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%

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

Company Data	
NSE Code	FLOURMILL
Bloomberg Code	FLOURMILL:NL
Reuters Code	FLOURMIL.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)





Financial Statement (NGN'billion).

Income Statement 2016a 2017a 2018e 2019b 2020b Revenue 342.59 524.46 570.87 624.48 683.19 Cost of sales -30.496 -457.78 502.29 -549.39 62.44 663.19 Gross profit 37.62 66.69 68.57 75.09 82.24 2.42 2.42 2.42 2.44 2.42 2.44 2.45 77 Taxation 2.9 2.30 7.7 Taxation 2.9 2.16 2.77 Investinents 0.05 1.05 <						
Cost of sales -304.96 -457.78 -502.29 -549.39 -600.95 Gross profit 37.62 66.69 68.57 75.09 82.24 Operating expenses -20.85 -23.76 -26.67 22.90 -31.33 Other operating income -7.72 1.49 7.66 2.41 2.42 Operating profit 9.05 41.44 49.47 48.55 53.33 Investment income 11.10 1.56 0.75 0.80 0.84 Financic costs -22.40 -32.53 -31.06 -28.59 -23.44 Profit after tax 14.42 8.84 13.41 14.53 21.51 Immediate equipment 213.65 216.87 23.57 24.04 257.72 Investments 0.05 1.93 2.00 2.10 2.20 Defored tax assets 0.07 1.70 2.82 2.97 3.11 Long term assets 1.75 1.70 2.82 2.97 3.11 Defored ta	Income Statement	2016a	2017a	2018e	2019e	2020e
Gross profit 37.62 66.69 68.57 75.09 82.24 Operating expenses -20.85 -23.76 -26.76 -28.96 -31.33 Other operating income -7.72 1.49 7.66 2.41 2.44 2.42 Operating profit 9.05 41.44 49.47 48.55 53.33 Investment income 1.10 1.56 0.75 0.80 0.84 Profit obsore tax 11.49 10.47 19.16 20.75 30.74 Taxation 2.93 1.64 -5.75 6.23 9.22 Profit after tax 14.42 8.84 13.41 14.53 21.9 2.30 Investments 0.05 1.93 2.08 2.19 2.30 Deferred tax assets 0.07 1.85 1.99 2.10 2.20 Goodwill 4.36 4.36 4.36 4.36 4.36 4.36 1.36 0.85 0.05 0.05 0.05 0.05 0.05 0.05 0.05 0.05 </td <td>Revenue</td> <td>342.59</td> <td>524.46</td> <td>570.87</td> <td>624.48</td> <td>683.19</td>	Revenue	342.59	524.46	570.87	624.48	683.19
Operating expenses -20.85 -23.76 -26.76 -28.96 -31.33 Other operating income -7.72 -1.49 7.66 2.41 2.42 Operating profit 9.05 41.44 49.47 45.55 53.33 Investment income 1.10 1.56 0.75 0.80 0.84 Finance costs -22.40 -32.53 -31.06 -26.59 -23.44 Profit after tax 14.42 8.84 13.41 14.52 21.51 Profit after tax 14.42 20.186 2019 20.00c Property, plant, equipment 213.56 216.87 233.57 246.04 257.72 Investments 0.05 1.93 2.08 2.19 2.30 Deferred tax assets 0.07 1.85 1.99 2.10 2.20 Godwill 4.88 4.36 4.34 4.35 4.36 Biological assets 0.35 0.05 0.05 0.05 Other cong term assets 1.75 <t< td=""><td>Cost of sales</td><td>-304.96</td><td>-457.78</td><td>-502.29</td><td>-549.39</td><td>-600.95</td></t<>	Cost of sales	-304.96	-457.78	-502.29	-549.39	-600.95
Other operating income -7.72 -1.49 7.66 2.41 2.42 Operating profit 9.05 41.44 49.47 48.55 53.33 Investment income 1.10 1.56 0.75 0.80 0.84 Finance costs -22.40 -32.53 -31.06 -28.59 -32.44 Profit before tax 11.49 10.47 19.16 2019e 2019e 2019e 2019e 2020c Profit after tax 14.42 8.84 13.41 14.53 21.51 Investments 0.05 1.93 2.08 2.19 2.30 Deferred tax assets 0.07 1.85 1.99 2.10 2.20 Goodwill 4.88 4.36 4.34 4.35 4.36 Biological assets 0.35 0.03 0.05 0.05 0.05 Other long term assets 1.75 1.70 2.82 2.97 3.11 Longterm receivables 1.75 1.70 2.84 107.22 100 <td>Gross profit</td> <td>37.62</td> <td>66.69</td> <td>68.57</td> <td>75.09</td> <td>82.24</td>	Gross profit	37.62	66.69	68.57	75.09	82.24
