

Capacity Expansion to Improve Financial Performance

Topline Expansion Across All Business Segments

Flourmills of Nigeria Plc. (**FLOURMILL**) beat our 2023FY (full year *is March*) revenue forecast by c.1%, delivering a solid topline growth of 32.30% YoY to NGN1.54trn (vs NGN1.16trn in 2022FY). This impressive performance was buoyed by several factors, including the continuous expansion of its product portfolio within the food segment (*Noodles Flavor additions and Golden Bites Chin Chin*), operational expansions in the agro-allied segment (*commissioning of new fertilizer plants and feed milling plants in Kaduna*), the introduction of locally produced brown sugar in the sugar segment, developing its Business to Consumer (**B2C**) categories, establishing smaller Stock Keeping units (SKUs) for the fertilizer business, higher sales volume and price increments across its business lines. Thus, save for the support segment (which only grew by 2.48% YoY), the firm recorded double-digit growth across its other segments: Food (+33.64% YoY), Agro-allied (+33.08% YoY) and Sugar (+33.51% YoY).

Also supported by strong growth across all segments, the firm recorded its highest quarterly revenue on record in its Q1:2024 financial period (*April- June 2023*). Its topline expanded by 34.39% YoY to NGN456.38bn (from NGN 339.60bn in Q1:2023). The food segment expanded the most, growing by 42.45% YoY, while Agro-allied, Sugar and Support Services improved by 21.65% YoY, 20.85% YoY and 10.46% YoY, respectively. **For 2024FY, we remain optimistic about prospects for further topline expansion. We expect the recent additions to the product lines, increased production capacity, price increment, and extended distribution channels to drive revenue higher. Thus, we project a 2024FY revenue of NGN1.95trn (from NGN1.54bn), implying a 27.20% YoY topline expansion growth.**

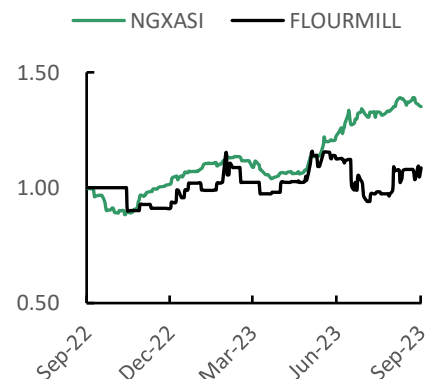
Foreign Exchange Loss Results in a Loss-Making First Quarter

On the back of the increased cost of its major raw materials (*wheat and sugar*) as well as Naira depreciation within the period, the firm recorded higher raw materials cost (+27.98% YoY) in 2023FY, leading production cost higher by 29.06% YoY. However, the firm's cost-to-sales ratio improved to 88.50% (from 90.71% in 2022FY), highlighting its cost optimization strategies through wheat blend changes for its core categories. Operating expenses also expanded by 30.70% YoY owing to higher administration (+27.55% YoY) and selling expenses (+39.71% YoY). Similarly, in Q1:2024, production cost increased by 32.55% YoY to NGN406.08bn (vs NGN306.35bn in Q1:2023), operating expenses shot by 17.70% YoY and the firm recorded a significant loss from foreign exchange differences (+786.92% YoY) leading its operating margin lower to 1.56% (from 4.50% in Q1:2023). We note the significant uptick in debt obligations (+134.96% YoY) in 2023FY owing to increased debt from the acquisition of Honeywell Flour Mills Plc. As a result, finance costs increased by 118.69% YoY and 50.98% YoY in 2023FY and Q1:2024, respectively. Thus, debt-to-EBIT, debt-to-equity and interest coverage ratios worsened to 52.58x, 1.73x and 0.43x (from 22.88x, 1.55x and 1.88x in 2023FY), respectively. Thus, **FLOURMILL** recorded a loss after tax of **NGN9.34bn** in Q1:2024 (vs. a net profit of NGN5.50bn in Q1:2023). **We expect production and operating expenses and FX loss to increase further in 2024FY. However, our optimistic projection for revenue expansion provides some respite to profitability. We project an earnings performance of NGN31.52bn in 2024FY, implying a 6.84%YoY increase in the bottom line and a net margin of 1.61% (from 1.92% in 2023FY).** We also note the firm's cashflow from operations to capital expenditure ratio has deteriorated steadily over the past three years to 0.64x in 2023FY (from 4.07x in 2020FY), signifying a lower ability to reinvest in its business without resorting to external financing. Thus, considering the risk of its debt profile expanding further, we expect finance costs to increase in upcoming financial periods, increasing its riskiness for short-term equity investors.

Recommendation

We maintain our target price of NGN38.76 for 2024FY on the back of a target P/E of 5.04x and an expected EPS of 7.69. This represents a 22.26% upside to its closing price of NGN31.70 on 28th September 2023. Thus, we rate the ticker a "**BUY**".

