

## Growth outlook still positive; potential upside exists

Flourmills Nigeria Plc (FMN) released its gM 2020 financial results showing a 5.7% y/y growth in Revenue to N423.5bn from N400.6bn in gM 2019. On a q/q basis, Revenue grew significantly, up 12.3% q/q to N152.7bn in Q3 2020 from N136.0bn in Q2 2020. Net Income was up 3.4% y/y to N8.2bn in gM 2020 from N7.9bn in gM 2019 but grew stronger on a q/q basis, up 35.4% to N2.3bn in Q3 2020 from N1.7bn in Q2 2020.

We raise our Revenue forecast for FY 2020 following strong improvement recorded in Food Revenue and positive surprise in Agro allied business driven by Fertilizers and Animal feeds sale. We also note that the underlying driver of the positive Revenue is the closure of the border which we expect to remain in place for the rest of the financial period. We note the company is coming off a high tax base which we expect will result in significant Net Profit growth for FY 2020.

We raise our target price to N25.90/s from N23.66/s previously, implying a 12.6% upside from Friday's closing price of N23.0/s. We note the increase in our target price reflects lower yield environment. We retain our BUY recommendation on the stock. Our valuation methodology is a Single stage 5-Year FCF model.

### gM 2020 Review

#### Food turns a corner as gM 2020 Revenue beats estimates

In FMN's gM 2020 financial results, the company recorded an impressive Q3 2020 performance. In Q3, Revenue was up 12.3% q/q to N152.7bn from N136.0bn in Q2 2020. The much improved Q3 2020 Revenue growth pulled gM 2020 Revenue performance higher with Revenue growing 5.7% y/y (H1 2020 – 0.4% y/y) to N423.5bn beating our gM estimate of N404.7bn. Revenue growth was supported by major business segments; Agro-Allied (up 19.6% y/y) and Sugar (up 13.5% y/y). Food segment turned positive in Q3, up 3.0% y/y to N262.1bn as at gM 2020. On the negative, Support Services remained dour with Revenue down 32.8% y/y to N12.5bn as at gM 2020. Management highlighted the positive impact of the border closure on Revenue from Pasta and Bread Flour while Fertilizers and Animal Feeds sales continue to strengthen the Agro-Allied business.

#### Cost growth in line with Revenue growth...But Gross margin compress slightly

Cost of Sales (adjusted for depreciation) grew 6.1% y/y to N361.6bn in gM 2020 from N340.9bn in gM 2019. We note the growth in Cost of Sales was largely in line with the growth in Revenue and volumes. The growth in Cost of Sales was reflected in higher Material costs (+5.6% y/y to N323.4bn) and Factory Staff payments (+12.5% y/y to N13.0bn). Consequently, Gross Profit was up 3.6% y/y to N61.9bn for gM 2020 from N59.8bn in gM 2019. However, we note a marginal 0.3ppts decline in Gross Margin to 14.6% in gM 2020.

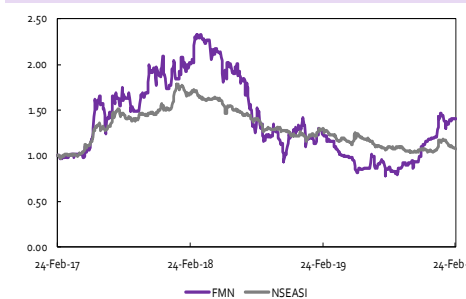
|                       |               |
|-----------------------|---------------|
| <b>Recommendation</b> | <b>Buy</b>    |
| <b>Target Price</b>   | <b>N25.90</b> |
| <b>Closing Price</b>  | <b>N23.00</b> |

\*Price as at 23 Feb

#### Key data

|                | 2019                 | 2020e | 2021e | 2022e |
|----------------|----------------------|-------|-------|-------|
| Sales          | 527.4                | 552.4 | 559.8 | 573.8 |
| EBITDA         | 53.0                 | 58.8  | 61.6  | 64.2  |
| Net Profits    | 4.0                  | 13.1  | 17.6  | 19.3  |
| EPS, N         | 1.00                 | 3.19  | 4.30  | 4.72  |
| PE Ratio       | 23.0x                | 7.2x  | 5.4x  | 4.9x  |
| EV/EBITDA      | 3.8x                 | 3.3x  | 2.8x  | 2.7x  |
| Dividend yield | 6.6%                 | 8.4%  | 11.3% | 12.4% |
| Market cap.    | N94.3bn (US\$258.8m) |       |       |       |
| Free float     | 66.3%                |       |       |       |
| Bloomberg      | FLOURMIL NL          |       |       |       |
| Reuters        | FMN.LG               |       |       |       |

