

## Improvement in B2C Segment to Sustain Performance

### Extended Distribution Strategies Drive Topline Growth

2021FY (year-end is March) proved to be an exceptional year for the Consumer Staples giant - Flour Mills of Nigeria Plc (**FLOURMILL**)- as the company consistently reported stellar performances through all four quarters. Despite logistics and supply chain challenges, increased sales volume across all business segments resulted in an overall expansion of 34.48% in 2021FY topline. This performance reflects the significant investment undertaken in the Business-to-Customer (B2C) market such as establishing new distribution centers across the country. Revenue from the Food (+33.48%), Sugar (+32.22%) and Agro-allied (+27.66%) business units edged higher in the period as the erstwhile border closure helped the firm expand its domestic operational presence. New product lines were also introduced to cater to price sensitive customers (*Auntie B Spaghetti, Spaghetti Slim and Amazing day breakfast Cereal*). The Support Services business unit enjoyed increased patronage on the back of difficulties encountered by manufacturers in sourcing foreign alternatives. As a result, revenue from the segment surged by 136.87%YoY. **For 2022FY, we project a 16.92% growth in topline to NGN902.18bn premised on the company's commitment to continue driving B2C sales as well as consumers' acceptance of the new products introduced in the food segment.**

### Cost-to-Sales Ratio Moderates Despite Increased Cost Pressures

Cost-to-sales declined marginally in 2021FY to 86.16% from 88.53% in 2020FY as the growth in revenue outpaced the increase in production cost. The firm's production expenses increased significantly by 30.88%, reflecting the impact of the increased cost of raw materials and packaging (87.88% of total production cost) as it expanded by 34.02% to NGN583.62bn. Increased focus on the agro-allied business unit led to a 28.80% upsurge in the production cost for the segment. Cost of sales for other units also firmed up significantly in the period (Food- 31.59%, Sugar 24.32%, Support 89.56%), mainly due to higher production volumes across the segments.

### Topline Expansion Buys Earnings

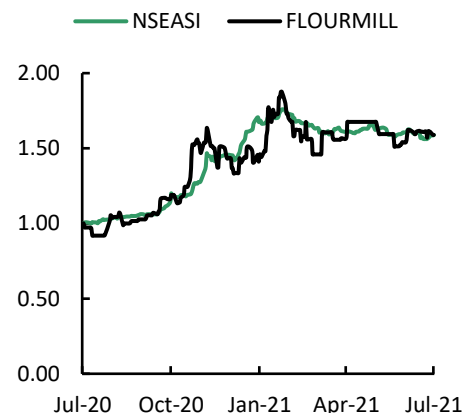
Operating expenses expanded by 26.06% specifically due to a NGN3.40bn COVID-19 donation and increased selling expenses in the period (+15.27%). Operating margin, however, remained resilient, improving to 13.84% (vs 11.47% in 2020 FY). The firm recorded an upsurge in its debt profile- up by 23.71% to NGN128.68bn- led by the NGN30.00bn corporate bond issued. Finance cost, however, moderated by 6.61%YoY on the back of relatively cheaper debt sources. On this note, interest coverage ratio improved to 2.80x (vs. 1.76x in 2020FY). Overall, earnings expanded markedly in the period with PAT settling at NGN25.72bn, up by 126.05%YoY. ROE, ROA, and Net Margin also improved in tandem to 15.57%, 5.26% and 3.33% (vs. 7.42%, 2.68% and 1.98% respectively).

**In the near to mid-term, we expect increased focus on the firm's backward integration strategies especially given the FG's drive to spur local production of wheat and sugar in the country. Ultimately, we expect that existing strategies focused on capturing more market share such as the extension of new distribution channels across the country, would translate into earnings growth. Based on these, we forecast an increase in bottom-line of 23.77% to NGN31.83bn.**

### Recommendation

Based on our Expected EPS of NGN7.76 and target PE of 5.00x, we project a target price of NGN38.80. This represents a 30.11% upside potential compared to its closing price on 12<sup>th</sup> July 2021. Hence, we place a **BUY** recommendation on the ticker.

Company	FLOURMILL
<b>Valuation</b>	
Trailing EPS	6.27
BVPS	42.58
P/E	4.69x
P/BV	0.69x
Target PE	5.00x
Dec-2021 Exp. EPS	7.76
Dec 2021 Target price	<b>38.80</b>
Current Price	29.85
Up/Downside Potential	<b>+30.11%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	15.57%
ROA	5.26%
Net margin	3.33%
Asset Turnover	1.58
Leverage	2.96x
<b>Share/Share Price Statistics</b>	
Yr Hi	NGN34.70
Yr Lo	NGN26.10
YTD return	+9.09%
Beta	0.85
Adjusted Beta	0.90
Shares outstanding	4.10bn
Market cap [NGN]	121.99bn
Financial year end	March
Most Recent Period (MRP)	2021 FY



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	32.32	
						Max	45.99	
		EPS						
		7.18	7.47	7.76	8.05	8.36		
Target PE	4.5x	32.32	33.59	34.92	36.25	37.62		
	4.8x	34.11	35.46	36.86	38.26	39.71		
	5.0x	35.91	37.33	<b>38.80</b>	40.27	41.80		
	5.3x	37.70	39.19	40.74	42.29	43.90		
	5.5x	39.50	41.06	42.68	44.30	45.99		

**Financial Highlights (NGN billion) Flour Mills of Nigeria PLC 2021 FY**

<b>Profit &amp; Loss Account</b>			
	2021 FY	2020 FY	y/y Growth
Revenue	771.61	573.77	34.48%
Cost of sales	664.85	507.99	30.88%
Gross Profit	106.76	65.79	62.28%
OPEX	41.13	32.62	26.06%
Operating Profit	52.20	35.08	48.79%
Finance Cost	18.66	19.98	-6.61%
PBT	37.19	17.50	112.57%
PAT	25.72	11.38	126.05%
<b>Balance Sheet</b>			
	2021 FY	2019FY	
Property, Plant and Equipment	208.72	216.89	-3.71%
Inventories	195.45	115.60	69.08%
Trade and Other Receivables	25.83	25.73	0.37%
Cash and Cash equivalents	37.16	26.21	41.79%
Other Assets	77.57	48.03	61.53%
<b>Total Assets</b>	<b>544.73</b>	<b>432.45</b>	<b>25.96%</b>
Shareholders' fund	174.61	155.81	12.07%
Trade and Other Payables	120.15	83.61	43.70%
Tax Liabilities	9.48	5.53	71.42%
<b>Total Liabilities</b>	<b>370.12</b>	<b>276.65</b>	<b>33.79%</b>

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## Movements in Price Target

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**Company Name:** Flour Mills Of Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
02-Feb-2021	33.00	29.48	31.82	HOLD	HOLD
06-Jul-2021	29.40	31.82	38.80	HOLD	BUY

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Flour Mills of Nigeria Plc	

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