



## FLOUR MILLS OF NIGERIA PLC

### Heading to the trillion-naira mark

Flourmills of Nigeria PLC recently released its H1'22 earnings results where the company solidified its Q1 topline performance, with a 44% y/y growth in Q2'22 to ₦289.1 billion, taking H1'22 Revenue 47% higher y/y to ₦522.8 billion (Vetiva: ₦457.4 billion). Over the past two years, driven by its strategy to produce SKUs in the lower-tier price zones, specifically in its food, fertilizer and edible oils businesses, Flourmills' Revenue has grown by an average rate of 22%. So far this year, volumes have improved 13% y/y. In line with the increased volume roll-out, Flourmill's cost of sales grew faster than Revenue (+54% y/y to ₦468.4 billion) in H1, driven by pressures on raw material imports, specifically sugar and wheat. Meanwhile, due to the low margins typical with value products, gross margin contracted 4ppts y/y to 10%. Furthermore, in line with higher volumes, OPEX increased 31% y/y to ₦22.1 billion, driven by a 68% y/y jump in distribution expenses and a 19% y/y rise in admin expenses. In Q2, Flourmills reported a ₦1.8 billion writeback on impairments bringing H1'22 EBIT to ₦24.1 billion (+1% y/y) and EBIT margin to 5% (H1'21: 7%). Additionally, net finance costs moderated 6% y/y to ₦8.6 billion, taking PBT up 6% to ₦15.4 billion.

Although PAT grew 6% y/y to ₦10.5 billion, net profit margin tapered 1ppt y/y. By segments, while the Food and Agro-allied segments have maintained a PBT margin of 2% and 7% respectively and the support segment has now turned profitable (+27ppts y/y to 9%), net margin from the sugar segment has declined significantly. In fact, the sugar business recorded a Loss before tax of ₦1.5 billion in Q2'22.

#### Margins set to taper further.

Given the company's significant exposure to wheat and sugar importation, the rising prices of commodities in the international market and the possible depreciation of the NAFEX rate – where Flourmills currently sources FX, we expect margins to taper further on increased cost of sales. We estimate a 3ppt decline in gross margins to 11%. Furthermore, with volumes expected to grow stronger in the coming quarters amid possible new innovations, we expect an 11% jump in OPEX from increased distribution and marketing expenses. Thus, we project a PAT figure of ₦26.6 billion for FY'22 (FY'21: ₦24.5 billion), bringing our one-year TP to ₦44.57 per share.

Income Statement (₦ Millions)	H1'21/22	H1'20/21	y/y Change	Vetiva Estimate	Variance
Revenue	522,821	355,109	47%	457,426	14%
Gross Profit	54,415	50,290	8%	53,327	2%
Operating Expenses	(22,842)	(17,416)	31%	(22,124)	3%
EBIT	24,055	23,732	1%	27,145	-11%
Net Finance Expense	(8,572)	(9,125)	-6%	(10,344)	-17%
Profit Before Tax	15,483	14,607	6%	16,801	-8%
Profit After Tax	10,528	9,933	6%	11,871	-11%
Gross Margin	10%	14%		12%	
OPEX to Sales	-4%	-5%		-5%	
EBIT Margin	5%	7%		6%	
PAT Margin	2%	3%		3%	

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## BUY

Target price **₦44.57**

#### Company Statistics

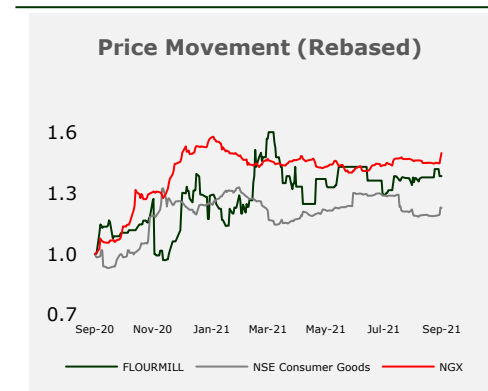
Price (₦)	29.45
Market Cap (₦Mn)	120,757
Enterprise Value (₦Mn)	245,429
Net Debt (₦Mn)	89,855
Shares Outstanding (Mn)	4,100
NSE	FLOURMILL
Bloomberg	FLOURMILL.NL
Reuters	FLOURMILL.LG

