

UPDATE

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Resilient Growth & Improved Efficiency

1.0 Q3 2015 Performance Analysis:

The benefits of increased capacity repositioned Honeywell Flourmills Plc (Honeywell) despite the daunting challenges in the operating environment. This resulted in an improved performance for Honeywell in Q3 2015. Revenue rose partly from the commissioning of a fourth instant noodle production line at the Ikeja plant. The company's Turnover (T/O) increased by 5.68% to N39.78bn in Q3 2015, compared with N37.64bn recorded in the corresponding period of 2014. The cost of sales rose by 3.23% to N31.68bn from N30.69bn recorded in Q3 2014 leading to a 16.53% increase in Gross Profit (GP) to N8.10bn, from N6.95bn in 2014. Cost of sales as a percentage of T/O decreased to 79.64% from 81.53% as at Q3 2014. Selling and administrative expenses increased by 9.14% to N5.24bn. The rise in these expenses is attributable to the traffic gridlock in the Apapa area, 82.89% of selling and administrative expenses were from the Apapa plant. The infrastructure problems in this area have created logistics problems for Honeywell resulting in longer turnaround times for loading products and reduced stock turnover. The company also recorded a currency devaluation loss of N438mn in Q3 2015, down from N903mn in the corresponding period in 2014.

The company's Turnover in Q3 2015 increased by 5.68% to N39.78bn, compared with N37.64bn in the previous year.

PAT rose to N1.49bn, an increase of 53.25% from N969mn recorded in the corresponding period of 2014.

Finance costs reduced by 20.36% to N939mn in Q3 2015 from N1.18bn in Q3 2014. The Profit Before Tax (PBT) rose to N1.93bn, an increase of 57.18% from N1.23bn recorded in the corresponding period of 2014. The tax provision also rose by 71.98% to N442mn in Q3 2015 from N257mn in Q3 2014, leading to a Profit After Tax (PAT) of N1.49bn in Q3 2015 from N969mn in the corresponding period of 2014. The company's profit margins rose in Q3 2015 compared with Q3 2014. **The performance in the 3-months ended December 2015 shows an improvement over the corresponding period of 2014. This buttresses the gains from capacity expansion. The drop in the global commodity prices reduced the company's input costs of producing wheat.**

The company's total assets increased to N72.06bn in Q3 2015, from N67.94bn recorded in FY 2015. Asset growth was largely driven by the company's on-going capacity expansion projects. Honeywell's main expansion project is the Honeywell Food and Agro-Allied Industrial Complex in Sagamu, Ogun State. This complex will see the company diversify into agro allied products as well as a wider array of food products. Its goal is to operate across the entire food value chain from farm to fork. **The working capital stood at a negative N14.90bn; while the current ratio also fell to 0.57x as the company uses a lot of short-term borrowings to fund its operations.**

Table 1: BUY	
Current Price	1.54
Fair Value	3.21

Table 2: Financial Performance (N'bn)			
	Q3,2015	Q3,2014	Change
T/O	39.78	37.64	5.68%
EBIT	2.53	1.59	59.06%
PBT	1.93	1.23	57.18%
PAT	1.49	0.97	53.25%
EM*	6.36%	4.22%	2.14%
PM*	3.73%	2.57%	1.16%

*EM: EBIT Margin; PM: PAT Margin

We estimate a DPS of N0.11 in 2016.

We estimate a PAT of N2.06bn for the FY March 2016. This will generate an Earning Per Share (EPS) of N0.26 and a final Dividend Per Share (DPS) of N0.11 based on a dividend pay-out of 41.15%.

In line with the Federal Government's Agricultural Transformation Agenda, Honeywell launched the Honeywell Composite Flour that contains 10% local cassava flour. Honeywell plans to drive both its revenue and profitability by becoming a more diversified food focused company.

Looking at the performance in Q2 2015, we maintain our previous BUY rating on the stock of Honeywell Flour Mills at the current price of N1.54 per share.

	Q3 2015	Q2 2015	Q1 2015	Q4 2015	Q3 2014
Turnover	13.58	13.40	12.80	11.42	10.77
PBT	0.80	0.74	0.39	0.21	(0.14)
PAT	0.58	0.62	0.58	0.15	(0.13)

Profit and Loss =N'bn	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Turnover (Net Sales)	53.61	62.62	75.32	90.22	107.63
Cost of Sales	(44.41)	(51.36)	(61.18)	(72.21)	(83.98)
Gross Profit	9.20	11.25	14.14	18.02	23.64
Admin, Selling & Distribution Expenses	(6.13)	(7.16)	(8.62)	(10.32)	(12.31)
Depreciation	(2.94)	(3.23)	(3.48)	(3.68)	(3.83)
EBIT	3.30	4.35	5.84	8.07	11.78
EBITDA	6.24	7.58	9.32	11.75	15.61
Net Finance Cost	(0.66)	(0.66)	(0.66)	(0.66)	(0.66)
PBT	2.64	3.69	5.17	7.41	11.12
Taxation	0.58	0.81	1.13	1.62	2.44
PAT	2.06	2.88	4.04	5.79	8.68
EBITDA Margin	11.64%	12.10%	12.37%	13.03%	14.51%
EBIT Margin	6.15%	6.95%	7.75%	8.95%	10.95%
PBT Margin	4.92%	5.89%	6.87%	8.21%	10.33%
PAT Margin	3.84%	4.60%	5.36%	6.41%	8.07%
EPS(N)	0.26	0.36	0.51	0.73	1.09
DPS(N)	0.11	0.15	0.21	0.30	0.45
Dividend Payout	41.15%	41.15%	41.15%	41.15%	41.15%
Earnings Yield *	8.07%	11.30%	15.85%	22.70%	34.06%
Dividend Yield *	3.32%	4.65%	6.52%	9.34%	14.02%
P/E Ratio*	12.39	8.85	6.31	4.41	2.94
Number of Shares ('bn)	7.93	7.93	7.93	7.93	7.93
Inventory Turnover	3.42	3.42	3.42	3.42	3.42

*At our fair value of N3.21

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