Company	FLOURMILL
Valuation	
Trailing EPS [NGN]	3.58
BVPS	52.65
P/E	8.47x
P/BV	0.58x
Target PE	5.04x
Mar-2024 Exp. EPS	7.69
Mar 2023 Target price	38.76
Current Price	31.60
Up/Downside Potential	+21.88%
Ratings	BUY
Key metrics- Trailing	
ROE	6.65%
ROA	1.30%
Net margin	0.79%
Asset Turnover	1.71x
Leverage	4.07x
Yr Hi	31.70
Yr Lo	28.40
YTD return	11.97%
Beta	0.95
Adjusted Beta	0.96
Shares outstanding	4.10bn
Market cap [NGN]	129.98bn
Financial year end	March
Most Recent Period (MRP)	Q1:2024



Analyst
Praise Ihankshien

praiseihankshien@meristemng.com
(+234 817 007 1512)

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2023 Target Price to Key Model Inputs						Min	32.31
						Max	45.90
						EPS	
		7.12	7.40	7.69	7.98	8.29	
Target PE	4.5x	32.31	33.59	34.91	36.24	37.62	
	4.8x	34.09	35.44	36.84	38.23	39.69	
	5.0x	35.87	37.28	38.76	40.23	41.76	
	5.3x	37.65	39.13	40.68	42.23	43.83	
	5.5x	39.43	40.98	42.60	44.22	45.90	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	Q1:2023	Q1:2024	2024F	2025F	2026F	2027F	2028F
Revenue	339.60	456.38	1,958.50	2,218.95	2,350.45	2,489.97	2,638.01
Cost of sales	306.35	406.08	1,679.14	1,908.48	2,020.66	2,144.46	2,284.21
Gross Profit	33.25	50.30	279.36	310.47	329.79	345.52	353.79
Other income	-0.66	-0.12	1.23	1.16	1.67	(0.09)	1.08
Operating expense	14.68	17.28	89.72	101.23	105.74	108.55	111.02
Operating Profit	15.29	7.12	103.06	154.13	156.21	158.04	159.20
Finance cost	-8.15	-16.63	62.60	50.46	50.10	53.56	52.03
PBT	7.33	-9.34	46.36	108.82	111.58	110.56	113.94
PBT	5.50	-9.34	31.52	74.00	75.87	75.18	77.48

Balance Sheet	2023FY	Q1:2024	2024F	2025F	2026F	2027F	2028F
Property, Plant and Equipment	340.80	342.32	368.87	411.03	454.94	495.36	539.10
Total Debt	349.69	374.37	465.91	372.51	379.47	384.94	378.94
Total Assets	1,097.40	1,159.54	1,229.57	1,245.80	1,344.47	1,445.69	1,526.58
Total Equity	225.22	215.89	241.95	307.04	373.55	441.04	506.49
Total Current Liabilities	584.09	656.42	562.82	577.61	600.90	628.57	652.34
Non-Current Liabilities	288.08	307.24	424.80	361.15	370.02	376.09	367.74
Total Liabilities	872.17	943.66	987.62	938.76	970.92	1,004.66	1,020.08

Financial Ratios	2023FY	Q1:2024	2024F	2025F	2026F	2027F	2028F
Gross Margin	9.79%	11.02%	13.12%	14.26%	13.99%	14.03%	13.88%
Operating Margin	4.50%	1.56%	6.35%	5.26%	6.95%	6.65%	6.35%
Net Margin	1.62%	-2.05%	1.92%	1.61%	3.33%	3.23%	3.02%
Return on Asset	2.55%	1.30%	2.70%	2.71%	5.98%	5.86%	5.39%
Return on Equity	13.30%	6.65%	13.10%	13.49%	26.96%	22.30%	18.46%
Earnings per share	1.34	-2.28	7.20	7.69	18.05	18.50	18.33
Asset Turnover	1.32	1.47	1.41	1.69	1.79	1.81	1.78
Financial Leverage	4.19	5.12	4.86	4.97	4.51	3.81	3.43
Debt to Asset Ratio	0.32	0.32	0.32	0.35	0.34	0.29	0.27
Debt to EBIT Ratio	52.58	22.88	3.58	4.06	3.26	2.42	2.43
Current Ratio	1.22	1.21	1.22	1.45	1.37	1.41	1.44
Quick Ratio	0.64	0.75	0.64	0.75	0.60	0.62	0.64

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
 contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
 davidadu@meristemng.com (+234 810 940 4836)

Wealth Management

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

Meristem Finance Limited

olasokomubo@meristemfinance.com (+234 803 324 7996)
matthewawotundun@meristemfinance.com (+234 802 390 6249)

Registrars

oluseyiowoturo@meristemregistrars.com (+234 802 321 0561)
 www.meristemregistrars.com
 Tel: +23401-280 9250

Trust Services

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

Group Business Development

sulaimanadedokun@mersitemng.com (+234 803 301 3331)
ifeomaanyanwu@meristemng.com (+234 802 394 2967)
 info@meristemng.com

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
 car@meristemng.com

Investment Research

praiseihansekhien@meristemng.com (+234 817 007 1512)
 research@meristemng.com

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

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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
28-Sep-23	31.70	36.95	38.76	BUY	BUY

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Company	Disclosure
Flour Mills of Nigeria Plc	

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