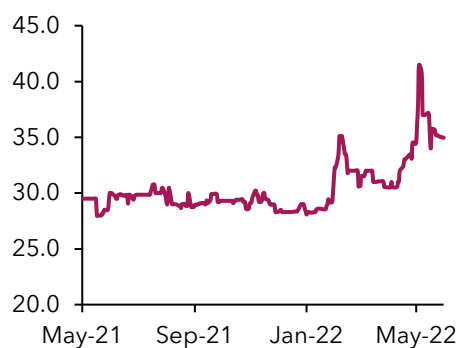




Price	NGN35.00
52-week range	NGN27.5 - NGN41.45
TP	NGN63.55
Rating	<b>STRONG BUY</b>
Market Cap	NGN143.31bn

## FLOURMILL.NL



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## FLOURMILL.NL: Navigating Macroeconomic Headwinds

### Stock Note: 2022FY

### Coasting Through the Fog

FLOURMILLS posted sustained Revenue growth in 2022FY, as it grew topline by 50.8% YoY to join the league of listed firms in Nigeria with the enviable position of posting trillion-Naira revenue. Despite the momentous surge, however, the firm was only able to do a marginal (+1.2% YoY) growth in Gross Profit, as the impact of rising Cost of Sales overshadowed an otherwise 'top shelf' year. Nonetheless, we have reasons for optimism, seeing as the impact of scale, especially on segments with relatively better margins, and the continued implementation of its Backward Integration Plan (BIP) continues to portend decent performances into the future.

Considering the preceding premises and concerns, and what it bodes for the firm's future in line with its strategic efforts, we have reviewed our pricing of the ticker. Previously, we had a target price of NGN41.00 which has now been upgraded to NGN63.55 per share.

### Revenue: Food Segment Propelled Top-line Performance

In the recently released 2022FY audited financial statement of Flour Mills of Nigeria Plc (FLOURMILLS); the firm wrapped another year of momentous topline performance. In the period, Revenue moved into the trillion Naira region, as it grew 50.8% YoY to NGN1.16trn from NGN0.77trn in 2021FY, becoming one of the few Nigerian listed firms on that level. The Food segment continued to lead the growth frontiers for the firm's revenue, posting a 56.5% YoY growth to NGN0.75bn which accounted for 64.3% of total topline, an improvement on the 62.0% reported in the previous period.

### Cost of Sales: Throwing Spanners in the Wheel

Upstaging our expectation, the firm's Cost of Sales (ex-dep) outpaced Revenue, growing +59.4% YoY to NGN1.05trn. We noted that Energy Cost (+29.76% YoY to NGN23.11bn), Cost of Raw and Packing Materials (+64.14% YoY to NGN957.96bn), Other Production Expenses (+45.80% YoY to NGN12.51bn), and Factory Repairs and Maintenance (+36.53% YoY to NGN16.11bn) all posted significant growths in the period. This spurred significant impairment on Gross Profit, as it defied the

growth in Revenue to post a marginal rise (+1.2% YoY to NGN115.43bn). In the same vein, Gross Margin shed 329bps to 9.92%.

### **Tepid OPEX Growth Provided Succor**

Operating Expenses (OPEX) (adjusted for depreciation) grew (+6.4% YoY) to NGN25.73bn from NGN24.18bn in the corresponding period in 2021FY. Although Marketing and Distribution Expenses shed (-45.98% YoY) to NGN1.29bn, Administrative Expenses rose by 12.18% YoY to NGN24.46bn. This coupled with the spike in Finance Cost (+62.60% YoY) to NGN24.40bn led to the 5.18% YoY growth in Profit Before Tax to NGN39.22bn. Eventually, backed by reduced effective tax rate (2022FY: 28.56% vs 2021FY: 31.03%), Profit After Tax rose (+8.9% YoY) to NGN28.02bn in the period.

### **Outlook: Building Through the Turmoil**

Going forward, we opine that current developments within the business operating environment is the only potential downside for FLOURMILL. We observed the trend in volume, price, and operating expenses (factors within the firm's control) and found reasons for sustained optimism. We also observed the trend in Return on Equity and a decent trajectory since 2019FY. We traced this to sustained improvement in the firm's Asset-Turnover ratio that has grown on the average, by 150bps annually in the period (2019FY to 2022FY). Besides confirming the sustained turnaround, this development also bodes well for value, seeing as we have done an upward review of the firm's fair value to NGN63.55 per share.

## Overview of Financials FY 2022

Item Lines (Millions of Naira)	2022FY	2021FY	% Change
Sales	1,163,802.85	771,607.88	50.8%
Cost of Sales (ex-dep)	(1,048,373.48)	(657,588.40)	59.4%
<b>Gross Profit</b>	<b>115,429.37</b>	<b>114,019.48</b>	1.2%
Net Operating gains/ (losses)	(135.89)	(15,528.45)	-99.1%
Write-back of impairment on trade	415.21	2,093.52	-80.2%
Mark and Distribution Expenses (ex-dep)	(1,294.50)	(2,396.24)	-45.98%
Administrative Expenses (ex-dep)	(24,436.68)	(21,783.35)	12.18%
<b>EBITDA</b>	<b>89,977.52</b>	<b>76,404.95</b>	17.8%
Depreciation and Amortization	(24,464.17)	(24,208.22)	1.1%
<b>EBIT</b>	<b>65,513.35</b>	<b>52,196.73</b>	25.5%
Finance Cost (Net)	(24,395.20)	(15,003.06)	62.60%
<b>Minimum tax</b>	(1,902.53)	91.22	-2185.7%
<b>Profit Before Tax</b>	<b>39,215.62</b>	<b>37,284.88</b>	5.18%
Tax Expense	(11,200.39)	(11,567.96)	-3.2%
<b>Profit After Tax</b>	<b>28,015.23</b>	<b>25,716.92</b>	8.9%
Balance Sheet Extract (Millions of Naira)	2022FY	2021FY	% Change
Total Asset	667,011.81	544,732.81	22.4%
Shareholders Fund	195,904.69	174,613.95	12.2%
Long-term Liability	177,520.70	160,422.75	10.7%
Short-term Liability	293,586.42	209,696.11	40.0%
Ratios	2022FY	2021FY	Bps Change
Gross Margin	9.92%	14.8%	-329
EBITDA Margin	7.7%	9.9%	-219
Operating Margin	5.6%	6.8%	-168
Net Margin	2.4%	3.3%	-278
Return on Asset	4.20%	4.24%	-10
Return on Equity	14.3%	13.9%	30

Source: ARM Research \*unless otherwise stated

**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–sub to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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