



## Flour Mills of Nigeria Plc

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Temporary Challenges Depress Earnings

22 November 2018

## Executive Summary

- The financial performance of Flour Mills of Nigeria Plc (FMN) suffered from the temporary tough operating environment in HY1 2018
- The gridlock in the Apapa area of Lagos, where the company has its main business operations, increased the cost of running the business and increased delivery time. FSDH Research expects the traffic to ease when the current road construction in the area is completed
- The weak purchasing power and the weak economic performance in the country also had negative impacts on the operations of the company
- FMN invested in high profit margin businesses in the last few years. FSDH Research expects these businesses to contribute to the financial performance of the company in the next five years
- The company reduced the selling price on some of its products in response to the drop in some major input costs and to enable it gain more market share
- The restructuring of debts through the proceeds from the Rights Issue has reduced the finance costs. The company will have full benefits of this going forward.
- FMN has been able to align itself with the agriculture agenda of the Federal Government of Nigeria, which enables it to consolidate its position in the food product and ancillary businesses
- The company has also entered into a strategic partnership with Corteva Agriscience, agriculture division of DowDuPont in order to improve farm yields
- We estimate a dividend per share of N1.04 for the FY 2019
- **Our fair value of the shares of FMN is N49.90**
- **Our target price is N32.00**

Table 1:

|               |          |
|---------------|----------|
| Rating        | BUY      |
| Current Price | N18.00   |
| Fair Value    | N49.90   |
| Price Target  | N32.00   |
| Horizon       | One Year |

*The turnover in HY1 2018 decreased by 9.62% to N269.74bn.*

*The company recorded a net finance charge of N10.94bn in HY1 2018, a decrease of 31.60% from N15.99bn in HY1 2017.*

## 1.0 Results Analysis

### 1.1 HY1 2018 Performance Analysis:

The financial performance of Flour Mills of Nigeria Plc (FMN) suffered from the temporary tough operating environment in HY1 2018. The gridlock in the Apapa area of Lagos, where the company has its main business operations has increased the cost of running the business and increased delivery time. The weak purchasing power and the weak economic performance in Nigeria have had negative impacts on the operations of the company. The company reduced the selling price on some of its products in response to the drop in some major input costs and to enable it gain more market share. The restructuring of debts through the proceeds from the Rights Issue reduced the finance costs.

The unaudited HY1 2018 result for the period ended September 2018, shows that Turnover (T/O) decreased by 9.62% to N269.74bn, compared with N298.44bn in HY1 2017. The drop in revenue was as a result of the company's strategy to focus on market leadership. This means an increase in volume of sales in some product categories at lower selling prices in response to lower input cost. Thus, customers received more value for their money. Our analysis of the company's revenue by business segment shows that food accounted for 64% of the company's total revenue as shown in table 4 below. The company's cost of sales (COS) decreased by 9.63% to N237.62bn from N262.93bn in HY1 2017. Despite the decline in COS, gross profit decreased by 9.56% to N32.12bn in HY1 2018 from N35.51bn in HY1 2017. Its COS as a percentage of T/O remained flat at 88.09% in HY1 2018 from 88.10% in HY1 2017. Flour Mill's administrative, selling and distribution expenses increased by 25.71% to N13.98bn. The company said it was mostly as a result of increased marketing activities geared to boost the top line. FSDH Research believes the difficulties in moving goods around the country especially in Apapa because of the bad transportation system contributed to this. However, reconstruction work is going on to ease traffic in the area. These expenses as a percentage of T/O increased to 5.18% in HY1 2018 from 3.73% in HY1 2017. **The company's Earnings Before Interest and Tax (EBIT) decreased by 34.71% to N19.24bn from N29.47bn in HY1 2017.**

The company recorded a net finance charge of N10.94bn in HY1 2018, a decrease of 31.60% from N15.99bn in HY1 2017. This was a reflection of debt refinancing through the Rights Issue as well as a drop in interest rate in the market. The Profit Before Tax (PBT) fell by 38.40% to N8.30bn in HY1 2018 from N13.48bn recorded in HY1 2017.

*The PAT margin decreased to 1.88% in HY1 2018, down from 3.13%.*

The company's tax provision also decreased by 21.57% to N3.23bn in HY1 2018 from N4.12bn in HY1 2017. The Profit After Tax (PAT) was N5.07bn in HY1 2018, from N9.36bn in HY1 2017, representing a decrease of 45.81%.

The GP margin increased marginally to 11.91% in HY1 2018 from 11.90% in HY1 2017, while the EBIT Margin decreased to 7.11% from 9.88%. Similarly, the PBT margin decreased to 3.08% from 4.52% while the PAT margin decreased to 1.88% in HY1 2018, down from 3.13%.

**Table 2: Quarterly Result Highlights (N'bn)**

|          | Q2 2018 | Q1 2018 | Q4 2017 | Q3 2017 | Q2 2017 |
|----------|---------|---------|---------|---------|---------|
| Turnover | 136.71  | 133.03  | 115.16  | 129.07  | 149.47  |
| PBT      | 3.09    | 5.21    | (2.96)  | 6.03    | 7.28    |
| PAT      | 1.42    | 3.65    | 0.37    | 3.89    | 4.82    |

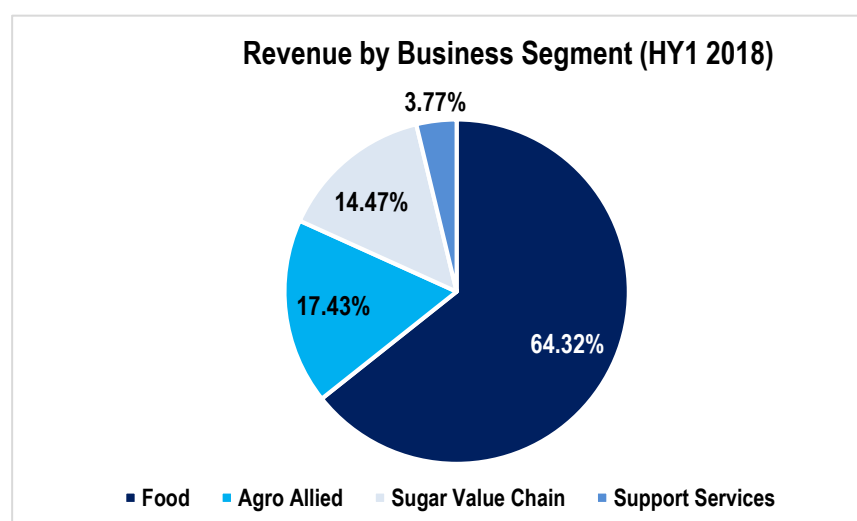
*Source: Company Unaudited Financial Statements*

*The food segment continues to be the biggest contributor to FMN revenue and profitability.*

**Table 3: Financial Performance (N'bn)**

|             | HY1 2018 | HY1 2017 | %Δ       |
|-------------|----------|----------|----------|
| T/O         | 269.74   | 298.44   | (9.62%)  |
| GP          | 32.12    | 35.51    | (9.63%)  |
| EBIT        | 19.24    | 29.47    | (34.71%) |
| PBT         | 8.30     | 13.48    | (38.40%) |
| PAT         | 5.07     | 9.36     | (45.81%) |
| GP* Margin  | 11.91%   | 11.90%   | 0.01%    |
| EBIT Margin | 7.13%    | 9.88%    | (2.74%)  |
| PBT Margin  | 3.08%    | 4.52%    | 1.44%    |
| PAT Margin  | 1.88%    | 3.13%    | 1.26%    |

