

Flour Mills of Nigeria plc

... Q3 2008 financial performance dented by material exchange rate loss

Cowry Research Desk

2/17/2009



Abstract: Since its incorporation in 1960, *FMN* has not only survived all macroeconomic challenges but also grown into a market leader with popular and highly recognizable brands, an extensive distribution network, a turnover in excess of ₦90 billion (USD 700 million), strong profitability, healthy Balance Sheet and a highly skilled workforce.

FMN has been listed on the Nigerian Stock Exchange since 1978. With a broad ownership base of approximately 67,000 shareholders, it is constantly ranked amongst the top 25 companies in terms of market capitalization. In 2005 the Company successfully completed a ₦5.24 billion (US\$40.7 million) rights issue which was oversubscribed by 8%.

Executive Summary

Year 2007 (the major part of the financial year for Flour Mills of Nigeria's latest full year report) was a very challenging one for flour millers throughout the country. It was a year which experienced severe food crisis on a global scale in which basic prices of staples such as wheat, maize and even agricultural inputs like fertilizers were seriously on the increase. A number of factors were responsible for the hike in the prices. These included the increase in demand for food caused by a fast growing population; rapid economic growth in two BRIC (Brazil, Russia, India and China) countries: India and China where there was a shift in demand towards dairy and poultry, a major constituent of animal feeds being maize; unfavourable weather conditions in places where wheat is normally produced; increase in the cost of basic agricultural inputs like fertilizers and; a policy shift in the United States where farm lands were devoted to the cultivation of maize for making bio-fuels which led to a reduction in the availability of this staple for export to countries where they are needed and so leading to scarcity and the attendant price hikes.

It was a year the global cost of wheat increased by more than 100 per cent and energy cost skyrocketed in addition to the incessant closure of flour mills due to a plethora of public holidays and workers' industrial actions (strikes). The current global financial crisis which began in July 2007 reduced the availability of offshore funds to finance imports, making the sourcing for imported raw materials and spares not only challenging

but more expensive as cost of funds were rising in the global markets. In some cases, local banks experienced outright cancellation of foreign currency lines since the beginning of the crisis. Flour Mills of Nigeria plc (FMN) definitely had its own share of challenges that beset its industry. But recent experts' views from the United Nations' Food and Agriculture Organization (FAO), dealing with specific areas of produce, noted that the world cereal production is expected to experience an increase and prices may come down to some extent as high prices earlier last year boosted plantings and weather conditions were generally favourable. This prospect has already led to a sharp drop in international prices of most cereals from their peaks during the first half of 2008. But manufacturing companies such as FMN may continue to see their efforts get eroded due to high cost of powering manufacturing plants very high exchange rate movements.

Finally, Nigeria witnessed a successful change of government which has pledged to continue with favourable policy reforms that would sustain progress. Given the current state of global affairs, it is hoped that the implementation of the 2009 budget especially on sensitive areas like power, infrastructure, security and agriculture would be carried out to the letter; even as we pray for political stability as we search for a lasting solution to the Niger Delta crises which to a large extent is a key factor in the sustenance of peace and prosperity for generations to come.

Industry Overview

Wheat flour consumption in Nigeria has been growing by leaps and bounds. But this does not necessarily connote rosiness for wheat millers. The government, in its desire to help the nation's farmers, had imposed a requirement (which was to have started in July 2006) that millers blend 10% cassava flour into all their wheat flour production. However, compliance was an uphill task for millers, given the difficulties of processing, storing and transporting sufficient quantities of good quality cassava flour, not to mention the negative impact on bread quality and other products made from such a blend, considering the choosy propensities of Nigerian consumers. The government's objective wasn't successful in the end. Up until the second half of 2008, the industry was negatively impacted by the global food crises that spiked up the prices of international agricultural commodities for example, wheat.

Forecast for certain agricultural commodities made available recently from the world's apex organization overseeing matters of the stomach, the United Nations' Food and Agriculture Organisation (FAO), will generally be subject of concern to many consumers and industrialists, locally and internationally, during the year. Events that will shape their supply and price have started since about the second half of 2008 and are likely to sustain their influences as this 2009 unfolds. Experts' views from FAO, dealing with specific areas of produce, noted that the world cereal production is expected to experience an increase and prices may come down to some extent as high prices earlier last year boosted plantings and weather conditions were generally favourable. This prospect has already led to a

sharp drop in international prices of most cereals from their peaks during the first half of 2008.

From the expectations raised in the forecast, food and agriculture situation in Nigeria this year may be a strong reflection of the situation elsewhere as events all over the world may have strong influences on local situation. In Nigeria, grains serve two main purposes: for human consumption and for animal feed production. The animal feed aspect is known for poultry and fisheries. Events are thus expected to have significant effect on these industries this year. Separate from the grain cost aspect of the Milling business is the cost of power generation, infrastructure and even distribution.

There has been much investment recently in new and expanded grain facilities as the industry strives to keep capacity greater than demand. By some estimates, the total installed capacity has increased by over 50% since 2002. The eight largest milling companies control about 19 mills with daily wheat capacity of around 18,000 tonnes out of a total capacity of 20,000 tonnes. The pioneer of the industry and still the number one milling company is Flour Mills of Nigeria Ltd. Founded in Lagos in the 1960s, Flour Mills of Nigeria's flagship mill in that city has a daily capacity of 4,500 tonnes (as at 2006). It has a subsidiary, Northern Nigeria Flour Mills.

Dangote Industries Ltd. is in the number two position with 4,000 tonnes of total daily capacity at four plants in four regions of the country. Dangote is a major Nigerian business group with diversified holdings in oil and gas, sugar refining, textiles, salt production, transportation and shipping. It made its move into flour

milling just seven years ago but had the management and financial resources to expand rapidly.

Most of the major milling companies are parts of business groups with other activities that include telecommunications, fisheries, banking, haulage, property and even hospitals. Either these holdings started with flour mills that became cash cows providing the financial resources and synergies for entry into other areas, or they were already large business groups, like Dangote, with the capital to build modern high-capacity mills at a strategic time.

The third-largest milling company by capacity — Ideal Flour Milling Group — also falls into the former category, with four mills in different regions and an installed capacity of 2,340 tonnes. The same is true of

Crown Flour Mills Ltd. It was founded in 1983 by Chief Maan Labidi and consists of mills in Lagos and Warri in Delta State, with a combined capacity of 1,260 tonnes. Honeywell Group is in the latter category, having started its mill in 1998 and expanded it to 1,600 tonnes of daily capacity.

