Flour Mills of Nigeria Plc

Time to Refinance Operations

March 31, 2016

Q3 Ended December 31, 2015

Executive Summary

- Flour Mills of Nigeria Plc (FMN) recorded a turnover in Q3 ended December 2015 in excess of the prior period, despite the overwhelming operational and business challenges during the period
- The decline in the company's PBT in FY 2015, compared with FY 2014 reflects the challenges the company faced as a result of the difficult operating environment
- FMN continues to invest in strategic and growth sectors of the Nigerian economy
- It has also taken advantage of the opportunities the current economic challenges in the country presents
- FMN has continued to invest extensively in backward integration to enhance its value chain efficiency in the food industry
- Finance costs weighed heavily on the company's profitability
- We believe it is appropriate for the company to refinance its debt with equity
- We estimate a dividend per share of N1.00 for the FY 2016
- **Our fair value of the shares of FMN is N23.94**
- **We place a BUY on the shares at the current price of N19.40 per share.**

Table 1:	BUY
Current Price	19.40
Fair Value	23.94

The turnover in Q3 2015 increased by 7.94% to N263.68.

The company's profit margins (including the exceptional Item) increased in Q3 2015 compared with Q3 2014.

1.0 Q3 2015 Performance Analysis:

Flour Mills of Nigeria Plc (FMN) recorded a Turnover (T/O) in excess of the prior period despite the challenging environment in Q3, ended December 2015. T/O increased by 7.94% to N263.68bn, compared with N244.28bn recorded in the corresponding period of 2014. The agro allied business which contributed 23% to T/O grew by 54% and it is the main driver of the T/O. This shows that the recent investments of the company in this growth sector of the economy is beginning to yield the desired results. It is however not contributing substantial profit at the moment. The cost of sales increased by 7.59% to N236bn from N219.35bn recorded in Q3 2014. Cost of sales as a percentage of T/O dropped marginally to 89.50% from 89.79% as at Q3 2014. The administrative, selling and distribution expenses decreased by 5.87% to N12.07bn as the company deployed cost saving measures in the face of the difficult macro-economic environment. These expenses as a percentage of T/O decreased marginally to 4.58% in Q3 2015 from 5.25% in Q3 2014. Operating profit however declined by 12.85% over the same period. **The traffic congestion at Apapa and the pass through effect of the devaluation of the Naira were partly responsible for the increase in costs.**

Table 2: Revenue Analysis by Segment

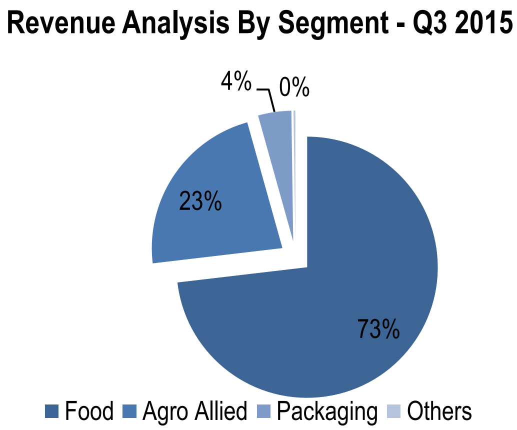
	Q3 2015	% of Total	Q3 2014	% of Total	∆
Food	193.01	73.13%	190.13	77.83%	1.52%
Agro Allied	59.45	22.53%	38.62	15.81%	53.94%
Packaging	10.86	4.12%	10.96	4.49%	(0.93%)
Others	0.59	0.22%	4.57	1.87%	(87.10%)
Total	263.91	100.00%	244.28	100.00%	8.04%

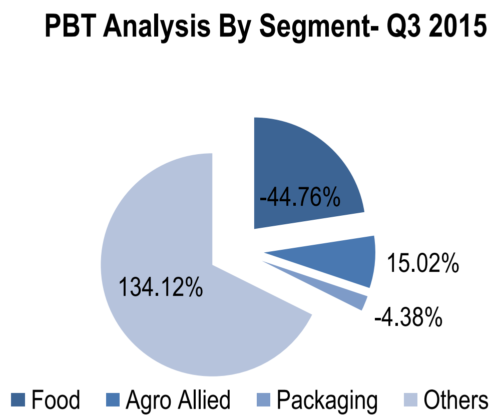
Source: Company Annual Account – 2015 and FSDH Research Analysis

Table 3: Profit Analysis

	Q3 2015	% of Total	Q3 2014	% of Total	%∆
Food	(4.49)	(44.76%)	(2.23)	(60.35%)	(101.24%)
Agro Allied	1.51	15.02%	2.57	69.47%	(41.33%)
Packaging	(0.44)	(4.38%)	0.83	22.50%	(152.82%)
Others	13.45	134.12%	2.53	68.38%	432.22%
Total	10.03	100.00%	3.70	100.00%	171.35%

Source: Company Annual Account – 2015 and FSDH Research Analysis





The company recorded an increase of 13.40% in its finance cost to N17.40bn in Q3 2015 from N15.34bn in 2014. The company confirmed to us that it does not require huge capital for expansion in the short-to-medium term. It is also generating good cash flow from its recent expansion to fund any immediate investment. It has also secured an approval to raise equity capital to refinance part of its debt capital. Based on the factors mentioned above, the company expects that its interest expenses would drop substantially going forward. This will ensure that the operating profit trickle down to the bottom line. The expected increase in the interest rate in the market may cause the interest expense to rise.

