

# Flour Mills of Nig. Plc

Nigeria | Equities | Consumer Goods | July 19, 2021

PAC RESEARCH

## Strong and Resilient Performance in a Challenging Year

### INVESTMENT SUMMARY

Despite the prevailing challenges faced by businesses in 2020/21 coming on the heels of COVID-19, Flour mills of Nigeria (FMN) posted stellar performance as revenue increased by 34.48% to ₦771.61 billion (vs. ₦573.77 billion in FY'19/20). During the period, FMN leveraged on the country's border closure and reduction in imported competitive goods (due to the lockdown in various countries) as all the business segments recorded impressive growth in volumes during the period. However, the cost of sales increased by 30.88% to ₦664.85 billion in FY'20/21 (vs. ₦507.99 billion in FY'19/20), mainly as result of improved volumes and higher input costs in all the business segments of the company. In addition, the administrative, selling and distribution expenses increased by 26.06% to ₦41.13 billion in FY'20/21 (vs. ₦32.63 billion reported in FY'19/20) due to higher expenses on advertisement, sales, subscriptions, donation, among others. With the impressive operating performance, EBITDA improved by 73.89% to ₦93.99 billion in FY'20/21 (vs. ₦54.05 billion in FY'19/20).

FMN successfully issued ₦30.00 billion corporate bond with tenor of 5 and 7 years at 5.50% and 6.25% respectively to replace expensive short-term facilities and this resulted in lower net finance costs of ₦15.00 billion in FY'20/21 when compared with the ₦17.58 billion reported in FY'19/20. With the impressive performance across board, profit before tax increased significantly by 112.57% to ₦37.19 billion in FY'20/21 (vs. ₦17.50 billion in FY'19/20). Meanwhile, the company made higher provision of ₦11.48 billion for tax in FY'20/21 (vs. ₦6.12 billion in FY'19/20). Albeit the higher tax provision, profit after tax improved significantly by 126.05% to ₦25.72 billion (vs. ₦11.38 billion in FY'19/20). The company rewarded the shareholder with a dividend of ₦1.65 per share in FY'20/21 (FY'19/20: ₦1.40). Based on the recent figures released, we upgrade our target price to ₦31.48 (Previous TP: ₦30.63) and maintain a **HOLD** recommendation.

Fig. 1: Quarterly results highlights

	4Q2021	3Q2021	4Q2020	Q/q Δ	Y/y Δ
Revenue (₦'mn)	216,266	200,233	150,296	+8.01%	+43.89%
Operating profit (₦'mn)	16,987	11,478	10,398	+48.00%	+63.37%
Net profit (₦'mn)	10,135	5,649	3,216	+79.41%	+215.1%

Source: Bloomberg, PAC Research

Oluwole Adeyeye

oluwole.adeyeye@panafricancapitalholdings.com

Price:

- Current	₦29.85
- Target	₦31.48

Recommendation: **HOLD**

\* As at Friday July 16, 2021

Fig. 2: Stock data

FYE	March
Price Mov't: YtD / 52wk	+66.76% / +14.81%
52-week range	₦35.00 - ₦17.00
30-day Average vol.	2,324,273
Shares Outstanding ('mn)	4,100.38
Market Cap. (₦bn)	122.40
EPS, ₦- 12months trailing	6.27
DPS, ₦- FY2021	1.65

Source: NSE, Company's Annual Reports, PAC Research

Fig. 3: Key ratios

	FY'21	FY'20
Gross profit margin	13.84%	11.47%
COS/Revenue	86.16%	88.53%
Net Profit Margin	3.33%	1.98%
Asset turnover	1.42	1.33

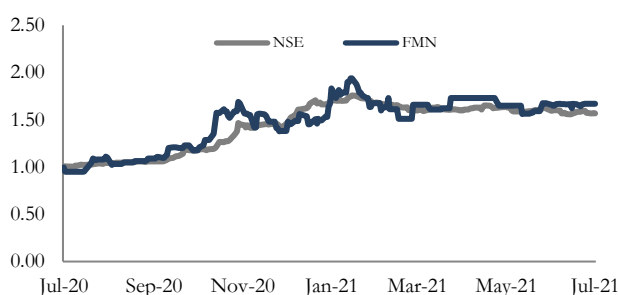
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2020	FY2021	FY2022F	FY2023F
P/E(x)	10.76	4.76	3.89	3.07
P/B(x)	0.79	0.70	0.67	0.64
Div. Yield	4.69%	5.53%	8.38%	10.72%
Payout Ratio	50.46%	26.31%	32.59%	32.91%
Ev/Revenue	3.70	2.28	2.05	1.83
Rev Per Shr.	139.93	188.18	203.23	213.40
ROE	7.30%	14.73%	17.24%	20.82%
ROA	2.63%	4.72%	5.36%	6.47%

