

Flour Mills Nigeria Plc-

Its your Rights; take it or trade it

November 23,
2011

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***FSDH Equity Research
Report***

BUY

Executive Summary

Flour Mills of Nigeria Plc (Flour Mills) was incorporated on September 29, 1960 as a private limited company, and commenced operations in 1962 with an installed capacity of 500 metric tonnes per day. The company converted to a public limited liability company in 1978, and its shares were subsequently listed on the Nigerian Stock Exchange. Flour Mills through the years has remained at the fore-front of wheat milling in Nigeria; the company has invested heavily in milling infrastructure over the years in furtherance of its strategic growth initiative. Recently, it invested in the upgrade and modernization of its milling operations to a completely automated system, which is run by Programmable Logic Control (PLC) technology. This has resulted in higher wheat extraction rate, enhanced production efficiency and improved product consistency.

Flour Mills is a diversified industrial powerhouse with interests spanning flour milling, pasta manufacturing, cement manufacturing and handling, fertilizer blending, polypropylene packaging materials, logistics, edible oil processing, sugar refining and farming, amongst others. Its "Golden Penny" flour brand enjoys market leadership status with an estimated market share of at least 45%. The company operates a large cement terminal at Apapa and markets its cement under "Burham Cement" brand, the cement terminal has a handling capacity of 10,000 metric tonnes of cement per day (bulk cement, jumbo bags and the traditional 50kg bags). Its modern fertilizer blending plant has a production capacity of 600,000 metric tonnes per annum. Flour Mill's sugar refinery subsidiary is currently building a 750,000 metric tonnes per annum refinery, and also acquired a 15,000 hectare sugar estate.

The company has also made significant investments in power generation; it operates 11 General Electric Jenbacher gas generators at its Apapa mills, with a combined capacity of 30 megawatts. Flour Mills Corporate Social Responsibility (CSR) cuts across its business operations; the company aims to create long term economic and social benefits to all stakeholders. Its CSR focuses on five key areas: Education; Health & Welfare; Infrastructural Development; Environmental Sustainability; Charitable Gifts and Donations.

The total assets of Flour Mills Nigeria in 2011 were financed by a mix of equity and liabilities in the proportion of 30.62% and 69.38%, respectively. As at March 2011, the total assets of Flour Mills stood at N163.26bn, while total liabilities stood at N113.27bn. The short term liabilities stood at N56.24bn, accounting for 49.65% of the total liabilities, while the long-term liabilities stood at N57.03bn, accounting for 50.35% of the total liabilities. The debt ratio, which is the proportion of the company's total assets that is financed by long term and short term liabilities, increased marginally to 69.38% from 62.89% in 2010. The current ratio increased to 1.33x in 2011 from 1.01x in 2010, while the quick ratio recorded an increase to 0.50x in 2011 from 0.41x in 2010.

In spite of the unfavourable global and domestic financial market between 2010 and 2011, the company managers were able to deliver good returns to the shareholders and all other stakeholders of the company. Turnover increased from N105.67bn in 2007 to N238.80bn in 2011, representing a Compound Annual Growth Rate (CAGR) of 22.61% and increased by 15.58% between 2010 and 2011. The return on equity stood at 18.77% in 2011, down from 33.13% in 2010. Also, the return on assets stood at 13.53%, a decrease from 19.71% recorded in 2010. Return on capital employed decreased from 31.16% in 2010 to 20.59% in 2011.

An investment in the shares of Flour Mills in January 2006 has grown by 303.56% as at the date of this report. Buying the stock at the Rights Issue Price of N62.00, holding it to our fair value of N83.30 and adding the present value of the 5-year forecast dividend, investors will earn a total return of 60.81%. Relating this return to the WACC at 15.91%, investment in shares of Flour Mills at the current Rights Issue price, which is also the current market price will earn an excess return (alpha return) of 44.90%. The 2012 forward earnings yield based on the Right Issue price generates 12.87%, while the 2012 forward Dividend Yield based on N2.55 Dividend Per Share at Rights Issue Price generates 4.12%.