Such is the promise of the industry that it continues to attract new entrants, the latest being BUA Flour Mills with a 500-tonne mill in Lagos commissioned in 2005 and a second 500-tonne mill to be started up in Kano in the last quarter of 2006. Nigerian millers are increasingly exporting their product- without cassava flour- to drought-stricken and landlocked neighbors like Niger and Chad that face periodic food shortages and have underdeveloped milling industries. Exports may include as much as 10% of wheat flour production.

COMPANY PROFILE



Flour Mills of Nigeria Plc (FMN) is one of the largest and most successful industrial conglomerates in Nigeria. The Company's activities span flour milling, pasta manufacturing, port operations, cement trade & manufacturing, fertilizer blending, bags & other packaging materials manufacturing and agricultural business. Since its incorporation in 1960, FMN has not only survived all macroeconomic challenges but also

grown into a market leader with popular and highly recognizable brands, an extensive distribution network, a turnover in excess of N90 billion (USD 700 million), strong profitability, healthy Balance Sheet and a highly skilled workforce. FMN has been listed on the Nigerian Stock Exchange since 1978. With a broad ownership base of approximately 67,000 shareholders, it is constantly ranked amongst the top 25 companies in terms of market capitalization. FMN group employs approximately 5,200 staff with diverse ethnic, cultural and religious backgrounds who work harmoniously together to deliver superior value to Nigerian consumers nationwide.

PRINCIPAL ACTIVITIES

The group is primarily engaged in flour milling; pasta production; importation, blending, distribution and sale of fertilizer; manufacturing and marketing of laminated and woven polypropylene sacks; operation of Terminals A and B at the Apapa Ports; sale of bulk and bagged cement; customs clearing and forwarding agents and shipping agents; and management of Maiduguri Flour Mills Limited and United Cement Company of Nigeria Limited.



FMN's corporate policies and practices are built upon the following premises:

- Continuous pursuit of operational and managerial excellence
- Superior customer value creation through top-quality and affordable products
- Life-long personnel training & development
- Rigorous safety and sanitation policies
- Environmentally friendly operations
- Good corporate citizenship



FMN's subsidiaries include:

Nigerian Bag Manufacturing Company Limited

(BAGCO), a leading manufacturer of polypropylene bags and polyethylene transwrap (70 per cent shareholding)

1. Northern Nigeria Flour Mills Plc (NNFM), a leading mill based in Kano (52.6 per cent shareholding)
2. Southern Star Shipping Company (Nigeria) Limited (SSSC), a shipping agency (100 per cent shareholding)
3. Golden Shipping Company Nigeria Limited (GSC), a shipping company/agency (100 per cent shareholding)
4. Golden Pasta Company Limited, the leading pasta manufacturer in W. Africa (100 per cent shareholding)
5. Apapa Bulk Terminal Limited (ABTL), a terminal port operator (100 per cent shareholding)
6. Flour Mills Registrar Limited (FMRL), a provider of registrar services to FMN and NNFM (100 per cent shareholding)
7. Niger Mills Company Limited, a leading milling company based in Calabar, Cross River State. (98.9 per cent shareholding)

Flour Mills of Nigeria Plc also holds interest in other (associated) companies, some of which are:

Maiduguri Flour Mills Limited, a flour mill based in Maiduguri, Borno State (16.7 per cent shareholding)

United Cement Company of Nigeria Limited (UNICEM), a cement manufacturing plant in Calabar, Cross River State (22.0 per cent shareholding)

Kaboji Farms Limited, a state-of-the-art farm located near Kontagora, Niger State

Board of Directors

G.S Coumantaros (Chairman)	A. Joda CFR, OFR, CON (Vice Chairman)
Sir (Chief) E.A. Ukpabi (MD)	Alhaji A.A. Abba
J.G. Coumantaros	Chief J.O. Fagbemi
J.N. Katsaounis	Alhaji Ali Kotoko
A. Plytas	Alhaji Y.O.A. Saliu
T. Mazarakis	F.R.A. Williams (Jnr)

Company Secretary: Alhaji Y.O.A. Saliu

Table 1

Directors' Interests

	No. of 50k shares at 31 st March	
	2008	2007
Ahmed Joda, CFR, OFR, CON	323,530	323,530
Dr. (Chief) E. A. Ukpabi (KJW)	2,177,906	2,177,906
Chief J. O. Fagbemi	973,306	973,306
Mr. J. Katsaounis	892,456	885,596
Alh. Ali Kotoko, MON	900,000	1,033,333
Alh. Y. O. A. Saliu	657,441	907,441
Mr. F. R. A. Williams, Jnr. (Indirect Holding)	3,930,693	3,930,693

Source: Company's Annual Report

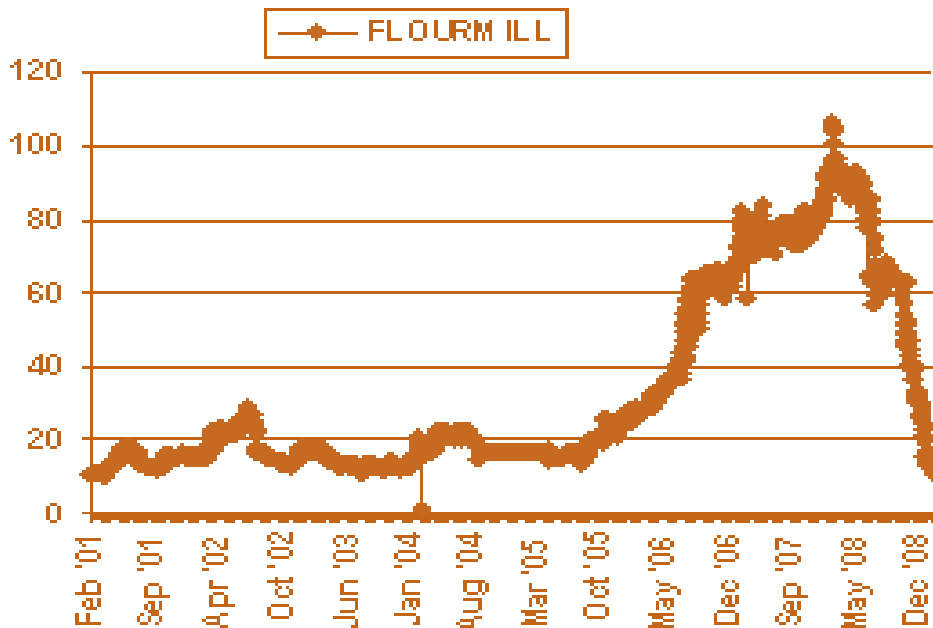
Table 2

Analysis of shareholdings as at 31st March, 2008

Holdings Between	No. of Shareholders	Percentage	No. of Shareholdings	Percentage
1-1000	17,436	25.93	8,287,026	0.53
1,001-5,000	40,163	59.73	85,352,366	5.50
5,001-10,000	4,184	6.22	29,553,827	1.90
10,001-50,000	4,348	6.47	88,049,473	5.67
50,001-100,000	518	0.77	35,725,357	2.30
100,001-500,000	467	0.69	102,267,258	6.58
500,001-1,000,000	63	0.09	44,569,400	2.87
Above 1,000,000	65	0.10	1,159,261,960	74.65
	67,244	100.00	1,553,066,667	100.00