Source: NSE, PAC Research

Fig. 5: FMN vs NSE, 52-wk Movement (Rebased)



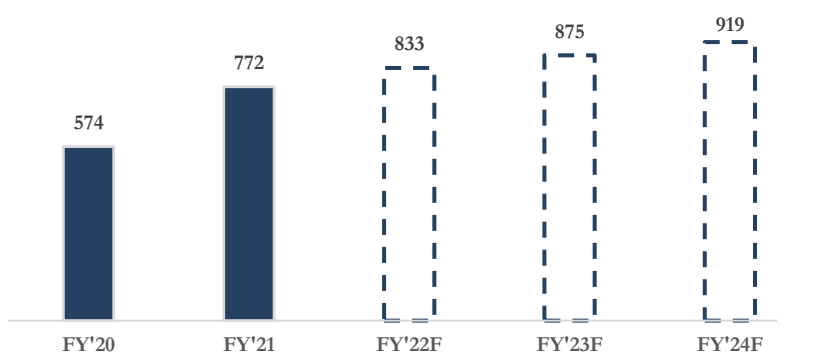
Source: Bloomberg, PAC Research

**Impressive performance across all the business segments as revenue rises by 34.48% year-on-year:** During the period, the overall revenue improved by 34.48% to ₦771.61 billion (vs ₦573.77 billion recorded in FY'19/20), driven by impressive performance recorded in all the business segments (Food Segment, Agri-Allied Segment, Sugar Segment and Support Services Segment) of the company. With the border closure during the financial year and drop in importation of foreign goods into the country (due to the lockdown of economic activities and FX scarcity), all its business segments of the company reported double digit growth during the period.

The revenue of the Food Segment increased significantly by 33.45% to ₦478.30 billion (vs. ₦358.40 billion in FY'19/20), driven by rising Business-to-Consumer (B2C) volume contribution and improved prices. Noodles, Pasta and Semovita witnessed double digit growth in revenue as they improved by 31.00%, 23.00% and 23.00% respectively in FY'20/21. Sugar segment of the company also experienced significant improvement as its revenue rose by 27.66% to ₦124.60 billion in FY'20/21 (vs. ₦97.60 billion in FY'19/20), driven by backward integration which improved sugar cane production during the period. The Agro Allied Segment and Support Segment improved by 32.13% and 137.40% to ₦139.40 billion (9M'19/20: ₦105.50 billion) and ₦29.20 billion (9M'19/20: ₦12.30 billion) respectively. The Agro-Allied benefited from the border closure and lower importation of competitive foreign product: Oil and fats business, animal feed business and Starch recorded impressive growth during the period. The significant growth in Support Segment could be attributed to the improved revenue recorded in logistic business, strong growth in Bagco and 29% growth in fertilizers business.

Going forward, we may likely see improvement in the revenue of the company due to the extension of blending plants and sales outlets, as well as expansion of fertilizers business into northern and eastern markets. Additional investment lines in Pasta, Semovita and Noodles (Food Segment) and Solid backward integration investment plans in the Sugar value chain are expected to boost the company's top-line in coming years.

**Fig. 6: Revenue – FY'20 - FY'24F (Billion NGN)**



Source: NSE, PAC Research

*With the border closure during the financial year and drop in importation of foreign goods into the country (due to the lockdown of economic activities and FX scarcity), all its business segments of the company reported double digit growth...*

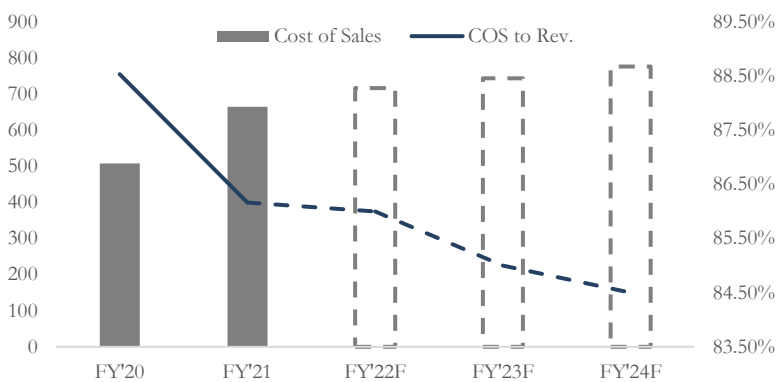
**With improved production volumes and higher input costs, cost of sales rises by 30.88% year-on-year:** In the full year of 2020/21, the cost of sales rose significantly by 30.88% to ₦664.851 billion (vs. ₦507.99 billion in full year of 2019/20), driven by higher production volumes and higher input cost. Specifically, the cost of raw and packing materials, which constitutes about 88% of the total cost of sales, increased by 34.02% to ₦583.62 billion in FY'20/21 (FY'19/20: ₦435.48 billion).