*Sources: Company Annual Account and FSDH Research Analysis \*GP-Gross Profit.*

**Table 4: Revenue Analysis By Business Segment (N'bn)**

| Segment           | HY1 2018      | Contribution HY1 2018 | HY1 2017       | Contribution HY1 2017 | Change (YoY)   |
|-------------------|---------------|-----------------------|----------------|-----------------------|----------------|
| Food              | 173.50        | 64.32%                | 186.76         | 62.57%                | (7.10%)        |
| Agro Allied       | 47.02         | 17.43%                | 54.72          | 18.33%                | (14.08%)       |
| Sugar Value Chain | 39.04         | 14.47%                | 46.45          | 15.56%                | (15.95%)       |
| Support Services  | 10.18         | 3.77%                 | 10.55          | 3.54%                 | (3.57%)        |
| <b>Total</b>      | <b>269.74</b> | <b>100.00%</b>        | <b>181.911</b> | <b>100.00%</b>        | <b>(9.63%)</b> |

Sources: Company Account and FSDH Research Analysis

**Table 5: Gross Profit Analysis By Business Segment (N'bn)**

| Segment           | HY1 2018    | Contribution HY1 2018 | HY1 2017     | Contribution HY1 2017 | Change (YoY)    |
|-------------------|-------------|-----------------------|--------------|-----------------------|-----------------|
| Food              | 8.78        | 105.72%               | 10.13        | 75.13%                | (13.32%)        |
| Agro Allied       | (2.88)      | (34.75%)              | (2.54)       | (18.86%)              | 13.50%          |
| Sugar Value Chain | 2.38        | 28.69%                | 3.17         | 23.51%                | (24.83%)        |
| Support Services  | 0.03        | 0.34%                 | 2.73         | 20.22%                | (98.97%)        |
| <b>Total</b>      | <b>8.30</b> | <b>100.00%</b>        | <b>13.48</b> | <b>100.00%</b>        | <b>(38.40%)</b> |

Sources: Company Account and FSDH Research Analysis \*Gross Profit

*The company took advantage of the Real Sector Support Facility (RSSF) during the period.*

A cursory look at the balance sheet position as at HY1 2018 compared with FY March 2018 shows an improvement in the company's cash position. The company took advantage of the Real Sector Support Facility (RSSF) during the period. This is a strategic move to access low cost long-term funding available in the market to support large corporates that are in critical segments of the economy. The total fixed assets decreased by 0.26% to N217.33bn in HY1 2018 from N217.90bn in FY 2018. Inventory also decreased by 4.90% to N105.91bn in HY1 2018,

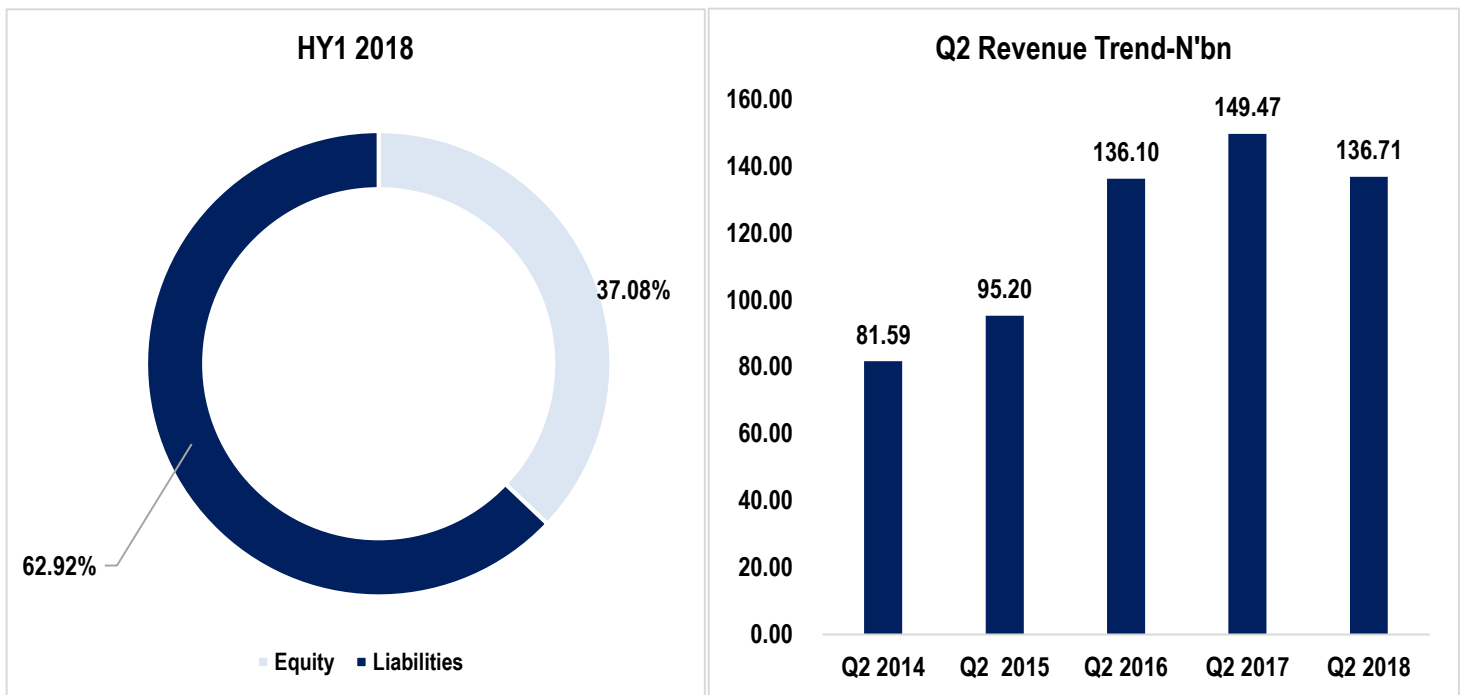
from N111.37bn in FY 2018. The cash and bank balances increased by 20.09% from N22.25bn in FY 2018 to N26.71bn in HY1 2018. Trade debtors increased in HY1 2018 by 20.70% to N15.94bn, from N13.21bn in FY 2018. The company's trade creditors increased by 6.68% in HY1 2018 to N49.70bn from N46.59bn as at FY 2018.

*The ratio of the cash profit to turnover decreased to 10.66% in HY1 2018 from 12.56% in FY 2018.*

**Flour Mill's working capital stood at a negative N5.67bn in HY1 2018 from a negative N25.54mn in FY 2018.** The company's net assets for the period increased marginally by 0.63% to stand at N151.57bn in HY1 2018, from N150.62bn as at FY 2018. The total assets of the company which stood at N408.71bn as at HY1 2018 were financed by a mix of equities and liabilities in the ratio of 37.08% and 62.92% respectively.

Our analysis of the liabilities shows that the short-term liabilities stood at N180.48bn, accounting for 70.19% of the total liabilities. The short-term liabilities constituted mainly of borrowings and trade and other payables, which accounted for 53% and 38% respectively of the total short-term liabilities. Borrowings decreased by 8.42% to stand at N95.17bn in HY1 2018. The company's long-term liabilities stood at N76.67bn accounting for 29.81% of the total liabilities. Long-term liabilities constituted mainly of long-term borrowings, which stood at N45.26bn representing 59% of total long-term liabilities and a 54.08% increase from FY 2018.

**Our analysis of the cash flow statement in HY1 2018 shows that FMN generated a net increase in cash and cash equivalents of N25.36bn from a negative cash flow of N66bn in the same period in 2017.** Although the company recorded an improvement in the net cash flow, its net cash generated from operating activities dropped significantly to N39.75bn from N69.75bn in 2017. The cash used up in financing activities dropped from N65.60bn in 2017 to N 8.19bn in 2018. The cash profit from core activities generated during the period stood at N28.76bn but was lower than the cash profit generated in FY 2018 at N37.49bn. The ratio of the cash profit to turnover decreased to 10.66% in HY1 2018 from 12.56% in FY 2018.



