



Corporate Benefit Tracker

- Last week, shares of 7-Up Bottling Company Plc was placed on full suspension on the Nigerian Stock Exchange. This is to determine the shareholders who will qualify to receive the Scheme consideration following the decision of the company's majority shareholder, Affelka S.A ("Affelka"), to acquire all outstanding and issued shares of 7-Up Bottling Company Plc that are not currently owned by Affelka. — [Click here](#)

Weekly Stock Recommendation

Flour Mills of Nigeria Plc.

Price (₦)	30.00
FVE(₦)	37.71
Return	25.7%
Year High (₦)	31.45
Year Low (₦)	17.20
Market Cap (₦'mn)	78,727
SHO (mn)	2,624
YTD re- turn	66.7%

	EPS (₦)	DPS (₦)	ROE (%)	P/E (x)	P/B (x)	Gross Margin (%)	PBT Margin
FY18E	3.37	1.00	8.6	8.42	0.90	12.7	2.0%
FY19E	3.98	0.80	9.0	7.53	0.68	12.2	3.8%

- Last week, Flour Mills of Nigeria ₦39 billion rights issue opened for subscription and is expected to end 21st February, 2018. The company is offering 1.47 billion ordinary shares of 50 kobo each at a rights price of ₦27.00 per share to existing shareholders on the basis of 9 new ordinary shares for every 16 ordinary shares held as at 8th December, 2017. Proceeds from the rights issue is earmarked to pay down some of its overdrafts and short term borrowings with the intent to deleverage the balance sheet and strengthen the capital base of the company. Precisely, 45% of the proceeds will be used for the repayment of short term loans (₦17.5 billion), 30% will be used for the repayment of overdraft facilities (₦11.9 billion) while the balance (25%) will be applied towards working capital for the purpose of strengthening and achieving efficiency in its operations.
- Upbeat outlook in 2018 on expected downtrend in interest expense:** Following the planned repayment of ₦29.4 billion coupled with the reduced need for prepayments and deposit for imports, we expect total borrowings to decline by 12% YoY to ₦130 billion in FY'19 (i.e. April 2018 to March 2019). The company's current effective interest rate stands at 20%, however, we use a rate of 18.5% over 2018 in view of the downtrend in yields which should drive its borrowing costs lower – majorly on its commercial papers. Overlaying the lower debt position with our interest rate expectations, we estimate FY'19 interest expense to decline by 24% to ₦23 billion (FY'18E: ₦30.9 billion; FY'17: ₦32.5 billion). Further, in our view, the funds allocated to working capital is positive for finance costs as the liquidity would reduce the burden on the company to take more borrowings to run its operations. Tying the above-mentioned, with our expectation of a recovery in gross margin to 13% (FQ2 18: 11.9%; FY'17: 12.7%) on account of the bearish price outlook for its key inputs including Wheat and Sugar, we estimate earnings to print at ₦23 billion in FY'19 (i.e. April 2018 to March 2019) which translates to an EPS of ₦5.73 post dilution (FY'18E: ₦6.21). Underlying our view of a recovery in earnings is a successful rights issue where the intended amount is fully raised. **Given our expectation of earnings recovery going forward, we recommend that qualified investors take up their rights.**
- Net impact of these assumptions result in a FVE of ₦37.71. Against this backdrop, we place a BUY rating on the stock.