

FLOURMILL Intensifies Distribution Network

Double Digit Growth Across All Segments

In the just released financial scorecard for 9M:2022 (*full year-end is March*) Flourmill of Nigeria Plc's (**FLOURMILL**) recorded an impressive topline performance as it grew by 48.55%YoY to NGN824.98bn (vs. NGN555.34bn in 9M:2021). This also beats 2021FY performance by 6.92% (NGN771.61bn). The positive outing reflects significant volume growth across all its business segments and also the benefit of upward price revision on some products particularly in the food and sugar segment. The food segment (c.65% of revenue) contributed the most to revenue increasing by 55.42% to NGN534.48bn. Similarly, the agro-allied (+48.42%), Support (+62.24%) and Sugar (+19.69%) segments also witnessed significant expansion in revenue. The firm's effort to sustain distribution network expansion, developing its Business to Consumer (**B2C**) categories (Flour, Pasta, Noodles and Ball food) and the establishment of smaller Stock Keeping unit (SKUs) for the fertilizer business also contributed to the impressive topline growth. **For the last quarter of 2022FY, we remain optimistic about prospects for volume growth, anchored mainly on expected gains from an expanded distribution network. Thus, we project a 2022FY revenue of NGN1.12trn (from NGN771.61bn), implying a growth of 44.75%YoY topline expansion.**

Rising Cost Stifles Profitability Margins

The effect of inflation during the period pared profitability of **FLOURMILL**. We see this clearly in higher raw materials expenses (+58.11%), power cost (+32.58%) and direct staff cost (+24.14%) as well as higher cost to sales ratio (90.28% vs 86.95% in 9M:2021). **In a move to hedge against rising prices of inputs, the company obtained short term debt facilities to shore up its inventory base (+41.99%).** Similarly, operating expenses was up by 24.13%YoY during the nine-month period, influenced by higher selling expenses (+81.27%), depreciation (+30.99%) and legal expenses (+115.64%). Consequently, operating margins trended downwards to 4.90% (vs. 6.34% in 9M:2021) **Given the management's commitment to increase CAPEX spend, we anticipate higher depreciation charges in the upcoming financial periods.**

Due to the notable jump in financial liabilities (up by 43.74%YoY to NGN184.96bn from NGN128.68bn in 9M:2021), finance cost increased in the period by 8.02%YoY. Overall, PBT and PAT came in higher at NGN25.25bn and NGN17.05bn respectively (from NGN23.61bn and NGN15.58bn in 9M:2021). Higher production and operating cost pressures however weighed on net margin as it declined to 2.07% (vs 2.81% in 9M:2021).

The firm's Debt to EBIT and Debt to Asset ratio worsened to 4.57x and 0.26x (from 3.65x and 0.24x) respectively. On the other hand, its interest coverage ratio expanded to 2.51x (2.36x in 9M:2022) beefed up by the increase in EBIT (+14.87%) while its debt to equity increased to 1.00x (vs 0.74x in 2021FY). **Based on our expectation for topline and lower production costs in Q4:2022, we project an earnings performance of NGN47.52bn in 2022FY, implying a 74.53%YoY expansion in bottom line and a net margin of 4.02% (from 3.33%) in 2021FY).**

Recommendation

We maintain our target price of NGN40.65 for 2022FY on the back of a target P/E of 3.71x and an expected EPS of 10.95. This represents a 25.85% upside to its closing price of NGN32.30 on 11th February 2021. Thus, we rate the ticker a "**BUY**".

Company	FLOURMILL
Valuation	
Trailing EPS	6.63
BVPS	45.11
P/E	4.87X
P/BV	0.72x
Target PE	3.71X
Dec-2021 Exp. EPS	10.95
Dec 2021 Target price	40.65
Current Price	32.30
Up/Downside Potential	+25.85%
Ratings	
	BUY
Key metrics- Trailing	
ROE	15.12%
ROA	4.36%
Net margin	2.07%
Asset Turnover	1.67
Leverage	3.47
Yr Hi	32.30
Yr Lo	28.10
YTD return	13.93%
Beta	0.77
Adjusted Beta	0.86
Shares outstanding	4.10bn
Market cap [NGN]	132.44bn
Financial year end	March
Most Recent Period (MRP)	9M:2022

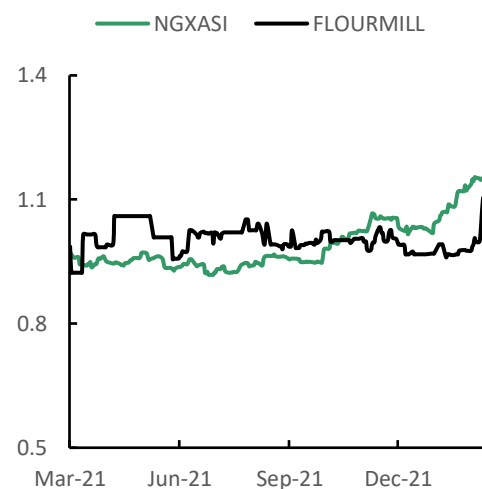


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	32.55	
						Max	49.70	
		EPS						
		10.13	10.53	10.95	11.36	11.79		
Target PE	3.2x	32.55	33.84	35.18	36.51	37.90		
	3.5x	35.09	36.47	37.91	39.35	40.85		
	3.7x	37.62	39.11	40.65	42.19	43.80		
	4.0x	40.15	41.74	43.39	45.04	46.75		
	4.2x	42.68	44.37	46.12	47.88	49.70		