## 1.2 FY 2018 Performance Analysis:

*FMN recorded strong profitability in FY March 2018 despite the marginal growth in turnover. The*

**FMN reported strong profitability in FY March 2018 despite the marginal growth in turnover. The relatively stability in the foreign exchange (FX) market and availability of FX boosted the company's operations.** The audited FY 2018 result shows that its T/O increased marginally by 3.47% to N542.67bn, compared with N524.46bn recorded in the corresponding period of 2017. The cost of sales also increased by 3.52% to N473.90bn from N457.78bn recorded in FY 2017. This led to an increase in the cost of sales as a percentage of turnover to 87.33% in FY 2018 from 87.28% as at FY 2017. The company's administrative, selling and distribution expenses increased by 22.98% to N26.30bn in FY 2018, from N21.38bn in FY 2017. These expenses as a percentage of turnover increased to 4.85% in FY 2018 from 4.08% in FY 2017. The company's operating profit (EBIT) increased by 16.85% from N41.44bn in FY 2017 to N48.42bn in FY 2018. **The improvement in EBIT was as a result of the N5.94bn recorded for Other Operating Income in FY 2018.**

*The improvement in EBIT was as a result of the N5.94bn recorded for Other Operating Income in FY 2018.*

The company's investment income stood at N816.32mn as at FY 2018, representing a decrease of 47.75%, compared with N1.56bn recorded in the corresponding period of 2017. **The company recorded a marginal increase of 0.52% in its finance cost to N32.70bn in FY 2018 from N32.53bn in FY 2017.**

The PBT stood at N16.54bn in FY 2018, an increase of 57.95% from N10.47bn recorded in the corresponding period of 2017. The tax provision of N2.93bn was provided in FY 2018, an increase of 78.81% from N1.64bn in 2017. Consequently, the company's PAT stood at N13.62bn in FY 2018 from N8.84bn in the corresponding period of 2017, representing an increase of 54.09%. **The net operating gains boosted the company's profitability in FY 2018. The company recorded net operating gains of N5.94bn in FY 2018, compared with net operating losses of N1.49bn in FY 2017. Government grants and gains on foreign exchange differences were the major contributors to the net operating gains recorded in FY 2018.**



*Profit margins improved in 2018 compared with 2017.*

**Gross profit margin declined marginally from 12.72% in 2018 to 12.67% in 2018. However, the company's EBIT margin increased from 7.90% in FY 2017 to 8.92% in FY 2018.** The PBT margin also increased to 3.05% in FY 2018 from 2% as at FY 2017. Similarly, the company's PAT margin increased to 2.51% in FY 2018 from 1.68% in the corresponding period of 2017.

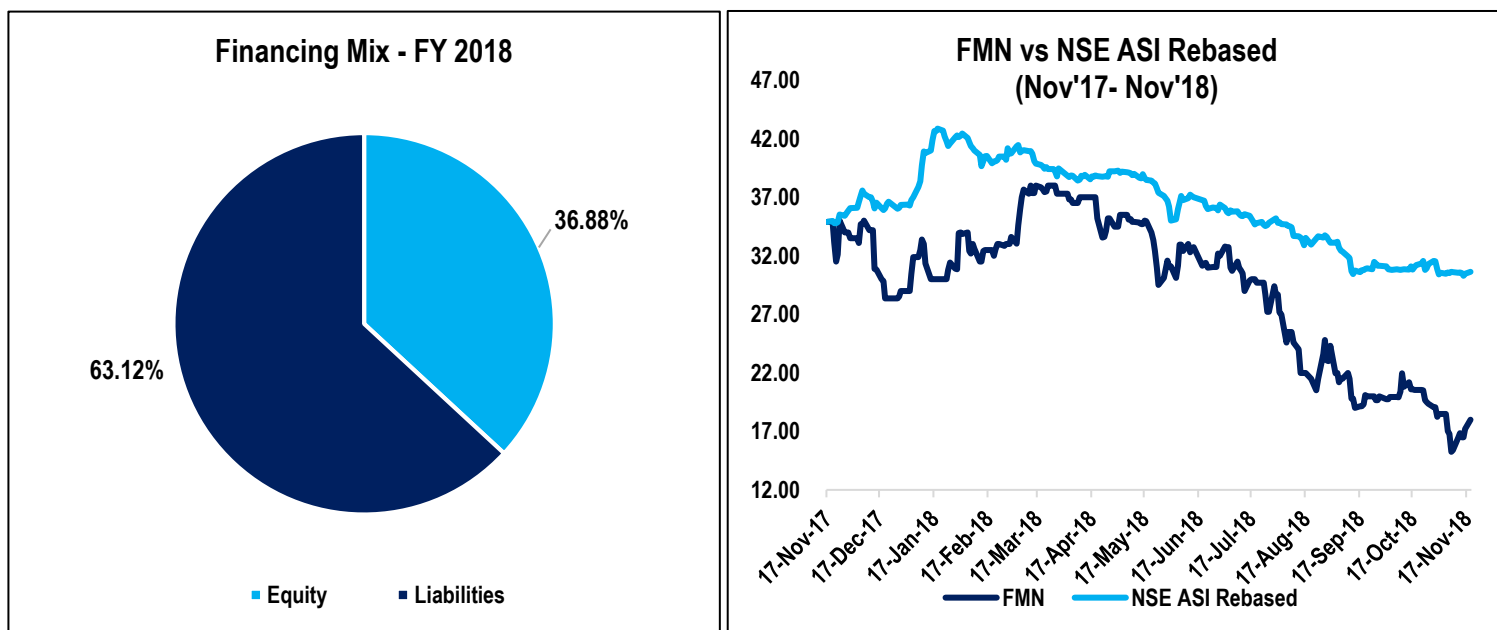
A cursory look at the balance sheet position as at FY 2018 compared with the position as at FY 2017 shows a drop in interest paying liabilities. The full impact of the Rights Issue will reflect in the FY 2019 accounts of FMN. This will result in a reduction in the interest expenses. The total fixed assets increased by 2.80% to N234.10bn in FY 2018 from N227.72bn in FY 2017. The inventory decreased by 5.05% to N111.37bn in FY 2018 from N117.30bn in FY 2017.

|                       | <b>FY 2018</b> | <b>FY 2017</b> | <b>Change</b> |
|-----------------------|----------------|----------------|---------------|
| <b>T/O</b>            | 542.67         | 524.46         | 3.47%         |
| <b>EBIT</b>           | 48.42          | 41.44          | 16.85%        |
| <b>PBT</b>            | 16.54          | 10.47          | 57.95%        |
| <b>PAT</b>            | 13.62          | 8.84           | 54.09%        |
| <b><u>Margins</u></b> |                |                |               |
| <b>GP* Margin</b>     | 12.67%         | 12.72%         | -0.04%        |
| <b>EBIT Margin</b>    | 8.92%          | 7.90%          | 1.02%         |
| <b>PBT Margin</b>     | 3.05%          | 2.00%          | 1.05%         |
| <b>PAT Margin</b>     | 2.51%          | 1.68%          | 0.82%         |

*Sources: Company Annual Account – 2018 and FSDH Research Analysis*

*The total assets of the company which stood at N408.35bn as at FY 2018 were financed by a mix of equities and liabilities in the ratio of 36.88% and 63.12% respectively.*

The total assets of the company which stood at N408.35bn as at FY 2018 were financed by a mix of equities and liabilities in the ratio of 36.88% and 63.12% respectively. Our analysis of the liabilities shows that the short-term liabilities stood at N199.80bn, accounting for 77.52% of the total liabilities; while the long-term liabilities stood at N57.94bn, accounting for 22.48% of the total liabilities. The long-term liabilities constituted mainly of long-term debt, which stood at N29.38bn. The short-term liabilities constituted mainly of short-term borrowings, which stood at N103.92bn in FY 2018.