Looking at the strategic plans of Flour Mills, we believe the company offers excellent growth potentials for both capital appreciation and dividend payment. We therefore advise current shareholders to take up their Rights in full. Although the Rights Issue Price is the same as the current market price, we note that shareholders will avoid some transaction costs if they take up their Rights.

Current Price	N62.00
Fair Value	N83.30

Beta	1.07
Alpha Coefficient	0.07
R²	19.05%
Z-Score	3.15

1.0 Corporate Information

Flour Mills of Nigeria Plc (Flour Mills) was incorporated on September 29, 1960 as a private limited company, and commenced operations in 1962 with an installed capacity of 500 metric tonnes per day. The company converted to a public limited liability company in 1978, and its shares were subsequently listed on the Nigerian Stock Exchange. Flour Mills through the years has remained at the fore-front of wheat milling in Nigeria; the company has invested heavily in milling infrastructure over the years in furtherance of its strategic growth initiative. Recently, it invested in the upgrade and modernization of its milling operations to a completely automated system, which is run by Programmable Logic Control (PLC) technology. This has resulted in higher wheat extraction rate, enhanced production efficiency and improved product consistency. Flour Mills Apapa operation currently has milling capacity of about 6,250 metric tonnes of wheat per day, making it one of the the largest single site mill in the world. Furthermore, the company has embarked on additional capital investment, which it believes will add 2,250 metric tonnes per day to its milling capacity.

Flour Mills recently invested in the upgrade and modernization of its milling operations to a completely automated system, which is run by Programmable Logic Control (PLC) technology.

Flour Mills operates 12 integrated mills in Apapa. The mills are purposed-designed as a multilevel operation in order to optimize the use of gravity in the sifting process, this helps to reduce the energy requirements at the mills. The company recently upgraded its Apapa Mills storage capacity of 66,000 metric tonnes per day by 64,000 metric tonnes to a total storage capacity of 130,000 metric tonnes. A portion of the newly added capacity is earmarked to serve third parties.

The company has also made significant investments in power generation; it operates 11 General Electric Jenbacher gas generators at its Apapa mills, with a combined capacity of 30 megawatts. This investment has enabled Flour Mills to reduce the occurrence of production stoppages due to power shortages. Additionally, it has a 30 megawatt diesel plant at the same site to act as back-up. Flour Mills Corporate Social Responsibility (CSR) cuts across its business operations; the company aims to create long term economic and social benefits to all stakeholders. Its CSR focuses on five key areas: Education; Health & Welfare; Infrastructural Development; Environmental Sustainability; Charitable Gifts and Donations.

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1.1 Business: Flour Mills is a diversified industrial powerhouse with interests spanning flour milling, pasta manufacturing, cement manufacturing and handling, fertilizer blending, polypropylene packaging materials, logistics, edible oil processing, sugar refining and farming, amongst others. Its “Golden Penny” flour brand enjoys market leadership status with an estimated market share of at least 45%. The company operates a large cement terminal at Apapa and markets its cement under “Burham Cement” brand, the cement terminal has a handling capacity of 10,000 metric tonnes of cement per day (bulk cement, jumbo bags and the traditional 50kg bags). Its modern fertilizer blending plant has a production capacity of 600,000 metric tonnes per annum. Flour Mills sugar refinery subsidiary is currently building a 750,000 metric tonnes per annum refinery, and also acquired a 15,000 hectare sugar estate. Its product lines are classified into: Food products – **Golden Penny Flour, Soft Biscuit Flour, Semovita, Goldenvita, Pasta Semolina, Noodles Flour and Confectionery Flour**; Building Materials – **Burham Cement**, and it is also in a joint venture with other two companies in United Cement Company of Nigeria Limited (UNICEM); Agro-Allied Products – **Fertilizer Blending, Animal Feeds,**

Sugar Cane and Maize Farming; and Support Services – Packaging Materials, Logistics & Transportation and Power Generation.

Flour Mills is currently raising additional capital by way of Rights Issue of 8 Rights for every 33 shares held as at October 07, 2011. The details of the use of the offer proceeds is available on table 1 below.