Table 4: Q3 Profitability Analysis (N'bn)

	Q3 2015	Q3 2014	Δ	FY 2015
T/O	263.68	244.28	7.94%	258.27
EBIT	12.48	14.32	(12.85%)	18.19
PBT	19.79	3.70	435.24%	11.80
PBT*	(3.95)	3.70	(206.77%)	(6.57)
PAT	19.00	3.29	476.74	7.79
PAT*	(4.73)	3.29	(243.53%)	(7.30)

Without Exceptional Item
Source: Company Annual Account – 2015 and FSDH Research Analysis

The Profit Before Tax (PBT) grew to N19.79bn, an increase of 435.24% from N3.70bn recorded in the corresponding period of 2014. This significant growth was due to the receipt of the second and final tranche of the 30% equity divestment in United Cement Company (Unicem). The company now focuses on its core food business.

The tax provision increased by 94.75% to N782.23mn from N401.66mn, leading to a Profit After Tax (PAT) of N19bn in Q3 2015 from N3.29bn in the corresponding period of 2014, representing an increase of 476.74%.

The company's profit margins without the exceptional item decreased in Q3 2015 compared with Q3 2014.

If we eliminate the exceptional item, the company would have made a loss on account of the high finance costs during the period. The PBT for the year (less exceptional item) led to a loss of N3.95bn as at Q3 2015 from a profit of N3.70bn as at Q3 2014. The company's profit margins less exceptional item decreased significantly in Q3 2015 compared with Q3 2014. This is the impact of the high finance cost during the period.

Table 5: Third Quarter Result Highlights (N'bn) –Without Exceptional Item

	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Turnover	86.10	95.30	82.28	64.72	78.74
PBT	(6.32)	(0.81)	1.19	4.02	(2.08)
PAT	(5.02)	(0.69)	0.97	5.21	(1.07)

Source: FSDH Research Analysis

The PBT Margin in Q3 2015 increased significantly over the Q3 2014, and the Financial Year ended March (FY), 2014 figure. The PBT margin increased to 7.50% in Q3 2015 from 1.51% as at Q3 2014. Also, the PAT margin currently stands at 7.21%, up from 1.35% in the corresponding period of 2014. FMN's profit margin without the exceptional item shows that PBT margin decreased to a negative 1.50% from 1.51%. The result with the exceptional item also indicates that the percentage of T/O, PBT, and PAT in the Q3 2015 to the Audited T/O, PBT and PAT for the period ended March 2014 are: 85.40%, 256.13% and 224.25%, respectively.

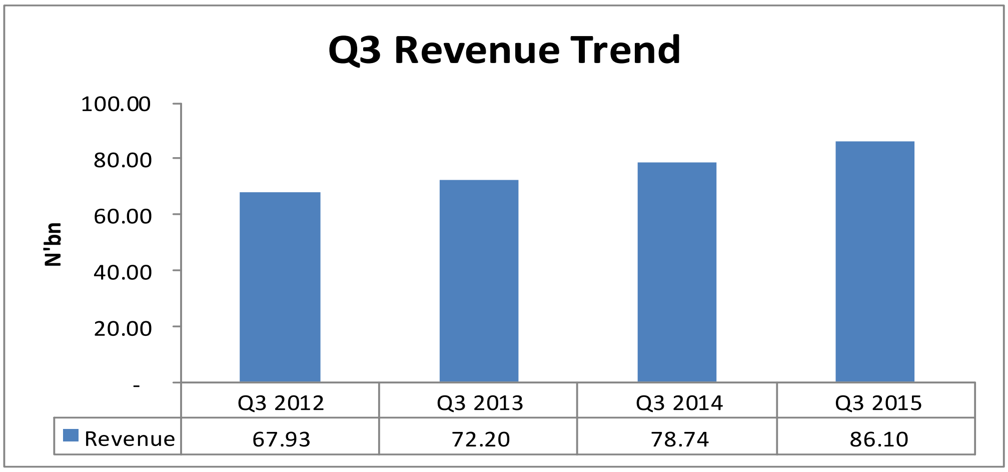


Table 6: Q3 Profitability Margins (N'bn)

	Q3 2015	Q3 2014	%Δ	FY Mar 2015
GP* Margin	10.50	10.21	0.29	11.45
EBIT Margin	4.73	5.86	(1.13)	3.53
PBT Margin	7.50	1.51	5.99	2.50
PBT Margin#	(1.50)	1.51	(3.01)	(2.13)
PAT Margin	7.21	1.35	5.86	2.74
PAT Margin#	(1.79)	1.35	(3.14)	(2.37)

Gross Profit #Without Exceptional Item
Source: Company Annual Account – 2015 and FSDH Research Analysis

Given the run rate (including exceptional item), the company will likely surpass its previous year's turnover performance. It has already exceeded its previous year's PBT and PAT performance.

Given the run rate, the company will likely surpass its previous year's turnover performance but has already exceeded its previous year's PBT and PAT performance because of the exceptional item.

A cursory look at the balance sheet position as at Q3 2015 compared with the position as at FY 2015 shows a marginal increase in the company's fixed assets. The total fixed assets increased marginally by 1.36% to N222.23bn from N219.25bn in FY 2015. The inventory decreased by 16.25% to N57.31bn from N68.43bn in FY 2015. The cash and bank balances recorded a decrease of 28.89% from N31.13bn in FY 2015 to N22.14bn in Q3 2015. The trade debtors and other receivables increased in Q3 2015 by 20.80% to N11.88bn from N9.84bn in the FY 2015 period. The trade creditors and other payables decreased by 20.74% to N17.79bn from N22.44bn as at FY 2015. The working capital stood at a negative N39.64bn from a negative N55.61bn recorded in FY 2015, while net assets for the period increased by 14.25% to stand at N100.54bn from N88bn as at FY 2015. The current ratio improved slightly to 0.73x as at Q3 2015 from 0.69x as at FY 2015. This shows that this company may find it difficult to meet its short-term obligation as and when due.