Operating profit 9.05 41.44 49.47 48.55 53.33 Investment income 1.10 1.56 0.75 0.80 0.84 Finance costs -22.40 -32.53 -31.06 -28.59 -23.44 Profit offore tax 11.49 10.47 19.16 20.75 0.80 9.22 Profit after tax 14.42 8.84 13.41 14.53 21.51 Profit after tax 0.05 1.93 2.08 2.19 2.00 Property, plant, equipment 213.56 216.87 233.57 246.04 257.72 Investments 0.05 1.93 2.08 2.19 2.00 Deferred tax assets 0.07 1.85 0.30 0.05 0.05 Other long term assets 1.75 1.70 2.82 2.97 3.11 Longterm receivables - 0.99 1.00 2.00 3.00 Non-current assets 22.06 22.77 244.84 27.72 24.84	Operating expenses	-20.85	-23.76	-26.76	-28.96	-31.33
Investment income 1.10 1.56 0.75 0.80 0.84 Finance costs -22.40 -32.53 -31.06 -28.59 -32.344 Profit before tax 11.49 10.47 19.16 20.75 30.74 Taxation 2.93 -1.64 -5.75 6.23 9.22 Profit after tax 14.42 8.84 13.41 14.53 21.51 Financial Position 2016a 2017a 2018e 2019e 2020c Property, plant, equipment 213.56 216.87 233.57 246.04 257.72 Investments 0.05 1.93 2.08 2.19 2.30 Deferred tax assets 0.37 0.05 0.05 0.05 0.05 Other long term assets 1.75 1.70 2.82 2.97 3.11 Longterm receivables 1.87 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - <t< td=""><td>Other operating income</td><td>-7.72</td><td>-1.49</td><td>7.66</td><td>2.41</td><td>2.42</td></t<>	Other operating income	-7.72	-1.49	7.66	2.41	2.42
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 Taxation 2.93 -1.64 5.75 6.23 9.22 Profit after tax 14.42 8.84 13.41 14.53 21.51 Financial Position 2016a 2017a 2018e 2019e 2020e Property, plant, equipment 213.56 216.87 233.57 246.04 23.57 Investments 0.05 1.99 2.10 2.20 GodWill 4.88 4.36 4.34 4.35 1.30 2.06 2.07 3.01 2.00 3.00 0.05	Operating profit	9.05	41.44	49.47	48.55	53.33
Profit before tax 11.49 10.47 19.16 20.75 30.74 Taxation 2.93 1.64 5.75 6.23 9.22 Profit after tax 14.42 8.84 13.41 14.53 21.51 Financial Position 2016a 2017a 2018b 2019b 2020e Property, plant, equipment 213.56 216.87 233.57 246.04 257.72 Investments 0.05 1.93 2.08 2.19 2.30 Deferred tax assets 0.07 1.85 1.99 2.10 2.20 Goodwill 4.88 4.36 4.34 4.35 4.36 Biological assets 0.35 0.03 0.05 0.05 0.05 Other long term assets 1.75 17.0 2.82 29.7 3.11 Inventories 58.70 117.30 97.62 102.84 107.72 Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other reseivables	Investment income	1.10	1.56	0.75	0.80	0.84
Taxation 2.93 -1.64 -5.75 -6.23 -9.22 Profit after tax 14.42 8.84 13.41 14.53 21.51 Einacial Position 2016a 2017a 2018e 2019e 2020e Property, plant, equipment 213.56 216.87 23.357 246.04 25.772 Investments 0.05 1.93 2.08 2.19 2.30 Deferred tax assets 0.07 1.85 1.99 2.10 2.20 Goodwill 4.88 4.36 4.34 4.35 4.36 Biological assets 0.55 0.03 0.05 0.05 0.05 Other long term assets 1.75 1.70 2.82 2.97 3.11 Longterm receivables 1.87 21.40 22.30 23.44 10.72 Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other receivables 18.87 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - <	Finance costs	-22.40	-32.53	-31.06	-28.59	-23.44
Profit after tax 14.42 8.84 13.41 14.53 21.51 Financial Position 2016a 2017a 2018e 2019e 2020e Property, plant, equipment 213.66 216.87 233.57 246.04 257.72 Investments 0.05 1.93 2.08 2.10 2.20 GodWill 4.88 4.36 4.34 4.35 4.36 Biological assets 0.35 0.03 0.05 0.05 0.05 Other long term assets 1.75 1.70 2.82 2.97 3.11 Longterm receivables - 0.99 1.00 2.00 3.00 Non-current assets 2.206 227.72 244.84 257.70 269.73 Inventories 58.70 117.30 97.62 102.84 107.72 Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other recivables 18.97 21.40 22.30 23.49 24.61 Amount from	Profit before tax	11.49	10.47	19.16	20.75	30.74