Table 1: Purpose	N'bn	%	Time to Completion
Expansion of Food Business	13.45	48.6	Q4, 2014
Reduction of medium term facility taken from Zenith Bank to increase Flour Mills' holding in UNICEM.	6.47	23.4	Q1, 2012
Expansion of Agro-Allied business	5.26	19.0	Q4, 2014
Investment in Working Capital for Food and Cement Business.	1.50	5.4	Ongoing
Development of a Baking and Food Technology Centre in Apapa	1.00	3.6	Q3, 2014
Total	27.68	100.00	

Table 2: Pre – Rights Offer Shareholding Structure		
Shareholder	Shares Held	%
Excelsior Shipping Company Limited	969,432,226	51.59
Other Shareholders.	909,778,441	48.41
Total	1,879,210,667	100.00
Post – Rights Offer Shareholding Structure		
Shareholder	Shares Held	%
Excelsior Shipping Company Limited	1,204,511,397	51.59
Other Shareholders.	1,130,265,492	48.41
Total	2,334,776,889	100.00

Table 3: Directors' Beneficial Interests		
Directors	Direct Shareholding	%
Mr. George S. Coumantaros	Nil	Nil
Alh. Ahmad Joda, CFR,CON,OFR	391,471	0.02
Dr. (Chief) Emmanuel Akwari Ukpabi	2,811,209	0.15
Alh. Ardo A. Abba	Nil	Nil
Mr. Adebayo Alade-Loba	Nil	Nil
Mr. John G. Coumantaros	Nil	Nil
Chief James Oladepo Fagbemi	1,263,771	0.07
Alh. Rabiu Muhammed Gwarzo OON	219,295	0.01
Mr. John Katsaounis	1,554,632	0.08
Mr. Thanassis Mazarakis	Nil	Nil
Mr. Atedo Peterside OON	1,188,000	0.06
Mr. Aris Plytas	Nil	Nil
Alh. Yunus Olalekan A. Saliyu	1,168,789	0.06
Mr. Folarin Rotimi Abiola Williams	13,964	0.00

Table 4: The Rights Dynamics	
Current Market Price	N62:00
Rights Price	N62:00
Theoretical Ex-Rights Price	N62:00
Company Summary	
Ticker	FLOURMILL
Sector	Consumer Goods
Sub- Sector	Food Products
Date of Incorporation	29 September 1960
Date of Listing	14 August, 1979
Financial Year End	March
Number of Fully Paid Share	1,879,210,668
Current Capitalization(NGN)	116,511,061,416
NSE Capitalization (NGN)	6,387,919,400,247
% of NSE Capitalisation	1.82
52 Week high NGN	95.00
52 Week low NGN	57.00
YTD Return (%)	(10.59)
52 Weeks Average Volume Traded	783,194
Trailing EPS NGN	5.06
Trailing P/E Ratio (X)	12.28

Table 5: Subsidiary and Associated Company

Subsidiaries	Holding
Apapa Bulk Terminal Limited	100.00%
Flour Mills Registrars Limited	100.00%
Golden Pasta Company Limited	100.00%
Golden Noodles Company Limited	100.00%
Golden Shipping Company Limited	100.00%
Golden Sugar Company Limited	100.00%
Golden Transport Company Limited	100.00%
Kaboji Farms Limited	100.00%
Niger Mills Company Limited	98.90%
Nigerian Bag Manufacturing Company Limited	70.00%
Premier Feed Mills Company Limited	62.00%
Northern Nigeria Flower Mills Plc	52.60%
Nigerian Eagle Flour Mills Limited	51.00%
United Cement Company of Nig. Limited (Associated Company)	28.15%

Table 6: Professional Parties

Leading Issuing House	Stanbic IBTC Plc
Joint Issuing House	FCMB Capital Markets Limited
Joint Issuing House	Zenith Capital Limited
Registrar to the Issue	Zenith Registrars Limited
Stockbrokers to the Issue	Stanbic IBTC Stockbrokers Limited
Stockbrokers to the Issue	CSL Stockbrokers Limited
Auditors	Akintola Williams Deloitte
Solicitors to the Issue	The New Practice
Receiving Banks	Stanbic IBTC Bank Plc
Receiving Banks	First City Monument Bank Plc
Receiving Banks	Zenith Bank Plc

