

## Corporate Benefit Tracker

- Last week, Seplat Petroleum Development Company Plc listed an additional volume of 25,000,000 ordinary shares of 50 kobo/share on the NSE. These additional shares were as a result of the company's Long Term Incentive Plan (LTIP) for the benefit of its employees. With this listing, the company's total issued and fully paid up shares now stands at 588,444,561 ordinary shares. – [Click here](#)


## Weekly Stock Recommendation

*Dangote Sugar Refinery Plc.*

Price	20.65
FVE	23.86
Return	 15.5%
Year High	22.01
Year Low	19.98
Market Cap (N'mn)	247,800
SHO (mn)	12,000
YTD Return	 3.25%

	EPS (₦)	DPS (₦)	ROE (%)	P/E (x)	P/B (x)	Gross Margin (%)	PBT Margin (%)
FY 17E	3.03	1.74	43.1	8.05	3.10	27.5	25.7
FY 18E	3.48	1.76	41.3	8.12	2.83	32.0	28.5

- Irrespective of the strong rally in the Nigerian equities market of 16.73%, one stock that still portends sizable upside remains Dangote Sugar. In our view, the combination of a cheerful FY 17 result, strong dividend pay-out and attractive dividend yield is expected to be the key driver for a near term rally. Furthermore, in the long term (2018), lower input cost for global raw sugar prices, stability in the FX market and operational efficiency will keep earnings largely upbeat. First off, having reported 9M 17 EPS of ₦2.21, we expect FY 17 EPS to print at ₦3.03 (+152% YoY). Consequently, assuming 50% dividend pay-out, we expect final dividend of ₦1.51 which translates to a dividend yield of 7.3%. (DSR paid interim dividend of ₦0.50 in Q2 17)
- Subdued cost pressures and Operational efficiency to support earnings:** Over 2018, the key driver for DSR's performance is waning input cost pressures stemming from our bearish outlook on global raw sugar prices amidst sustained stability in the FX market. The foregoing informs our expectation for a moderate decline in COGS (-3% YoY to ₦146.7 billion) which translates to FY 18 gross profit of ₦69 billion (+21% YoY) and gross margin (+4pps to 32%). In addition, we think sustained operational efficiency would keep OPEX in check (+14% YoY to ₦7.1 billion) over FY 18 thereby supporting operating profit (+22% YoY to ₦60.9 billion) and related margin (+4pps YoY to 28%). Overall, reflecting higher pricing and tamer input costs, we expect FY 18 earnings to print at ₦41.8 billion, which translates to a 15% YoY increase (EPS: ₦3.48). Relative to the last closing price, DSR trades at a 15% discount to our FVE of ₦23.86. Although, our FVE of ₦23.86 implies an **OVERWEIGHT** rating on the stock, we believe DSR remains fundamentally stable.

<b>Flour Mills of Nigeria Plc.</b>	
<b>Price</b>	<b>33.85</b>
<b>FVE</b>	<b>38.76</b>
<b>Return</b>	 <b>14.5%</b>
<b>Year High</b>	<b>34.0</b>
<b>Year Low</b>	<b>29.0</b>
<b>Market Cap (N'mn)</b>	<b>88,822</b>
<b>SHO (mn)</b>	<b>2,624</b>
<b>YTD Return</b>	 <b>16.7%</b>

	EPS (₦)	DPS (₦)	ROE (%)	P/E (x)	P/B (x)	Gross Margin (%)	PBT Margin (%)
<b>FY 18E</b>	5.59	1.12	8.3	7.07	0.82	13.7	3.9
<b>FY 19E</b>	5.08	1.02	10.5	6.66	0.71	14.2	5.3

- ♦ Flour Mills of Nigeria (Flourmill) released its nine-months unaudited financial statements wherein revenue rose 9.6% YoY to ₦427.5 billion while after-tax earnings increased by 79% YoY to ₦13.2 billion. Isolating third quarter numbers, earnings surged +317% YoY, reflecting a turnaround in core operations unlike the prior two quarters where non-core operations underpinned earnings growth.
- ♦ Precisely, Cost of Goods Sold (-7.7% YoY to ₦129 billion) declined at a much faster pace than revenue (-4.1% YoY to ₦109 billion) largely on the back of improved FX liquidity and bearish pricing on Flourmill's major inputs such as Wheat (-10% YoY), Maize (-16.4% YoY) and Raw sugar (-30% YoY). Accordingly, supported by lower COGS, gross margin during the quarter expanded by 322bps YoY to 15.9% from 12.7% in FQ3 17 which principally upheld operating profit margin (+235bps to 11.1%) amidst high operating expenses (+16.9% YoY to ₦6.2 billion). Elsewhere, finance expense remained elevated during the quarter (+31.3% YoY to ₦8.9 billion) which management attributed to higher interest rate (9M 18 effective interest rate at 17% vs. 14% in FY 17) even as total borrowings declined by 14.1% YoY to ₦200 billion. Irrespective, on the back of improved operating profit and absence of FX losses, PBT and PAT surged 303% YoY and 317% YoY to ₦6.0 billion and ₦3.9 billion respectively.
- ♦ **On track to deliver solid earnings in FY 18:** Going into the final quarter of 2018, seasonal decline in Flourmill's wheat products alongside muted price increases should keep revenue lower and as such, we estimate FQ4 18 revenue at ₦124.6 billion to bring our FY 18 estimate to ₦552 billion (+5.3% YoY). However, broadly bearish prices for wheat and raw sugar on account of their global surplus position as well as improved dollar liquidity should keep COGS growth slower than revenue (+4.1% YoY to ₦476 billion) which we expect should drive an increase in gross profit (+13.4% YoY to ₦75.6 billion) and expansion (+98bps) in related margin to 13.7%. Reflecting the 20% increase in administration expenses over the nine-month period, we have revised Flourmill's FY 18 operating expenses higher to ₦26.9 billion (+13.2% YoY). While we acknowledge the decline in borrowings over nine-months 2018, we maintain that the level of debt remains elevated with 9M 18 gearing ratio at 1.79x and project FY 18 finance expense to rise 4% to ₦33.8 billion. All in, we expect earnings in FY 18 to print at ₦14.7 billion (+66% YoY), translating to an EPS of ₦5.59. Flourmill trades at a current P/E of 8.4x vs. 13.7x for Bloomberg MENA peers. With last trading price at 14.3% discount to our FVE of ₦38.76, we have a **OVERWEIGHT** rating on the stock.