Financial Position 2016a 2017a 2018c 2020c Property, plant, equipment 213.56 216.87 233.57 246.04 257.72 Investments 0.05 1.93 2.08 2.19 2.30 Deferred tax assets 0.07 1.85 1.99 2.10 2.20 Goodwill 4.88 4.34 4.35 4.36 Biological assets 0.35 0.03 0.05 0.05 0.05 Other Iong term assets 1.75 1.70 2.82 2.97 3.11 Longterm receivables - 0.99 1.00 2.00 3.00 Non-current assets 0.18 0.56 1.06 1.12 1.17 Trade and other receivables 18.97 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - - - - - - - - - - - - - -	Taxation	2.93	-1.64	-5.75	-6.23	-9.22
Property, plant, equipment 213.56 216.87 233.57 246.04 257.72 Investments 0.05 1.93 2.08 2.19 2.30 Deferred tax assets 0.07 1.85 1.99 2.10 2.20 Goodwill 4.88 4.36 4.34 4.35 4.36 Biological assets 0.35 0.03 0.05 0.05 0.05 Other long term assets 1.77 1.72 2.22 2.97 3.11 Longterm receivables - 0.99 1.00 2.00 3.00 Non-current assets 5.87.01 117.30 97.62 102.84 107.72 Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other receivables 18.97 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - - - - - - - - - - -	Profit after tax	14.42	8.84	13.41	14.53	21.51
Property, plant, equipment 213.56 216.87 233.57 246.04 257.72 Investments 0.05 1.93 2.08 2.19 2.30 Deferred tax assets 0.07 1.85 1.99 2.10 2.20 Goodwill 4.88 4.36 4.34 4.35 4.36 Biological assets 0.35 0.03 0.05 0.05 0.05 Other long term assets 1.77 1.72 2.22 2.97 3.11 Longterm receivables - 0.99 1.00 2.00 3.00 Non-current assets 5.87.01 117.30 97.62 102.84 107.72 Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other receivables 18.97 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - - - - - - - - - - -		0040-	0047-	0040-	0040-	0000-
Investments 0.05 1.93 2.08 2.19 2.30 Deferred tax assets 0.07 1.85 1.99 2.10 2.20 Goodwill 4.88 4.36 4.34 4.35 4.36 Biological assets 0.35 0.03 0.05 0.05 0.05 Other long term assets 1.75 1.70 2.82 2.97 3.11 Longterm receivables - 0.99 1.00 2.00 3.00 Non-current assets 220.66 227.72 244.84 257.70 269.73 Inventories 58.70 117.30 97.62 102.84 107.72 Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other receivables 18.97 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - Other assets 13.63 69.85 35.77 37.69 39.48 Cash and bank balan						
Deferred tax assets 0.07 1.85 1.99 2.10 2.20 Goodwill 4.88 4.36 4.34 4.35 4.35 Biological assets 0.35 0.03 0.05 0.05 0.05 Other long term assets 1.75 1.70 2.82 2.97 3.11 Longterm receivables - 0.99 1.00 2.00 3.00 Non-current assets 220.66 227.72 244.84 257.70 269.73 Inventories 58.70 117.30 97.62 102.84 107.72 Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other receivables 18.97 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - Other assets 13.63 69.85 35.77 37.59 39.48 Cash and bark balances 33.21 45.02 37.52 39.74 41.82 Cur						
Goodwill 4.88 4.36 4.34 4.35 4.36 Biological assets 0.35 0.03 0.05 0.05 Other long term assets 1.75 1.70 2.82 2.97 3.11 Longterm receivables - 0.99 1.00 2.00 3.00 Non-current assets 220.66 227.72 244.84 257.70 269.73 Inventories 58.70 117.30 97.62 102.84 107.72 Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other receivables 18.97 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - Other assets 13.63 69.85 35.77 37.69 39.48 Cash and bank balances 33.21 45.28 444.82 204.88 214.80 Trade and other payables 50.42 94.57 76.17 76.17 55.48 80.93 Custemer deposits						