#### Three-year graph



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### Operating profit pressured...On higher depreciation charge

The company recorded a 10.5% y/y increase in Operating Expenses (adjusted for depreciation) driven by increases in Selling & Distribution Expenses (up 8.0% y/y) and Administrative Expenses adjusted for depreciation (up 11.6% y/y). We believe the rise in Opex must have been driven by increased spending on Advertisement as a result of the company's investments in distribution networks via B2C segments. While EBIDTA remained flat y/y, Q3 EBIDTA grew double digits (up 10.2% q/q due to decline in Opex and faster Gross Profit growth within the quarter). Depreciation and Amortisation was up 11.3% y/y to N15.9bn in gM 2020. Consequently, EBIT slipped lower by 6.1% y/y to N24.2bn in gM 2020 from N25.7bn in gM 2019.

### Deleveraging efforts sustains 2020 recovery

The company's sustained efforts at deleveraging its balance sheet continued to bear fruit as Finance cost dipped lower by 20.7% y/y to N13.1bn in gM 2020 from N16.6bn in gM 2019. Finance Income increased by 35.8% y/y to N728.3m in gM 2020. Consequently, Net Finance Costs slid lower by 22.6% to N12.4bn in gM 2020 from N16.0bn in gM 2019. Against this backdrop, Profit before Tax grew 9.0% y/y to N12.3bn for gM 2020 from N11.3bn in gM 2019. Tax Expense grew 22.1% y/y to N4.1bn with management declaring it took a prudent approach in estimating the impact of the finance bill on its tax bill. Nevertheless, Net Income was up 3.4% y/y to N8.2bn in gM 2020. However, Earnings per share for gM 2020 declined to N1.84/s from N1.89/s in gM 2019 on the back of lower Net Income attributable to shareholders with Profit growth driven by subsidiaries.

### gM 2020, Nm

| Nm, except where mentioned otherwise       | gM'20         | gM'19         | y/y          | Q3'20         | Q2'20         | q/q          |
|--|---------------|---------------|--------------|---------------|---------------|--------------|
| Sales                                      | 423,479       | 400,642       | 5.7%         | 152,717       | 136,017       | 12.3%        |
| Cost of Sales (Ex-Dep)                     | (361,558)     | (340,855)     | 6.1%         | (131,662)     | (116,025)     | 13.5%        |
| <b>Gross Profit</b>                        | <b>61,921</b> | <b>59,786</b> | <b>3.6%</b>  | <b>21,055</b> | <b>19,991</b> | <b>5.3%</b>  |
| Selling and Distribution Expenses (Ex-Dep) | (6,404)       | (5,933)       | 8.0%         | (1,921)       | (2,446)       | -21.5%       |
| Administrative Expenses (Ex-Dep)           | (15,431)      | (13,828)      | 11.6%        | (5,761)       | (5,411)       | 6.5%         |
| <b>EBITDA</b>                              | <b>40,086</b> | <b>40,026</b> | <b>0.1%</b>  | <b>13,374</b> | <b>12,135</b> | <b>10.2%</b> |
| Depreciation and Amortization              | (15,923)      | (14,301)      | 11.3%        | (5,986)       | (5,128)       | 16.7%        |
| <b>Operating Profit</b>                    | <b>24,163</b> | <b>25,725</b> | <b>-6.1%</b> | <b>7,387</b>  | <b>7,007</b>  | <b>5.4%</b>  |
| Net Operating Gains/(Losses)               | 518           | 1,568         | -66.9%       | 473           | (81)          | -685.0%      |
| <b>EBIT</b>                                | <b>24,681</b> | <b>27,293</b> | <b>-9.6%</b> | <b>7,860</b>  | <b>6,926</b>  | <b>13.5%</b> |
| Net Finance Income                         | (12,389)      | (16,014)      | -22.6%       | (4,203)       | (3,794)       | 10.8%        |
| <b>Profit before tax</b>                   | <b>12,292</b> | <b>11,278</b> | <b>9.0%</b>  | <b>3,658</b>  | <b>3,132</b>  | <b>16.8%</b> |
| Tax expense                                | (4,131)       | (3,383)       | 22.1%        | (1,400)       | (1,466)       | -4.4%        |
| <b>Net Profit</b>                          | <b>8,161</b>  | <b>7,896</b>  | <b>3.4%</b>  | <b>2,257</b>  | <b>1,667</b>  | <b>35.4%</b> |
| Diluted EPS                                | 1.84          | 1.89          | -2.6%        | 0.31          | 0.50          |              |
| <b>Margins:</b>                            | <b>gM'20</b>  | <b>gM'19</b>  | <b>y/y</b>   | <b>Q3'20</b>  | <b>Q2'20</b>  | <b>q/q</b>   |
| Gross margin                               | 14.6%         | 14.9%         | -0.3ppts     | 13.8%         | 14.7%         | -0.9ppts     |
| EBITDA Margin                              | 9.5%          | 10.0%         | -0.5ppts     | 8.8%          | 8.9%          | -0.2ppts     |
| PBT Margin                                 | 2.9%          | 2.8%          | 0.1ppts      | 2.4%          | 2.3%          | 0.1ppts      |
| Net margin                                 | 1.9%          | 2.0%          | 0.0ppts      | 1.5%          | 1.2%          | 0.3ppts      |