Source: Cowry Research

Price Movement graph



Source: Cowry Database

SOME HOUSEHOLD NAMES MANUFACTURED BY FLOUR MILLS OF NIGERIA PLC



Golden Penny Flour

Made of the finest hard wheat varieties, Golden Penny flour is typically marketed in 50kg bags. It is used primarily by bakeries to produce various types of bread, cakes and pastry. Being a world-class product in terms of quality, nutritional value and baking properties, Golden Penny flour constantly meets and exceeds the expectations of the Nigerian and the West African consumers. Not surprisingly, it is the preferred brand of professional bakers and households alike.



Golden Penny Semovita

Semovita is premier quality semolina made of the best hard wheat blends. It is packed in 5x2kg, 10x1kg, and 10kg bags. It is a delicious and balanced product, rich in protein, carbohydrates, vitamins and minerals and, of course, one of Nigeria's most popular staple foods.



Golden Penny Soft Biscuit Flour

Made from the highest quality of soft wheat varieties, Golden Penny Soft Biscuit Flour is marketed in 50kg bags or bulk. Golden Penny is the brand of choice of the biscuit manufacturers across Nigeria and the West Africa sub-region because of its supreme properties and nutritional value.



Wheat Offals

Wheat Offals, a secondary product of wheat milling, are marketed in 50kg bags. They are typically utilized as a basic ingredient in the manufacturing of animal feeds. Because of the high quality of the wheat used and the state-of-the-art milling technology Golden Penny Wheat Offal are ideal for animal feeds with high nutritional value.



Goldenvita

Goldenvita is a new wheat-based product from 'Flour Mills of Nigeria' that resembles AMALA – but tastes better! We have taken the whole wheat grain and transformed it into a finely ground product which retains all the goodness and vitamins of natural wheat to produce a highly nutritional Ball Food that can transform liquid pap, soups, bread, cakes and puff, puff into a new eating experience. Recommended for the whole family, this blend of tradition, flavour and nutrition is the latest healthy eating option to join the Golden Penny range.

Source: Company's Website

SOME BULL POINTS

- The group obtains its raw materials at arm's length basis from overseas and local suppliers. Amongst its main overseas and local suppliers are Star Trading Company Limited, Southern Star Shipping Co. Inc., Cementia Trading AG. and Nigerian Bag Manufacturing Company plc.
- The group has diversified businesses in economically profitable areas that help shore up its revenue and income streams. This should provide some level of hedging against product and industry risk.
- Its geographical spread via its subsidiaries helps in its efficient capture and possible retention of the Nigerian market.
- For the group, food processing has consistently retained the lion's share of its total turnover even as it grew from 2007 to 2008.
- Over the years (from 2004), it has consistently grown its Total Assets, Profit Before Tax, Profit After Tax, Shareholders funds, its Profits attributable to Shareholders, and Dividends. (See the charts below)

SOME BEAR POINTS

- The group is very exposed to currency risks as shown by the exchange loss of its latest Q3, Dec. 31, 2008 financials. It owns assets and liabilities that are denominated in foreign currencies what are subject to forex upward or downward movements. It also engages in transactions involving forex. (See Table 3).
- Furthermore, the group recorded drops in sales from its cement, fertilizers and ports operations & services business arms by 5.11, 21.77 and 38.56 per cent respectively. (See Table 4).
- Changes in government policy. The recently reviewed Federal Government policy stance on cement importation to trim down the cost of building materials has a deep-rooted implication on the financial positions of cement companies (FMN Group inclusive through its subsidiaries).
- Mounting competition in flour milling, cement manufacturing and packaging portends potential risk of dwindling market share for the company.
- Interest rate risk also comes to fore given that 2009 fiscal year will to a significant extent, be debt financed; thus raising the cost of funds.
- Contribution of international sales to total turnover dropped in 2008 although it grew from 2007. It needs to increase international sales.

Table 3**Q3 RESULTS FOR THE PERIOD ENDED 31ST DEC 2008**

	2008	2007
Turnover	N112.237b	N74.540b
Profit Before Taxation	N7.741b	N5.146b
EXCHANGE LOSS	(N6.660b)	N65.337m
Taxation	(N324.347m)	(N1.563b)
Profit After Taxation	N756.810m	N3.648b

BALANCE SHEET INFORMATION

Fixed Assets	N19.082b	N17.844b
Stock	N11.467b	N6.717b
Trade Debtors	N10.158b	N3.711b
Cash and Bank Balances	N1.961b	N5.950b
Other Debit Balances	N37.248b	N20.804b
Trade Credits	N18.951b	N14.209b
Short Term Borrowings	N10.919b	N683.835m
Other Credit Balances	N17.971b	N14.209b
Working Capital	N1.526b	N563.917m
Net Assets	N21.155b	N21.275b

Source: NSE/ Cowry Research

NB.

From its Statement of Significant Accounting Policies, FMN's Exchange loss must have come from its transactions in foreign currencies that are subject to exchange rate movements. It (along with some of its subsidiaries) has assets and liabilities that are denominated in foreign currencies which are converted to Naira at the applicable rates of exchange at the balance sheet date. All differences arising there from are dealt with in the profit and loss account.

The material exchange rate loss from its disappointing Q3, Dec. 31, 2008 financials came about at a time when the Naira started to depreciate in value against the dollar at the early part of the month of December due to the decision by the Central Bank of Nigeria sell some of its foreign reserves to augment the Federal Governments budget spending activities. The development was escalated by speculative activities in both the interbank market and parallel markets. CBN reports suggested that FMN is active in the foreign exchange market. In January, FMN was among the top 10 users of foreign exchange in the market.