Biological assets 0.35 0.03 0.05 0.05 Other long term assets 1.75 1.70 2.82 2.97 3.11 Longterm receivables - 0.99 1.00 2.00 3.00 Non-current assets 220.66 227.72 244.84 257.70 269.73 Inventories 58.70 117.30 97.62 102.84 107.72 Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other receivables 18.97 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - Other assets -						
Other long term assets 1.75 1.70 2.82 2.97 3.11 Longterm receivables - 0.99 1.00 2.00 3.00 Non-current assets 220.66 227.72 244.84 257.70 269.73 Inventories 58.70 117.30 97.62 102.84 107.72 Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other receivables 18.97 21.40 22.30 23.49 24.61 Amount from related companies -						
Longtern receivables - 0.99 1.00 2.00 3.00 Non-current assets 220.66 227.72 244.84 257.70 269.73 Inventories 58.70 117.30 97.62 102.84 107.72 Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other receivables 18.97 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - Non-current asset for sale -						
Non-current assets 220.66 227.72 244.84 257.70 269.73 Inventories 58.70 117.30 97.62 102.84 107.72 Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other receivables 18.97 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - Other assets - - - - - - - Deposit for FCY/imports 13.63 69.85 35.77 37.69 39.48 Carrent assets 124.69 254.88 194.28 204.88 214.80 Total Assets 345.35 482.60 439.13 462.58 484.53 Total Assets 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 </td <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>						
Inventories 58.70 117.30 97.62 102.84 107.72 Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other receivables 18.97 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - Non-current asset for sale - <t< td=""><td></td><td></td><td></td><td></td><td></td><td></td></t<>						
Biological assets 0.18 0.56 1.06 1.12 1.17 Trade and other receivables 18.97 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - Non-current asset for sale - - - - - - Other assets 13.63 69.85 35.77 37.69 39.48 Cash and bank balances 33.21 45.02 37.52 39.74 41.82 Current assets 124.69 254.88 194.28 204.88 214.80 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 Dorrowings 100.83 141.70 86.20 69.12 55.99 Unsecured fixed rate bond - - - - - -						
Trade and other receivables 18.97 21.40 22.30 23.49 24.61 Amount from related companies - - - - - - Non-current asset for sale - - - - - - - Deposit for FCY/imports 13.63 69.85 35.77 37.69 39.48 Cash and bank balances 33.21 45.02 37.52 39.74 41.82 Current assets 124.69 254.88 194.28 204.88 214.80 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 - - - - - Current tax liabilities 1.34 2.14 4.08 <						
Amount from related companies - - - - Non-current assets for sale - - - - Other assets - - - - Deposit for FCY/imports 13.63 69.85 35.77 37.69 39.48 Cash and bank balances 33.21 45.02 37.52 39.74 41.82 Current assets 124.69 254.88 194.28 204.88 214.80 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 - - - - - Current tax liabilities 1.34 2.14 4.08 4.26 4.33 Dividend payable 1.94 2.03 3.						
