

### Earnings Turn The Corner in Q3:2024

**Summary:** In Q3:2024 (September- December 2023), Flourmills Nigeria Plc (**FLOURMIL**) achieved its highest quarterly revenue to date, reaching NGN594.55bn (+51.13% YoY) compared to NGN393.39bn in Q3:2023. This outstanding result bolstered the company's 9M performance, elevating total income to NGN1.56trn (+39.97% YoY) from NGN1.11trn. The Food segment which remained the primary revenue driver, (66.66% of the total revenue) surpassed NGN1.00trn, reaching NGN1.04trn, (+43.51% YoY). This growth was fueled by price reviews, introduction of new flavor offerings in its Noodles portfolio, (such as Goat Meat Pepper Soup and Jollof Hot Hot variants) as well as improvement in the company's route-to-market channels. Additionally, all other business segments experienced positive revenue growth: Sugar (+73.90% YoY), Support Services (+22.72% YoY), and Agro Allied (+7.81% YoY).

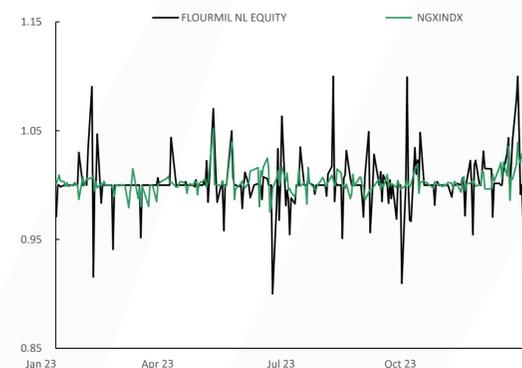
Primarily driven by elevated material costs (+33.69% YoY) as the depreciation of the Naira inflated import expenses for raw materials, the firm's production cost increased by 31.44% YoY, trailing revenue performance. However, as revenue growth outpaced the increase in costs, the cost-to-sales ratio improved to 85.21% (compared to 90.73% in the previous period). Furthermore, operating expenses (OPEX) surged by 250.48% YoY, largely attributed to soaring foreign exchange losses (+331.61% YoY) totaling NGN128.20bn, as well as increased selling & distribution (+40.14% YoY) and administrative (+23.77% YoY) costs. The impact was, however, largely muted on operating profit (-2.13% YoY) due to robust revenue growth. Also, the company's finance cost grew by 42.47% YoY owing to an escalation in its debt burden (+59.43% YoY). This reflects the increased capital raises through commercial papers and bonds, which increased the firm's current liabilities. (+60.27% YoY). As a result, **FLOURMIL's** debt ratios worsened: interest coverage ratio declined to 0.95x (from 1.38x in 9M:2023) , debt-to-equity and debt-to-asset ratios worsened to 2.24x and 0.36x (from 1.53x and 0.31x in 9M:2023). Despite these increased cost pressures, the company returned to profitability (from its loss position in H1:2024), reporting a profit position of NGN257.99mn in 9M:2024, (vs NGN10.02bn in 9M:2023), supported primarily by impressive earnings in Q3:2024 earnings (NGN8.26bn).

**Positive:** Gross profit and profit after tax rose by 263.35% YoY and 91.17% YoY in Q3:2024 to NGN125.15bn and NGN8.26bn respectively.

**Negative:** Profit before tax for the Sugar segment plummeted by 2149.83% YoY to a loss position of **NGN20.71bn** in 9M:2023, offsetting profits from other segments.

**Outlook:** We project that the company will continue to leverage its product expansion initiatives and improved distribution channels to bolster revenue growth. Additionally, we anticipate income growth stemming from capacity expansion endeavors, including the acquisition of Port Harcourt Flourmills. Nevertheless, we foresee sustained pressure on profitability due to the continued depreciation of the Naira.