Source: Company, CSL Research.

### Outlook and Forecasts

#### We increase Revenue estimates by 3.9% to N552.4bn

We remain optimistic about Flour Mills business given the dominance it maintains in majority of its product categories. gM Revenue beat our earlier estimates given the positive surprise in Food and Agro Allied. We believe the underlying driver of the positive surprise which is the border closure would remain through the last quarter of the financial period. Thus, we raise our Revenue forecast by 3.9% to N552.4bn for FY 2020 which implies a 4.7% y/y growth over FY 2019 Revenue numbers. Our big raises are on Food (+4.0ppts to 2.0%) and Agro Allied (+13.0ppt to 18.0%). However, we retain our Sugar Revenue forecast as it remains in line with gM numbers.

**Profit lines expected to remain strong till year end**

We expect the company's profit lines to remain strong in Q4. Thus, we raise our profit lines estimates; Gross profit (+2.9% to N81.4bn), EBITDA (+2.5% to N58.8bn), and Net Profit (+2.5% to N13.1bn). While we have observed higher wheat prices since December last year, we expect increased efficiency in Agro allied segment as well as high cost base for Food segment in 2019, to support Gross Profit growth. In addition, we expect improved volumes from Pasta brands and Bread Flour to support margins. While we expect double-digit growth in Opex, we project the company's deleveraging efforts would continue to support Net Income. Also, we note the company is coming off a high effective tax rate base which we expect to support a strong jump in Net Profit. We forecast Net Profit to grow by 217.9% in FY 2020.

**Valuation: BUY rating reiterated**

We raise our target price to N25.90/s from the N23.66/s previously, implying a 12.6% upside from Friday's closing price of N23.0/s. We note the increase in our target price reflects lower yield environment and a lower Cost of Equity. We retain our BUY recommendation on the stock. Our valuation methodology is a Single stage 5-Year FCFF model.

**Flourmills of Nigeria, Changes in Forecast, Nm**

|                             | Previous forecast | New Forecast | Change |
|-----------------------------|-------------------|--------------|--------|
| Sales 2019e, Nm             | 531,503           | 552,390      | 3.9%   |
| Sales 2020e, Nm             | 539,061           | 559,838      | 3.9%   |
| Sales 2021e, Nm             | 552,816           | 573,759      | 3.8%   |
| Gross Profits 2019e, Nm     | 79,137            | 81,399       | 2.9%   |
| Gross Profits 2020e, Nm     | 81,751            | 84,026       | 2.8%   |
| Gross Profits 2021e, Nm     | 84,857            | 87,166       | 2.7%   |
| EBITDA 2019e, Nm            | 57,345            | 58,751       | 2.5%   |
| EBITDA 2020e, Nm            | 60,189            | 61,632       | 2.4%   |
| EBITDA 2021e, Nm            | 62,744            | 64,216       | 2.3%   |
| Net Profits 2019e, Nm       | 12,746            | 13,062       | 2.5%   |
| Net Profits 2020e, Nm       | 16,510            | 17,623       | 6.7%   |
| Net Profits 2021e, Nm       | 18,003            | 19,346       | 7.5%   |
| Earnings per Share 2019e, N | 3.11              | 3.19         | 2.5%   |
| Earnings per Share 2020e, N | 4.03              | 4.30         | 6.7%   |
| Earnings per Share 2021e, N | 4.39              | 4.72         | 7.5%   |