Despite the increase in the cost of sales, the cost-minimization strategy of the company continues to yield positive results as cost-to-sales margin declined by 237 bps to 86.16% in FY'20/21, from 88.53% recorded in FY'19/20. The improvement in the cost-to-sales margin may be attributed to the economies of scale derived from additional investment lines across Pasta, Semovita and Noodles in Food Segment. In addition, the company also provided mechanized harvesting and threshing services to 493 farmers and deployed 5 combine harvesters and 7 threshers with tractors for harvest operations during the period. In the coming months, we expect the successful implementation of different programs, such as the out grower, wheat farmers centre, and seed production program, backward integration and expansion in different business segment to have positive impacts on the cost-margin of the company.

The administrative, selling and distribution expenses of FMN increased by 26.06% to ₦41.13 billion in FY'20/21 (vs. ₦32.63 billion reported in FY'19/20), mainly as a result of higher expenses on advertisement, sales, repair and maintenance, subscription, donations, non-income taxes, fines, penalty, among others. With the expectation of higher inflation rate in the coming months, we may likely see further increase in the selling & distribution expenses and administrative expenses.

*Despite the increase in the cost of sales, the cost-minimization strategy of the company continues to yield positive results as cost-to-sales margin declined by 237 bps to 86.16% in FY'20/21.*

**Fig. 7: Cost of Sale and COS to Revenue – FY'20 - FY'24F**



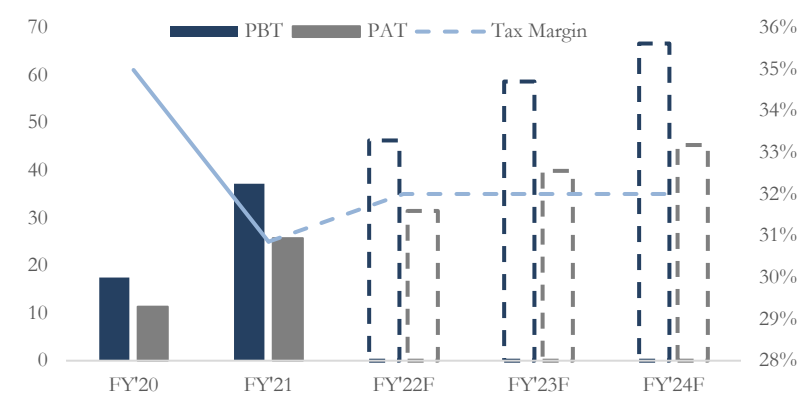
Source: NSE, PAC Research

**PBT improves significantly by 112.57% year-on-year, driven by impressive performance across board:** In the financial year of 2020/21, FMN benefited from the lower yield environment as it successfully issued ₦30 billion corporate bond with tenor of 5 and 7 years at 5.50% and 6.25% respectively to replace expensive short-term facilities. The lower rates mirrored on non-operating activity of the company as net finance costs fell by 14.67% to ₦15.00 billion in FY'20/21 (vs. ₦17.58 billion in FY'19/20).

The impressive figure recorded in the non-operating activity of the company, in addition to improved operating performance, reflected on the profit before tax as it improved significantly by 112.57% to ₦37.19 billion in FY'20/21 (vs. ₦17.50 billion in FY'19/20). However, the company made a higher provision of ₦11.48 billion for tax during the period (FY'19/20: ₦6.12 billion). Consequently, profit after tax improved significantly by 126.05% to ₦25.72 billion in FY'20/21, from ₦11.38 billion reported in FY'19/20, and this translated to a earnings per share of ₦6.27 (FY'19/20: ₦2.77).