*The company's cash position improved substantially in 2018 over 2017.*

*The net cash generated during the year was more than sufficient to cover the company's investment need for property, plant and equipment*

### 1.3 Analysis of the Statement of Cash Flows:

The company's cash position improved substantially in 2018 over 2017. The proceeds from new borrowings and the Rights Issue helped the company pay down some of its previous debt obligations. FMN Nigeria generated a net increase cash flow of N2.31bn in 2018, an improvement over the negative cash flow of N4.01bn it generated in 2017.

The cash generated from operating activities increased significantly from a negative N13.03bn in 2017 to N84.59bn in 2018, while the net cash flow generated after tax and other payments increased from a negative N13.98bn to N82.75bn. The net cash generated during the year was more than sufficient to cover the company's investment need for property, plant and equipment. Consequently, the ratio of net cash from operation to PPE investment grew to 386.72% in FY 2018

|   | <b>2018</b> | <b>2017</b> |
|---|-------------|-------------|
| <b>Cash from Operating Activities</b>                     | 84.59       | (13.03)     |
| <b>Income Tax Paid</b>                                    | 1.31        | 0.62        |
| <b>Net Cash From Operating</b>                            | 82.75       | (13.98)     |
| <b>Net Cash Used In Investing</b>                         | (17.83)     | (19.28)     |
| <b>Net Cash Used in Financing Activities</b>              | (56.18)     | 9.88        |
| <b>Cash Generated for the Year</b>                        | 2.31        | (4.01)      |
| <b>Ratio of Net Cash from Operation to PPE Investment</b> | 376.59%     | (66.27%)    |

*Sources: Company Annual Account – 2018 and FSDH Research Analysis*

The ROE of the company increased from 8.62% in 2017 to 9.04% in 2018.

## 2.0 Analysis of Return on Equity:

The Return on Equity (ROE) of the company increased from 8.62% in 2017 to 9.04% in 2018. Using the DuPont analysis, we attributed the increase in the ROE to the improved performance of the company's earnings. The asset turnover increased to 1.33x in 2018 compared with 1.09x in 2017. This is because of the marginal growth in the revenue while the total assets dropped.

The equity multiplier declined to 2.71x from 4.71x, indicating the strategy of the company to deleverage its balance sheet.

|  |                   | <b>2018</b>  | <b>2017</b>  |
|--|-------------------|--------------|--------------|
| <b>Profitability</b>   | PAT               | 13.62        | 8.84         |
|  | Turnover          | 542.67       | 524.46       |
|  | Profit Margin     | <b>2.51%</b> | <b>1.68%</b> |
| <b>Operating Efficiency</b>  | Turnover          | 542.67       | 524.46       |
|  | Total Assets      | 408.35       | 482.60       |
|  | Asset Turnover    | <b>1.33x</b> | <b>1.09x</b> |
| <b>Financial Leverage</b>  | Total Assets      | 408.35       | 482.60       |
|  | Equity            | 150.62       | 102.54       |
|  | Equity Multiplier | <b>2.71x</b> | <b>4.71x</b> |
| <b>Return on Equity (ROE)</b>  |                   | <b>9.04%</b> | <b>8.62%</b> |
| <i>Sources: Company Annual Account – 2018 and FSDH Research Analysis</i> |                   |              |              |

### 3.0 Rights Issue:

The Rights Issue of the company helped to deleverage the balance sheet and reduce the interest payments. In September 2017, FMN embarked on Series 1 under its N40bn Rights Issue Program by issuing 1,476,142,418 ordinary shares of 50 kobo each through a Rights Issue on the basis of 9 new ordinary shares for every 16 ordinary shares held at the close of business on 08 December 2017 at N27 per share. The FMN's Rights Issue was oversubscribed and it received about N39.2bn from the issue.

#### 4.0 Drivers of Performance:

The following key factors impacted the company's performance:

##### Positive Factors:

- Product diversification and backward integration strategies
- Launch of new products (flour brands – bakers' whole wheat flour, easy bake flour and classic flour)-
- Growth in market share in the vegetable oil market via improved product quality (solvent extraction plant in Rom Oil Mills Limited)
- Expansion of its aqua-feed business for the local and international markets in Calabar
- Commissioning of new molasses addition project to utilise molasses received from its Sunti Golden Sugar Mill
- Strong and continuous support to distributors and bakers
- Local substitution strategy in key input sourcing
- Strong and wide distribution network
- The stability in the foreign exchange market.

*FMN aligns itself with take full advantage of the agriculture agenda of the FGN, which enables it to consolidate its position in the Food product and ancillary business.*

##### Negative Factors:

- High operational and logistical costs
- Gas shortages impacting some production
- The weak consumer spending power
- Infrastructure challenges in the operating environment.

#### 4.1 Strategic Focus:

**FMN aligns itself to take full advantage of the agriculture agenda of the FGN, which enables it to consolidate its position in the Food product and ancillary business.** The company invests in backward integration initiatives by reaffirming its commitment towards future profitable growth via recapitalisation of various subsidiaries. The Kaboji Farm, its first agricultural investment has turned out to be a centre for seed and best agricultural practice in maize and soya bean.

**The company has also entered into a strategic partnership with Corteva Agriscience, agriculture division of DowDuPont.** The collaboration is expected to lead to both parties working together on key aspects of the maize value chain in Nigeria, with a focus on promoting modern farming techniques and practices, capacity development and knowledge transfer for the local production and use of improved and quality inputs, including seeds and crop protection.

FMN's Sunti Golden Sugar Estate commissioned in 2018 features 17,000 hectares of irrigable farmland and a Sugar mill that can process 4,500 metric tons of sugarcane per day. At full capacity, the sugar plantation is expected to produce 1 million tons of sugarcane, translating to about 100,000 metric tons of sugar annually. This will contribute to the revenue and profitability of the company.

*The company has also entered into a strategic partnership with Corteva Agriscience, agriculture division of DowDuPont.*

*FMN is a vertically integrated food company primarily engaged in food processing.*

## 5.0 Business:

**FMN is a vertically integrated food company primarily engaged in food processing, which includes flour milling production of semovita, masavita, pasta, noodles, vegetable oils, margarine and spread, refined sugar, breakfast cereals and snacks, and in the distribution of these products. Other activities include production of livestock feeds; primary processing of locally grown soybean, palm fruit, cassava, maize and sugar cane; storage, aggregation and distribution of locally sourced grains and export commodities; manufacture and distribution of agro-inputs, such as seeds, fertilisers and agricultural sacks; cultivation of sugar cane, maize, soybean, cassava, and oil palm; support services in the form of manufacturing and marketing of packaging materials; power generation; ground transport logistics; port operations; and shipping customs clearing, forwarding, and shipping agency.**

The company remains a major player in the Nigerian food business, through the following subdivisions - Flour Operations (an ultra-modern wheat and cassava flour milling complex known as "West Mills" situated in Apapa, Lagos), Northern Nigeria Flour Mills in Kano, Golden Pasta, Golden Noodles Nigeria Limited, Golden Sugar Refinery in Niger; and the Agro-Allied Business, consisting of: Kaboji Farms, Premier Feed Mills Company Limited, ROM Oil Mills Limited (edible oil extraction and refining company in Ibadan, Oyo state), Thai Farm International Limited. Other investments are: Apapa Bulk Terminal Limited, Nigerian Bag Manufacturing Company (BAGCO) and Golden Transport Company Limited. The latest developments in its business during the FY 2018 financial year are:

- Successful Rights Issue Programme (Net proceeds of N39.2bn)
- Sunti Golden Sugar Estates Mill commissioning (N50bn investment)
- Launch of new flour brand varieties
- Rom Oil Mills Limited solvent extraction plant capacity expansion
- Award of concessions for three silo complexes across locations in Nigeria by the Federal Ministry of Agriculture and Rural Development
- Addition of 10 tons per hour extrusion line to support its aqua feeds in Calabar
- Commissioning of new molasses addition project to synch with Sunti Sugar Mill



FMN has over the years evolved into one of the biggest food and agro-allied company in the country. Its businesses is restructured into four major operational pillars of Food, Sugar, Agro-allied (Oils and fats, Feeds and Proteins, Starches and Agro Distribution), and Support Services. The model FMN adopts is termed an integrated “farm-to-table” model. Going forward, it plans to leverage on the size and the synergies within the group to optimize costs and improve the efficiency of its shared services.

