

Flour Mills of Nigeria Plc: Interim Results – Q3, Dec. 2009

March 15, 2010

BUY

Fair Value: NGN67.74

Current Price: NGN48.31

Valuation/Analyst Recommendation

In placing a fair value on the Ordinary Shares of FLOURMILLS, we estimated TO, Earning Before Interest Tax Depreciation and Amortization (EBITDA) and PAT attributable to ordinary shareholders for the period ending March, 2010. We project a TO of N185.47bn, based on a growth rate of 3% over the previous year. We project EBITDA of N18.55bn based on EBITDA margin of 10% and a PAT of N10.78bn based on a PAT Margin of 5.81%. We used 1.71bn Ordinary Shares in issue as at March 2009. The Forward Earnings Per Share (FEPS) generates N6.31. We estimated Dividend Per Share (DPS) of N2.02 based on a dividend payout of 32.08%. Applying Enterprise Value EV/EBITDA multiple of 9.95x, a P/E multiple of 10x, we arrived at N71.53 per share using EV/EBITDA multiple and N63.11 per share price using earnings multiple. Applying a weight of 55% on N71.53 and 45% on N63.11, we arrived at N67.74 per share, which is our fair value. The forward earnings yield and dividend yield based on our fair value generate 9.32% and 2.99% respectively. We therefore place a BUY on the shares of FLOURMILLS at the current market price based on our valuation result and at the current market price.

Business Description

The principal activities of FLOURMILLS are flour milling; pasta production, operation of bulk cement handling facility; sale of bulk and bagged cement; manufacturing and marketing of woven polypropylene sacks; blending, sale and distribution of fertilizer; haulage of products.

Ticker	FLOURMILLS
Sector	Food/Beverages & Tobacco
Date of Incorporation	September 29, 1960
Date of Listing	August 14, 1979
Year End	March
No of Ordinary Shares	1,708,373,334
Capitalisation (N)	78,602,257,097.34
% of Market Cap.	1.35
52-Week High (N)	48.06
52-Week Low(N)	13.15
YTD Return (%)	0.28
52-Week Avg. Trade	886,475
Beta Value	0.97
Current EPS (N)	6.83
Current PE(x)	7.08

Diversified to Weather Storm:

The unaudited Q3, 2009 result of Flour Mills of Nigeria Plc (FLOURMILLS) for the period ended December 31, 2009 shows that its Turnover (TO) increased marginally by 4.65% to N117.46bn, compared with N112.24bn in the corresponding period of 2008. Profit Before Tax (PBT) increased by 1,060% between 2008 and 2009 to N12.54bn from N1.08bn. The tax provision which increased by 1,137% between 2008 and 2009 to N4.01bn from N324.35mn resulted in the Profit After Tax (PAT) of N8.53bn, up from N756.81mn in 2008 representing a growth of 1,027%. We note that the company recorded an exchange loss of N6.67bn in the corresponding quarter of 2008. In the absence of exchange rate loss the growth in PBT and PAT would have been 61.99% and 14.97% respectively.

As shown above, most of the improvements in the bottom-line between Q3, 2008 and Q3, 2009 came from the depletion in the 2008 result on account of the exchange rate loss. The PBT Margin in Q3, 2009 increased significantly over the Q3, 2008 and over the FY, 2009 figure. The PBT margin increased significantly to 10.68% in Q3, 2009 from 0.96% as at Q3, 2008, and also up significantly from 3.04% as at the end of the financial year in March, 2009. This shows that the company's total costs as a percentage of TO stands at 89.32%, down from 99.04% recorded in the corresponding period of 2008. Prior to the crisis year of 2008/2009, PBT margin for period ended Q3, 2008, 2007 and 2006 are: 7.74%, 9.27% and 7.29% respectively. PAT margin currently stands at 7.26%, up from 0.67% in the corresponding period of 2008, and also up from 2.16% as at FY, 2009. The result also indicated that the percentage of TO, PBT, and PAT in the Q3 2009 to the Full Year Audited TO, PBT and PAT for the period ended March, 2009 are: 65.23%, 229.25% and 219.15% respectively. We note from historical performance that the company records the highest performance in the last quarter of the year. However, latest performance shows that the top line in the current year may be flat.

A cursory look at the balance sheet position as at Q3, 2009 compared with the position as at March 2009, shows that its fixed assets increased by 14.43% to N25.32bn from N22.13bn in FY, 2009, while the net assets increased by 33.55% to N30.54bn from N22.87bn as at FY, 2009. The growth in fixed assets signal expansion in the production capacities of the company in its various product line. Cash and bank balances decreased from N17.91bn in FY, 2009 to N13.19bn in Q3, 2009. Short-term borrowing as at Q3, 2009 was down by 38.82% to stand at N18.88bn from N30.86bn as FY 2009. This drop in the short-term loan may be a deliberate effort to avoid excessive interest payments or banks are unwilling to renew the credit at maturity. FLOURMILL's working capital position decreased by 38.58% from N4.17bn in FY, 2009 to N2.56bn in Q3, 2009. Stocks however increased by 35.82% to N11.58bn from N8.53bn in FY, 2009. The trade debtors, also increased by 20.35% to N4.57bn from N3.80bn, while trade creditors decreased marginally by 1.41% to N7.85bn in Q3, 2009 from N7.85bn as at FY, 2009. Flourmills needs to intensify its cost management strategies in order to reduce its cash operating cycle.