*...FMN benefited from the lower yield environment as it successfully issued ₦30 billion corporate bond with tenor of 5 and 7 years at 5.50% and 6.25% respectively to replace expensive short-term facilities.*

Fig. 8: PBT, PAT and Tax Margin – FY'20-FY'24F



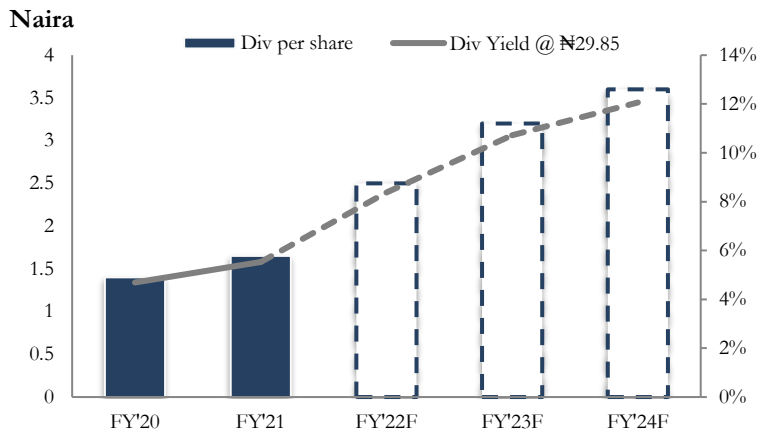
Source: NSE, PAC Research

**Balance sheet remains strong and healthy as FMN rewards shareholders with ₦1.65 per share:** During the period under review, FMN maintained a healthy and solid balance sheet as the total assets of the company increased by 25.96% to ₦544.73 billion (vs. ₦432.45 billion in FY'19/20), driven by significant growth in current assets of the company. As a result of 69% increase in inventory and 154% increase in prepayment and deposit for import, the current assets improved by 61.28% to ₦306.01 billion (vs. ₦189.73 billion in FY'19/20). However, the total liabilities of the company rose by 33.79% to ₦370.12 billion in FY'20/21 (vs. ₦276.65 billion in FY'19/20), due to notable increase in trades & other payables, long term borrowing, customer deposits, among others. Consequently, the net assets increased by 12.07% to ₦174.61 billion in FY'20/21 (vs. ₦155.81 billion in FY'19/20) and this translated to improved net assets per share (NAPS) of ₦42.58 (FY'19/20 ₦38.00)

With the improved performance, FMN rewarded the shareholders with improved dividend of ₦1.65 per share in full year of 2020/21 (vs. ₦1.40 recorded in the full year of 2019/20). With optimistic outlook from the management, we expect significant growth in the dividend payment in full year of 2021/22.

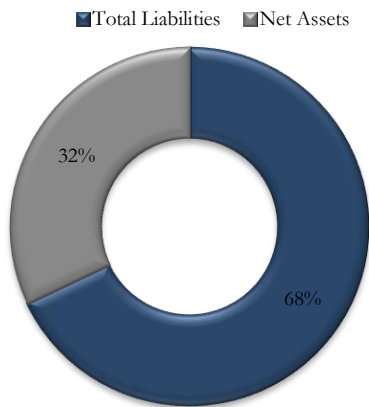
*With the improved performance, FMN rewarded the shareholders with improved dividend of ₦1.65 per share...*

**Fig. 9: Dividend Per Share and Dividend Yield – FY'20-FY'24F**



Source: NSE, PAC Research

**Fig. 10: Total Liabilities Vs Net Asset in FY'20/21**



Source: NSE, PAC Research

**Valuation**

Our valuation puts the target price of the stock at ₦31.48, representing an increase of 5.46% from the current market price of ₦29.85. In arriving at the target price, we employed discounted free cash flow methodology. Consequently, we maintain a **HOLD** recommendation on the stock of the company. Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the previous financial reports of the company, the current figures released by the company and the outlook from the management.

*Our valuation puts the target price of the stock at ₦31.48, representing an increase of 5.46% from the current market price of ₦29.85*

**Fig. 11: Share Price History**



Source: NSE, PAC Research

**Fig. 12: Statement of Profit or Loss, N'mn**

	2020	2021	2022F	2023F
Revenue	573,774	771,608	833,337	875,003
<i>Change</i>		<i>34.48%</i>	<i>8.00%</i>	<i>5.00%</i>
Cost of sales	-507,987	-664,851	-716,669	-743,753
<i>Change</i>		<i>30.88%</i>	<i>7.79%</i>	<i>3.78%</i>
Gross profit	65,787	106,757	116,667	131,251
<i>Change</i>		<i>62.28%</i>	<i>9.28%</i>	<i>12.50%</i>
Selling and distr exp.	-9,278	-12,080	-12,500	-12,688
<i>Change</i>		<i>30.19%</i>	<i>3.48%</i>	<i>1.50%</i>
Administrative exp.	-23,346	-29,046	-28,333	-28,875
<i>Change</i>		<i>24.41%</i>	<i>-2.45%</i>	<i>1.91%</i>
Net Op. gains (losses)	4,906	-15,528	-16,667	-17,500
<i>Change</i>		<i>-416.54%</i>	<i>7.33%</i>	<i>5.00%</i>
Operating profit	35,080	52,197	61,417	74,550
<i>Change</i>		<i>48.79%</i>	<i>17.66%</i>	<i>21.38%</i>
investment income	2,393	3,652	5,000	5,250
<i>Change</i>		<i>52.64%</i>	<i>36.91%</i>	<i>5.00%</i>
Profit Before Tax	17,497	37,194	46,250	58,625
<i>Change</i>		<i>112.57%</i>	<i>24.35%</i>	<i>26.76%</i>
Taxation	-6,120	-11,477	-14,800	-18,760
<i>Change</i>		<i>87.53%</i>	<i>28.96%</i>	<i>26.76%</i>
Profit After Tax	11,377	25,717	31,450	39,865
<i>Change</i>		<i>126.05%</i>	<i>22.29%</i>	<i>26.76%</i>