*FMN adopts an integrated model known as farm-to-model.*

### 5.1 Food:

**FMN’s food business contributes about 80% and 79% to its revenue in FY 2018 and HY1 2018, representing a significant part of the group’s income.** It consists of a number of subsidiaries located in various states within the country. FMN’s food business is strategically positioned to focus on the development of its key food value chains, namely: Grains, Sweeteners, Oils and fats, Starches and Proteins. Under Grains, the wheat value chain remains the backbone and core focus of its business, and helping to strengthen the leadership position and market’s appeal of the ‘Golden Penny,’ foods brand. The bread flour, ball foods, and pasta are all leaders in their segments. **FMN’s food strategy is based on five key pillars: category leadership; winning at point of purchase and with customers; innovation; supply chain excellence; and enabled by the winning food organization. FSDH Research believes these key pillars will position the company to overcome the current temporary challenges its business faces.**

*FMN’s food business contributes about 87% to its revenue representing a significant part of the group’s income.*

**FMN introduced three new flour varieties during the financial year ended March 2018: Bakers’ Whole Wheat Flour, Easy Bake Flour and Classic Flour.** This is in addition to the popular Golden Penny Prime and Confectionery Flours. The company also reported that it continues to focus on and evolve its ‘route to market’ with trade partners, with the deployment of vans and sales automation to assist re-distribution.

In terms of innovation, it has invested in building capability and ideation to build a pipeline of initiatives and execute existing ones. The company has developed a number of products on account of this. FMN also empowers partner bakers. It has initiated a capacity development and knowledge sharing program, named, “FMN Baker’s School.”

The school creates an avenue where it engages, educates and interacts with bakers on the best practices and innovative solutions in the wheat-to-bread value chain. The commissioning of its state-of-the art Sorghum Mill in Kano is also meeting a local cereal hub demand. The company reported that its investments have started making the desired impact in the areas of Group synergy, with the development and introduction of new Sorghum based products.

## 5.2 Sugar:

FMN has invested a considerable amount of money to tap into the growing sugar industry in Nigeria. The strategy is also to sell industrial sugar to all the units of the business that make use of sugar as a source of raw materials. This strategy will increase the revenue and profit of the company in the short-term. The Golden Sugar Company Limited continues to gain inroads into newer markets and improve market share. It acquired 100% equity in Sunti Golden Sugar Estates Limited (SGSE) and President Muhammadu Buhari (GCFR) commissioned it on 15 March 2018. The sugar estate at Sunti, near Mokwa in Niger State is situated on 17,000 hectares of irrigable farmland, and a Sugar mill that processes 4,500 metric tons of sugarcane per day. At full capacity, the mill is expected to produce 1 million tons of sugarcane which is about 100,000 metric tons of sugar yearly. The company notes that its N50bn investment in Nigeria's sugar value chain is to reduce sugar importation, make huge savings in foreign exchange, boost local capacity, and reduce unemployment. FSDH Research notes that there is still some imported sugar in the market, the association of sugar manufacturers in Nigeria is working to fight the smuggled products in the market. The success of this effort will benefit local sugar manufacturers.

## 5.3 Agro-Allied:

FMN continues to invest in the Agriculture Sector to take advantage of the vast opportunities in the sector. It plans to deploy technology that will increase the yields of farmers and to source quality inputs needed for food production. This helps the company to ensure it has a steady supply of cost-effective and abundant material to run its plants.

*FMN is positioning the company to take advantage of the growing market in this highly fragmented segment, which still has a lot of foreign brands of vegetable oil, margarine and spreads.*

### 5.3.1 Oils and Fats:

ROM Oil Mills Ltd is one of the largest new generation edible oil complexes in Africa. FMN is positioning the company to take advantage of the growing market in this highly fragmented segment, which still has a lot of foreign brands of vegetable oil, margarine and spreads. It also plans to introduce new size variations to the market - 100ml oil pouch for Soya and Vegetable oils, and a 15 grams pouch for Golden Penny spreads. ROM Oil will also take advantage of the available backward opportunity in the FMN's 4,500- hectare oil palm plantation in Edo State.

### 5.3.2 Feeds and Proteins:

*FMN's subsidiary company, Premier Feed Mills Limited is one of the major producers of aqua and poultry feeds in Nigeria.*

FMN's subsidiary company, Premier Feed Mills Limited is one of the major producers of aqua and poultry feeds in Nigeria. FSDH Research notes that this company will contribute substantially to the revenue and profit of FMN in the medium term because of the vast opportunities in the animal husbandry business. We expect the demand for locally processed meat to continue to grow and consequently the demand for animal feed will grow. The company added an additional 10 tons per hour extrusion line to support aqua feeds for the local and international markets. In Ibadan, the company commissioned a new molasses addition project to utilize molasses from the Sunti sugar mill. This is to ensure that FMN produce higher quality feeds in anticipation of the plan to introduce a new cattle feeds product line. FMN reported its partnership arrangement with Corteva Agriscience, a globally renowned company with wealth of experience in crop protection and biotechnology solutions is to introduce and develop hybrid maize varieties. It added that the partnership with Corteva aims to promote modern farming techniques and practices, as well as capacity development and knowledge transfer for the technology to support local production and use of improved quality inputs, including crop protection.

*Some distributors now sell Golden Penny Garri offshore to bring in foreign exchange.*

### 5.3.3 Starches:

The company is also positioned to tap into the huge opportunities in both the upstream and downstream cassava value-chain. The company has increased the production of cassava tubers and introduced premium quality Garri into the market known as Golden Penny Corn. FSDH Research gathers from the company that it will sell the Golden Penny Corn Garri directly through various supermarkets and departmental stores across the country. It also added that although it does not plan to export the product directly, a number of its distributors are already exporting the products abroad to earn foreign exchange for the country.

### 5.4 Agro Inputs and Distribution:

As part of its contribution towards self-sufficiency in food production in Nigeria, the company has invested in distribution networks and ecosystem for smallholder farmers and farmer groups that equip them with knowledge and inputs that will increase farmland yield. This strategy is a win-win for both farmers as they earn more from their farmland in order to enable them buy more of the quality products produced by FMN. They will also increase the supply of inputs that FMN needs in its production process.

### 5.5 Support Services:

The support services comprise mainly of Bag and Package manufacturing, transportation and port operations. The major divisions/subsidiaries in these businesses are: Bagco, Morpack, Golden Transport Division (GTD) and Apapa Bulk Terminal Limited (ABTL). As the core business of FMN continues to grow, the need for bag and packaging materials will grow. The growth of FMN will have a positive impact on the operations of these divisions/subsidiaries. The gridlock in the Apapa area and poor transport networks in the country are the major setback to the operations of these companies. Some of these challenges are being addressed by the different parties jointly to ease business transactions.

## 6.0 Product Analysis:

**FMN has products in the following categories:** flour milling, farming and other agro-allied activities, distribution and sale of fertilizer, manufacturing and marketing of laminated woven polypropylene sacks and flexible packaging materials, operation of Terminals A and B at the Apapa Port, and logistics.