Source: CSL Research

## FMN

## Flour Mills of Nigeria

March year-end; Nm (unless otherwise stated)

| Income Statement                       | 2016          | 2017          | 2018          | 2019          | 2020E         | 2021E         | 2022E         | 2023E         |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenues                               | 342,586       | 524,464       | 542,670       | 527,405       | 552,390       | 559,838       | 573,759       | 586,941       |
| Cost of Sales*                         | (292,810)     | (444,997)     | (459,082)     | (455,233)     | (470,991)     | (475,812)     | (486,593)     | (496,891)     |
| <b>Gross Profit</b>                    | <b>49,777</b> | <b>79,467</b> | <b>83,588</b> | <b>72,172</b> | <b>81,399</b> | <b>84,026</b> | <b>87,166</b> | <b>90,051</b> |
| Operating Expenses (Opex)*             | (18,312)      | (21,382)      | (23,493)      | (25,352)      | (28,172)      | (27,992)      | (28,688)      | (29,347)      |
| <b>EBITDA</b>                          | <b>23,744</b> | <b>56,597</b> | <b>66,038</b> | <b>53,032</b> | <b>58,751</b> | <b>61,632</b> | <b>64,216</b> | <b>66,573</b> |
| Depreciation and Amortisation          | (14,692)      | (15,157)      | (17,615)      | (20,735)      | (21,202)      | (22,457)      | (23,743)      | (25,059)      |
| Other Income                           | 23,731        | -             | -             | -             | -             | -             | -             | -             |
| <b>EBIT</b>                            | <b>32,784</b> | <b>41,440</b> | <b>48,423</b> | <b>32,297</b> | <b>37,549</b> | <b>39,175</b> | <b>40,472</b> | <b>41,514</b> |
| PBT before exceptional items           | 11,489        | 10,473        | 16,542        | 10,174        | 20,188        | 25,176        | 27,636        | 30,101        |
| Exceptional items                      | -             | -             | -             | -             | -             | -             | -             | -             |
| <b>PBT</b>                             | <b>11,489</b> | <b>10,473</b> | <b>16,542</b> | <b>10,174</b> | <b>20,188</b> | <b>25,176</b> | <b>27,636</b> | <b>30,101</b> |
| Taxation                               | 2,931         | (1,636)       | (2,926)       | (6,174)       | (7,126)       | (7,553)       | (8,291)       | (9,030)       |
| <b>Net Profits</b>                     | <b>14,420</b> | <b>8,836</b>  | <b>13,616</b> | <b>4,000</b>  | <b>13,062</b> | <b>17,623</b> | <b>19,346</b> | <b>21,071</b> |
| Minority interest                      | 200           | (875)         | (940)         | 108           | -             | -             | -             | -             |
| EPS, N                                 | 5.57          | 3.03          | 4.83          | 1.00          | 3.19          | 4.30          | 4.72          | 5.14          |
| DPS, N                                 | 1.00          | 1.00          | 1.00          | 1.20          | 1.59          | 2.15          | 2.36          | 2.57          |
| Payout ratio                           | 18%           | 30%           | 19%           | 123%          | 50%           | 50%           | 50%           | 50%           |
| Dividend sum                           | 2,624         | 2,625         | 2,624         | 4,920         | 6,531         | 8,812         | 9,673         | 10,535        |
| <b>Number of shares outstanding, m</b> | <b>2,624</b>  | <b>2,624</b>  | <b>2,624</b>  | <b>4,100</b>  | <b>4,100</b>  | <b>4,100</b>  | <b>4,100</b>  | <b>4,100</b>  |