**Fig. 13: Statement of Financial Position, N'mn**

	2020	2021	2022F	2023F
Property plant and equip.	216,890	208,721	216,667	227,501
Investment property	1,633	1,533	1,750	1,750
Goodwill	4,148	4,148	4,333	4,550
Deferred tax	3,578	6,974	6,333	6,650
Long term receivables	359	39	250	263
Inventories	115,596	195,449	208,334	218,751
Biological assets	148	376	417	438
Trade and other rec.	25,731	25,826	27,083	28,438
Total Assets	432,454	544,732	587,086	616,352
Bank overdraft	5,543	4,001	4,167	4,375
Trade & other payables	83,614	120,152	129,167	135,626
Borrowings	23,344	26,913	26,667	28,000
Retirement benefit oblig.	7,135	10,397	12,083	12,688
Long service award	2,738	3,713	3,000	3,150
deferred tax	11,849	16,857	17,833	18,725
Total liabilities	276,646	370,119	404,610	424,840
Net Assets	155,808	174,613	182,476	191,512

**Fig. 14: Profitability Ratio**

	2020	2021	2022F	2023F
Gross profit margin	11.47%	13.84%	14.00%	15.00%
Net Profit Margin	1.98%	3.33%	3.77%	4.56%
operating profit margin	6.11%	6.76%	0.00%	0.00%
Return on Equity	7.30%	14.73%	17.24%	20.82%
Return on Assets	2.63%	4.72%	5.36%	6.47%
ROCE	0.84%	1.09%	1.39%	1.39%

**Fig. 15: Asset Utilisation**

	2020	2021	2022F	2023F
cash/sales	0.03	0.06	0.07	0.07
Sales to inventory (x)	4.96	3.95	4.00	4.00
Sales to total assets (x)	1.33	1.42	1.42	1.42
sales/EBITDA	10.61	8.21	7.76	7.13
Sales to total fixed assets	2.65	3.70	3.85	3.85
Equity multiplier	2.78	3.12	3.22	3.22

**Fig. 16: Liquidity Ratios**

	2020	2021	2022F	2023F
Quick ratio	0.50	0.53	0.56	0.56
Current ratio	1.28	1.46	1.47	1.47
Cash ratio	0.12	0.22	0.26	0.26
Interest Coverage	0.88	1.99	2.29	2.77
Operating Cash Flow Ratio	0.00	0.00	0.00	0.00
Debt/net income	7.58	4.11	3.71	3.07
Debt/operating profit	36.03	28.96	23.33	23.33
Debt to asset	0.20	0.19	0.20	0.20
Debt to equity	0.55	0.61	0.64	0.64
Total liabilities/equity	1.78	2.12	2.22	2.22
Inventory turnover days	83.06	107.30	106.10	107.35
Account receivable days	16.37	12.22	11.86	0.18
Account payable days	60.08	65.96	65.78	66.56

**Fig. 17: Shareholders' Investment Ratios**

	2020	2021	2022F	2023F
Earnings per share	2.77	6.27	7.67	9.72
DiV per share	1.40	1.65	2.50	3.20
NAVPS	38.00	42.58	44.50	46.71
Earnings yield	9.49%	21.44%	26.22%	33.24%
P/S ratio	0.209	0.155	0.144	0.137

Source: Company's Annual Reports, PAC Research

**Equity research methodology employed in this report**

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top down and bottom up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management.

Our recommendation tends towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profit margins, growth, economic viability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to < 30%	BUY
-10% to < 10%	HOLD
<-10%	SELL



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**PanAfrican Capital Holdings Ltd**

8A, Elsie Femi Pearse Street

Victoria Island

Lagos, Nigeria

Tel: +234 (1) 2716899, 2718630

[www.panafricancapitalholdings.com](http://www.panafricancapitalholdings.com)