*The food business contributed about 79% to revenue in HY1 2018.*

## 6.1 Food

The company's Food business is the largest contributor to revenue. It contributed about 79% as at HY1 2018. FMN has the following brands under the food division:

- **Golden Penny Flour:** The products in this division include: Golden Penny Prime Flour, Golden Penny Confectionary Flour, Golden Penny Noodle Flour, Golden Penny Soft Biscuit Flour, Golden Penny Eagle Wheat Flour and Golden Penny Multipurpose Flour. Competing products include Dangote Flour, Honeywell Flour (superfine flour and brown flour).
- **Golden Pasta:** Is made from Durum which is the finest for pasta. The main products under this division are: Golden Penny Pasta Spaghetti, Twist, Spaghetini, Macaroni and Eliche. Competing products include Dangote Pasta (Spaghetti and Macaroni) and Honeywell (Spaghetti and Macaroni).
- **Golden Noodles:** Comes in a variety of flavours including Chicken, Seafood and Onion Chicken Flavours. The product is known for its protein which creates a unique sticky texture with uniquely good taste. The major competing products are Indomie noodles, Dangote noodles and Honeywell noodles.
- **Impulse Foods:** The products under this division are Mario Cheese Balls, Golden Bites Chin Chin, Marios BBQ and Kool 2-Go. Competing products include: Funtime Chips, Snaps Puffed Maize, Nutri-C, Tang, Gala and Fun Cookies.

*Golden Penny Rice may gain competitive advantage over the imported substitutes soon because of the local content policy of the government.*

- **Golden Penny Ball Foods & Breakfast Occasion:** The products in this division are: Golden Penny Masavita, Golden Penny Semovita and Golden Penny Garri. They also produce breakfast Daily Delight for children. Competing brands include: Honeywell Semolina, Honeywell Wheat meal and Golden Morn, Kellogg's, Good Morning Corn Flakes.
- **Golden Penny Vegetable Oil and Margarine:** The products in this division include Golden Penny Pure Vegetable Oil, Golden Penny Pure Soya Oil, Golden Penny Margarine and Golden Penny Spread. Competing products are Mamador Vegetable Oil, Sonola Oil, Blueband Margarine and Kerrygold Butter.
- **Golden Sugar:** Products include: Golden Penny Premium white granulated sugar, Golden Penny Premium White Sugar BTC Consumer fortified with vitamins, BTB sugar for beverage manufacturers, BTB sugar fortified with vitamin A for bakers, biscuit manufacturers and confectioners and Golden Penny Premium white sugar cubes. Competitors include Dangote Sugar, BUA Sugar. Production of sugar is a backward integration strategy for FMN.
- **Golden Penny Rice:** Golden Penny rice is a premium quality rice product. Its competitors include: Mama Gold, Royal Umbrella and Caprice. It may gain competitive advantage over these companies soon because of the local content policy of the government in this regard.

**Table 9: Directors' Shareholding as at 31 March 2018**

| Director                       | Position      | Holdings                |
|--------------------------------|---------------|-------------------------|
| Mr J.G. Coumantaros            | Chairman      | Nil                     |
| Chief E. A. Ukpabi (KJW)       | Vice Chairman | 6,554,665               |
| Mr. P. M. Gbededo              | Group MD      | 2,720,109               |
| Alh. Abdullahi A. Abba         | Non-Executive | 12,343                  |
| Foluso O. Philips              | Non-Executive | Nil                     |
| Professor Jerry Gana, CON      | Non-Executive | 68,750                  |
| Mr Ioannis Katsaounis          | Non-Executive | 3,241,950<br>8,295,673* |
| Mr. F. R. A. Williams, Jnr.    | Non-Executive | 30,082                  |
| Mr. A. N. A. Peterside, CON    | Non-Executive | 2,500,000**             |
| Alh. R. M. Gwarzo, OON         | Non-Executive | 199,722                 |
| Alh. Y. O. A. Saliu            | Non-Executive | 1,668,985               |
| Mr Alfonso Garate              | Non-Executive | Nil                     |
| Mrs Salamatu Hussaini Suleiman | Non-Executive | Nil                     |

Source: Company Annual Account – 2018 \*Indirect Holdings through Windward Transport Company,  
\*\* Indirect Holdings through the First ANAP Domestic Trust

**Table 10: Shareholding Structure as at 31 March 2018**

| Shareholders                        | No. of Shares Held   | % of Shareholding |
|-------------------------------------|----------------------|-------------------|
| Excelsior Shipping Company Limited* | 2,242,727,580*       | 54.70%            |
| Nigerian Public and Institutions    | 1,857,668,026        | 45.30%            |
| <b>Total</b>                        | <b>4,100,395,606</b> | <b>100.00%</b>    |

\*The beneficial owner of Excelsior Shipping Company is a trust established by the late Mr. John S. Coumantaros for his descendants. The ultimate controlling party is therefore the descendants of late Mr. John S. Coumantaros

Source: Company Annual Account – 2018

**Table 11: Company Summary**

|                                |                    |
|--------------------------------|--------------------|
| Ticker                         | FLOURMILL          |
| Sector                         | Consumer Goods     |
| Sub-sector                     | Food Products      |
| Date of Incorporation          | September 1960     |
| Date of Listing                | 1978               |
| Financial Year End             | March              |
| Number of Fully Paid Share     | 4,100,395,606      |
| Current Capitalization(NGN)    | 73,807,120,908     |
| NSE Capitalization (NGN)       | 11,763,605,772,956 |
| % of NSE Capitalization        | 0.63%              |
| 52 Week high NGN               | 38                 |
| 52 Week low NGN                | 15.25              |
| YTD Return (%)                 | (34.48%)           |
| 52 Weeks Average Volume Traded | 2,362,506.65       |
| Trailing EPS NGN               | 2.28               |
| Trailing P/E Ratio (X)         | 7.91               |

As at 19 November 2018

Sources: Company Annual Account – 2018 and FSDH Research Analysis



## 7.0 SWOT Analysis:

|   |  |
|---|--|
| <p><b>7.1 Strengths:</b></p> <ul style="list-style-type: none"> <li>○ Strong brand name</li> <li>○ Diversified portfolio</li> <li>○ Quality products in the market</li> <li>○ Long standing reputation and reliability</li> <li>○ Enjoy economies of scale</li> <li>○ Backward integration</li> <li>○ Import substitution focus</li> <li>○ Strong knowledge of market</li> <li>○ Wide distribution network</li> </ul> | <p><b>7.2 Weaknesses:</b></p> <ul style="list-style-type: none"> <li>○ High finance costs and high gearing ratio</li> <li>○ Low profit margin</li> <li>○ Low interest cover</li> <li>○ High interest bearing liabilities</li> </ul>  |
| <p><b>7.3 Opportunities:</b></p> <ul style="list-style-type: none"> <li>○ Large market size in Nigeria and in West Africa</li> <li>○ Government policy to support agro-allied companies</li> <li>○ Import substitution strategy of government</li> <li>○ Relative stability in the foreign exchange market</li> <li>○ Credit support for companies in critical sectors of the economy</li> </ul>                      | <p><b>7.4 Threats:</b></p> <ul style="list-style-type: none"> <li>○ Stiff competition in the industry</li> <li>○ Foreign exchange risk exposure</li> <li>○ Weak consumers' purchasing power</li> <li>○ Rising wheat price</li> <li>○ Poor infrastructure in the country</li> </ul> |

## 8.0 Forecast:

### Our Forecast Drivers

We considered the following factors in arriving at our 5-year forecast:

#### Positive Factors:

- FMN's product diversification
- Enjoying economies of scale
- Backward integration into agro-allied and farming activities
- Numerous investments in high profit margin products
- Anticipated growth in revenue despite challenging environment
- Import substitution focus
- Wide distribution network

*We expect FMN to grow its turnover from N542.67bn in 2018 to N694.87bn in 2023.*

#### Negative Factors:

- The prevailing stiff competition in the industry
- The current weak consumers' spending
- Security challenges in some parts of Nigeria
- Possible currency devaluation

*We estimate a dividend per share of 1.04 Kobo for the FY 2019.*

Looking at the medium to long-term outlook of the company and the impact of the aforementioned factors, we are of the opinion that the impact of the positive factors would be higher on both the revenue and the profitability of the company than the negative factors. We therefore estimate a Turnover of N501.06bn, N512.75bn, N570.86bn, N635.56bn and N694.87bn for the periods ending March 2019, 2020, 2021, 2022 and 2023. We estimate EBIT of N33.86bn, N37.21bn, N41.43bn, N46.12bn and N50.43bn, and EBITDA of N37.13bn, N41.01bn, N45.81bn, N51.15bn and N56.17bn for the same period using EBIT margins of 6.76%, 7.26%, 7.26%, 7.26% and 7.26% respectively. Our PBT forecasts for the periods are: N13.57bn, N21.95bn, N27.99bn, N32.65bn and N40.63bn. Adjusting for tax, our PAT forecasts are N10.11bn, N16.35bn, N20.85bn, N24.32bn and N30.27bn. PAT Margin for the period are 2.02%, 3.19%, 3.65%, 3.83% and 4.36%. Our forecast final dividend for the FY 2019 is N1.04 per share. Please refer to tables 12, 13 and 14 below for details of the forecast.