The total assets of the company which stood at N327.66bn as at Q3 2014 were financed by a mix of equities and liabilities in the ratio of 30.68% and 69.32% respectively.

The total assets of the company which stood at N327.66bn as at Q3 2015 were financed by a mix of equities and liabilities in the ratio of 30.68% and 69.32% respectively. Our analysis of the liabilities shows that the short-term liabilities stood at N145.08bn, accounting for 63.88% of the total liabilities, while the long-term liabilities stood at N82.04bn accounting for 36.12% of the total liabilities. The long-term liabilities constituted mainly of term loans, which stood at N61.99bn. The short-term liabilities constituted mainly of short-term loans and bank overdraft which stood at, N79.14bn and N24.07bn respectively.

The total interest bearing liabilities stood at N165.20bn as at Q3 2015 a drop of 12.34% from N188.45bn in FY March 2015.

The total interest bearing liabilities stood at N165.20bn as at Q3 2015 a drop of 12.34% from N188.45bn in FY March 2015. The drop was largely as a result of the maturity of N19.25bn unsecured fixed rate bond. The short-term interest bearing liabilities represents 62.45% of the total in Q3 2015. The company also increased the short-term loans by N24.90bn while it reduced its bank overdraft by N35.63bn. This strategy was to take advantage of the low interest rates in the market. However, this is not a sustainable strategy because our view is that interest rates will soon rise in the market. Therefore, the company needs to restructure its capital structure either to equity or long-term debt. It may also use part of the internally generated cash to pay down some of the short-term loans.

Our view is that interest rates will soon rise in the market.

1.1 Analysis of Cash Flow Statement:

FMN generated a net increase cash flow of N3.36bn in the year 2015, an improvement over the net decrease cash flow of N31.71bn it generated in 2014. Proceeds from disposal of investment in both its subsidiary and associate contributed significantly to the cash flow. Also, cash generated from financing activities, particularly proceeds from term loans contributed to the cash flow. The cash flow generated from the core operations decreased to N23.27bn in 2015 from N29.31bn in 2014. The ratio of the cash generated from core operating activities to the revenue decreased to 7.54% in 2015 from 9% in 2014. This means that less of its revenue translated into cash in 2015 than in 2014. The company needs to work to ensure that it converts revenue to cash to avoid bad debt and write-offs.

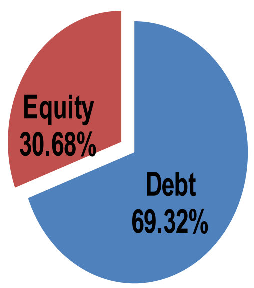
The cash flow generated from operating activities decreased to N27.16bn in 2015 from N27.93bn in 2014 while the net cash generated after tax increased from N25.27bn to N24.75bn. The net cash generated from the operating income was not sufficient to cover the investment needs in property, plant and equipment of the company. It was also not sufficient to cover the financing needs of the company. The company investing and financing needs could not have been met without the proceeds from term loans and disposal of investment in both subsidiary and associate.

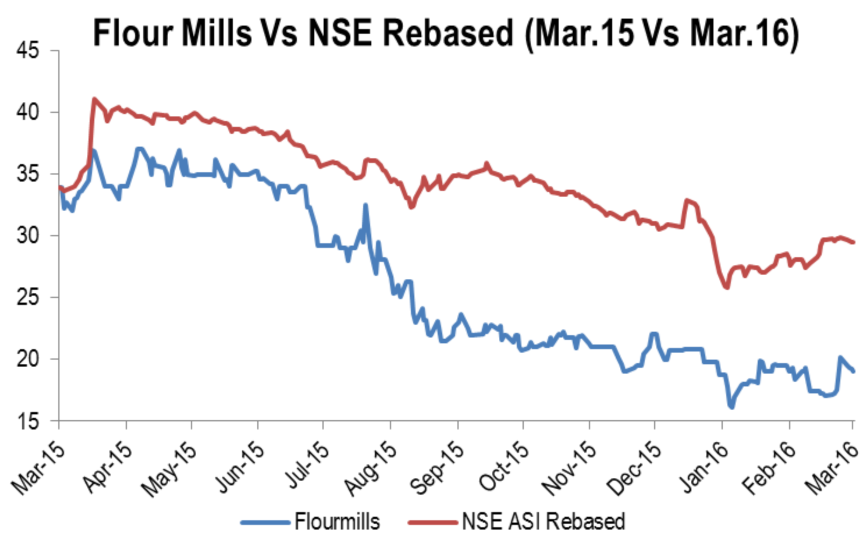
Table 7: Cash Flow Analysis

	2015	2014	Change
Cash From Core Activities	23.27	29.31	(20.60%)
Changes In Working Capital	1.48	(4.04)	136.61%
Cash From Operating Activities	27.16	27.93	(2.75%)
Income Tax Paid	2.41	2.67	(9.52%)
Net Cash From Operating	24.75	25.27	(2.04%)
Net Cash Used In Investing	(23.24)	(33.00)	29.56%
Net Cash Generated by/(Used in) Financing Activities	1.85	(23.98)	107.70%
Cash Generated for the Year	3.36	(31.71)	110.58%
Ratio of Cash Flow from Core Operations to Revenue	7.54%	9.00%	(1.46%)
Ratio of Net Cash from Operation to PPE Investment	44.06%	62.04%	(17.98%)