Table 7: Activities Table

Date	Activity	Responsibility
14-Nov-2011	Acceptance List Opens / Trading in Rights Begins	Issuing Houses
21-Dec-2011	Acceptance List Closes / Trading in Rights Closes	Issuing Houses
09-Jan-2012	Receiving Agents Makes Returns	Issuing Houses/ Receiving Agents
06-Feb-2012	File Allotment Proposal and Draft Newspaper Announcement with SEC	Issuing Houses
27-Feb-2012	Receive SEC Approval of Allotment	Issuing Houses
28-Feb-2012	Pay Net Proceeds of the Issue to Flour Mills	Issuing Houses
01-Mar-2012	Publish Allotment Announcement	Issuing Houses
05-Mar-2012	Return Surplus/ Rejected Application Monies	Issuing Houses /Registrars
19-Mar-2012	Distribute Share Certificates /Credit CSCS Accounts	Registrars
20-Mar-2012	Forward Declaration of Compliance to the Exchange	Stockbroker
26-Mar-2012	Listing of New Flour Mills Shares /Trading Commences	Stockbroker
27-Mar-2012	Forward Summary Report of Issue to SEC	Issuing Houses

Table 8: Rights Summary

Authorized Share Capital	N2,000,000,000
Issued and Fully Paid	N939,605,333.50
Now being Issued	455,566,222
Gross Issue proceeds	28,245,105,764
Method of Offer	Rights Issue
Issues Price per share	N62.00
Payment	In full on Acceptance
Opening Date	November 14, 2011
Closing Date	December 21, 2011
Basis	8 for 33
Market Capitalization at Rights Issue price (Pre-Issue)	N 116,511,061,354
Market Capitalization at Rights Issue price (Post-Issue)	N 144,756,167,118

2.0 Review of Nigerian Economy

Provisional data from the National Bureau of Statistics (NBS) indicates that Nigeria's Gross Domestic Product (GDP) grew by 7.40% in Q3 2011, while it is expected to grow by 7.98% in 2011. Overall, the Nigerian economy was relatively stable with mixed outcomes in 2010. NBS also showed that the Nigerian population as at February 2010 stood at 154,774,088. This was disclosed in a report titled "National Literacy Survey 2010". Of the total population, about 39% were children aged below 15 years while adults constituted about 61%. According to the survey, about 70% of the population resides in the rural areas while only 30% live in urban areas. According to the Central Bank of Nigeria (CBN), at the end of August 2011, the major monetary aggregates moderated relative to the level at the end of the preceding month. Aggregate banking system credit to the domestic economy stood at ₦9,990.75bn at the end of August 2011, an increase of 22.70%, on a month-on-month basis, in contrast to the decline of 8.6% at the end of the preceding month. The banking system's credit to the private sector rose by 9.40% to ₦10,899.50bn, in contrast to the 0.10% decline at the end of the preceding month.

Provisional data from NBS indicates that Nigeria's GDP grew by 7.40% in Q3,2011.

The inflation rate (year-on-year) moderated, but it remained in double digits at the end of 2010 and stood at 10.50% as at October, 2011. The pass-through effects, on the Nigerian economy, of the increase in the price increase in the prices of food, as a result of flooding in many food producing countries, and the of oil at the international market, have increased inflationary pressure on the local economy. The current import-dependent nature of the Nigerian economy makes it difficult for Nigerians to avert the pass-through effect. Other factors that have contributed to the inflationary pressure are the weak infrastructure, high cost of borrowing in the local financial market, and the electioneering spending.

The inflation rate year-on-year stood at 10.50% as at October 2011.

