



Initial View

6 months ended 31st March, 2015**Recommendation: SUSPENDED**

- Dangote Flour Mills Plc (DFM) released unaudited financial results for the 6 months ended March 2015 wherein revenues rose 18.2% YoY to ₦22 billion while pre-tax and post tax losses widened 49% and 57% YoY to ₦7 billion and ₦6.8 billion respectively.

Increase in flour prices drive revenues higher

- FQ2 15 revenues extended the recovery witnessed in the prior quarter, rising 10.6% YoY to ₦11.31 billion, (FQ2 15E: ₦11.88 billion). The uptick largely reflects a 10% rise in flour prices across the industry in January 2015 in response to the devaluation pressures. In addition, DFM reports continued volume growth during the period.

Softer wheat prices underpin gross margin expansion

- FQ1 15 COGS tracked slower than revenues (+1.6% YoY to ₦10 billion), leading to gross profits surging more than fourfold to ₦1.2 billion. Improvement reflects tamer input costs with mean wheat prices contracting 20% YoY during the quarter and helped drive an 8pps YoY expansion in gross margins to 10.8%.

Income Statement Data

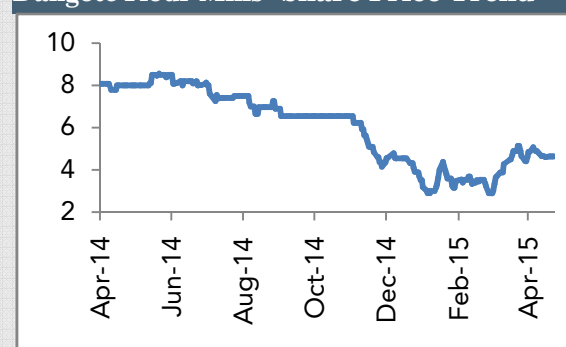
	2015 – 6M'm	2014 – 6M'm	%chg
Revenue	21,971	18,584	18%
PBT	7,045	4,742	49%
Tax	264	434	-39%
PAT	6,781	4,308	57%

Balance Sheet Data

	2015-Mar 'm	2014 -Sept 'm	%chg
Inventory	7,501	5,429	38%
Receivables	7,994	6,934	15%
Cash	2,854	4,548	-37%
Payables	11,434	9,841	16%
Net Assets	2,827	9,608	-71%

Stock Data

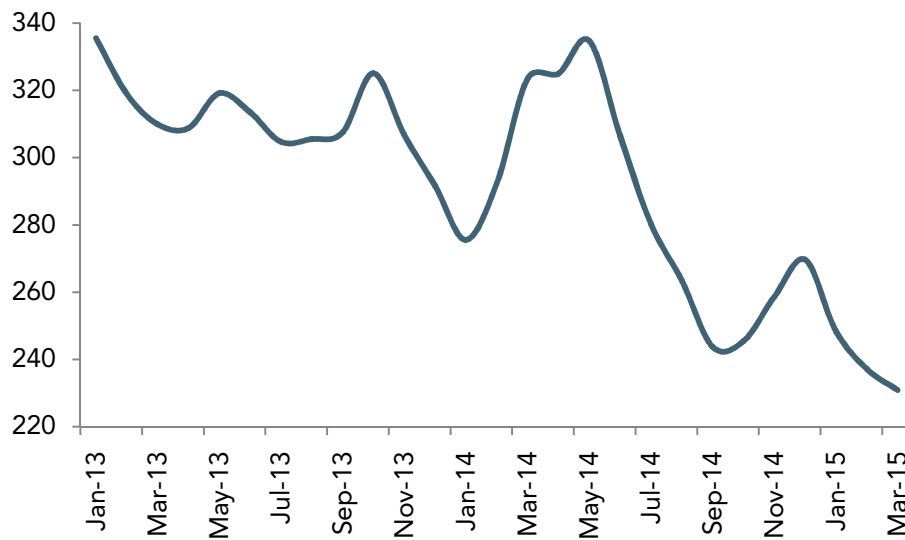
Price	₦3.30
52 week range	₦2.88 – ₦8.80
Market Cap. (N'm)	23,200
1-month Avg. Vol	947,604
Curr. PE	N/A
Bloomberg Ticker	DANGFLOU:NL
Reuters Ticker	DANGFLO.LG