Table 4

Analysis of the Group's Turnover

	2008	2007			
	N'000	N'000			
Analysis by geographical area		%age contribution to total	%age contribution to total	%age annual change	
Within Nigeria	126,070,987	98.75%	104,317,630	98.72%	20.85%
Outside Nigeria	1,590,822	1.25%	1,351,039	1.28%	17.75%
	127,661,809	100.00%	105,668,669	100.00%	20.81%
Analysis by business classification		%age contribution to total	%age contribution to total		
Foods	76,457,441	59.89%	50,849,091	48.12%	50.36%
Cement	32,348,378	25.34%	34,089,372	32.26%	-5.11%
Fertilizer	8,920,482	6.99%	11,403,617	10.79%	-21.77%
Packaging	8,849,704	6.93%	7,559,457	7.15%	17.07%
Port operations and services	1,085,804	0.85%	1,767,132	1.67%	-38.56%
Gross Turnover	127,661,809	100.00%	105,668,669	100.00%	20.81%

Source: Company's Annual Report

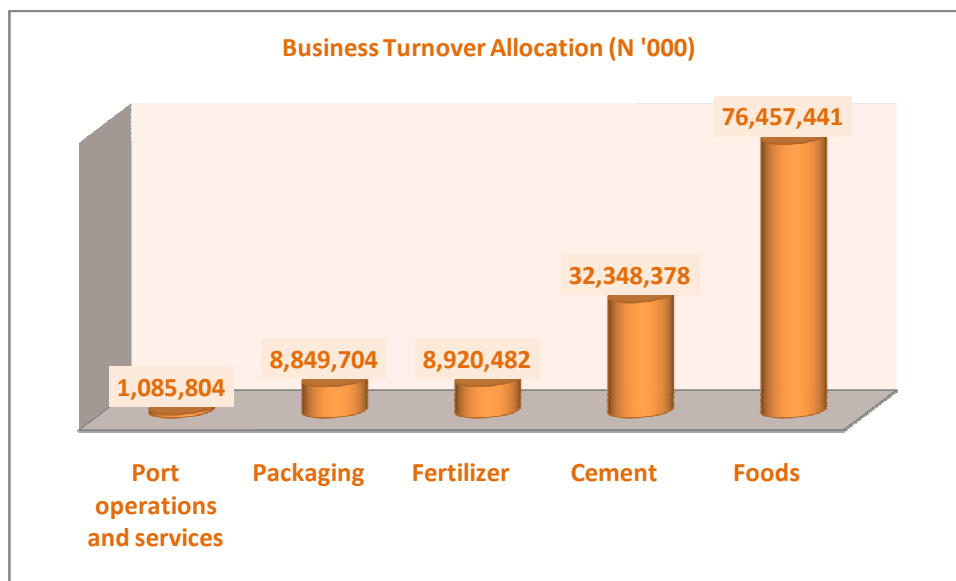


Table 5**Group Five-Year Financial Summary**

<i>Year Ended 31 March</i>	2008	2007	2006	2005	2004	CAGR
	N'000	N'000	N'000	N'000	N'000	
Fixed Assets	38,603,133	34,002,571	26,359,103	19,791,189	12,754,859	31.90%
Investments	415,468	498,668	1,135,474	957,576	892,075	(0.17)
Deferred charges	662,794	257,200	0	0	0	
Goodwill and acquisition	901,941	477,987	346,650	249,565	280,761	33.88%
Long-term loans	10,294,649	8,765,678	0	0	0	
Total Assets	50,877,985	44,002,104	27,841,227	20,998,330	13,927,695	38.25%
Long term liabilities	5,749,385	(2,156,516)	(585,868)	(2,540,726)	(3,348,118)	
Net current liabilities	(21,570,759)	(18,879,376)	(11,050,555)	(6,833,879)	(4,621,483)	46.98%
Total liabilities	(15,821,374)	(21,035,892)	(11,636,423)	(9,374,605)	(7,969,601)	18.70%
Capital and Reserves						
Share capital	776,533	776,533	582,400	582,400	364,000	20.86%
Share premium	5,866,676	5,866,676	5,866,676	5,866,676	1,065,930	53.17%
Fixed assets revaluation reserve	835,109	836,436	836,436	836,436	836,436	(0.00)
Capital reserve	4,128,057	432	432	432	432	888.70%
General reserve	20,320,055	15,191,832	8,917,895	4,364,761	3,670,057	53.40%
Shareholders' funds	31,926,430	22,671,909	16,203,839	11,650,705	5,936,855	52.28%
Minority interest	3,130,181	294,303	965	(26,980)	21,239	248.42%
	35,056,611	22,966,212	16,204,804	11,623,725	5,958,094	55.75%
Turnover	127,661,809	105,668,669	86,571,665	66,805,656	53,563,211	24.25%
Profit before taxation	9,878,183	9,791,772	6,307,717	2,024,747	1,887,216	51.26%
Profit after taxation	6,363,082	7,474,468	4,667,612	1,461,845	1,370,485	46.79%
Minority Interest	(22,919)	(541)	(19,610)	48,219	8,315	
Profit attributable to shareholders	6,340,163	7,473,927	4,648,002	1,510,064	1,378,800	46.44%
Proposed dividend	1,553,067	1,397,760	990,080	815,360	509,600	32.13%
Per Share Data (Kobo)						
Earnings- Basic	408	481	399	130	189	21.21%
Dividend	100	90	85	70	70	9.33%
Net assets	2,056	1,460	1,391	1,000	816	25.99%
ROE	19.93%	32.97%	28.81%	12.55%	23.08%	
Dividend Cover	4.08	5.34	4.69	1.86	2.70	