Non-current asset for sale - - - - Other assets - - - - - - Deposit for FCY/imports 13.63 69.85 35.77 37.69 39.48 Cash and bank balances 33.21 45.02 37.52 39.74 41.82 Current assets 124.69 254.88 194.28 204.88 214.80 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 91.62 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 tax liabilities 1.80.4 307.50 241.26 260.33 271.15 <td< td=""><td></td><td>10.97</td><td>21.40</td><td>22.30</td><td>23.49</td><td>24.01</td></td<>		10.97	21.40	22.30	23.49	24.01
Other assets - <t< td=""><td></td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></t<>		-	-	-	-	-
Deposit for FCY/imports 13.63 69.85 35.77 37.69 39.48 Cash and bank balances 33.21 45.02 37.52 39.74 41.82 Current assets 124.69 254.88 194.28 204.88 214.80 Total Assets 345.35 482.60 439.13 462.58 484.53 Tade 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 - - - - - 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 tax liabilities 5.77 7.82 8.55 8.93 9.08 Borrowi		-	-			
Cash and bank balances 33.21 45.02 37.52 39.74 41.82 Current assets 124.69 254.88 194.28 204.88 214.80 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 tax liabilities 5.77 7.82 8.53 9.07 Deferred revenue 7.09 8.62 8.98 9.37 9.54 Deferred tax liabilities 5.77 7		12.62	60.85		27 60	20.49
Current assets 124.69 254.88 194.28 204.88 214.80 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 tav liabilities						
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 1.83.04 307.50 241.26 260.33 271.15 Borrowings 48.01 5.88 61.04 55.37 50.07 Unsecured fixed rate bond - - - - - -						
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 - - - - - - - - - - - - - - - - - <t< td=""><td></td><td></td><td></td><td></td><td></td><td></td></t<>						
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 30.75.0 241.26 260.33 271.15 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						
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 </td <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>						
Borrowings 100.83 141.70 86.20 69.12 55.99 Unsecured fixed rate bond -						
Unsecured fixed rate bond - <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>						
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 tax 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 249.58 380.06 325.80 340.23 346.18 Equity (NGN'bn) - - - - - - - S			-		-	-
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 249.58 380.06 325.80 340.23 346.18 Equity (NGN'bn) - - - - - - - Share capital 1.31 1.31 1.31 1.31 36.81 36.81		1.08	2 09	1 62	1 69	1 72
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 revenue 7.09 8.62 8.98 9.37 9.54 Deferred revenue 7.09 8.62 8.98 9.37 9.54 Long service award 1.59 1.57 7.86 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) Stare capital 1.31 1.31 1.31 1.31 3.681 36.81 36.81 36.81 36.81 36.81 36.81 36.81 36.81 36.						