Source: Company Annual Account – 2015 and FSDH Research Analysis

Financing Mix (Capital Stucture)





2.0 Drivers of Performance:

FMN's earnings were impacted by the following key factors:

Positive Factors:

- Its investment in ultra-modern plants and equipment (Food)
- Backward integration into Agro-allied business
- Divestment from cement and registrar businesses
- Focus on food industry and value chain
- Low interest rate in the financial market
- Alignment with government policy and initiatives.
- Recent launch of the new products, breakfast cereal, edible oil, spread and margarine

Negative Factors:

- Rising finance costs
- The weak consumer spending power
- Rising operational and logistical costs
- Infrastructure challenges in the operating environment.
- Weak and shortage of foreign exchange which led to an increase in the cost of imported raw materials and spare parts.

2.1 Strategic Focus:

FMN's continues to invest to take full advantage of the growth opportunities in the food production industry.

FMN's continues to invest to take full advantage of the growth opportunities in the food production industry. Its recent involvement in the production of edible oil, Noodies sweet snacks, chin chin, flavoured drinks, spread, margarine and delight (its new breakfast cereal for kids) are all strategic moves to position itself as a market leader in the food business. These products have higher margins and as a result of its backward integration strategy make ingredients more readily available. This could also keep FMN's cost of production lower than the industry levels. The company also hopes to source (where applicable) most of its raw materials from within the country to reduce costs and lower foreign exchange exposure. FMN maintains its usual business-to-business and business-to-consumer strategy which it now applies to its sugar business.

3.0 Business:

FMN is a diversified industrial powerhouse in the growth sector of the Nigerian economy.

FMN is a diversified industrial powerhouse with interests spanning wheat milling, pasta manufacturing, fertilizer blending, manufacturing of polypropylene packaging materials, logistics, edible oil processing, sugar refining, agro allied downstream activities and farming. The company also undergoes operations at terminals A and B at Apapa Port, customs clearing, forwarding and shipping agents as well as logistics. The company also manages activities of Maiduguri Flour Mills Limited and Port Harcourt Flour Mills Limited. The company remains a major player in the Nigerian food business, through the following subdivisions - Flour Operations (an ultra-modern wheat and cassava flour milling complex known as ''West Mills'' situated in Apapa, Lagos), Northern Nigeria Flour Mills in Kano, Golden Pasta, Golden Noodles Nigeria Limited, Golden Sugar Refinery in Niger; and the Agro-Allied Business, consisting of: Kaboji Farms, Premier Feed Mills Company Limited, ROM Oil Mills Limited (edible oil extraction and refining company in Ibadan, Oyo state), Thai Farm International Limited. Its other investments are: Apapa Bulk Terminal Limited, Nigerian Bag Manufacturing Company (BAGCO) and Golden Transport Company Limited.

FMN continues to expand its business portfolio.

FMN continues to expand its business portfolio. It has completed and started producing Fast Moving Consumer Goods (FMCG) from its US$40mn Confectionery plant at Agbara Ogun State. The company is also making continuous investment in its fertilizer, animal feeds and sugar businesses. It has built new animal feeds plant in Calabar, Cross River State with a capacity utilization of about 70%. Going forward, the plant is expected to continue to make significant contributions to the Group's earnings. **FMN has received approval from the Securities and Exchange Commission (SEC) to conduct a N40bn Rights Issue which the company intends to use to offset a significant amount in its current debt and boost its working capital going forward**.

FMN's food business contributes about 73% to its revenue representing a significant part of the group's income.

3.1 Food Business

FMN's food business contributes about 73% to its revenue representing a significant part of the group's income. It consists of a number of subsidiaries located in various states within the country. It recently completed the commissioning of two new wheat flour mills in Apapa and Calabar. FMN also invested an additional capacity in its pasta business and commissioned a snack factory in Agbara. FMN has several additional investments and businesses. These other businesses include:

- **Pasta & Noodles:**
  - **Golden Noodles Company:** It is involved in the manufacturing of a wide array of Golden Penny Pasta and Golden Penny Noodles.

- **Flour:**
  - **Nigerian Eagle Flour Mills:** Engages in the sale of flour and flour products in the South Western state of Oyo benefitting a number of individuals who profit from or consume the company's products. The group currently owns 51% of the company.

  - **Niger Mills Company Limited:** Located in Calabar very close to the port and currently has a new Mill which operates at almost 90% operational efficiency.

  - **Northern Nigeria Flour Mills:** This is a quoted company of which FMN owns 52.6%. It owns 3 operating units which operate in Kano (Northern Nigeria) and supplies both wheat and maize products to its catchment area.

- **Sugar:**
  - **Golden Sugar Company:** It is a sugar refinery company. It engages in the production of sugar of different grades and quality. The company also supplies many brands of sugar, depending on consumer needs whether packages or in bulk. FMN owns 100% of the company.

3.2 Agro Allied

FMN has engaged in a backward integration strategy in a bid to take advantage of the various government incentives in the agricultural sector.

FMN has engaged in a backward integration strategy in a bid to take advantage of the various government incentives in the agricultural sector. Its recent investments in the agro-allied space includes: the completion of the Rom Oil Mills factory in Ibadan and the pursuit of sugar plantation project and its milling in Sunti. The agro-allied business covers areas such as rice, maize, oil palm, animal feed, sugarcane, soya bean and cassava. The company's major agro allied subsidiaries include:

- **Premier Feed Mills:** It has a poultry line that includes Pre-Layer Mash, Concentrates, Layer Mash, Broiler Starter, Grower mash and Chick mash. There is also an aqua line which includes Extruded Catfish juvenile (2MM) and Extruded Catfish advanced juvenile (3MM, 4.5MM, 6MM and 9MM). The company manufactures under its trade name TOPFEEDS. Competitors in this space include Grand Cereals and Livestock Feeds. FMN owns 62% of the company.

