

FLOURMILL Proves its Mettle

Revenue Hits Record high

FLOURMILL delivered a solid financial scorecard in 2022FY (*full year end is March*) as revenue expanded impressively by 50.83%YoY to NGN1.16trn, representing its first foray into the trillion-revenue bracket. *The firm's performance was supported by its unrelenting strategy of expanding retail customers base through product rollouts in B2C segment, volume growth across all its business segments and upward review of product prices during the period. The introduction of a new product in the Sugar segment – Locally produced Brown Sugar – also helped the firm cushion the negative effects of the challenges faced by the global sugar industry.* Thus, the segment's revenue expanded by 25.18%YoY to NGN156.02bn in the period. The Food segment which contributes c.64% to the firm's total revenue also recorded significant revenue expansion (+56.54%YoY) on the back of investments in the distribution channel (226 new vans) and repackaging of some products in smaller quantity. Improved export proceeds from the Agro-Allied segment (c.26% of revenue) also contributed substantially to its growth (+18.33%YoY). While the revenue from the Support segment expanded by 56.32%YoY buoyed by improved demand for the firm's innovative product (zero-fly bagging) and locally produced packaging material in the domestic market. The firm's performance in Q4:2022 (January-March 2022) also marks its highest revenue in a single quarter (NGN338.82bn), representing a double milestone performance for the firm. **For 2023FY we expect the recent and proposed additions to product line, increased production capacity, price increment, and the firm's commitment to the expansion of product research and its distribution channels to drive revenue. Thus, we project a revenue of NGN1.29trn in 2023FY.**

Cost Pressure Narrows Profitability Margin Growth

Production cost increased significantly in the period (+60.75%YoY), outpacing the growth in revenue and resulting in higher cost to sales (90.71% vs 86.16% in 2021FY). The increase in the cost of raw materials (wheat and sugar) in the global market influenced the uptick in the firm's raw material expense (+64.14%YoY). Similarly, operating expense increased marginally (+4.21% YoY), due to higher administrative expenses, to NGN42.86bn. Thus, operating margins dipped to 5.63% (from 6.76% in 2021FY). On the heel of increments in debt profile (+15.66% YoY to NGN148.83bn in 2022FY), finance cost increased by 36.59%YoY to NGN25.48bn (vs. NGN18.66bn in 2021FY). Thus, Debt ratios worsened compared to 2021FY: Interest cover- 2.57x from 2.79x, and Debt to equity- 0.75x vs 0.74x. Overall, the firm recorded an uptick in PBT and PAT of 5.18% and 8.94% to NGN39.22bn and NGN28.02bn respectively. However, net margin, return on asset and return on equity all declined to 2.41%, 4.74% and 15.07% (vs. 3.33%, 5.26% and 15.57% in 2021FY), respectively. **While we expect production cost and operating expense to remain inflated, our 2023FY earnings outlook is hinged on support from expected revenue. Thus, we forecast a net income of NGN33.72bn and net margin of 2.61% in 2023FY.**

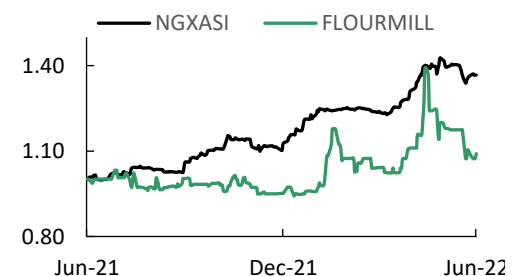
Capacity Expansion to Sustain Performance

FLOURMILL's working capital improved significantly to NGN185.06bn (from NGN147.69bn in 2021FY) owing to higher inventory (+45.54%). However, we note the uptrend in payable (+61.95%) as the firm was able to negotiate favorable trading terms with its partners. This resulted in lower liquidity margins as current and quick ratio declined to 1.30x and 0.30x (from 1.46x and 0.53x in 2021FY). Efforts to increase its capacity (investments in additional CPO plants, additional plant in Kaduna, expansion of soyabean plant etc.) reflected in its cashflow to capital expenditure ratio (1.02x vs. 0.68x in 2021FY). We expect the benefits from these to support its performance in coming periods.