Table 12: Statement of Profit or Loss (2018 - 2023) – N'bn

|  | Mar-18A  | Mar-19F  | Mar-20F  | Mar-21F  | Mar-22F  | Mar-23F  |
|--|----------|----------|----------|----------|----------|----------|
| Turnover (Net Sales)                   | 542.67   | 501.06   | 512.75   | 570.86   | 635.56   | 694.87   |
| Cost of Sales                          | (473.90) | (441.07) | (449.56) | (500.51) | (557.23) | (609.24) |
| Gross Profit                           | 68.78    | 59.99    | 63.19    | 70.35    | 78.32    | 85.63    |
| Admin, Selling & Distribution Expenses | (26.30)  | (27.23)  | (27.10)  | (30.17)  | (33.59)  | (36.73)  |
| Depreciation                           | (2.80)   | (3.27)   | (3.80)   | (4.38)   | (5.03)   | (5.74)   |
| Other Operating Income                 | 5.94     | 1.10     | 1.12     | 1.25     | 1.39     | 1.52     |
| EBIT                                   | 48.42    | 33.86    | 37.21    | 41.43    | 46.12    | 50.43    |
| EBITDA                                 | 51.23    | 37.13    | 41.01    | 45.81    | 51.15    | 56.17    |
| Net Finance Cost                       | (31.88)  | (20.29)  | (15.26)  | (13.43)  | (13.47)  | (9.80)   |
| PBT                                    | 16.54    | 13.57    | 21.95    | 27.99    | 32.65    | 40.63    |
| Taxation                               | (2.93)   | (3.46)   | (5.60)   | (7.14)   | (8.33)   | (10.37)  |
| PAT                                    | 13.62    | 10.11    | 16.35    | 20.85    | 24.32    | 30.27    |

Sources: Company Annual Account – 2018 and FSDH Research Analysis \*A-Actual, F-Forecast

Table 13: Ratio Analysis (2018 - 2023)

|                        | Mar-18A | Mar-19F | Mar-20F | Mar-21F | Mar-22F | Mar-23F |
|------------------------|---------|---------|---------|---------|---------|---------|
| EBITDA Margin          | 9.44%   | 7.41%   | 8.00%   | 8.03%   | 8.05%   | 8.08%   |
| EBIT Margin            | 8.92%   | 6.76%   | 7.26%   | 7.26%   | 7.26%   | 7.26%   |
| PBT Margin             | 3.05%   | 2.71%   | 4.28%   | 4.90%   | 5.14%   | 5.85%   |
| PAT Margin             | 2.51%   | 2.02%   | 3.19%   | 3.65%   | 3.83%   | 4.36%   |
| EPS(N)                 | 3.32    | 2.46    | 3.99    | 5.09    | 5.93    | 7.38    |
| DPS(N)                 | 1.00    | 1.04    | 1.68    | 2.14    | 2.50    | 3.11    |
| Dividend Payout        | 30.12%  | 42.12%  | 42.12%  | 42.12%  | 42.12%  | 42.12%  |
| Earnings Yield *       | 18.45%  | 7.70%   | 12.46%  | 15.89%  | 18.54%  | 23.07%  |
| Dividend Yield *       | 5.56%   | 3.24%   | 5.25%   | 6.69%   | 7.81%   | 9.71%   |
| P/E Ratio*             | 5.42x   | 12.98x  | 8.02x   | 6.29x   | 5.40x   | 4.34x   |
| Number of Shares ('bn) | 4.10    | 4.10    | 4.10    | 4.10    | 4.10    | 4.10    |
| ROE                    | 9.04%   | 6.41%   | 9.65%   | 11.34%  | 12.16%  | 13.71%  |

Sources: Company Annual Account – 2018 and FSDH Research Analysis

\*At Our Target Price of N32. A-Actual, F-Forecast

Table 14: Statement of Financial Position (2018 - 2023)