Meanwhile, the CBN has reiterated its commitment to a single digit inflation rate. The value of naira depreciated at the official market in 2010 by 0.72% to close at N149.17/US\$1. As at November 21, 2011, the exchange rate closed at N154.50/US\$1, representing a depreciation of 3.57% from the level on December 31, 2010, while the parallel market rate stood at N160.50. The MPC has announced its decision to allow the Naira to move by 3% around N155.

FSDH Research believes that the current administration will implement a number of policies to diversify the productive base of the economy so that the economy is less vulnerable to international oil price volatility.

The Monetary Policy Committee (MPC) of the CBN argued that the need to reduce speculative demand for foreign exchange and to bring the inflation rate to a single digit figure necessitated the series of restrictive policies implemented during each of its meeting so far, in 2011. FSDH Research believes that the excessive increase in rates may lead to cost-push inflation and may attract "hot money" to the financial system, while Nigerians bear the consequences.

In our opinion, the focus of the current administration should be to come up with a workable framework to improve infrastructural facilities in the country and to ensure fiscal discipline in the management of the country's scarce resources. This will set the tone for the growth of the non-oil sector of the economy, in order to create employment and help to suitably broaden the productive base and revenue of the country in a sustainable manner.

We believe that the current administration will implement a number of policies to diversify the

productive base of the economy so that the economy is less vulnerable to international oil price volatility. Furthermore, the administration is embarking on a number of reform agenda to improve the nation's infrastructure, thereby stimulating the economy, and to strengthen public expenditure management to create job opportunities for the youths.

3.0 Review of Nigerian Manufacturing Sector

Our analysis of the operating environment shows that the manufacturing and distribution businesses in Nigeria are faced with major infrastructural challenges (transportation and power). In order to meet their power needs, manufacturing companies invest heavily in alternative sources of power, and the cost of acquiring and maintaining this equipment adds in no small measure to overall operating costs. Manufacturing firms sometimes shift a portion of these costs to customers, in the form of increases in the price of goods, while the firms bear the remaining portion of it. The extent of this shift also depends on the elasticity of demand for the product in question to price. So far in 2011, most of the flour manufacturers in Nigeria have increased their price of flour by not less than 6% in reaction to the increase in the price of wheat globally. Sometimes, we notice a drop in demand, as a result of increases in price. In addition to the problem of infrastructure, the tight liquidity prevailing in the economy and the unwillingness of banks to lend has reduced credit 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 Nigeria and in neighboring countries. In the last one year, the manufacturing sector has witnessed some improvement, as the capacity utilization of manufacturing production is estimated to be 55.8%, which reflects a rise of 2.8% over the corresponding period in 2009. According to the NBS, the sector grew by 8.15% in Q3 2011 and expected to grow by 7.49% in 2011. It contributed 3.51% to the GDP in Q3 2011, while it is expected to contribute 4.14% in 2011. This is considered too low for a country that has huge consumption power like Nigeria, with its estimated market size of about 154million people. The growing middle class of Nigerians, whose tastes and life style are changing, leading to an increasing demand for high quality consumer goods and products, presents an important opportunity for related manufacturing companies.

The Nigerian manufacturing industry is relatively small in relation to the size of the domestic economy.

The fact that some companies in the Nigerian manufacturing sector have low elasticity of demand to economic factors helped to insulate the revenue of operators.

The Nigerian manufacturing industry is relatively small in relation to the size of the domestic economy. The sector has not grown remarkably over the years due to a series of factors: the neglect of the sector in favour of oil, an epileptic power supply, and the country's deficient infrastructure, among others. Although the Nigerian government maintains that the industry is the main instrument of rapid growth, structural change and self-sufficiency, it has not yet pursued the necessary policies to improve the performance of the manufacturing industry. However, we commend the ongoing efforts of the CBN to make soft loans available to Small and Medium Scale Enterprises (SMEs) and the government's proposed privatization of the Power Holding Corporation of Nigeria (PHCN). Some quoted manufacturing companies, especially those with highly capitalized stocks, did record impressive performance in the Nigerian capital market as the economy continues on the path of recovery, post the global economic and financial meltdown. The fact that some companies in the Nigerian manufacturing sector have low elasticity of demand to economic factors helped to insulate the revenue of operators. However, we note the possible negative impacts of both the current job cuts in the financial sector and the insufficient level of job creation on aggregate demand in the long run.