\*Cost of Sales and Opex adjusted for Depreciation and Amortisation

| Balance Sheet                      | 2016           | 2017           | 2018           | 2019           | 2020E          | 2021E          | 2022E          | 2023E          |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Fixed Assets                       | 213,562        | 216,866        | 217,901        | 221,465        | 222,728        | 223,057        | 222,680        | 221,540        |
| Investments                        | 74             | 1,992          | 1,883          | 1,779          | 1,689          | 1,600          | 1,509          | 1,418          |
| Intangible Assets                  | 735            | 208            | 1,095          | 1,317          | 1,274          | 1,212          | 1,132          | 1,035          |
| Long Term Debtors and Prepayments  | -              | 989.02         | 944.47         | 1,402.21       | 1,402.21       | 1,402.21       | 1,402.21       | 1,402.21       |
| <b>Non-Current Assets</b>          | <b>220,662</b> | <b>227,720</b> | <b>234,102</b> | <b>236,552</b> | <b>237,683</b> | <b>237,860</b> | <b>237,314</b> | <b>235,985</b> |
| Stocks                             | 58,699         | 117,296        | 111,373        | 118,867        | 113,038        | 104,679        | 111,916        | 114,285        |
| Debtors and Prepayments            | -              | -              | -              | -              | -              | -              | -              | -              |
| Amount Due From Related Companies  | -              | -              | -              | -              | -              | -              | -              | -              |
| Cash and Cash Equivalents          | 33,213         | 45,019         | 22,245         | 17,206         | 14,034         | 22,240         | 17,480         | 19,213         |
| <b>Current Assets</b>              | <b>124,686</b> | <b>254,883</b> | <b>174,246</b> | <b>180,269</b> | <b>170,927</b> | <b>171,922</b> | <b>175,514</b> | <b>180,669</b> |
| <b>Total Assets</b>                | <b>345,348</b> | <b>482,603</b> | <b>408,348</b> | <b>416,822</b> | <b>408,610</b> | <b>409,782</b> | <b>412,828</b> | <b>416,654</b> |
| Trade Creditors                    | 50,417         | 94,567         | 56,994         | 79,040         | 80,069         | 80,888         | 82,721         | 84,471         |
| Current Portion of Loan Term       | 100,830        | 141,702        | 103,923        | 71,053         | 60,908         | 55,832         | 50,757         | 45,681         |
| Other Creditors and Accruals       | -              | -              | -              | -              | -              | -              | -              | -              |
| Amount Due to Related Companies    | -              | -              | -              | -              | -              | -              | -              | -              |
| Current Portion of Bond            | -              | -              | -              | -              | -              | -              | -              | -              |
| Taxation                           | 1,336          | 2,136          | 3,151          | 4,104          | 4,104          | 4,104          | 4,104          | 4,104          |
| Dividend Payable                   | 1,937          | 2,032          | 2,006          | 2,567          | 2,567          | 2,567          | 2,567          | 2,567          |
| Bank Overdraft                     | 16,413         | 49,024         | 19,934         | 9,651          | 9,651          | 9,651          | 9,651          | 9,651          |
| <b>Total current liabilities</b>   | <b>183,039</b> | <b>307,497</b> | <b>199,788</b> | <b>184,629</b> | <b>175,512</b> | <b>171,256</b> | <b>168,013</b> | <b>164,688</b> |
| <b>Non-current liabilities</b>     | <b>66,543</b>  | <b>72,562</b>  | <b>57,943</b>  | <b>81,221</b>  | <b>75,595</b>  | <b>72,211</b>  | <b>68,827</b>  | <b>65,444</b>  |
| <b>Total Liabilities</b>           | <b>249,583</b> | <b>380,059</b> | <b>257,731</b> | <b>265,849</b> | <b>251,107</b> | <b>243,467</b> | <b>236,840</b> | <b>230,131</b> |
| Share Capital                      | 1,312          | 1,312          | 2,050          | 2,050          | 2,050          | 2,050          | 2,050          | 2,050          |
| Share Premium                      | 36,813         | 36,813         | 75,377         | 75,377         | 75,377         | 75,377         | 75,377         | 75,377         |
| Capital Reserve                    | 89.76          | 111.32         | 72.56          | 94.32          | 94.32          | 94.32          | 94.32          | 94.32          |
| Retained Earnings                  | 54,901         | 60,451         | 67,904         | 66,378         | 72,908         | 81,720         | 91,393         | 101,928        |
| Minority Interest (MI)             | 2,830          | 4,080          | 5,358          | 7,261          | 7,261          | 7,261          | 7,261          | 7,261          |
| <b>Shareholders' funds (Ex MI)</b> | <b>92,936</b>  | <b>98,464</b>  | <b>145,259</b> | <b>143,711</b> | <b>150,242</b> | <b>159,053</b> | <b>168,726</b> | <b>179,262</b> |

