

Flour Mills of Nigeria Plc. (FLOURMILL.NL)

Initial View

A loss run saved by tax credit

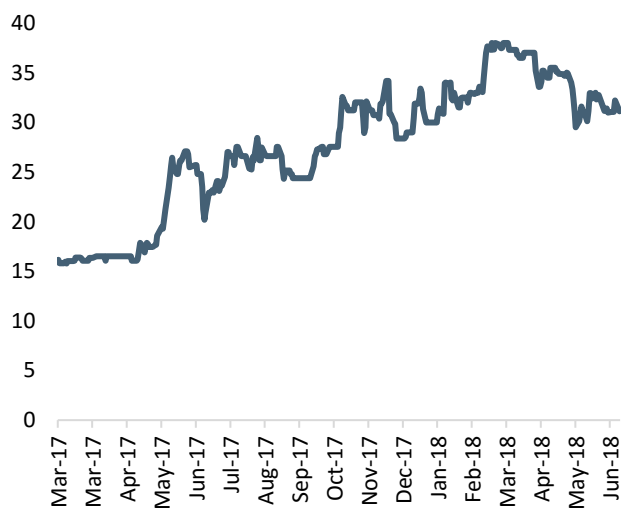
Flour Mills of Nigeria Plc (Flourmill) released its full year result for the year ended March 2018, wherein it reported earnings growth of 54.1% YoY to ₦13.6 billion. However, we note that the growth in earnings was largely boosted by non-core activities as the company reported foreign exchange gains of ₦1.2 billion and deferred income¹ of ₦2.2 billion. Core performance for the financial year was slightly weak with EBIT margin down 36bps to 7.8% while related profit declined 1% to ₦42.5 billion. After-tax earnings of ₦13.6 billion translates to an Earnings per Share (EPS) of ₦4.83 (vs. ₦3.03 in FY 17). Accordingly, the Board of Directors recommended a Dividend per Share of ₦1.00, representing a dividend payout of 20.7%. Proposed dividend translates to a dividend yield of 3.2% based on current pricing.

Flourmill's performance over the fourth quarter was broadly weak. Precisely, revenue for the quarter declined 14.4% YoY with pressure stemming from the food sub-segment which dipped 27% to ₦96.4 billion. Management had earlier stated that its product pricing remained flat since the beginning of the year hence, we believe the company faced volume pressures over the quarter. Cost of Sales, however, declined faster (-15.6% YoY to ₦102 billion) relative to revenue which led gross margin to expand 125bps to 11.1%. However, due to soft topline, related gross profit was lower 3.4% YoY to ₦12.7 billion. Furthermore, underpinned by lower

Rating	STRONG BUY
Price	₦32.00
FVE (<i>last communicated</i>)	₦39.40
52-week range	₦20.18-₦39.50
Market Cap. (₦'bn)	131.212
1-month Avg. Vol	2,438,848
Curr. PE	7.0x

Quarterly EPS	Q1	Q2	Q3	Q4
2016 A	0.37	(0.26)	(1.91)	(1.75)
2017 A	1.68	0.78	0.36	0.55
2018 A	1.73	1.84	1.48	0.09

FLOURMILL.NL - Share Price Trend



Analyst(s)

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¹ Relates to government grants arising from the benefit received from below-market interest rate government assisted loans (BOI, CACS and RSSF loans) granted to date.

operating expenses (-3.7% YoY to ₦8.9 billion), EBIT margin expanded marginally by 39bps to 3.3%.

- Elsewhere, finance expense declined 49.2% YoY to ₦7.5 billion over FQ4 18 owing to lower leverage as Flourmill paid down ~23.6% of its total loans & borrowings which now currently stands at ₦153.2 billion (vs. ₦200 billion and ₦241 billion as at 9M 18 and FY 17 respectively). Accordingly, debt-to-equity ratio improved to 102% from 180% as at 9M 18. Also, over FQ4 18 the company refinanced some of its expensive short-term borrowings with cheaper commercial papers which, in our view, provided additional support to the moderation in finance expense.
- Largely on account of weak operating profit (-3% YoY to ₦3.8 billion) and still high finance expense, the company reported a loss before tax of ₦2.96 billion (vs. profit of ₦178 million in FQ4 17). However, Flourmill enjoyed some tax holiday – effective pioneer status of ₦6.0 billion – which led the company to report a tax credit of ₦3.3 billion and after-tax profit of ₦368 million (vs. ₦1.4 billion in FQ4 17). Flourmill trades at a P/E of 7.0x compared to Bloomberg Middle East and Africa peers of 12.4x. Our last communicated FVE on the stock is ₦39.40 which translates to a STRONG BUY rating. We will revisit our numbers after further analysis and discussion with management.

Summary of Results and Forecasts - Naira (₦)

Income statement – (₦'million)	Q4 17	YoY growth	Deviation from forecast	FY 18	YoY growth
Revenue	115,162	-14.4%	-7.5%	542,670	3.5%
Cost of sales	102,423	-15.6%	-3.4%	473,895	3.5%
Gross profit	12,739	-3.4%	-31.1%	68,775	3.1%
Operating expenses	8,947	-3.6%	-6.2%	26,295	10.7%
Operating profit	3,792	-3.0%	-57.66%	42,480	-1.0%
Net interest expense	7,189	-48.6%	-14.9%	31,881	3.0%
PBT	(2,961)	-1754.2%	-406.0%	16,542	173.3%
PAT	369	-74.3%	-45.2%	13,616	54.1%

Key Ratios	Q4 17	Q4 16	Change (pps)	FY 17	FY 16	Change(pps)
Gross margin	11.1%	9.8%	1.3%	12.7%	12.7%	0.0%
EBIT margin	3.3%	2.9%	0.4%	7.8%	8.2%	-0.4%
PBT margin	-2.6%	0.1%	-2.7%	3.0%	2.0%	1.1%
PAT margin	0.3%	1.1%	-0.7%	2.5%	1.7%	0.8%
Effective tax rate	N/M	N/M	N/M	17.69%	15.6%	2.1%

Source: ARM Research *unless otherwise stated

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