#### Ownership Structure

Excelsior Shipping Co. Limited	63.34%
Others	36.66%

#### Share Price Performance

30 days	-1.67%
YTD	6.91%
365 days	10.94%



Source: NSE, Vetiva Research

#### Business Description

Flour Mills of Nigeria Plc is primarily engaged in flour milling, production of pasta, noodles, edible oil and livestock feeds, farming and other agro-allied activities, distribution and sales of fertilizer, manufacturing and marketing of laminated woven polypropylene sacks and flexible packaging materials, operating terminals A and B at the Apapa Port, customs clearing, forwarding agents, shipping agents and logistics and management of third-party mills. The Group derives over 90% of its sales from its food and agro-allied businesses.



<b>Income Statement</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023F</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023F</b>
Turnover	527,405	573,774	771,608	1,018,706	1,092,438	1,286	1,399	1,882	2,485	2,664
Cost of Sales	(474,057)	(507,987)	(664,851)	(906,648)	(961,346)	(1,156)	(1,239)	(1,622)	(2,211)	(2,345)
Gross Profit	53,348	65,787	106,757	112,058	131,093	130	160	260	273	320
EBITDA	52,651	55,189	74,034	90,590	113,115	128	135	181	221	276
Depreciation	(21,838)	(27,500)	(31,182)	(33,284)	(35,441)	(53)	(67)	(76)	(81)	(86)
Operating Profit	30,813	27,689	42,852	57,307	77,674	75	68	105	140	189
Other income	6,211	4,906	(15,528)	0	0	15	12	(38)	0	0
EBIT	32,297	35,080	52,197	63,090	81,933	79	86	127	154	200
Interest Expense	(22,891)	(19,975)	(18,655)	(25,824)	(25,804)	(56)	(49)	(46)	(63)	(63)
Interest Income	769	2,393	3,652	1,294	1,198	2	6	9	3	3
PBT	10,174	17,254	37,194	38,560	57,327	25	42	91	94	140
Taxation	(6,174)	(5,877)	(11,568)	(11,993)	(17,830)	(15)	(14)	(28)	(29)	(43)
PAT	4,185	10,923	24,476	26,567	39,497	10	27	60	65	96

<b>Balance Sheet</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023F</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023F</b>
Fixed Assets	221,465	216,890	208,721	233,189	241,480	540	529	509	569	589
Intangible Assets	1,317	954	646	530	435	3	2	2	1	1
Stocks	118,867	115,596	195,449	221,110	234,449	290	282	477	539	572
Trade and other debtors	26,085	25,731	25,826	35,119	38,909	64	63	63	86	95
Cash and bank balances	17,205	26,211	37,163	15,790	13,421	42	64	91	39	33
Total Assets	416,822	432,454	544,733	567,977	590,915	1,017	1,055	1,329	1,385	1,441
Creditors and Accruals	79,040	83,614	120,152	124,198	118,522	193	204	293	303	289
Bank Overdrafts	9,651	5,543	4,001	0	0	24	14	10	0	0
Borrowings	71,053	23,344	26,913	31,913	32,913	173	57	66	78	80
Long term loan	46,231	80,675	101,765	101,765	101,765	113	197	248	248	248
Total liabilities	265,849	276,646	370,119	373,356	366,671	648	675	903	911	894
Net Assets	150,972	155,808	174,614	194,621	224,244	368	380	426	475	547

<b>Growth</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023F</b>
Turnover	9%	34%	32%	7%
EBITDA	5%	34%	22%	25%
PBT	70%	116%	4%	49%
PAT	161%	124%	9%	49%

<b>Profitability</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023F</b>
Return on Equity	7%	14%	14%	18%
Return on Assets	3%	4%	5%	7%

<b>Margins</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023F</b>
EBITDA margin	10%	10%	9%	10%
EBIT margin	6%	7%	6%	8%
PBT margin	3%	5%	4%	5%
Net Profit margin	2%	3%	3%	4%

<b>Per share data</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023F</b>
EPS	2.66	5.97	6.48	9.63
NAPS	38.00	42.58	47.46	54.69



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Company	Disclosure
Flour Mills of Nigeria	



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