- **Sunti Golden Sugar Estate:** Operator of 3,000 hectares of raw sugar plantation. It has started contributing to the group's profit and produces sufficient volumes to run its operations. The sugar mill would be commissioned in April 2016. It has been estimated that the mill will produce 100,000 metric tonnes of sugar by 2018. FMN owns 100% of the company

- **Kaboji Farms:** Is a 10,000 hectare farm located at 18km South West of Kontagora, Niger State and is involved in the production of Maize, Rice, Cassava, Soya Beans and Sugar Canes. FMN owns 100% of the company.

- **Golden Penny Rice Company Limited:** A 140,000mtmpa rice mill located in Apapa focuses on the production of Golden Penny Rice which is long grain premium rice, highly nutritious with high energy. FMN owns 100% of the company which is involved in the importation and bagging of rice.

- **Thai Farm International (TFI):** This subsidiary processes locally grown cassava tubers and produces high quality cassava flour to flour millers in Nigeria. FMN's partnership with Thai Farm International is expected to significantly increase cassava yield. The company is situated in Ogun State. FMN owns 75% of the company.

- **Rom Oil Mills Limited:** This subsidiary manufactures food products which includes, soya and palm kernel oil. It is an extraction and refining company based in Ibadan. It recently introduced bottled soya oil, margarine and spreads in March 2015. Apart from its oil products, its residue is converted to poultry and aqua feeds. FMN owns 90% of Rom Oil Mills.

- **Agro-Allied Syrups Limited (Shao Farm) and Thai Farm International Limited:** This group has a development of 5,000 hectares of cassava on its Shao farms outside Ilorin, Kwara States. It also helps to support its TFI cassava flour plant and future starch plant.

- **Agri-Palm Limited:** In a bid to meet the growing need for refined edible oil business with a backward integrated local supply chain, FMN invested in palm plantation last year with the acquisition of Ugbogui and Iguige palm plantation near Benin City in Edo State. FMN owns 100% of the company.

- **Agro-Allied Farm Sunti:** Is a 4,500 hectare rice farm on the bank of the River Niger, 100% owned by FMN. Its farm land lies about 15km upstream from Sunti Sugar estate.

3.3 Packaging

Recently BAGCO began exporting some of its bags to South Africa as well as the United States.

FMN subsidiary BAGCO runs the packaging division. BAGCO comprises Nigerian Bag Manufacturing Company, Northern Bag Manufacturing Company, and MORPACK. BAGCO's product portfolio comprises bags and sacks used to package powder and granular industrial products (Cement, Fertilizer, Flour, Sugar, Salt, Detergent, etc) and open market products (Shopping Bags, Agricultural products etc). Also, additional products such as webbing (Webby), sewing yarns, small bags (Trabag) and flexible intermediates bulk containers (Jumbo bags) have been added to BAGCO product portfolio. The Morpack division of BAGCO manufactures printed and laminated flexible films to provide packaging for food, confectionary and detergent markets. Recently BAGCO began exporting some of its bags to South Africa as well as the United States.

3.4 Support Services – Logistics, Terminal Operations, Haulage and Others

FMN's support services include investments in the following businesses:

- **Apapa Bulk Terminal Ltd (ABTL):** This wholly owned subsidiary is involved in three distinct strategic activities, terminal management, cargo consolidation/operations and logistics services provider. The company manages and operates terminal A and B of the Apapa port.

- **Golden Transport Company Limited:** This wholly owned subsidiary provides the following exclusive services to the FMN group of companies: General Logistics, Haulage, Fleet Management and Parts Maintenance. Owns multiple dispatching offices around Lagos and Calabar.

- **Other subsidiaries in the support and logistic business segment are:** Crestview (real estate), Olympic Towers (real estate), New Horizon (flour milling) and Quilevest Properties Limited (real estate) and Gold Shipping Company Nigeria Limited (shipping).

4.0 Product Analysis

FMN is one of Nigeria's leading food and agro-allied companies which has evolved into a diversified group with a broad product portfolio.

FMN is one of Nigeria's leading food and agro-allied companies which has evolved into a diversified group with a broad product portfolio. The Group is engaged in the following: flour milling, farming and other agro-allied activities, distribution and sale of fertilizer, manufacturing and marketing of laminated woven polypropylene sacks and flexible packaging materials, cement manufacturing, operation of Terminals A and B at the Apapa Port, and logistics. The company recently divested from cement production through the sale of its 30% stake in UNICEM to existing shareholders.

4.1 Food

The company's Food business is the largest contributor to revenue. It contributed about 73% as at Q3 2015. FMN has the following brands under the food division:

The food business contributed about 73% to revenue.

- **Golden Penny Flour:** Is the flagship brand for the company and provides high quality flour produced from the finest wheat. The products in this division include: Golden Penny Prime Flour, Golden Penny Confectionary Flour, and Golden Penny Soft Biscuit Flour. Competing products are Dangote Flour, Honeywell Flour (superfine flour and brown flour).