|                                      | Mar-18A        | Mar-19F        | Mar-20F       | Mar-21F       | Mar-22F       | Mar-23F       |
|--------------------------------------|----------------|----------------|---------------|---------------|---------------|---------------|
| Property Plant & Equipment           | 217.90         | 215.19         | 216.44        | 218.24        | 216.21        | 217.55        |
| Intangible assets                    | 1.10           | 1.10           | 1.10          | 1.10          | 1.10          | 1.10          |
| Goodwill                             | 4.15           | 4.15           | 4.15          | 4.15          | 4.15          | 4.15          |
| Long Term Receivables                | 0.94           | 0.94           | 0.94          | 0.94          | 0.94          | 0.94          |
| Investment Property                  | 1.84           | 1.84           | 1.84          | 1.84          | 1.84          | 1.84          |
| Biological Assets                    | 0.04           | 0.04           | 0.04          | 0.04          | 0.04          | 0.04          |
| Prepayments                          | 1.61           | 1.61           | 1.61          | 1.61          | 1.61          | 1.61          |
| Deferred Tax Charge                  | 6.46           | 6.46           | 6.46          | 6.46          | 6.46          | 6.46          |
| Available for Sale Instruments       | 0.06           | 0.06           | 0.06          | 0.06          | 0.06          | 0.06          |
| Long Term Assets                     | <b>234.10</b>  | <b>231.39</b>  | <b>232.64</b> | <b>234.44</b> | <b>232.41</b> | <b>233.75</b> |
| Stock (inventory)                    | 111.37         | 106.41         | 108.46        | 120.76        | 134.44        | 146.99        |
| Trade & other receivables            | 19.08          | 17.62          | 18.03         | 20.07         | 22.35         | 24.44         |
| Biological assets                    | 0.18           | 0.18           | 0.18          | 0.18          | 0.18          | 0.18          |
| Prepayments and Deposits for Imports | 21.36          | 22.43          | 23.55         | 24.73         | 25.97         | 27.27         |
| Deposits/Balances & Cash             | 22.25          | 11.79          | 12.89         | 8.95          | 2.84          | 7.89          |
| Other Assets                         | -              | 16.37          | 16.75         | 18.65         | 20.77         | 22.70         |
| Current Assets                       | <b>174.25</b>  | <b>174.81</b>  | <b>179.87</b> | <b>193.35</b> | <b>206.55</b> | <b>229.46</b> |
| <b>Total Assets</b>                  | <b>408.35</b>  | <b>406.21</b>  | <b>412.51</b> | <b>427.79</b> | <b>438.96</b> | <b>463.21</b> |
| Trade Creditors                      | 46.59          | 59.26          | 60.40         | 67.24         | 74.86         | 81.85         |
| Deferred Revenue                     | 2.58           | 2.58           | 2.58          | 2.58          | 2.58          | 2.58          |
| Customer Deposits                    | 11.20          | 11.31          | 11.43         | 11.54         | 11.66         | 11.77         |
| Bank Overdraft                       | 19.93          | 0.00           | 0.00          | 0.00          | 0.00          | 0.00          |
| Borrowings                           | 103.92         | 87.85          | 75.17         | 59.45         | 36.97         | 24.24         |
| Other Creditors & Accruals           | 10.41          | 27.37          | 28.01         | 31.19         | 34.72         | 37.96         |
| Dividends                            | 2.01           | 4.10           | 4.26          | 6.89          | 8.78          | 10.24         |
| Taxation                             | 3.15           | 3.46           | 5.60          | 7.14          | 8.33          | 10.37         |
| Current Liabilities                  | <b>199.79</b>  | <b>195.93</b>  | <b>187.44</b> | <b>186.02</b> | <b>177.89</b> | <b>179.01</b> |
| Working Capital/ Net Current Asset   | <b>(25.54)</b> | <b>(21.12)</b> | <b>(7.57)</b> | <b>7.32</b>   | <b>28.66</b>  | <b>50.45</b>  |
| Capital Employed                     | <b>208.56</b>  | <b>210.27</b>  | <b>225.07</b> | <b>241.77</b> | <b>261.06</b> | <b>284.20</b> |
| Deferred Taxation                    | 12.31          | 12.31          | 12.31         | 12.31         | 12.31         | 12.31         |
| Staff Gratuity /Long service award   | 5.19           | 4.91           | 5.00          | 5.56          | 6.19          | 6.77          |
| Long Term Debt                       | 29.38          | 24.46          | 27.31         | 28.96         | 31.52         | 33.32         |
| Deferred Revenue                     | 9.12           | 9.12           | 9.12          | 9.12          | 9.12          | 9.12          |
| Long Service Award                   | 1.95           | 1.95           | 1.95          | 1.95          | 1.95          | 1.95          |
| Long Term Liabilities                | <b>57.94</b>   | <b>52.74</b>   | <b>55.68</b>  | <b>57.90</b>  | <b>61.09</b>  | <b>63.46</b>  |
| <b>Total Liabilities</b>             | <b>257.73</b>  | <b>248.67</b>  | <b>243.13</b> | <b>243.92</b> | <b>238.98</b> | <b>242.47</b> |
| <b>Total Net Assets</b>              | <b>150.62</b>  | <b>157.53</b>  | <b>169.39</b> | <b>183.87</b> | <b>199.98</b> | <b>220.74</b> |
| Paid up share capital                | 2.05           | 2.05           | 2.05          | 2.05          | 2.05          | 2.05          |
| Share premium a/c                    | <b>75.38</b>   | <b>75.38</b>   | <b>75.38</b>  | <b>75.38</b>  | <b>75.38</b>  | <b>75.38</b>  |
| General Reserve                      | 67.90          | 73.91          | 86.00         | 99.97         | 115.51        | 135.53        |
| Fair Value Reserve                   | <b>-0.07</b>   | <b>-0.07</b>   | <b>-0.07</b>  | <b>-0.07</b>  | <b>-0.07</b>  | <b>-0.07</b>  |
| Total reserves                       | 143.21         | 149.21         | 161.31        | 175.28        | 190.81        | 210.84        |
| Shareholders' Funds                  | <b>145.26</b>  | <b>151.26</b>  | <b>163.36</b> | <b>177.33</b> | <b>192.86</b> | <b>212.89</b> |
| Minority Interest                    | 5.36           | 6.27           | 6.03          | 6.54          | 7.11          | 7.85          |
| Total Equity                         | <b>150.62</b>  | <b>157.53</b>  | <b>169.39</b> | <b>183.87</b> | <b>199.98</b> | <b>220.74</b> |

Source: Company Annual Account – 2018 and FSDH Research Analysis

## 9.0 Valuation:

We employed a relative valuation method using Enterprise Value (EV) to Earnings Before Interest Tax Depreciation and Amortization (EBITDA) multiple. The assumptions and results of the valuation are:

### Assumptions:

- EV/EBITDA Multiple: 9.08x
- Debt: N153.23bn
- Cash: N45.02bn
- Number of shares in issue: 4.10bn
- Cost of Capital : 23%

**Applying the EV/EBITDA multiple of 9.08x, we arrived at N49.90 per share as our fair value.**

**The current market value of FMN share is N18, the highest and the lowest closing prices in the last 52 weeks are N38 and N15.25 respectively.** The forward earnings yield and dividend yield of the company at our target price are 7.70% and 3.24% respectively. The fair value of the stock is 177.21% higher than the current market price. **Our target price for the shares of FMN in the next one year is N32. We therefore place a BUY rating on the shares of FMN at the price of N18 as of 19 November 2018.**

*Our fair value for FMN is N49.90.*

## 9.1 Risks to Price Target:

The following risks may affect the target price:

- Increase in the yield on fixed income securities leading to portfolio reallocation from the equity market
- Drop in market liquidity

| Company                 | Flour Mills | Honeywell Flour | Dangote Flour |
|-------------------------|-------------|-----------------|---------------|
| Turnover                | 542.67      | 71.48           | 125.44        |
| Gross Profit            | 68.78       | 16.05           | 29.43         |
| EBIT                    | 48.42       | 9.48            | 22.09         |
| PBT                     | 16.54       | 4.87            | 22.44         |
| PAT                     | 13.62       | 4.43            | 15.13         |
| GP Margin               | 12.67%      | 22.46%          | 23.46%        |
| EBIT Margin             | 8.92%       | 13.26%          | 17.61%        |
| PBT Margin              | 3.05%       | 6.82%           | 17.89%        |
| PAT Margin              | 2.51%       | 6.19%           | 12.06%        |
| ROE                     | 9.04%       | 7.85%           | 40.40%        |
| Net Assets              | 150.62      | 56.39           | 37.45         |
| Net Assets Per Share(N) | 36.73       | 7.11            | 7.49          |
| Trailing PE Ratio       | 7.91        | 3.39            | 5.62          |
| Trailing Earnings Yield | 12.64%      | 29.54%          | 17.80%        |

Sources: Company Annual Account – 2018 and FSDH Research Analysis  
 \*\*Flour Mill's and Honeywell Flour Year End is March \*Dangote Flour's Year End is December.  
 Note: Dangote Flour earned income on the sale of assets held for sale of N3.57bn in FY 2017

| Rating | Criteria  |
|--------|---|
| BUY    | Fair value of the stock is $\geq$ 18.88%* compared with the current market price.   |
| HOLD   | Fair value of the stock ranges between -10% and 18.88% of the current market price. |
| SELL   | Fair value of the stock is > 10% below the current market price.                    |

**\*18.88% is our estimated minimum equity return. It is the combination of our risk free rate and risk premium. Our risk free rate is the average yield on a five-year FGN Bond. We adopted a 5% risk premium and set the risk free rate every quarter.**

**Fair Value:** This is the value of the ordinary shares of the company using the valuation method appropriate for the company. It is the intrinsic or true value of the stock based on the fundamentals of the company. The market price may either trade at a premium or discount to the intrinsic value.

**Price Target:** This is the price that we believe the shares of the company will trade within our time horizon. Other risk factors may affect the attainment of this price. This price may or not be different from the intrinsic value.

**For enquiries please contact us at our offices:**

**Lagos Office:** 5th-8th floors UAC House, 1/5 Odunlami Street Lagos. Tel: 234-1-2702881-2

**Port Harcourt Office:** 2nd Floor, Skye Bank Building (Former Mainstreet Bank Building) 5 Trans Amadi Road, Port Harcourt. Tel: 234-802 408 1331.

**Abuja Office:** Leadway House (1<sup>st</sup> Floor), Plot 1061 Herbert Macaulay Way, Central Business District, Abuja-Nigeria. Tel: 234-9-2918821

**Website:** [www.fsdhgroup.com](http://www.fsdhgroup.com)

**Email:** [research@fsdhgroup.com](mailto:research@fsdhgroup.com)

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