42	Net profit margin	4.2%	1.7%	2.3%	2.3%	3.1%
Operating profit	9.05	41.44	49.47	48.55	53.33	RoAE	15.7%	8.9%	12.4%	12.3%	16.5%
Investment income	1.10	1.56	0.75	0.80	0.84	RoAA	4.2%	2.1%	2.9%	3.2%	4.5%
Finance costs	-22.40	-32.53	-31.06	-28.59	-23.44						
Profit before tax	11.49	10.47	19.16	20.75	30.74	Liquidity Ratios					
Taxation	2.93	-1.64	-5.75	-6.23	-9.22	Working capital (NGN'bn)	-58.4	-52.6	-47.0	-55.4	-56.3
Profit after tax	14.42	8.84	13.41	14.53	21.51	Current ratio	0.7x	0.8x	0.8x	0.8x	0.8x
						Quick ratio	0.4x	0.4x	0.4x	0.4x	0.4x
						Cash ratio	0.2x	0.1x	0.2x	0.2x	0.2x
Financial Position						Efficiency Ratios					
	2016a	2017a	2018e	2019e	2020e		2016a	2017a	2018e	2019e	2020e
Property, plant, equipment	213.56	216.87	233.57	246.04	257.72	Fixed assets turnover	1.6x	2.4x	2.4x	2.5x	2.7x
Investments	0.05	1.93	2.08	2.19	2.30	Current assets turnover	2.7x	2.1x	2.9x	3.0x	3.2x
Deferred tax assets	0.07	1.85	1.99	2.10	2.20	Total assets turnover	1.0x	1.1x	1.3x	1.4x	1.4x
Goodwill	4.88	4.36	4.34	4.35	4.36	Inventory turnover	4.8x	5.2x	4.7x	5.5x	5.7x
Biological assets	0.35	0.03	0.05	0.05	0.05	Receivables turnover	20.0x	26.0x	26.1x	27.3x	28.4x
Other long term assets	1.75	1.70	2.82	2.97	3.11	Payables turnover	7.2x	6.3x	5.9x	7.1x	7.5x
Longterm receivables	-	0.99	1.00	2.00	3.00	Days inventory outstanding	76	70	78	67	64
Non-current assets	220.66	227.72	244.84	257.70	269.73	Days collection/sales outstanding	18	14	14	13	13
Inventories	58.70	117.30	97.62	102.84	107.72	Days payable outstanding	23	17	16	16	15
Biological assets	0.18	0.56	1.06	1.12	1.17	Cash conversion cycle	72	67	76	64	62
Trade and other receivables	18.97	21.40	22.30	23.49	24.61						
Amount from related companies	-	-	-	-	-	Investment Ratios					
Non-current asset for sale	-	-	-	-	-		2016a	2017a	2018e	2019e	2020e
Other assets	-	-	-	-	-	Earnings per share (NGN)	5.57	3.03	5.11	5.54	8.20
Deposit for FCY/imports	13.63	69.85	35.77	37.69	39.48	Dividend per share (NGN)	1.00	1.00	2.10	2.10	2.10
Cash and bank balances	33.21	45.02	37.52	39.74	41.82	Payout	17.9%	33.0%	41.1%	37.9%	25.6%
Current assets	124.69	254.88	194.28	204.88	214.80	Dividend yield	5.2%	5.6%	6.2%	6.2%	6.2%
Total Assets	345.35	482.60	439.13	462.58	484.53						
Trade and other payables	50.42	94.57	76.17	79.54	80.93						
Customer deposits	11.03	15.95	26.84	64.96	92.32						
Bank OD	16.41	49.02	40.98	35.14	30.13						
Borrowings	100.83	141.70	86.20	69.12	55.99						
Unsecured fixed rate bond	-	-	-	-	-						
Deferred revenue	1.08	2.09	1.62	1.69	1.72						
Current tax liabilities	1.34	2.14	4.08	4.26	4.33						
Dividend payable	1.94	2.03	3.86	4.03	4.10						
Current liabilities	183.04	307.50	241.26	260.33	271.15						
Borrowings	48.01	50.88	61.04	55.37	50.07						
Unsecured fixed rate bond	-	-	-	-	-						
Deferred revenue	7.09	8.62	8.98	9.37	9.54						
Deferred tax liabilities	5.77	7.82	8.55	8.93	9.08						
Retirement benefit obligation	4.08	3.68	4.11	4.29	4.36						
Long service award	1.59	1.57	1.86	1.94	1.98						
Non-current liabilities	66.54	72.56	84.53	79.90	75.03						
Total Liabilities	249.58	380.06	325.80	340.23	346.18						
Equity (NGN'bn)											
	2016a	2017a	2018e	2019e	2020e						
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	-	-	-						
Capital reserves	-	-	-0.11	-0.11	-0.11						
Retained earnings	54.90	60.45	71.24	80.26	96.26						
Non-controlling interests	2.83	4.08	4.08	4.08	4.08						
Total Equity	95.77	102.54	113.33	122.35	138.35						

Source: Company Accounts, Cordros Research

Disclosures

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