| Cash Flow Statement   | 2016          | 2017            | 2018E         | 2019          | 2020E         | 2021E         | 2022E         | 2023E         |
|-----------------------|---------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Operating Cash Flow   | 55,843        | (7,184)         | 84,592        | 75,279        | 65,950        | 69,663        | 57,697        | 64,901        |
| Investing Cash Flow   | 8,532         | (18,609)        | (17,832)      | (24,989)      | (21,421)      | (21,745)      | (22,498)      | (22,962)      |
| Financing Cash Flow   | (5,995)       | 11,733          | (56,182)      | (42,012)      | (40,574)      | (32,160)      | (31,667)      | (31,177)      |
| <b>Free Cash Flow</b> | <b>31,728</b> | <b>(28,200)</b> | <b>63,194</b> | <b>49,056</b> | <b>43,854</b> | <b>47,269</b> | <b>34,747</b> | <b>41,423</b> |

Source: Company, CSL estimates

## FMN

| Profitability Ratios              | 2016   | 2017   | 2018  | 2019   | 2020E  | 2021E | 2022E | 2023E |
|-----------------------------------|--------|--------|-------|--------|--------|-------|-------|-------|
| Gross Profit Margin               | 14.5%  | 15.2%  | 15.4% | 13.7%  | 14.7%  | 15.0% | 15.2% | 15.3% |
| EBITDA Margin                     | 6.9%   | 10.8%  | 12.2% | 10.1%  | 10.6%  | 11.0% | 11.2% | 11.3% |
| Operating Profit Margin           | 2.6%   | 7.9%   | 8.9%  | 6.1%   | 6.8%   | 7.0%  | 7.1%  | 7.1%  |
| PBT Margin                        | 3.4%   | 2.0%   | 3.0%  | 1.9%   | 3.7%   | 4.5%  | 4.8%  | 5.1%  |
| Net Profit Margin                 | 4.2%   | 1.7%   | 2.5%  | 0.8%   | 2.4%   | 3.1%  | 3.4%  | 3.6%  |
| ROAA                              | 4.2%   | 2.1%   | 3.1%  | 1.0%   | 3.2%   | 4.3%  | 4.7%  | 5.1%  |
| ROCE                              | 10.3%  | 18.2%  | 19.6% | 19.1%  | 19.7%  | 20.3% | 21.1% | 21.3% |
| ROAE                              | 16.3%  | 9.2%   | 11.2% | 2.8%   | 8.9%   | 11.4% | 11.8% | 12.1% |
| Dividend Yield                    | 5.3%   | 5.3%   | 5.3%  | 6.3%   | 8.4%   | 11.3% | 12.4% | 13.5% |
| Opex/Sales                        | 5.3%   | 4.1%   | 4.2%  | 4.9%   | 5.1%   | 5.0%  | 5.0%  | 5.0%  |
| Activity Ratios                   | 2016   | 2017   | 2018  | 2019   | 2020E  | 2021E | 2022E | 2023E |
| Total Asset Turnover              | 1.0x   | 1.3x   | 1.2x  | 1.3x   | 1.3x   | 1.4x  | 1.4x  | 1.4x  |
| Fixed Asset Turnover              | 1.6x   | 2.4x   | 2.5x  | 2.4x   | 2.5x   | 2.5x  | 2.6x  | 2.6x  |
| Current Asset Turnover            | 2.8x   | 2.8x   | 2.5x  | 3.0x   | 3.1x   | 3.3x  | 3.3x  | 3.3x  |
| Inventory Turnover                | 4.6x   | 5.1x   | 4.0x  | 4.0x   | 4.1x   | 4.4x  | 4.5x  | 4.4x  |
| Cash Turnover                     | 10.6x  | 13.4x  | 16.1x | 26.7x  | 35.4x  | 30.9x | 28.9x | 32.0x |
| Liquidity Ratios                  | 2016   | 2017   | 2018  | 2019   | 2020E  | 2021E | 2022E | 2023E |