| Valuation             |                 | Stock Highlights   |                 |
|-----------------------|-----------------|--------------------|-----------------|
| Trailing EPS          | 4.82            | Yr Hi              | 47.40           |
| BVPS                  | 52.80           | Yr Lo              | 33.10           |
| P/E                   | 8.31x           | YTD return         | +32.98%         |
| P/BV                  | 0.76x           | Beta               | 1.09            |
| Target PE             | 8.57x           | Adjusted Beta      | 1.06            |
| Dec-2024 Exp. EPS     | 4.69            | Shares outstanding | 4.10bn          |
| Dec 2023 Target price | <b>NGN40.17</b> | Market cap [NGN]   | <b>164.02bn</b> |
| Current Price         | NGN40.00        | Financial year end | March           |



| Sensitivity Analysis of 2024FY Target Price to key model inputs |       |       |       |              |       |       |       |      |      |      |
|---|-------|-------|-------|--------------|-------|-------|-------|------|------|------|
|   |       |       |       |              |       | Min   | 33.79 |      |      |      |
|   |       |       |       |              |       | Max   | 47.05 |      |      |      |
|   |       |       |       |              |       | EPS   |       |      |      |      |
|   |       |       |       |              |       | 4.19  | 4.44  | 4.69 | 4.94 | 5.19 |
| Target P/E  | 8.07x | 33.79 | 35.81 | 37.83        | 39.84 | 41.86 |       |      |      |      |
|   | 8.32x | 34.84 | 36.92 | 39.00        | 41.08 | 39.23 |       |      |      |      |
|   | 8.57x | 35.89 | 38.03 | <b>40.17</b> | 42.31 | 41.28 |       |      |      |      |
|   | 8.82x | 36.94 | 39.14 | 41.34        | 43.55 | 43.33 |       |      |      |      |
|   | 9.07x | 37.98 | 40.25 | 42.52        | 44.78 | 47.05 |       |      |      |      |

**Recommendation: HOLD TP: 40.17 CP: 40.00 UPP: 0.43%**

#### Financial Highlight (NGN'bn)

| Profit and Loss Account | 9M:2024  | 9M:2023   | Y/Y Growth |
|-------------------------|----------|-----------|------------|
| Revenue                 | 1,559.20 | 1,113.97  | 39.97%     |
| Cost of Sales           | 1,328.54 | -1,010.74 | 31.44%     |
| Operating Expense       | 179.85   | 51.32     | 250.48%    |
| Operating Profit        | 50.80    | 51.91     | -2.13%     |
| Finance Cost            | 53.43    | 37.50     | 42.47%     |
| PBT                     | 0.38     | 14.95     | -97.46%    |
| PAT                     | 0.26     | 10.02     | -97.42%    |

| Balance Sheet                 | 9M:2024  | 2023FY   | YTD Growth |
|-------------------------------|----------|----------|------------|
| Property, Plant and Equipment | 334.22   | 340.80   | -1.93%     |
| Total Assets                  | 1,335.08 | 1,097.40 | 21.66%     |
| Total Equity                  | 216.50   | 225.2    | -3.87%     |
| Total Debt                    | 484.22   | 349.69   | 38.47%     |
| Total Liabilities             | 1,118.58 | 872.17   | 28.25%     |

| Profitability Ratio | 9M:2024T | 2023FY | 3-yr Hist. Avg |
|---------------------|----------|--------|----------------|
| ROA                 | 1.48%    | 2.69%  | 3.87%          |
| ROE                 | 9.12%    | 13.10% | 14.04%         |
| Net Margin          | 0.99%    | 1.92%  | 2.55%          |

| Efficiency Ratio | 9M:2024T | 2023FY | 3-yr Hist. Avg |
|------------------|----------|--------|----------------|
| Asset Turnover   | 1.49x    | 1.40x  | 1.52x          |

| Liquidity Ratio | 9M:2024 | 2023FY | 3-yr Hist. Avg |
|-----------------|---------|--------|----------------|
| Current Ratio   | 1.19x   | 1.22x  | 1.36x          |
| Quick Ratio     | 0.65x   | 0.64x  | 0.53x          |
| Cash Ratio      | 0.21x   | 0.17x  | 0.15x          |

| Solvency Ratio    | 9M:2024 | 2023FY | 3-yr Hist. Avg |
|-------------------|---------|--------|----------------|
| Interest Coverage | 0.95x   | 1.75x  | 2.37x          |
| Debt to Equity    | 2.24x   | 1.55x  | 1.02x          |
| Debt to Asset     | 0.36x   | 0.32x  | 0.26x          |

\*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

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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 |
|-------------|-----------|--------------------------|---------------------|-------------------------|--------------------|
| 08-Jan-2024 | 40.00     | 38.76                    | 40.17               | BUY                     | HOLD               |

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