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) - - - - - - Share capital 1.31 1.31 1.31 1.31 1.31 1.31 1.31 Fixed assets revaluation -0.09 -0.11 - -						
Borrowings 48.01 50.88 61.04 55.37 50.07 Unsecured fixed rate bond -						
Unsecured fixed rate bond - <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>						
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 249.58 380.06 325.80 340.23 346.18 Equity (NGN'bn) E E E E E E E Share capital 1.31 1.31 1.31 1.31 1.31 36.81	0	-	-	-	-	-
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) Stare capital 1.31 1.31 1.31 1.31 36.81 <t< td=""><td></td><td>7.09</td><td>8.62</td><td>8.98</td><td>9.37</td><td>9.54</td></t<>		7.09	8.62	8.98	9.37	9.54
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 249.58 380.66 325.80 340.23 346.18 Equity (NGN'bn) Stare capital 1.31 1.31 1.31 1.31 1.31 3.6.81 36.81 <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>						
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) 5hare capital 1.31 1.31 1.31 1.31 36.81						
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) 5						
Total Liabilities 249.58 380.06 325.80 340.23 346.18 Equity (NGN'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 36.81 Fixed assets revaluation -0.09 -0.11 - - - Capital reserves - -0.11 -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						
Share capital 1.31 1.31 1.31 1.31 1.31 Share premium 36.81 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 -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						
Share premium 36.81 36.81 36.81 36.81 36.81 36.81 Fixed assets revaluation -0.09 -0.11 - <td< td=""><td></td><td></td><td></td><td></td><td></td><td></td></td<>						
Fixed assets revaluation -0.09 -0.11 - - - Capital reserves - -0.11 -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						
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	•			36.81	36.81	36.81
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		-0.09	-0.11	-	-	-
Non-controlling interests 2.83 4.08 4.08 4.08						
Total Equity 95.77 102.54 113.33 122.35 138.35						
	Total Equity	95.77	102.54	113.33	122.35	138.35

Source: Company Accounts, Cordros Research

Profitability Ratios	2016a	2017a	2018e	2019e	2020e
Gross profit margin	11.0%	12.7%	12.0%	12.0%	12.0%
EBITDA margin	6.9%	10.9%	11.4%	10.5%	10.5%
Operating profit margin	2.6%	7.9%	8.7%	7.8%	7.8%
PBT margin	3.4%	2.0%	3.4%	3.3%	4.5%
Net profit margin	4.2%	1.7%	2.3%	2.3%	3.1%
RoAE	15.7%	8.9%	12.4%	12.3%	16.5%
RoAA	4.2%	2.1%	2.9%	3.2%	4.5%
Liquidity Ratios	2016a	2017a	2018e	2019e	2020e
Working capital (NGN'bn)	-58.4	-52.6	-47.0	-55.4	-56.3
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
Efficiency Ratios	2016a	2017a	2018e	2019e	2020e
Fixed assets turnover	1.6x	2.4x	2.4x	2.5x	2.7x
Current assets turnover	2.7x	2.1x	2.9x	3.0x	3.2x
Total assets turnover	1.0x	1.1x	1.3x	1.4x	1.4x
Inventory turnover	4.8x	5.2x	4.7x	5.5x	5.7x
Receivables turnover	20.0x	26.0x	26.1x	27.3x	28.4x
Payables turnover	7.2x	6.3x	5.9x	7.1x	7.5x
Days inventory outstanding	76	70	78	67	64
Days collection/sales outstanding	18	14	14	13	13
Days payable outstanding	23	17	16	16	15
Cash conversion cycle	72	67	76	64	62
Investment Ratios	2016a	2017a	2018e	2019e	2020e
Earnings per share (NGN)	5.57	3.03	5.11	5.54	8.20
Dividend per share (NGN)	1.00	1.00	2.10	2.10	2.10
Payout	17.9%	33.0%	41.1%	37.9%	25.6%
Dividend yield	5.2%	5.6%	6.2%	6.2%	6.2%



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.