| Current Ratio                     | 0.7x   | 0.8x   | 0.9x  | 1.0x   | 1.0x   | 1.0x  | 1.0x  | 1.1x  |
| Quick Ratio                       | 0.3x   | 0.2x   | 0.2x  | 0.2x   | 0.2x   | 0.3x  | 0.3x  | 0.3x  |
| Cash Ratio                        | 0.2x   | 0.1x   | 0.1x  | 0.1x   | 0.1x   | 0.1x  | 0.1x  | 0.1x  |
| Solvency Ratios                   | 2016   | 2017   | 2018  | 2019   | 2020E  | 2021E | 2022E | 2023E |
| Net Debt-to-Equity Ratio          | 142%   | 200%   | 90%   | 76%    | 65%    | 51%   | 45%   | 37%   |
| Debt-to-Capital Ratio             | 63%    | 70%    | 50%   | 46%    | 41%    | 38%   | 35%   | 32%   |
| Debt-to-Equity Ratio              | 173%   | 236%   | 102%  | 84%    | 71%    | 62%   | 54%   | 46%   |
| Debt-to-Assets Ratio              | 48%    | 50%    | 38%   | 30%    | 27%    | 25%   | 23%   | 21%   |
| Leverage                          | 3.6x   | 4.7x   | 2.7x  | 2.8x   | 2.6x   | 2.5x  | 2.3x  | 2.2x  |
| Valuation Multiples               | 2016   | 2017   | 2018  | 2019   | 2020E  | 2021E | 2022E | 2023E |
| EV / Sales                        | 0.5x   | 0.5x   | 0.3x  | 0.4x   | 0.3x   | 0.3x  | 0.3x  | 0.2x  |
| EV / EBITDA                       | 7.7x   | 4.4x   | 2.7x  | 3.5x   | 3.0x   | 2.6x  | 2.4x  | 2.2x  |
| EV / EBIT                         | 5.5x   | 5.9x   | 3.7x  | 5.8x   | 4.7x   | 4.0x  | 3.8x  | 3.5x  |
| EV / CE                           | 0.7x   | 0.7x   | 0.6x  | 0.7x   | 0.7x   | 0.6x  | 0.6x  | 0.5x  |
| Price to Earnings                 | 3.4x   | 6.3x   | 3.9x  | 19.0x  | 6.0x   | 4.4x  | 4.0x  | 3.7x  |
| Price to Book Value               | 0.5x   | 0.5x   | 0.3x  | 0.5x   | 0.5x   | 0.5x  | 0.4x  | 0.4x  |
| Earnings Yield                    | 0.3x   | 0.2x   | 0.3x  | 0.1x   | 0.2x   | 0.2x  | 0.2x  | 0.3x  |
| Y/y growth                        | 2016   | 2017   | 2018  | 2019   | 2020E  | 2021E | 2022E | 2023E |
| Revenues                          | 11%    | 53%    | 3%    | -3%    | 5%     | 1%    | 2%    | 2%    |
| Gross Profit                      | 14.6%  | 59.6%  | 5.2%  | -13.7% | 12.8%  | 3.2%  | 3.7%  | 3.3%  |
| Distribution and Selling Expenses | 19.6%  | 6.7%   | 15.7% | 32.1%  | 8.2%   | -5.0% | 2.5%  | 2.3%  |
| Administrative Expenses           | -17.0% | 20.5%  | 3.6%  | 5.4%   | 10.4%  | 1.3%  | 2.5%  | 2.3%  |
| EBITDA                            | 5.4%   | 138.4% | 16.7% | -19.7% | 10.8%  | 4.9%  | 4.2%  | 3.7%  |
| EBIT                              | 35.9%  | 26.4%  | 16.9% | -33.3% | 16.3%  | 4.3%  | 3.3%  | 2.6%  |
| PBT                               | 48.7%  | -8.8%  | 57.9% | -38.5% | 98.4%  | 24.7% | 9.8%  | 8.9%  |
| Net Profits ex. MI                | 70.4%  | -38.7% | 54.1% | -70.6% | 226.5% | 34.9% | 9.8%  | 8.9%  |
| EPS                               | 62.1%  | -45.5% | 59.2% | -79.3% | 217.9% | 34.9% | 9.8%  | 8.9%  |
| DPS                               | -52.3% | 0.0%   | 0.0%  | 20.0%  | 32.7%  | 34.9% | 9.8%  | 8.9%  |

