

FLOURMILL Delivers Another Quarter to Remember

Another Stellar Performance Pushes Topline by +31.14% in 9M:2021

The 9M:2021 financial scorecard of Flour Mill of Nigeria Plc. (**FLOURMILL**) showed significant year on year improvements, with revenue (NGN555.34bn) and bottom-line (NGN15.59bn) up 31.14% and 90.94% respectively. The company replicated the feat recorded in the preceding quarter, generating over NGN200bn in revenues in Q3:2021 standalone (October – December 2020) – eclipsing the previous year's NGN152.72bn. The strong performance across all the Group's business segments (Food: +31.21%, Sugar: +33.41%, Agro-Allied: +29.86% and Support services: +25.63%) have been supported by Management's strategic focus on driving Business-to-Customer (**B2C**) sales; investments in Route-to-market (**RTM**) with the acquisition of new trucks and establishment of distribution centers, introduction of new products at attractive price points and benefits accruing from the erstwhile closure of the country's borders. **Our outlook for sales in Q4 is broadly positive (colored by the essential nature of the firm's products, its pricing strategy, and ongoing investments in its RTM and distribution channels), although we identify the reopening of the land borders and the impact of rising inflation on consumer purchasing power as downside risks. Hence, we now forecast a top-line growth of 25.60% to NGN720.67bn by year-end 2021.**

Sales Growth Pass through to Bottom-Line

FLOURMILLS' major cost item - raw materials shot up by 31.67% YoY to NGN425.82bn (reflecting the impact of higher sales volume sales and inflationary pressure), triggering a 28.55% increase in overall cost of sales. The impact was, however, moderated by the growth in top-line, which resulted in a slight improvement in cost-to-sales ratio to 86.95% (vs. 88.71% in 9M:2020). Similarly, topline growth trickled down to EBIT and bottom-line, notwithstanding the increase in operating expenses (+6.08% to NGN25.10bn), net operating loss of NGN12.58bn (due mainly to FX losses of NGN14.56bn) and higher finance charges. Operating profit at NGN35.21bn was 42.66% higher than in the corresponding 2020 period.

At the end of the period, finance costs were up by 13.80% to NGN14.93bn, accompanied by an increase in interest-bearing debt to NGN147.40bn due to inflows from its earlier commercial paper issuance. In the end, PBT and PAT settled at NGN23.61bn and NGN15.58bn – a whopping 92.06% and 90.94% YoY growth. Expectedly, profitability metrics fared better with net margin, ROE and ROA climbing to 2.81%, 10.02% and 3.37% (from 1.93%, 5.39% and 2.03% respectively). **For 2021FY, after adjusting for a better than expected Q3, we have revised our earlier PAT forecast to NGN19.18bn.**

Update on Bond Issuance and use of Proceeds

The company, as part of its NGN70bn bond programme, tapped the debt market in December, issuing NGN29.89bn in bonds – tranche A (5 years at 5.50%) and tranche B (7 years at 6.25%). The use of the proceeds would be to repay existing debt and finance its working capital needs. **With a healthy cash balance of NGN81.18bn and slightly better liquidity ratios (current and quick ratios improved to 1.45x and 0.60x from 1.28x and 0.35x respectively as at 2020FY), the company is liquid enough to cover its short-term obligations.**

Outlook and Recommendation

Premised on our 2021FY expected EPS of NGN4.68 and revised target PE of 6.8x, we arrived at a Target Price of NGN31.82. This represents a 3.58% downside when compared to its closing price as at 2nd February 2021. Hence, we place a **HOLD** recommendation on the ticker.

Company	FLOURMILL
Valuation	
Trailing EPS	4.58
BVPS	40.40
P/E	7.33x
P/BV	0.83x
Target PE	6.80x
Dec-2021 Exp. EPS	4.68
Dec 2020 Target price	31.82
Current Price	33.00
Up/Downside Potential	-3.58%
Ratings	HOLD
Key metrics	
RoAE	11.70%
RoAA	4.06%
Net margin	2.81%
Asset Turnover	1.20x
Leverage	2.98x
Yr Hi	34.70
Yr Lo	26.10
YTD return	33.46%
Beta	0.62
Adjusted Beta	0.75
Shares outstanding	4.10bn
Market cap [NGN]	135.31bn
Financial year end	March
Most Recent Period (MRP)	9M:2021

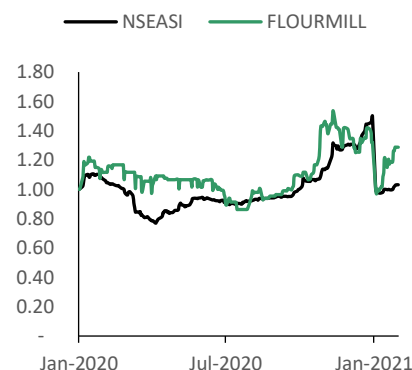


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	27.29
EPS						Max	36.81
Target PE		4.33	4.50	4.68	4.86	5.04	
	6.3x	27.29	28.36	29.48	30.60	31.77	
	6.6x	28.37	29.49	30.65	31.82	33.03	
	6.8x	29.45	30.61	31.82	33.03	34.29	
	7.1x	30.53	31.74	32.99	34.25	35.55	
	7.3x	31.62	32.87	34.16	35.46	36.81	

Financial Highlights (NGN billion) FLOURMILL 9M:2021 Unaudited Financial Results			
Profit & Loss Account	9M:2021	9M:2020	y/y Growth
Revenue	555.34	423.48	31.14%
Cost of Sales	482.90	375.65	28.55%
Gross Profit	72.45	47.83	51.47%
Operating Expense	25.10	23.67	6.08%
Operating Profit	35.21	24.68	42.66%
Other Income	3.33	0.73	356.70%
Finance Expense	14.93	13.12	13.80%
PBT	23.61	12.29	92.06%
PAT	15.58	8.16	90.94%
Balance Sheet	9M:2021	2020FY	y/y Growth
Property, Plant and Equipment	208.38	216.89	-2.50%
Inventories	121.32	115.60	8.82%
Trade and other Receivables	25.42	25.73	1.59%
Cash and bank balances	81.18	26.21	205.73%
Other Assets	56.87	48.03	10.20%
Total Assets	493.16	432.45	14.80%
Shareholders' fund	165.66	155.81	2.69%
Trade and Other Payables	91.42	83.61	37.47%
Borrowings – Long term	100.50	80.68	-6.09%
Short term loans and overdraft	46.90	28.89	85.03%
Tax Liabilities	14.07	11.85	0.44%
Total Liabilities	327.50	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
01-Feb-2021	33.00	29.48	31.82	HOLD	HOLD

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Company	Disclosure
Flour Mills of Nigeria PLC.	

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