- **Golden Pasta:** Is made from Durum which is the finest for pasta. The main products under this division are: Golden Penny Pasta Spaghetti, Twist, Spaghettini, Piccollini, Macaroni, Fideo, Eliche, Couscous, Bucattini and Bambini. Competing products include Dangote Pasta (Spaghetti and Macaroni) and Honeywell (Spaghetti and Macaroni).

- **Golden Noodles:** Comes in a variety of flavours including Chicken, Seafood and Onion Chicken Flavours. The product is known for its protein which creates a unique sticky texture with uniquely good taste. The major competing products are Indomie noodles, Dangote noodles and Honeywell noodles.

- **Impulse Foods:** Flour Mills is poised to capture significant market share in this highly fragmented market. The products under this division are Mario Cheese Balls, Golden Bites Chin Chin and Noodies. Competing products include: Funtime Chips, Snaps Puffed Maize, Nutri-C, Tang, Gala.

- **Golden Penny Ball Foods & Breakfast Occasion:** The products in this division are: Golden Penny Masavita, Golden Penny Semovita and Golden Penny Golden Vita Whole Wheat Meal. They also produce breakfast Daily Delight for children. Competing brands include: Honeywell Semolina, Honeywell Wheat meal and Golden Morn, Kellogg's, Good Morning corn flakes.

- **Golden Penny Vegetable Oil and Margerine:** The products in this division include Golden Penny Pure Vegetable Oil, Golden Penny Pure Soya Oil, Golden Penny Margarine and Golden Penny Spread. Competing products are Mamador Vegetable Oil, Sonola Oil, Blueband Margarine and Kerrygold Butter. Some of these products are imported and are losing market share because of exchange rate risk.

- **Golden Sugar:** Products include: Golden Penny Premium white granulated sugar, Golden Penny Premium White Sugar BTC Consumer fortified with vitamins, BTB sugar for beverage manufacturers, BTB sugar fortified with vitamin A for bakers, biscuit manufacturers and confectioners and Golden Penny Premium white sugar cubes. Competitors include Dangote Sugar, BUA Sugar. Production of sugar is a backward integration strategy for FMN.

- **Golden Penny Rice:** Golden Penny rice is a premium quality rice product. Its competitors include: Mama Gold, Royal Umbrella and Caprice. It may gain competitive advantage over these companies soon because of the local content policy of the government in this regard.

Table 8: Directors' Shareholding as at 31st March, 2015

Director	Position	Holdings
Mr J.G. Coumantaros	Chairman	Nil
Chief E. A. Ukpabi (KJW)	Vice Chairman	4,194,986
Mr. P. M. Gbededo	Group MD	1,167,370
Alh. Abdullahi A. Abba	Non-Executive	12,343
Chief J. O. Fagbemi	Non-Executive	1,263,771
Professor Jerry Gana, CON	Non-Executive	44,000
Mr. J. Katsaounis	Non-Executive	2,570,765
Mr. F. R. A. Williams, Jnr.	Non-Executive	30,082
Mr. A. N. A. Peterside, CON	Non-Executive	2,150,000*
Alh. R. M. Gwarzo, OON	Non-Executive	199,722
Alh. Y. O. A. Saliu	Non-Executive	1,608,985
Mr Alfonso Garate	Non-Executive	Nil
Mr T. Mazarakis	Non-Executive	Nil

***2,000,000 Indirect Holdings**
Source: Company Annual Account – 2015

Table 9: Shareholding Structure as at 31st, March 2015

Shareholders	No. of Shares Held	% of Shareholding
Excelsior Shipping Company Limited*	1,369,231,166.00	52.18%
West African Investments Limited	1,015,092,218.00	38.68%
Stanbic Nominees Nigeria Limited	132,873,834.00	5.06%
Nigerian Public and Institutions	107,055,970.00	4.08%
Total	2,624,253,188.00	100.00%

*The beneficial owner of Excelsior Shipping Company is a trust established by the late Mr. John S. Coumantaros for his descendants. The ultimate controlling party is therefore the descendants of late Mr. John S. Coumantaros
Source: Company Annual Account – 2015

Table 10: Company Summary

Ticker	FLOURMILL
Sector	Consumer Goods
Sub-sector	Food Products
Date of Incorporation	September 1960
Date of Listing	1978
Financial Year End	March
Number of Fully Paid Share	2,624,252,188
Current Capitalization(NGN)	50,910,492,447.20
NSE Capitalization (NGN)	8,649,508,663,299.79
% of NSE Capitalization	0.59%
52 Week high NGN	37.00
52 Week low NGN	16.13
YTD Return (%)	3.37
52 Weeks Average Volume Traded	1,251,042.06
Trailing EPS NGN	9.22
Trailing P/E Ratio (X)	2.10

As at 30th March, 2016
Source: Company Annual Account – 2015 and FSDH Research Analysis

5.0 SWOT Analysis:

5.1 Strengths:	5.2 Weaknesses:
○ Strong brand name ○ Diversified portfolio ○ Quality products in the market ○ Long standing reputation and reliability ○ Enjoy economies of scale	○ Rising finance costs and high gearing ratio ○ Low profit margin
5.3 Opportunities:	**5.4 Threats:**
○ Large market size in Nigeria ○ Backward integration to lower costs ○ Falling global wheat prices ○ Government policy to support agro-allied producing companies ○ Weak exchange rate which discourages imports	○ Security challenges in the Northern region ○ Stiff competition in the industry ○ Foreign exchange risk exposure ○ Weak purchasing power for consumers. ○ Poor infrastructure in the country ○ Impending increase in interest rates.

6.0 Forecast:

Our Forecast Drivers

We considered the following factors in arriving at our 5-year forecasts:

We expect FMN to grow its turnover from N308.76bn in 2015 to N464.54bn in 2020.