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	9M:2021	9M:2022	2022F	2023F	2024F	2025F	2026F
Revenue	555.34	824.98	1,116.94	1,203.44	1,305.62	1,384.26	1,489.07
Cost of sales	482.90	744.76	950.90	1,019.40	1,106.10	1,172.65	1,261.97
Gross profit	72.45	80.22	166.04	184.04	199.52	211.61	227.10
Other income	0.45	-0.63	0.88	1.15	0.69	1.27	1.60
Operating expense	25.10	31.16	46.46	47.99	52.02	56.61	61.11
Operating profit	35.21	40.44	84.98	103.70	110.84	112.56	117.57
Finance cost	14.93	16.12	23.05	26.26	30.08	31.80	37.62
PBT	23.61	25.25	66.01	81.07	84.79	85.03	84.93
PBT	15.58	17.05	44.88	55.13	57.65	57.82	57.75

Balance Sheet	2021FY	9M:2022	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	208.72	223.59	238.23	297.07	357.66	416.18	477.90
Total Debt	128.68	184.96	201.23	206.70	227.29	264.47	305.89
Total Assets	544.73	702.91	691.42	761.01	851.58	955.00	1,067.54
Total Equity	174.61	184.97	213.10	261.39	311.56	361.15	411.31
Total Current Liabilities	209.70	326.83	257.51	270.86	291.21	312.49	337.96
Non-Current Liabilities	160.42	191.11	220.82	228.76	248.81	281.36	318.27
Total Liabilities	370.12	517.94	478.33	499.62	540.02	593.85	656.23

Financial Ratios	2021FY	9M:2022	2022F	2023F	2024F	2025F	2026F
Gross Margin	14.87%	15.29%	15.28%	15.29%	15.25%	14.87%	15.29%
Operating Margin	7.61%	8.62%	8.49%	8.13%	7.90%	7.61%	8.62%
Net Margin	4.02%	4.58%	4.42%	4.18%	3.88%	4.02%	4.58%
Return on Asset	6.49%	7.59%	7.15%	6.40%	5.71%	6.49%	7.59%
Return on Equity	21.06%	23.24%	20.13%	17.19%	14.95%	21.06%	23.24%
Return on Invested Capital	14.00%	20.05%	15.04%	13.25%	12.34%	10.82%	10.82%
Earnings per share	10.95	13.44	14.06	14.10	14.09	10.95	13.44
Asset Turnover	1.62	1.66	1.62	1.53	1.47	1.62	1.66
Financial Leverage	3.24	3.06	2.81	2.69	2.62	3.24	3.06
Debt to Asset Ratio	0.29	0.28	0.27	0.27	0.28	0.29	0.28
Debt to EBIT Ratio	2.37	2.16	2.02	2.20	2.48	2.37	2.16
Current Ratio	1.64	1.59	1.58	1.61	1.64	1.64	1.59
Quick Ratio	0.74	0.70	0.68	0.72	0.75	0.74	0.70

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
 olatunjifaniyi@meristemng.com (+234 803 446 3118)
 contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
 seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
 crmwealth@meristemng.com
 Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
 martinaosague@meristemregistrars.com (+234 802 303 1783)
 www.meristemregistrars.com
 Tel: +23401-280 9250

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
 crmwealth@meristemng.com

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
 ifeomaogalue@meristemng.com (+234 802 3942967)
 info@meristemng.com

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
 blessingogwuiche@meristemng.com (+234 706 896 5173)
 car@meristemng.com

Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)
 research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: meristem.com.ng/rhub

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

Analyst's Certification and Disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

Investment Ratings

Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

Ratings Specification

- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

Definitions

Price Targets: Price targets reflect in part the analyst’s estimates for the company’s earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company’s earnings fall short of estimates.

Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

Movements in Price Target

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
09-Aug-2021	30.45	38.80	40.65	BUY	BUY
11-Feb-2021	32.30	40.65	40.65	BUY	BUY

Company disclosures

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
Flour Mills of Nigeria Plc	

- a. The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- b. The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- c. Meristem beneficially owns 1% or more of the equity securities of the company
- d. Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- e. Meristem beneficially holds a major interest in the debt of the company
- f. Meristem has received compensation for investment banking activities from the company within the last 12 months
- g. Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- h. The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- i. The company is a client of the stock broking division of the Meristem group.
- j. The company is a client of the investment banking division of the Meristem group.
- k. Meristem is the registrar to the company.
- l. The company owns more than 5% of the issued share capital of Meristem
- m. Meristem has other financial or other material interest in the company.

Conflict of Interest

It is the policy of Meristem Securities Limited and its subsidiaries and affiliates (Individually and collectively referred to as “Meristem”) that research analysts may not be involved in activities that suggest that they are representing the interests of Meristem in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured so as to avoid any conflict of interests.

For example, research analysts are not subject to the supervision or control of anyone in Meristem’s Investment Banking or Sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analysts’ published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

Important Disclosure

For U.S. persons only: This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to “Major Institutional Investors” as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

Legal entity disclosures

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars businesses which are regulated by the SEC and ICMR.

Copyright 2022 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Meristem Securities Limited.