Dangote Flour Mills- Share Price Trend**Analyst(s)**

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Figure 1: Trend in Wheat Prices

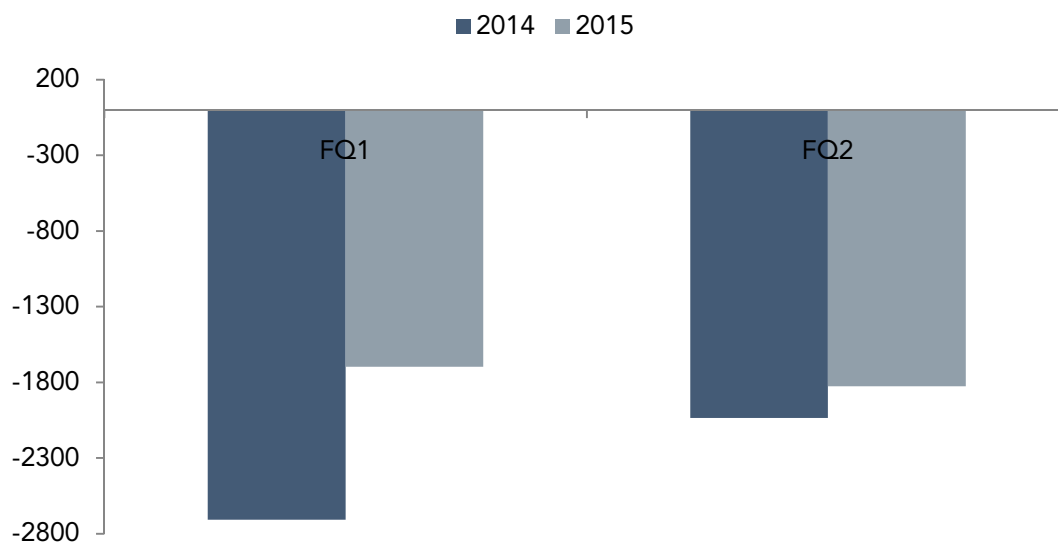


Source: Index Mundi, ARM Research

Naira devaluation drives wider operating loss

- In contrast to the preceding two quarters, opex surged higher (threefold YoY to ₦2 billion) with a corresponding 11pps YoY jump in opex-to-sales at 18%. Aided by other operating income which fell 51.3% YoY to ₦18.9 billion, thus inducing a more than double YoY expansion in pro-forma operating loss to ₦788 million. Incorporating for USD/NGN devaluation which DFM reported at ₦2.2 billion, operating losses climbed nearly nine-fold YoY to ₦3 billion.
- Further exacerbating the weak operating performance, is a 38% YoY rise in net finance costs to ₦1 billion as similar surge in finance expenses (+39% YoY ₦1.04 billion) more than offset appearance of finance income of ₦3.9 million (FQ1 14: nil). The spike in finance costs reflect 75.6% YoY surge in ST borrowings to ₦37 billion amid 57.6% YoY decline in LT borrowings to ₦3 billion. Consequently, FQ2 15 pre-tax loss rose 99% YoY to ₦4.1 billion while post-tax loss more than doubled YoY to ₦3.9 billion. Stripping out the impact of USD/NGN devaluation points to underlying improvement in DFM's operating performance.

Figure 2: Pre-tax loss excluding devaluation loss



Source: Company's financials, ARM Research

- Over the rest of FY 15, increased flour prices should complement DFM's push to raise volumes, thus raising scope for sustained revenue upswing, whilst bearish outlook for wheat prices should continue to retain scope for gross margin expansion. Nonetheless, USDNGN devaluation which accounts for 50% of H1 15 loss continues to present challenges to earnings over the rest of FY 15 which should see DFM results remain in the red.
 - DFM trades at a current P/B of 8.21x vs. a mean of 2.56x for its Bloomberg Regional peers. Our rating for DFM is currently under review.
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ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6 month period (minimum) to the review date. We adopt a 5 point rating system for this category of stocks and a 3 point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% – 20 %	NEUTRAL	5% – 20 %
NEUTRAL	0% – 10 %	SELL	<5%
UNDERWEIGHT	-5% – 0%		
SELL	<-5%		

RECOMMENDATION KEY

Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimise exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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