Source: Company's Annual Report

Table 6

Consolidated Balance Sheet*as at 31st March 2008*

	2008	2007
	N'000	N'000
ASSETS		
Fixed assets	38,603,133	34,002,571
Investments	415,468	498,668
Deferred charges	662,794	257,200
Goodwill on acquisition	901,941	477,987
Long-term loans receivable	10,294,649	8,765,678
	50,877,985	44,002,104
CURRENT ASSETS		
Stocks	20,306,166	17,987,411
Trade debtors	5,376,193	4,473,386
Amount due from related companies	7,982,219	1,369,406
Other debtors and prepayments	5,246,600	3,461,037
Bank deposits, balances and cash	19,361,184	4,848,540
	58,272,362	32,139,780
CREDITORS: (Due within one year)		
Trade creditors	8,289,583	8,695,460
Bank overdrafts	24,906,046	8,633,797
Amount due to subsidiary companies	-	18,630
Amount due to related companies	183,915	609
Taxation	2,720,268	1,745,958
Other creditors and accruals	13,498,961	11,647,530
Dividend payable	118,121	255,503
Term loans	2,806,083	3,298,809
	52,522,977	34,296,296
NET CURRENT ASSETS/ (LIABILITIES)	5,749,385	(2,156,516)
TOTAL ASSETS LESS CURRENT LIABILITIES	56,627,370	41,845,588
CREDITORS: (Due after more than one year)		
Deferred taxation	(4,072,836)	(2,811,459)
Term loans	(14,292,367)	(13,141,632)
Provision for liabilities and charges; Gratuity	(3,205,556)	(2,926,285)
NET ASSETS	35,056,611	22,966,212
CAPITAL AND RESERVES		
Share capital	776,533	776,533
Share premium	5,866,676	5,866,676
Fixed assets revaluation reserve	835,109	836,436
Capital reserve	4,128,057	432
General reserve	20,320,055	15,191,832
Shareholders' funds	31,926,430	22,671,909
Minority interest	3,130,181	294,303
	35,056,611	22,966,212

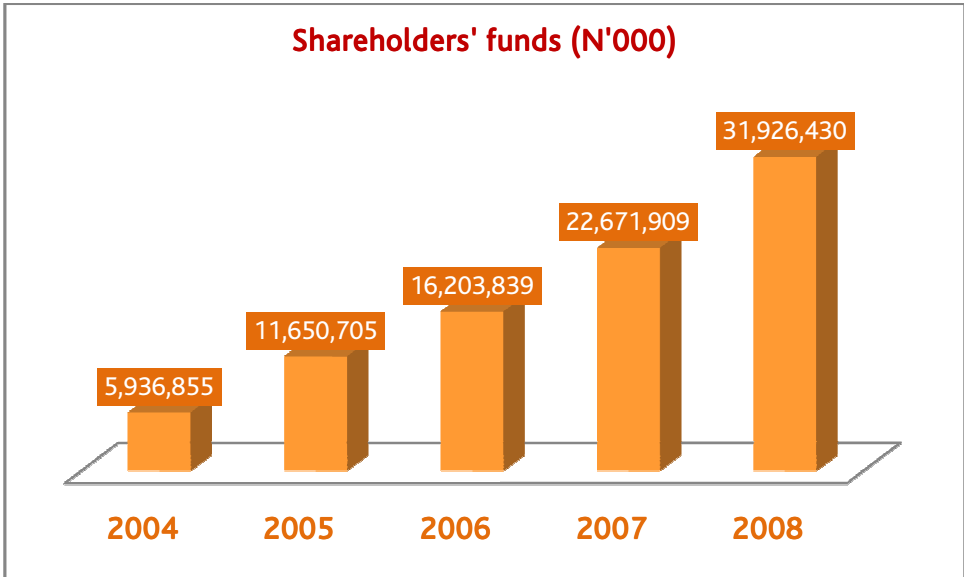
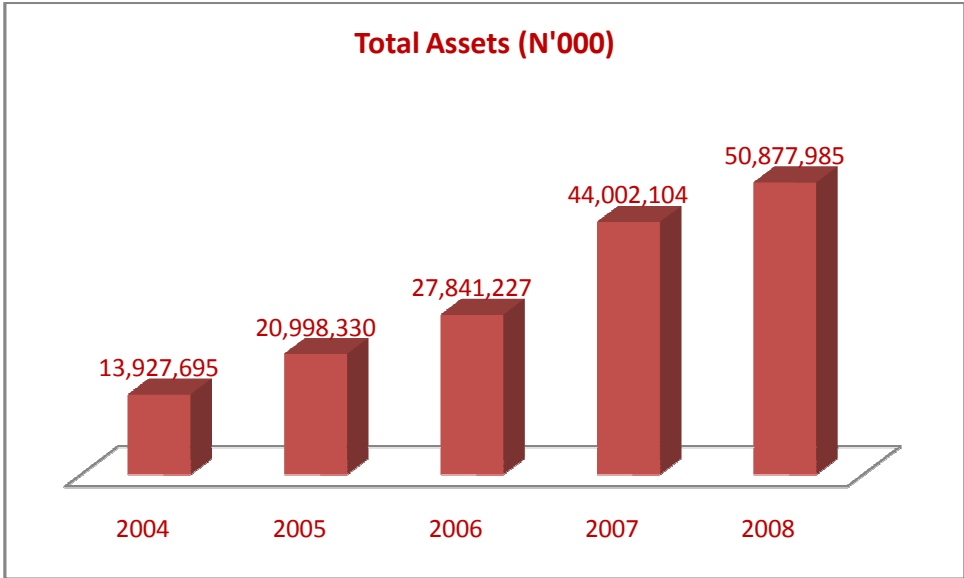
Source: Company's Annual Report

Table 7**Group Profit and Loss Account**

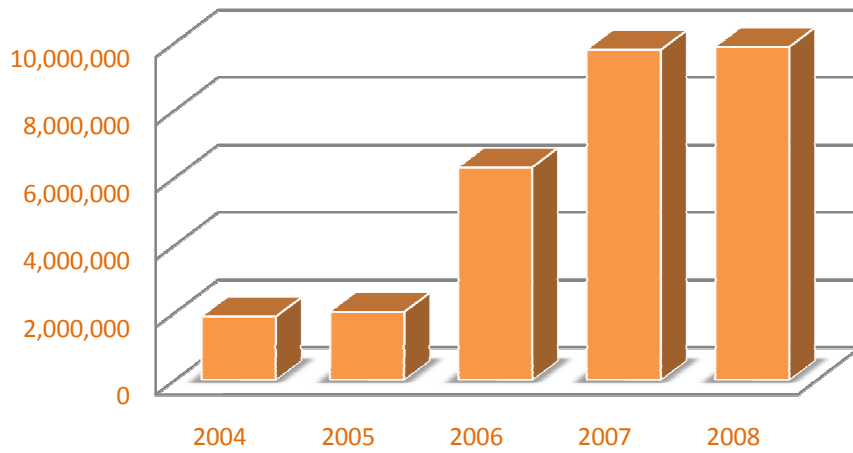
<i>For the year ended 31st March 2008</i>	2008	2007
	N'000	N'000
Turnover	127,661,809	105,668,669
Cost of Sales	(106,744,832)	(86,158,359)
Gross profit	20,916,977	19,510,310
Other operating income	5,080,417	2,755,336
	25,997,394	22,265,646
Expenses		
Distribution	2,234,559	1,621,900
Administrative	6,788,725	5,497,073
Depreciation	4,033,153	2,970,274
Interest	3,062,774	2,203,126
Amortisation of goodwill	-	181,501
	16,119,211	12,473,874
Profit before taxation	9,878,183	9,791,772
Taxation	(3,515,101)	(2,317,304)
Profit after taxation	6,363,082	7,474,468
Minority interests	(22,919)	(541)
Retained profit for the year	6,340,163	7,473,927
PER SHARE DATA (Kobo)		
Earnings-Basic	408	481