Our analysis of the operating environment shows that the manufacturing and distribution businesses in Nigeria are faced with infrastructure challenges (transportation and power). In order to meet their power needs, manufacturing companies in Nigeria invest heavily in alternative sources of power. The costs of acquiring and maintaining these equipment add in no small measure to the operating costs. Manufacturing firms sometimes shift some of these costs to their customers in form of increase in the price of goods, while firms bear a portion of it. The extent of the shiftability also depends on the elasticity of the product in question to price. Sometimes we notice a drop in demand, as a result of increase in price. In addition to the problem of infrastructure, the current financial crisis and the unwillingness of banks to lend has reduced credits to the real sector, while the available credit commands high interest rates, thus increasing financing costs for the manufacturers. The combination of these factors has limited the growth of the manufacturing sector in the country, despite the huge market potentials within and in the neighboring countries. In the last one year, the manufacturing sector has not witnessed significant improvement as the capacity utilization fluctuates between 35% and 40%. Its contribution to the Gross Domestic Product (GDP) as at September 2009 is 3.49%. This is considered too low for a country that has a huge consumption power like Nigeria; having an estimated market size of 150million. Also, there exists a growing middle class whose tastes and life style are changing for high quality consumer goods and products.

FLOURMILLS is a group of companies that has several subsidiaries and an associate company that are involved in flour milling; pasta production; operation of the bulk cement handling facility at Apapa; sale of bulk and bagged cement; manufacturing and marketing of woven polypropylene sacks; blending, sale and distribution of fertilizer; haulage of products and the management of mills in Maiduguri Flour Mills Ltd and Port Harcourt Flour Mills Ltd. The subsidiaries of FLOURMILLS are: Nigerian Bag Manufacturing Company, Apapa Bulk Terminal Ltd, Northern Nigeria Flour Mills Plc, Golden Pasta Company Ltd, Niger Mills Company Ltd Calabar, Golden Noodles Company Ltd and Kaboji Farms Ltd. United Cement Company of Nigeria Ltd (Unicem) is an associate company to FLOURMILLS. Golden Pasta Company Ltd invested in the following companies in 2009, by embarking on the following new investments: Nigerian Eagles Flour Mills Ltd, Golden Sugar Company Ltd, Premier Feeds Ltd Ibadan. The business class of FLOURMILLS includes Food, Cement, Fertilizer, Packaging and Port Operations & Services and accounted for 58.5%, 24.5%, 7.0%, 8.1% and 1.8% respectively. As at March 31, 2009, Excelsior Shipping Company Ltd owned 51.59% of the paid-up share capital while other Shareholders owned 48.41%.

Industry Analysis (Nmn)

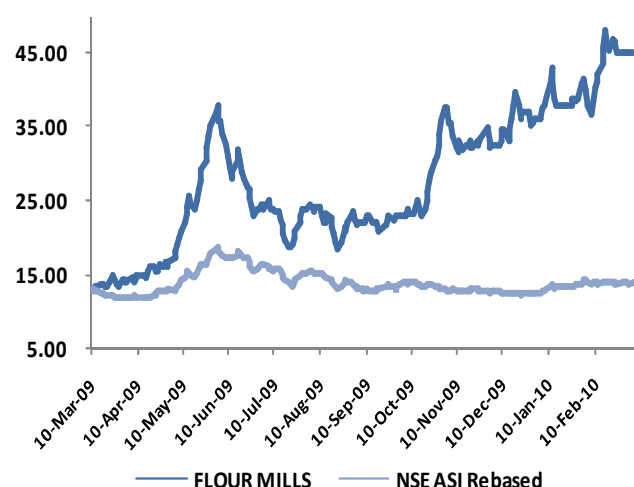
Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
Flour Mills	180,069	5,470	3,892	2.16	11.16	6.83	7.08
Dangote Flour	47,927	3,168	2,990	6.15	12.10	1.77	8.67
NNFM	8,533	310	236	2.77	27.31	3.54	6.82

Source: Company Annual Reports, NSE FACTBOOK. * Current. NNFM (FY March 2009), Flour Mills (FY March 2009) & Dang. Flour (FY Dec 2008).

Financial Performance (Nmn)

	Q3 2009	Q3 2008	%Δ	FY 2009	FY 2008	%Δ	FY 2009E
Turnover	117,457	112,237	4.65	180,068	127,662	41.05	185,470
PBT	12,540	1,081	1,060.04	5,470	9,878	(44.62)	12,685
PAT	8,527	757	1,026.70	3,892	6,363	(38.84)	10,782
PBT Margin (%)	10.68	0.96	9.71	3.04	7.74	(4.70)	6.84
PAT Margin (%)	7.26	0.67	6.59	2.16	4.98	(2.82)	6.03

Flour Mills Vs NSE ASI Rebased (Mar. 10, 2009 - Mar. 09, 2010)



Directors As At September 11, 2009

Name	Position	Holding
G.S. Coumantaros	Chairman	-
A.A. Joda	Vice Chairman	355,883
E.A. Ukpabi	Group MD	2,395,696
A.Plytas	Director	-
A.A. Alabi	Director	-
A.Alade-loba	Director	-
J.G. Coumantaros	Director	-
J. O. Fagbemi	Director	1,148,883
K. Katsaounis	Director	1,227,848
A.Kotoko	Director	770,000
T. Mazarakis	Director	-
Y.O.A. Saliu	Director	723,185
F.R.A Williams	Director	4,323,762

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