

FLOURMILL Consolidates on its Impressive Q1 Outing

Food Giant Records NGN200bn in Top-line - its highest ever in one quarter

Building on the momentum gained in the first-quarter (*year-end is March*), Flour Mill of Nigeria Plc. (**FLOURMILL**) reported yet another record-breaking performance in its recently released Q2:2021 financial scorecard. The company generated NGN200.53bn in Q2:2021 standalone (*July – September 2020*) – heads and shoulders above the previous quarter’s NGN154.58bn (*a revenue highpoint as we called it in our Q1:2021 Earnings Update*). **This brought total revenue for the first half of the year to NGN355.11bn, 31.15% higher than the NGN270.76bn generated in the corresponding H1:2020 period.** **FLOURMILL** continues to reap the benefits of the turnaround in its Agro-allied business division (*which is up 45.87% YoY and accounts for 20.29% of total revenue*), alongside impressive top-line growth in its other business segments (*Food:+26.97%, Sugar:+29.47% and Support services: +40.62%*). **An improved focus in its Business-to-Customer channels (B2C), investment in its Route-to-market (RTM), and a more robust product offering have proven to be the strategic pillars of the company’s growth this period. Despite the weakened purchasing power of consumers due to the soaring inflation rate, we maintain our positive sales outlook for the firm. Our expectation is premised on the essential nature of the firm’s products, its affordable pricing strategy, and robust capacity in its agro-allied division.** On this note, we forecast a top-line growth of 20.26% to NGN690.05bn by year-end 2021.

Profitability Margins Show Laudable Improvement

Cost of sales for H1:2021 shot up by 27.55% YoY to NGN304.82bn, mainly triggered by increases in raw material costs. The impact was, however, moderated by the growth in top-line, resulting in an improvement in cost-to-sales to 85.84% (vs. 88.26% in H1:2020). Despite the increase in operating expenses by 16.10% and a revaluation loss on FCY payables, operating profit still rode on the revenue growth momentum, up by 41.09% to NGN23.73bn (vs. NGN16.82bn in H1:2020). Although, **FLOURMILL** recorded a 12.59% jump in finance costs to NGN9.95bn, interest coverage ratio improved to 2.38x from 1.90x on the back of the surge in EBIT. At 3.62x, the company’s Debt to EBITDA ratio, although high, compares favorably with its industry peer **HONYFLOUR** (10.42x). **Management reiterated its intention to issue NGN30bn in bonds later in the year as part of its NGN70bn bond programme; a move which we believe would be advantageous to the company considering the currently depressed yield environment and its recently upgraded credit rating by Agusto & Co.** Armed with a new “A-” rating, we envisage that the company would be able to access cheaper debt, hence easing the burden on its debt metrics in the long run.

Overall, both PBT (+69.17% to **NGN14.61bn**) and PAT (+68.26% to **NGN9.93bn**) improved YoY, resulting in enhanced profitability ratios. Net margin, ROE and ROA climbed to 2.80%, 6.30% and 2.14% (from 2.18%, 3.80% and 1.47% respectively). Notably, asset turnover also improved slightly from 0.64x to 0.76x, fueled by revenue growth despite the 14.80% growth in total assets. For 2021FY, we have revised our earlier PAT forecast to NGN16.10bn – *implying a net margin of 2.33%*.

Outlook and Recommendation

Premised on our 2021FY expected EPS of NGN3.93 and revised target PE of 7.5x, we arrived at a Target Price of NGN29.48. This represents a 2.18% upside when compared to its closing price as at 2nd November 2020. Hence, we place a **HOLD** recommendation on the ticker.

Company	FLOURMILL
Valuation	
Trailing EPS	3.76
BVPS	39.02
P/E	6.44x
P/BV	0.62x
Target PE	7.50x
Dec-2020 Exp. EPS	3.93
Dec 2020 Target price	29.48
Current Price	28.85
Up/Downside Potential	+2.18%
Ratings	HOLD
Key metrics	
RoAE	9.76%
RoAA	3.32%
Net margin	2.80%
Asset Turnover	0.76x
Leverage	3.10x
Yr Hi	28.85
Yr Lo	17.00
YTD return	43.15%
Beta	0.62
Adjusted Beta	0.75
Shares outstanding	4.10bn
Market cap [NGN]	118.30bn
Financial year end	March
Most Recent Period (MRP)	H1:2021

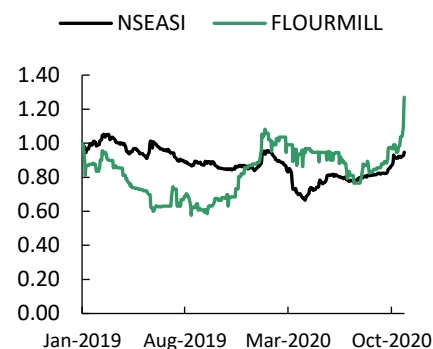


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	25.46
						Max	33.87
						EPS	
		3.64	3.78	3.93	4.08	4.23	
Target PE	7.0x	25.46	26.46	27.51	28.56	29.64	
	7.3x	26.37	27.41	28.49	29.58	30.70	
	7.5x	27.28	28.35	29.48	30.60	31.76	
	7.8x	28.19	29.30	30.46	31.61	32.82	
	8.0x	29.10	30.25	31.44	32.63	33.87	

Financial Highlights (NGN billion) FLOURMILL H1:2021 Unaudited Financial Results

<i>Profit & Loss Account</i>	H1:2021	H1:2020	y/y Growth
Revenue	355.11	270.76	31.15%
Cost of Sales	304.82	238.98	27.55%
Gross Profit	50.29	31.78	58.26%
Operating Expense	17.42	15.00	16.10%
Operating Profit	23.73	16.82	41.09%
Other Income	0.83	0.65	26.74%
Finance Expense	9.95	8.84	12.59%
PBT	14.61	8.63	69.17%
PAT	9.93	5.90	68.26%
<i>Balance Sheet</i>	H1:2021	2020FY	y/y Growth
Property, Plant and Equipment	211.46	216.89	-2.50%
Inventories	125.80	115.60	8.82%
Trade and other Receivables	26.14	25.73	1.59%
Cash and bank balances	80.13	26.21	205.73%
Other Assets	52.92	48.03	10.20%
Total Assets	496.45	432.45	14.80%
Shareholders' fund	160.00	155.81	2.69%
Trade and Other Payables	114.95	83.61	37.47%
Borrowings – Long term	75.76	80.68	-6.09%
Short term loans and overdraft	53.45	28.89	85.03%
Tax Liabilities	11.90	11.85	0.44%
Total Liabilities	336.46	276.65	21.62%

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Movements in Price Target

Company Name: Flour Mills of Nigeria Plc.

Date	Price (NGN)	Previous Target Price (NGN)	New Target Price (NGN)	Previous Recommendation	New Recommendation
01-Nov-2019	14.20	18.62	18.62	BUY	BUY
07-Feb-2020	22.80	18.62	22.42	BUY	HOLD
25-Aug-2020	18.50	22.42	25.52	HOLD	BUY
02-Nov-2020	28.85	25.52	29.48	BUY	HOLD

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Flour Mills of Nigeria PLC.	

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