Source: Company's Annual Report

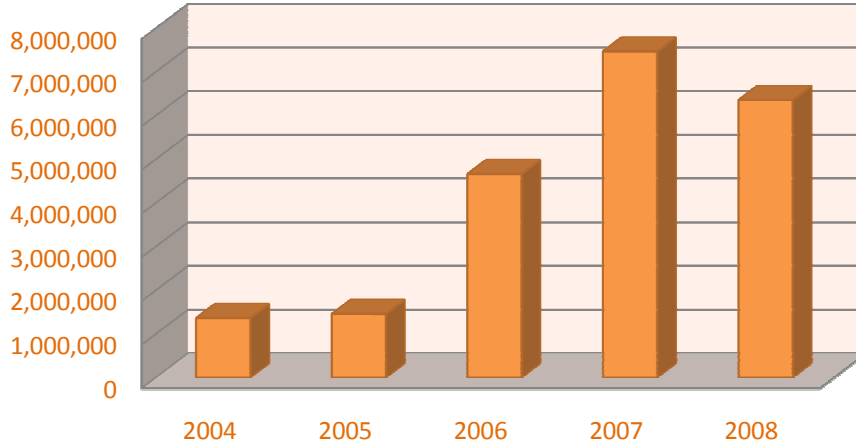
FINANCIAL PERFORMANCE CHARTS



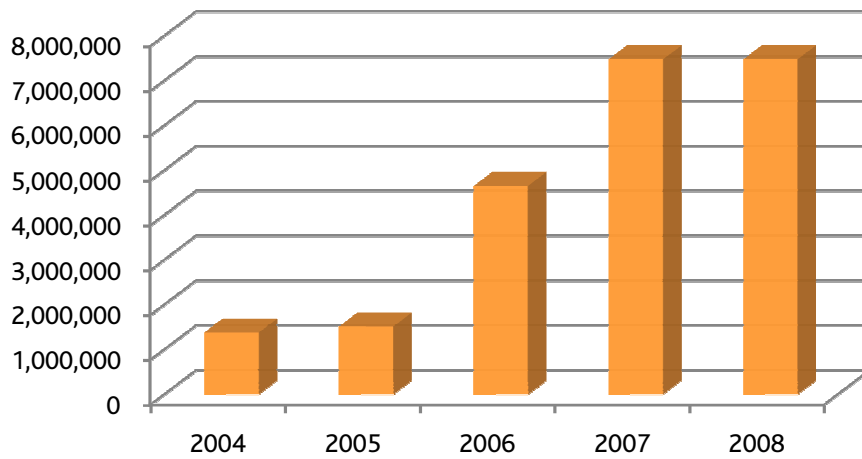
Profit before taxation (N'000)



Profit after taxation (N'000)



Profit attributable to shareholders (N'000)



Dividend (Kobo)

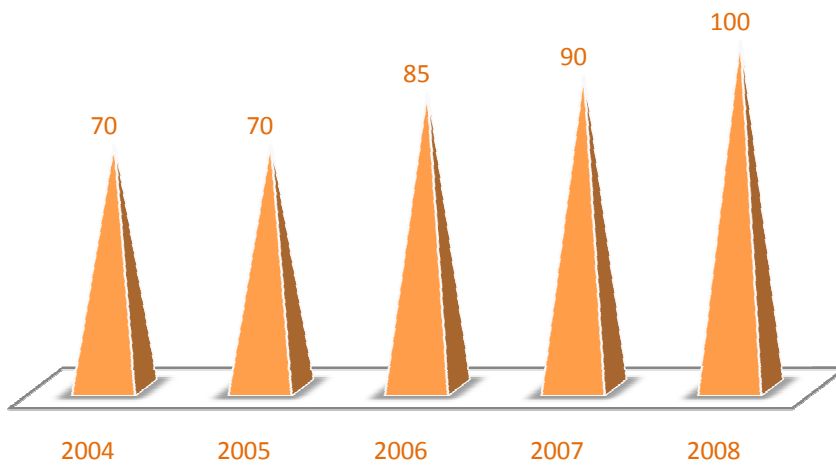


Table 8

OTHER KEY FINANCIAL RATIOS (Compared with fellow listed manufacturer)	Flour Mills (Group)	Dangote Flour Mills
	Mar. 31, 2007/08	Dec. 31, 2007
Profitability		
Return on Equity (ROE) [Net profit/average Shareholders' Funds]	21.93%	2.54%
Return on Assets (ROA) [Earnings before Interest & Tax/average Total Assets]	28.06%	2.29%
Gross Profit Margin [Gross profit/Turnover]	16.38%	11.24%
Activity		
Asset Turnover [Revenues/average Total Assets]	1.38	0.73
Stock Turnover (Turns) [Cost of Goods Sold/Average Stock]	5.58	3.27
Trade Debtor Turnover [Revenue/average Trade Debtors]	25.92	8.21
Trade Credit Turnover [Cost of Goods Sold/average Trade Creditors]	12.57	13.59
Trade Debtor's collection days [(average trade Debtors/ Revenue)* 360 days]	13.89 days	43.84 days
Trade Creditor's payment days [(average trade Creditors/ Cost of sales)* 360 days]	28.64 days	26.50 days
Financial Stability Ratio		
Dividend Cover [Earnings/Dividend Payout]	4.14	-
Propriety Ratio [Shareholders' Funds/Total Asset]	0.32	0.38
Debt Ratio [Total Liability/Total Asset] *100	67.88%	61.90%
Financial Leverage		
Interest Cover [EBIT/Interest payments]	8.49	2.03
Gearing [Debt/Shareholders' Equity]	44.77%	92.20%
Debt to Total Capitalisation [Total Debt/Total Debt + Shareholders' Equity]	56.82%	47.97%
Cash Flow ratio [Net Cash Inflow/Total Debt]	0.10	-
Liquidity		
Current Ratio [Current Assets/Current Liabilities]	1.11	0.87
Quick Ratio (Acid test) [Current Assets less Stocks/Current Liabilities]	0.72	0.55
Investment Ratio		
Enterprise Value/EBITDA [(Market Capitalisation + Total Debt)/EBITDA]	2.55	47.32