Recommendation

We project a 2023FY expected EPS of NGN8.22 and a target PE of 5.57x. This yields a target price of NGN45.79 and an implied +43.08% upside potential based on the closing price on June 30th, 2022. Hence, we rate the ticker a **BUY**

Company	FLOURMILL
Valuation	
EPS	NGN6.83
BVPS	NGN47.78
P/E	5.12x
P/BV	0.73x
Target PE	5.57x
Dec-2023 Exp. EPS	NGN8.22
Dec 2023 Target price	NGN45.79
Current Price	NGN32.00
Up/Downside potential	43.08%
Ratings	BUY
Key metrics	
ROE	15.07%
ROA	4.74%
Net margin	2.41%
Asset Turnover	0.99x
Leverage	3.23x
Share/ Share Price Statistics	
Yr Hi	NGN41.45
Yr Lo	NGN28.1
YTD return	23.46%
Beta	0.82
Adjusted Beta	0.88
Proposed Dividend	NGN2.15
Shares outstanding	4.10
Market cap [NGN]	143.51
Financial year end	March
Most Recent Period	2022FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of Mar-2022 Target Price to key model inputs						Min	44.42
						Max	47.17
EPS							
	45.79	8.12	8.17	8.22	8.27	8.32	
Target PE	5.47x	44.42	44.69	44.96	45.24	45.51	
	5.52x	44.82	45.10	45.37	45.65	45.93	
	5.57x	45.23	45.51	45.79	46.06	46.34	
	5.62x	45.63	45.92	46.20	46.48	46.76	
	5.67x	46.04	46.32	46.61	46.89	47.17	

Financial Highlights and Forecasts (NGN billion)							
Profit & Loss Account	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Revenue	771.61	1163.80	1291.32	1477.59	1616.65	1809.32	2002.28
Cost of sales	664.85	1055.71	1160.70	1311.38	1442.80	1616.01	1793.78
Gross profit	106.76	108.09	130.62	166.21	173.85	193.32	208.51
Operating expense	41.13	42.86	47.55	52.04	55.77	61.34	65.88
Operating profit	52.20	65.51	83.55	103.22	106.42	125.69	134.63
Finance cost	18.66	25.48	32.75	34.56	36.89	37.72	39.09
PBT	37.28	39.22	50.67	67.84	69.21	87.27	95.37
PAT	25.72	28.02	33.72	42.90	46.77	59.17	69.39
Balance Sheet	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Property, Plant and Equipment	208.72	226.84	234.11	238.02	243.71	252.66	263.08
Total Assets	544.73	636.67	644.40	712.15	762.07	834.14	918.51
Total Equity	174.61	197.19	218.10	240.10	266.69	298.62	340.70
Total Current Liabilities	209.70	293.59	249.15	279.96	290.10	324.87	358.03
Non-Current Liabilities	160.42	177.52	177.16	192.09	205.29	210.65	219.78
Total Liabilities	370.12	471.11	426.31	472.05	495.39	535.52	577.81
Financial Ratios	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Gross Margin	13.84%	9.29%	10.12%	11.25%	10.75%	10.68%	10.41%
Operating Margin	6.76%	5.63%	6.47%	6.99%	6.58%	6.95%	6.72%
Net Margin	3.33%	2.41%	2.61%	2.90%	2.89%	3.27%	3.47%
Return on Asset	5.26%	4.74%	5.26%	6.32%	6.34%	7.41%	7.92%
Return on Equity	15.57%	15.07%	16.24%	18.72%	18.46%	20.93%	21.71%
Asset Turnover	0.79	0.99	1.01	1.09	1.10	1.13	1.14
Financial Leverage	3.12	3.23	2.95	2.97	2.86	2.79	2.70
Current Ratio	1.46	1.30	1.52	1.58	1.66	1.67	1.71
Quick Ratio	0.53	0.33	0.48	0.44	0.45	0.53	0.62
Debt to EBIT ratio	2.47	2.27	1.71	1.46	1.51	1.31	1.27
Debt to Asset ratio	0.24	0.23	0.22	0.21	0.21	0.20	0.19

(Q1- First-Quarter); (H1- First-Half); (H2- Second Half) (FY- Full Year) (F- Forecast)

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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
11-Feb-22	32.30	40.65	40.65	BUY	BUY
1-Jul-22	32.00	40.65	45.79	BUY	BUY

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Flour Mills of Nigeria Plc	

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