Source: Company, CSL estimates

## Analyst Certification

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## Important disclosures

### Ratings and Target Price History

#### Flour Mills Nigeria

| Date      | Price (N) | Old Target (N) | New Price Target (N) | Old recommendation | New recommendation |
|-----------|-----------|----------------|----------------------|--------------------|--------------------|
| 19-Dec-13 | 86.6      | 106.3          | 106.3                | Buy                | Buy                |
| 24-Jan-14 | 88.0      | 106.3          | 106.3                | Buy                | Buy                |
| 10-Feb-14 | 83.1      | 106.3          | 106.3                | Buy                | Buy                |
| 27-Aug-14 | 68.1      | 106.3          | 106.3                | Buy                | Buy                |
| 2-Dec-14  | 45.3      | 106.3          | 54.8                 | Buy                | Hold               |
| 4-Feb-15  | 38.0      | 54.8           | 54.8                 | Hold               | Hold               |
| 11-Jun-15 | 35.0      | 54.8           | 40.7                 | Hold               | Hold               |
| 10-Feb-16 | 19.0      | 40.7           | 16.6                 | Hold               | Hold               |
| 8-Aug-16  | 22.0      | 16.6           | 15.8                 | Hold               | Sell               |
| 1-Feb-17  | 18.0      | 15.8           | 24.9                 | Sell               | Buy                |
| 2-Nov-17  | 33.7      | 24.9           | 30.8                 | Buy                | Hold               |
| 15-Jan-18 | 33.4      | 30.8           | 36.7                 | Hold               | Hold               |
| 12-Jul-18 | 30.8      | 36.7           | 40.8                 | Hold               | Buy                |
| 28-Jan-19 | 19.5      | 40.8           | 28.7                 | Buy                | Hold               |
| 6-Feb-19  | 18.5      | 28.7           | 26.4                 | Hold               | Hold               |
| 26-Nov-19 | 18.20     | 26.4           | 23.7                 | Hold               | Buy                |
| 24-Feb-20 | 23.00     | 23.7           | 25.9                 | Buy                | Buy                |

### CSL Research Ratings Distribution

|                            | BUY | HOLD | SELL | Not Rated | Total |
|----------------------------|-----|------|------|-----------|-------|
| Coverage universe          | 16  | 11   | 3    | 3         | 33    |
| % distribution             | 48% | 33%  | 9%   | 9%        |       |
| Investment banking clients | 0   | 1    | 1    | 0         | 2     |
| % distribution             | 0%  | 50%  | 50%  | 0%        |       |

### Explanation of CSL Research's equity research rating system

- Buy:** The analyst expects the stock to outperform the Benchmark over the next 12 months or the stated investment horizon.
- Hold:** The analyst expects the stock to perform in line with the Benchmark over the next 12 months or the stated investment horizon.
- Sell:** The analyst expects the stock to underperform the Benchmark over the next 12 months or the stated investment horizon.
- Not Rated:** The rating and price target have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when FCMB Bank UK or the Group is acting in an advisory capacity in a merger or strategic transaction involving the company or due to factors which limits the analysts ability to provide forecasts for the company in question.

- Benchmark:** The benchmark is the trailing three-year average yield of the 12-month T-Bill plus one standard deviation rounded to the nearest percent.
- Price targets:** Price targets, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market and may not occur if the company's earnings fall short of estimates.
- Asset allocation:** Asset allocation is the responsibility of the strategy team. The recommended weight (Buy, Hold and Sell) for equities, cash and fixed income instruments is based on a number of metrics and does not relate to a particular size change in one variable.

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- G. The company is a client of the investment banking division of the Group.
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- I. FCMB Bank UK or the Group has received compensation for investment banking services from the company within the last 12 months.
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### Companies from which FCMB Bank UK or the Group’s investment banking division has received compensation in the last 12 months

|                | Buy     | Hold    | Sell      | Not Rated | Total |
|----------------|---------|---------|-----------|-----------|-------|
| % distribution | 0<br>0% | 0<br>0% | 1<br>100% | 0<br>0%   | 1     |



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