Source: Cowry Research

Table 9

KEY RATIOS	Flour Mills plc (Group)	Dangote Flour Mills plc
	Mar. 31, 2007/08	Dec. 31, 2007
Current price (as at 17/Feb/2009)	14.19	13.49
Shares Outstanding	1,708,406,666	5,000,000,000
Share Holders Funds (N)	35,056,611,000	22,145,134,000
Profit After Tax (N)	6,363,082,000	561,559,000
Total Assets (N)	109,150,347,000	58,119,789,000
Profit Before Tax (N)	9,878,183,000	675,703,000
Turnover (N)	127,661,809,000	42,153,272,000
Gross Earnings (N)	20,916,977,000	4,736,096,000
Net Profit After Tax/Sales	4.98%	1.33%
Sales/Total Assets	116.96%	72.53%
Net Profit After Tax/Total Assets	5.83%	0.97%
Total Assets/Stockholders' Equity	311.35%	262.45%
Price to book	0.69	1.92
Price to Asset	0.22	0.73
Price to Gross Earnings	1.16	8.98
Price to Earnings (PER)	4.95	75.77
Price to PBT	3.65	62.97
BV/SHARE(NAS) (N)	20.52	4.43
T.ASSET/SHARE (N)	63.89	11.62
Turnover/SHARE (N)	12.24	0.95
PAT/SHARE (N)	3.72	1.64
PBT/SHARE (N)	5.78	2.05

Source: Cowry Research

COMPANY ANALYSIS OF THE FMN GROUP FOR THE PERIOD BETWEEN 2007 AND 2008

Generally, manufacturing companies may continue to see their efforts get eroded due to high cost of powering manufacturing plants. Flour Mills plc, just like its competitors, produces flour based products which have a growing market in Nigeria as consumption of bread for the common man is a fact of life. The year 2007/08 fiscal year for FMN has been pretty rough, a brief analysis of its 2008 financials threw more light into the group's challenges. *Table 7* above is a breakdown of its 2007/08 financial analysis and we have drawn the following conclusions::

Profitability Ratios

- Compared to its main competitor on the Stock Exchange, FMN's profitability ratios, ROE and ROA look good above 20 per cent. Its Gross Profit Margin of 16.38 per cent is also okay.

Activity/Management Efficiency Ratios

- Its activity ratios look good. But given the assets at its disposal, the company should be able to up its revenues, via a more aggressive and efficient sales strategy, as its asset turnover is only 1.38.
- Trade debtors' collection period is about 14 days while its creditors' payment period is close to 29 days. While the former (traded debtors collection period) is better than Dangote Flour Mills (DFL), the latter is actually slightly worse than its main listed competitor.
- The company should also improve on the availability and efficiency of use of its working capital by effectively managing its debtors, discouraging a large inventory and maintain a more sound fiscal discipline.

Financial Leverage Ratios

- The company is highly leveraged but with the capacity to cover its financial obligations 8.49 times over earnings before interest and tax payments. Its total debt obligations constitute 45 per cent of shareholders' funds meaning that for every N1.00 in shareholding, N0.45 would be channeled to debt settlement in case of liquidation. Its operating cash flow is quite low and can offset N0.10 for every N1.00 in total debt. FMN can do a better job at managing its debt profile.
- Nevertheless, compared to DFL, FMN has a better interest cover of 8.49 times as well as a better gearing ratio of 44.77 per cent.

Liquidity Ratios

- On grounds of liquidity, FMN is a more liquid organization with a current ratio of 1.11 and a quick ratio of 0.72.

Financial Stability Ratios

- FMN's after tax profit can cover dividend payment 4.41 times over. DFL didn't give any dividend in 2007.

- It has a better propriety ratio of 0.32 than that of its competitor. However, it is more indebted with a debt ratio of 67.88 per cent compared to DFL which gives a debt ratio of 61.90 per cent.

Investment Ratios

- FMN has a better Enterprise Value/EBITDA ratio of 2.2 than DFL. It actually outshines the DFL which (as at 17/02/2009) has a lower book value per share of N4.43 and a higher Price to Earnings Ratio of 75.77 times (See Table 8 below).
- Finally, table 8 shows other key investment ratios such as book value per share of N20.52 under which it presently trades in the market.

Table 10: NIGERIAN FOOD SECTORS TRADING DATA AS AT FEBRUARY 17, 2009

FOOD/BEV.	Price	Shares	Market	% Of Market	Earnings'	Latest	Current	Latest	Dividend	Dividend
	17/02/2009	Outstanding	Capitalisation	Capitalisation	Yield %	EPS	PER	Div./Share	Year	Yield (%)
& TOBACCO										
7UP	36.00	512,472,290	18,449,002,440.00	0.36%	8.72	3.14	11.46	1.30	2007	3.61%
BIGTREAT	2.99	2,000,000,000	5,980,000,000.00	0.12%	4.68	0.14	21.36	0.10	2007	3.34%
CADBURY	12.31	1,100,840,617	13,551,347,995.27	0.27%	0.00	0.00	0.00	1.30	2005	10.56%
DANGFLOUR	8.51	5,000,000,000	42,550,000,000.00	0.83%	1.29	0.11	77.36	0.00	-	0.00%
DANGSUGAR	12.30	12,000,000,000	147,600,000,000.00	2.89%	13.58	1.67	7.37	0.85	2008	6.91%
FERDINAND	4.24	100,000,000	424,000,000.00	0.01%	0.00	0.00	0.00	0.00	-	0.00%
FLOURMILL	13.49	1,708,406,666	23,046,405,924.34	0.45%	29.65	4.00	3.37	1.00	2008	7.41%
FOREMOST	0.51	4,438,750	2,263,762.50	0.00%	0.00	0.00	0.00	0.00	-	0.00%
MANDRID	5.95	40,000,000	238,000,000.00	0.00%	7.56	0.45	13.22	0.00	-	0.00%
NASCON	3.73	2,649,438,378	9,882,405,149.94	0.19%	15.82	0.59	6.32	0.40	2007	10.72%

Source: Cowry Database

Table 11: FOOD SECTORS TRADING DATA AS AT FEBRUARY 17, 2009 - contd.