FSDH Research had earlier noted the possible impact of the recent rise in global prices of grain on the flour milling business in Nigeria. The international price of wheat has risen due to bad harvests arising from disasters in wheat producing countries. Russia recorded a huge fire disaster, while Australia had severe flooding occurring in its wheat producing regions. Also, China's demand for ships due to the expansion of its industries raised the cost of shipping of raw materials in the industry.

4.0 Flour Mill's Corporate Governance

Flour Mills is committed to best practice and procedures in corporate governance. The company is in compliance with the Code of Best Practices on Corporate Governance for Public Companies in Nigeria. Its Board is currently composed of fourteen (14) members made up of twelve (12) non-Executive Directors and two (2) Executive Directors. Responsibilities at the top of the Company are well defined and the Board is not dominated by one individual. The position of the Chairman is separate and distinct from the Managing Director, and the Chairman is not involved in the day-to-day running of the business. For effective management, the company is structured into the following directorates:

- Finance;
- Company Secretariat;
- Technical;
- Human Resources;
- Flour Operations;
- Cement Operations;
- Fertilizer Operations;
- Marketing & Sales;
- Supplies/Procurement;
- Logistics;
- Margin Improvement/administration; and
- Internal Audit.

Each directorate is headed by a member of the Management Committee who reports to the Group Managing Director and/or the Chief Operating Officer.

Recently the company engaged the services of KPMG Professional Services to assess the performance of the Internal Audit Department with a view to redesigning and transforming it into a risk-focused and independent function. The Board has a remuneration Committee which fixes and reviews the remuneration of non-executive directors. The Board has shown commitment to inaugurating members of the following committees in the course of the 2011 financial year:

- Internal Audit, Risk and Compliance Committee; and
- Strategy and General Purpose Committee

The company is in the process of finalizing its Code of Conduct and Ethical Standards for directors, managers and staff of the company.

Flour Mills Nigeria is committed to best practice and procedures in corporate governance.

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5.0 Strategic Focus

The company's strategic focus to maintain its leadership position in its chosen markets are:

- Strategic Plans to take advantage of high profit margin business in agro-allied industries
- Growth in the Food & Beverage Sector which include organic growth, mergers & acquisitions and/or joint ventures.
- Development of its core business of flour milling, offering a unique value proposition to its industrial customers.
- Product innovation, excellent customer care, consistent quality, value for money and dependability.
- Exploring further growth opportunities in the Fast Moving Consumer Goods (FCMG) sector.
- Upgrade and modernization of its milling operations
- Upgrade of its milling capacity
- Significant investment in power generation capability
- Significant investment in increasing capacity in the production of Pasta, Noodles, Cement and Sugar businesses
- Strategic Investment in its cement business (UNICEM)
- Aggressive marketing and promotion activities for its product lines
- Strategic Plans to take advantage of high profit margin business in agro-allied industries
- Rebranding of its existing products to meet the needs of all types of consumers

Strategic Plans to take advantage of high profit margin business in agro-allied industries

Golden Pasta is currently building a second pasta factory, which over the course of 5 years will significantly increase its current capacity and help to consolidate and expand its leading position and market share. At the same time, the company is developing its noodles business as Golden Penny Noodles brand is currently pursuing an ambitious investment and marketing plan that will help it rapidly expand its market share and become a major player in a growing market, while improving its margin and performance.

The company, in line with the Federal Government of Nigeria's backward integration policy in the cement industry has been actively engaged in cement production through UNICEM since 2002. UNICEM operates a green field, fully integrated cement plant, with a capacity of 2.5million metric tonnes of cement per annum. Flour Mills, together with its partners (Lafarge and Holcim) have invested over N125bn in a state-of-the-art cement factory. The investment is in recognition of the tremendous growth potential of the Nigerian economy, the impending major infrastructure projects, the existence of a vibrant housing sector and the fact that the market will remain largely under-supplied in the medium term due to growing demand.

