

## Flour Mills of Nigeria Plc (FLOURMILL.NL)

### Initial View

Rating	<b>UNDER REVIEW</b>
Price	₦14.85
52-week range	₦13.35– ₦29.4
Market Cap. (₦bn)	60.89
1-month Avg. Vol	2,233,417
Current PE	13.07x

### FLOURMILL: NL - Share Price Trend



### Analyst(s)

**Damilola Olupona**  
[damilola.olupona@arm.com.ng](mailto:damilola.olupona@arm.com.ng)

### Lower interest expense propels earnings

- Yesterday, Flour Mills of Nigeria Plc released its first quarter results (FQ1 20) wherein Profit after tax rose 16.1% YoY to ₦4.2 billion, translating to an EPS of ₦1.03. The improvement in earnings stemmed from lower Finance expense (-26.6% YoY to ₦4.6 billion) which reflects pass through of ongoing balance sheet deleveraging.
- **Strong Sugar and Agro-Allied sales to the rescue:** Despite weak food (-1.6% YoY to ₦81.6 billion) and support services sales (-24.7% YoY to ₦3.5 billion), overall revenue grew 1.3% YoY to ₦134.7 billion. This was largely driven by impressive showing in the Sugar and Agro-Allied segment which grew 16.2% and 3.4% respectively to ₦24.1 billion and ₦25.6 billion respectively. Whilst food revenues were hindered by lower volumes, Agro-Allied sales was largely driven by higher fertilizer volumes. Furthermore, according to management, the boost in sugar sales emanated from a 15% YoY rise prices and 5% rise volumes over the period.
- **Cost pressures persist:** However, higher raw material cost due to rising wheat prices (+7.8% YoY) sustained cost pressures (cost of sales: +20% YoY to ₦118.3 billion) for the third consecutive quarter in FQ1 20. Consequently, due to the faster rise in cost of sales, gross profit slump 4.6% YoY to ₦16.5 billion with related margin contracting 80bps YoY to 12.2%. Overlaying this with muted growth in Operating expenses, EBIT margin compressed 60bps YoY to 7.3%.
- In addition, interest expense declined 26.7% YoY to ₦4.6 billion, following the restructuring of loans in the prior year using proceeds of the right issue.
- Flourmill trades at a P/E of **13.07x** compared to Bloomberg Middle East and Africa peers of **25.67x**.

## Summary of Results and Forecast

Income Statement (₹ Million)	FQ1 20 (ended Jun)	FQ1 19	YoY growth	Q1 20	Q1 19	YoY growth
<b>Revenue</b>	134,745	133,029	1.3%	134,745	133,029	1.3%
<b>Cost of sales</b>	118,272	115,768	2.2%	118,272	115,768	2.2%
<b>Gross profit</b>	16,473	17,261	-4.6%	16,473	17,261	-4.6%
<b>Operating expenses</b>	6,704	6,707	0.0%	6,704	6,707	0.0%
<b>Operating profit</b>	9,768	10,554	-7.4%	9,768	10,554	-7.4%
<b>Net interest expense</b>	-4,393	-5,994	-26.7%	-4,393	-5,994	-26.7%
<b>Other operating loss</b>	-	-	-	-	-	-
<b>PBT</b>	5,502	5,213	5.5%	5,502	5,213	5.5%
<b>PAT</b>	4,237	3,649	16.1%	4,237	3,649	16.1%

Key Ratios	FQ1 20	FQ1 19	Change(pps)	FQ1 20	FQ1 19
<b>Gross margin</b>	12.23%	12.98%	-0.75%	12.23%	12.98%
<b>EBIT margin</b>	7.34%	7.93%	-0.59%	7.34%	7.93%
<b>PBT margin</b>	4.08%	3.92%	0.16%	4.08%	3.92%
<b>PAT margin</b>	3.14%	2.74%	0.40%	3.14%	2.74%
<b>Effective tax rate</b>	23.00%	30.00%	-7.00%	23.00%	30.00%

\*N/M means not meaningful

Source: ARM Research

## 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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	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
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio
<b>RESTRICTED</b>	In certain circumstances, Asset & Resource Management ("ARM") Group policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of ARM Securities' and/or ARM Group engagement in an investment banking transaction and in certain other circumstances.

---

Copyright © 2019 ARM Securities Limited (“ARMS”).

All rights reserved. Unauthorized use, reproduction, distribution, or disclosure of this document is strictly prohibited.

This material has been issued by ARM Securities Limited, a member of the Asset and Resource Management (“ARM”) Group, and a Company regulated by the Nigerian Securities & Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report.

This research report is based on information from sources that ARMS and its analysts believe to be reliable. Neither ARMS nor any of its research analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARMS, its directors, officers, employees, or designated agents. Members of ARM may act as broker, advisor, or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARMS. By accepting this document, you agree to be bound by the foregoing limitations.

---