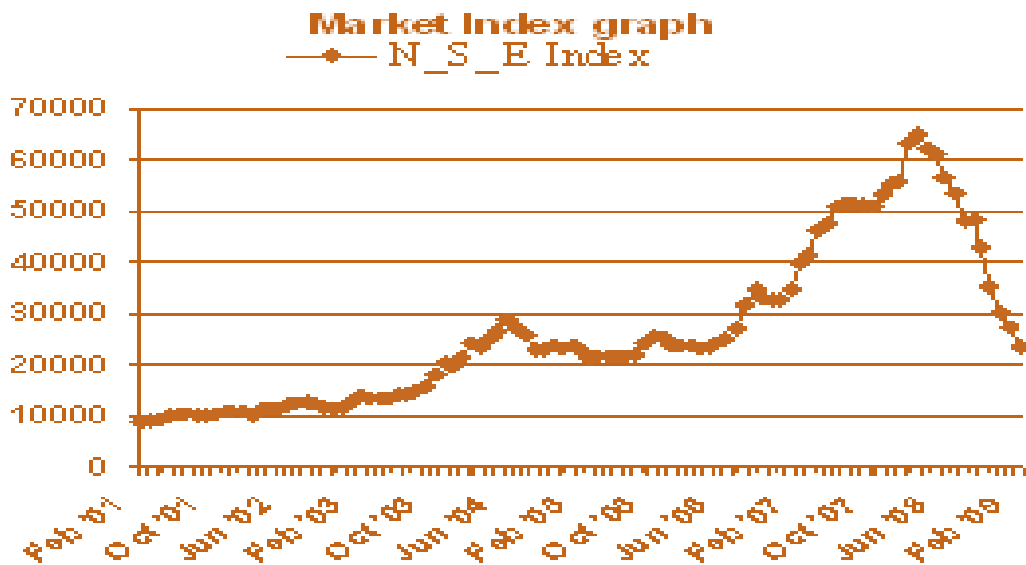
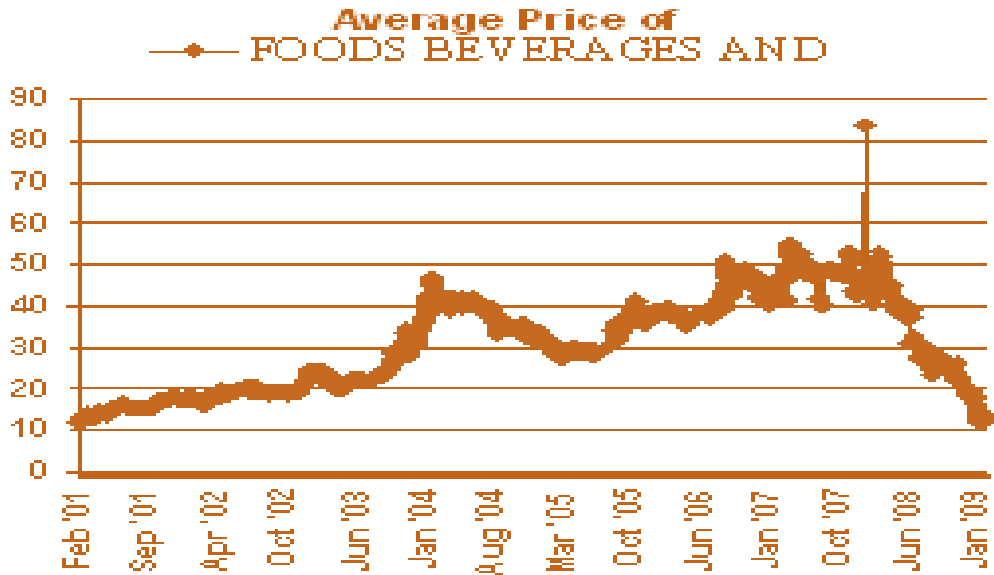
FOOD/BEV.	Price	Latest	Bonus	Latest	Quarter	Projected	Year	Price	Year-To-Date	Year	Year
	17/02/2009	Bonus	Year	Result	PAT (N'm)	FY PAT	End	17/02/2008	%	High	Low
& TOBACCO											
7UP	36.00	1 for 4	2007	Q4, 2008	1,608.00	1,700.00	Mar.	38.61	-6.76	40.54	35.00
BIGTREAT	2.99	-	-	Q2, 2008	136.85	273.70	Dec.	2.92	2.40	3.37	2.16
CADBURY	12.31	1 for 3	2004	Q4, 2007	-726.98	-	Dec.	23.89	-48.47	23.89	10.75
DANGFLOUR	8.51	-	-	Q3, 2008	1,800.00	2,394.00	Dec.	12.75	-33.25	13.99	6.75
DANGSUGAR	12.30	1 for 5	2007	Q3, 2008	12,839.00	25,678.00	Dec.	15.50	-20.65	15.80	9.60
FERDINAND	4.24	-	-	-	-	-	Aug.	4.24	0.00	4.24	4.24
FLOURMILL	13.49	1 for 10	2008	Q3, 2008	756.81	1,006.56	Mar.	31.99	-57.83	33.00	13.49
FOREMOST	0.51	-	-	-	-	-	Sept.	0.51	0.00	0.51	0.51
MANDRID	5.95	-	-	Q4, 2005	17.19	-	Sept.	5.95	0.00	5.95	5.95
NASCON	3.73	1 for 5	2007	Q3, 2008	1,100.00	1,463.00	Dec.	5.99	-37.73	5.99	2.82

Source: NSE, Cowry Research

Table 12

SECURITY	Market Cap. as @ 17/02/2008	% Of Market Capitalisation	Projected EPS	Projected PER	Projected Price	Projected Returns
DANGFLOUR	42,550,000,000.00	0.83%	0.48	17.77	4.79	-43.74%
FLOURMILL	23,046,405,924.34	0.45%	0.59	22.90	5.89	-56.32%

Source: Cowry Research



CONCLUSION

Having discussed the current operating environment of FMN, its weaknesses and strengths, there is still much more room for improving the company's fortunes. Due to its disappointing Q3 Dec. 31, 2008 as shown in *Table 3* the company is expected to yield a negative projected return of 56.32 per cent (See Table 10 above). This is because, due to the exchange loss of N6.660 billion that reduced its after tax earnings to N756.81 million, FMN's projected price is **N5.89** which is still higher than that of **DFL**. Nevertheless, FMN remains a stock for the future. A full year financial report will go a long way in convincing us if investment in FMN will be worthwhile. For now, we give the following recommendations:

- that investors that already a shareholder of FMN should **HOLD**
- interested investors should **WATCH** or **AVOID**
- speculators should **SELL**
- While long-term investors may **ACCUMULATE** when the price inches closer to N7.00 for the purpose of dividend income, if any.

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IMPORTANT DISCLOSURES

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