Positive Factors:

- Focus strategy on food industry
- Backward integration into agro-allied and farming activities
- Launch of high profit margin new products into the market
- Numerous investments in high profit margin products
- Anticipated growth in revenue despite challenging environment
- Alignment with government policy and initiatives.

Negative Factors:

- The prevailing stiff competition in the industry
- The current weak consumer spending
- Security challenges in some parts of Nigeria
- Expected further depreciation in the Naira.

We estimate a dividend per share of 1.00 Kobo for the FY 2016.

Looking at the medium to long-term outlook of the company and the impact of the aforementioned factors, we are of the opinion that the impact of the positive factors would be higher on both the revenue and the profitability of the company than the negative factors. We therefore estimate a Turnover of N330.37bn, N360.09bn, N396.10bn, N430.95bn and N464.54bn for the periods ending March 2016, 2017, 2018, 2019 and 2020. We estimate EBIT of N15.07bn, N30.67bn, N41.66bn, N50.49bn and N54.43bn, and EBITDA of N16.99bn, N32.81bn, N44.05bn, N53.19bn and N57.49bn for the same period using EBIT margins of 4.56%, 8.52%, 10.52%, 11.72% and 11.72% respectively. Our PBT forecasts for the periods are: N21.18bn, N13.78bn, N27.82bn, N40.53bn and N49.85bn. Adjusting for tax, our PAT forecasts are N20.12bn, N9.62bn, N19.41bn, N28.28bn and N34.78bn. PAT Margin for the period are 6.09%, 2.67%, 4.90%, 6.56% and 7.49%. Our forecast final dividend for the FY 2016 is N1.00 per share.

Table 11: Income Actual Vs.Forecast 2015 - 2020						
Profit and Loss =N='bn	**MarA-15**	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**
Turnover (Net Sales)	308.76	330.37	360.09	396.10	430.95	464.56
Cost of Sales	(273.39)	(291.32)	(309.69)	(332.73)	(356.83)	(384.66)
Gross Profit	35.37	39.05	50.41	63.37	74.12	79.90
Admin, Selling & Distribution Expenses	24.47	(24.71)	(23.80)	(26.18)	(28.48)	(30.70)
Depreciation	(0.99)	(1.92)	(2.14)	(2.40)	(2.70)	(3.06)
Other Operating Income	(0.69)	0.73	4.05	4.46	4.85	5.23
EBIT	10.22	15.07	30.67	41.66	50.49	54.43
EBITDA	11.21	16.99	32.81	44.05	53.19	57.49
Net Finance Cost	(16.40)	(17.39)	(16.66)	(13.60)	(9.73)	(4.35)
PBT	7.72	21.18	13.78	27.82	40.53	49.85
Taxation	(0.74)	1.06	4.17	8.41	12.25	15.07
PAT	8.47	20.12	9.62	19.41	28.28	34.78
Source: Company Annual Account – 2015 and FSDH Research Analysis						

Table 12: Ratio Analysis Actual Vs. Forecast 2015 - 2020						
	MarA-15	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**
EBITDA Margin	3.63%	5.14%	9.11%	11.12%	12.34%	12.38%
EBIT Margin	3.31%	4.56%	8.52%	10.52%	11.72%	11.72%
PBT Margin	2.50%	6.41%	3.83%	7.02%	9.41%	10.73%
PAT Margin	2.74%	6.09%	2.67%	4.90%	6.56%	7.49%
EPS(N)	3.23	7.67	1.93	3.90	5.68	6.99
DPS(N)	2.10	1.00	0.87	1.76	2.56	3.14
Dividend Payout	65.03%	13.00%	45.00%	45.00%	45.00%	45.00%
Earnings Yield *	13.49%	32.03%	8.07%	16.29%	23.73%	29.19%
Dividend Yield *	8.77%	4.16%	3.63%	7.33%	10.68%	13.14%
P/E Ratio*	7.41	3.12	12.39	6.14	4.21	3.43
Number of Shares (‘bn)	2.62	2.62	4.98	4.98	4.98	4.98
ROCE	6.24%	8.36%	13.36%	17.00%	19.32%	21.50%
ROE	9.69%	19.62%	6.36%	11.63%	15.11%	16.56%
Collection Days	11.63	11.59	11.59	11.59	11.59	11.59
Payment Days	57	53	53	53	53	53
Inventory Turnover	4	4	4	4	4	4
Asset Turnover	0.90	0.94	0.95	1.01	1.02	1.10
Current Ratio	0.69	0.75	1.02	1.10	1.16	1.09
Quick Ratio	0.31	0.35	0.54	0.57	0.64	0.56
Debt Ratio (Total Liabilities /Total Assets)	0.75	0.71	0.60	0.57	0.56	0.50
Gearing Ratio (Long Term Debt /Equity)	63.22%	54.87%	37.56%	33.72%	27.85%	9.89%
Interest Cover	0.55	0.86	1.82	3.02	5.10	10.83
****At Our Fair Value of N23.94 Source: FSDH Research Analysis***						

