

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).

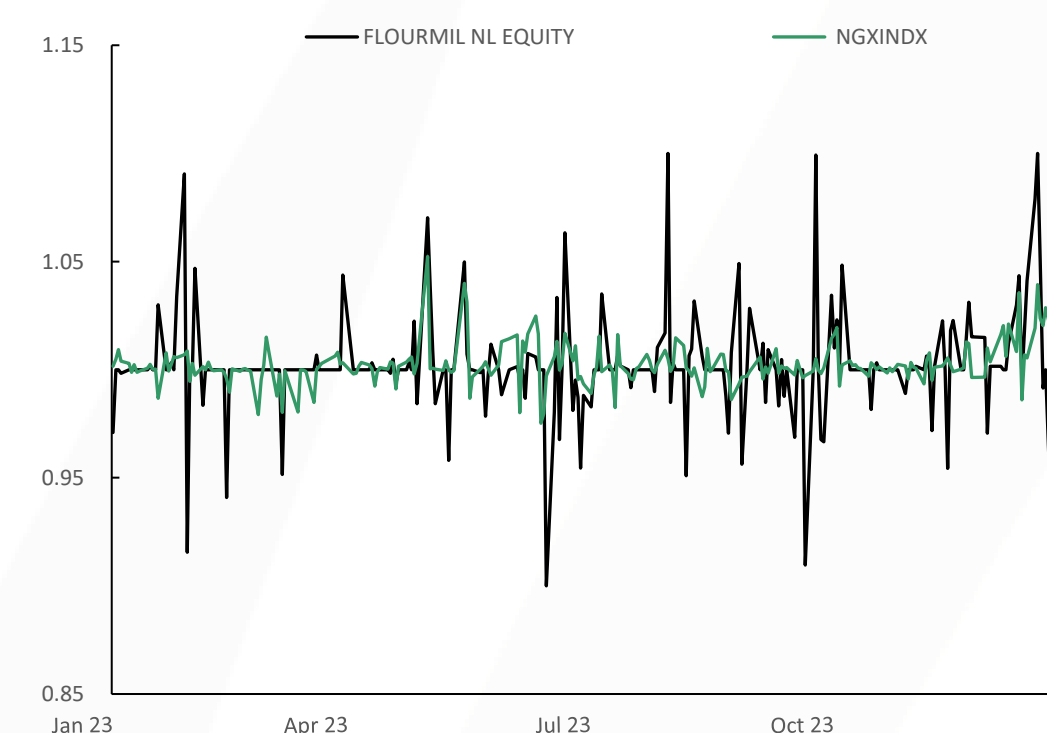
Primarily driven by elevated material costs (+33.69% YoY) as the depreciation of the Naira inflated import expenses for raw materials, the firm's production cost increased by 31.44% YoY, trailing revenue performance. However, as revenue growth outpaced the increase in costs, the cost-to-sales ratio improved 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	NGN40.17	Market cap [NGN]	164.02bn
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	40.17	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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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.

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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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Flour Mills of Nigeria Plc	

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