Table 13: Statement of Financial Position Actual Vs. Forecast 2015 - 2020						
Balance Sheet =N='bn	**MarA-15**	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**
Property, Plant and Equipment	208.94	217.02	219.97	224.01	229.53	231.85
Intangible Assets	0.50	0.50	0.50	0.50	0.50	0.50
Goodwill	4.15	4.15	4.15	4.15	4.15	4.15
Long Term Loans Receivable	3.90	-	-	-	-	-
Other Long Term Assets	1.58	1.58	1.58	1.58	1.58	1.58
Biological Assets	0.06	0.06	0.06	0.06	0.06	0.06
Other Financial Assets	0.11	0.11	0.11	0.11	0.11	0.11
Long Term Assets	**219.25**	**223.42**	**226.37**	**230.41**	**235.93**	**238.25**
Inventory	68.43	67.84	72.12	77.49	83.10	89.58
Trade Receivables	9.84	10.49	11.44	12.58	13.69	14.75
Prepayment/ Biological assets	0.40	0.40	0.40	0.40	0.40	0.40
Other Assets	10.30	51.50	24.87	14.11	15.36	16.55
Deposits/Balances & Cash	31.13	-5.13	41.04	54.16	68.74	58.99
Non-Current Assets Held for Sale	3.51	3.51	3.51	3.51	3.51	3.51
Current Assets	**123.60**	**128.62**	**153.38**	**162.26**	**184.80**	**183.79**
Total Assets	**342.85**	**352.04**	**379.76**	**392.66**	**420.73**	**422.04**
Trade Payables	42.56	41.92	44.56	47.88	51.35	55.35
Deferred Revenue	1.47	1.47	1.47	1.47	1.47	1.47
Due to Related Companies	0.02	0.02	0.02	23.96	67.40	84.22
Borrowings	113.99	121.92	97.34	61.64	18.16	0.00
Unsecured Fixed Rate Bond	19.25	0.00	0.00	0.00	0.00	0.00
Dividends	0.12	5.51	2.62	4.33	8.74	12.73
Taxation	1.80	1.06	4.17	8.41	12.25	15.07
Current Liabilities	**179.21**	**171.90**	**150.18**	**147.70**	**159.37**	**168.85**
Working Capital	**(55.61)**	**(43.29)**	**3.20**	**14.56**	**25.43**	**14.94**
Capital Employed	**163.64**	**180.13**	**229.57**	**244.96**	**261.35**	**253.20**
Deferred Taxation	9.20	9.20	9.20	9.20	9.20	9.20
Staff gratuity /Long Service Award	3.25	3.59	3.79	4.08	4.38	4.72
Long Term Debt	55.26	56.27	56.81	56.28	52.11	20.76
Deferred revenue	7.18	7.18	7.18	7.18	7.18	7.18
Long Service Award	1.34	1.34	1.34	1.34	1.34	1.34
Long Term Liabilities	**76.22**	**77.58**	**78.32**	**78.08**	**74.21**	**43.20**
Total Liabilities	**255.44**	**249.49**	**228.50**	**225.77**	**233.59**	**212.05**
Total Net Assets	**87.41**	**102.55**	**151.25**	**166.89**	**187.14**	**210.00**
Paid up share capital	1.31	1.31	2.49	2.49	2.49	2.49
Share premium a/c	36.81	36.81	75.64	75.64	75.64	75.64
Capital reserves	0.28	0.28	0.28	0.28	0.28	0.28
General Reserve	45.95	60.56	67.56	82.64	102.19	124.25
Total reserves	**83.04**	**97.65**	**143.47**	**158.56**	**178.11**	**200.16**
Shareholders' Funds	**84.35**	**98.96**	**145.96**	**161.05**	**180.60**	**202.65**
Minority Interest	**3.06**	**3.59**	**5.29**	**5.84**	**6.55**	**7.35**
Total Equity	**87.41**	**102.55**	**151.25**	**166.89**	**187.14**	**210.00**

Source: Company Annual Account – 2015 and FSDH Research Analysis

7.0 Valuation:

We employed a relative valuation method using Enterprise Value (EV) to Earnings Before Interest Tax Depreciation and Amortization (EBITDA) multiple. The assumptions and results of the valuation are:

The fair value for Flour Mills is N23.94

Assumptions:

- EV/EBITDA Multiple: 12.96x (Weighted Average Multiple – Aswath Damodaran)
- Debt: N188.45bn
- Cash: N31.13bn
- Number of shares in issue: 2.62bn

Applying the EV/EBITDA multiple of **12.96x**, we arrived at **N23.94** per share as the fair value.

The current finance cost weighs heavily on the profits of FMN. During the forecast period we have assumed an expected inflow of about N40billion as proceeds from the anticipated Rights Issues. The capital will be used to refinance the current debt.

We have also assumed that the FMN will restructure part of its short-term debt to longer tenor due to the anticipated increase in interest rates in the financial market.

The current market value of FMN share is N19.40, the highest and the lowest closing prices in the last 52 weeks are N37.00 and N16.13 respectively. The forward earnings yield and dividend yield of the company at our fair value are 32.03% and 4.16% respectively. The total return, a combination of the capital appreciation and the dividend, generates 28.55%. We therefore place a **BUY** on the shares of Flour Mills at the price of N19.40 as of March 30, 2015.

Table 14 : Comparable Analysis (N'bn)			
Company	**Flour Mills**	**Honeywell***	**UACN****
Turnover	308.76	55.08	85.65
Gross Profit	35.37	10.46	19.18
EBIT	10.22	5.44	12.39
PBT	7.72	4.24	13.94
PAT	8.47	3.35	10.73
GP Margin	11.45%	18.98%	22.40%
EBIT Margin	3.31%	9.87%	0.16%
PBT Margin	2.50%	7.69%	16.46%
PAT Margin	2.74%	6.08%	12.77%
ROE	9.69%	16.27%	14.41%
Net Assets	87.41	20.61	74.45
Net Assets Per Share	33.31	2.60	38.76
Honeywell's Year End is May **UACN's Year End is December			

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