Also, the company is leveraging on sugar refining, which offers a unique combination of a fast growing and lucrative market with access to the best supply of high polarity raw sugar, short delivery time alongside other operational strengths and synergies within the Flour Mills Group, thereby creating a sustainable competitive advantage.

Table 9: SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> ➤ Good credit history in local financial market ➤ Strong roots in local markets and first-hand knowledge of local culture ➤ Strong Research & Development capabilities ➤ Diversified product range ➤ Diversified management expertise 	<ul style="list-style-type: none"> ➤ Low dividend payout ➤ Low profit margin ➤ Declining return on capital
Opportunities	Threats
<ul style="list-style-type: none"> ➤ Large market size ➤ Producing basic needs of people ➤ Government support for agro-allied business in Nigeria ➤ Strong demand for cement ➤ Growing middle class in Nigeria 	<ul style="list-style-type: none"> ➤ Reduction in purchasing power in the country due to rising unemployment rate ➤ Inadequate physical infrastructure in the country ➤ Credit crunch in the system due to unwillingness of banks to lend money to the real sector ➤ Gradual depreciation in the value of the Naira ➤ High global commodities prices ➤ Strong competitors

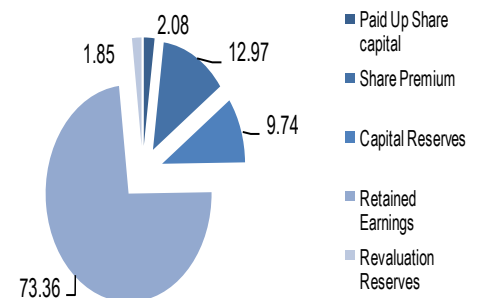
6.0 Analysis & Recommendation

Our analysis was based on Flour Mill's Account for the period ended 12 months March 31, 2011, compared with 12 months March 31, 2010. For the computation of CAGR, the base period is March 31, 2007.

6.1 Capital Structure

The total shareholders' funds of Flour Mills decreased from N49.85bn in 2010 to N45.22bn in 2011, translating to a decrease of 9.29% during the period. The decrease in the total shareholders' funds was driven by the share of loss in United Cement Company (UNICEM), which resulted in a decline of 13.09% in revenue reserves from N38.17bn in 2010 to N33.18bn in 2011.

Composition of Shareholders' Fund - 2011



The Compound Annual Growth Rate (CAGR) in the shareholders' funds between 2007 and 2011 stood at 18.84%. The long term assets of Flour Mills stood at N88.62bn in 2011, down from N90.42bn in 2010 and represented a decline of 2%. The CAGR between 2007 and 2011 stood at 19.13%. The current asset increased by 40.59% to N74.64bn in 2011 from N53.10bn in 2010 on account of an increase in stock, which increased by 48.94% to N46.63bn in 2011 from N31.31bn in 2010, trade debtors, which increased by 35.69% in 2011 from N6.36bn in 2010 to N8.62bn and bank deposit & cash balances, which increased by 38.93% to N8.88bn. Adding the long term assets and the current assets of the company together, the total assets grew by 13.76% to N163.26bn in 2011 from N143.52bn in 2010. This represents a CAGR of 21.01% between 2007 and 2011.

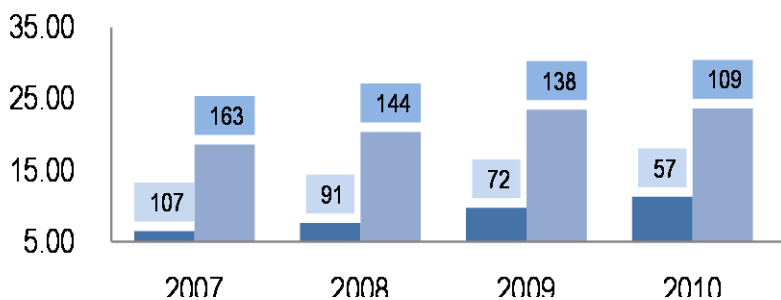
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The total assets of Flour Mills were financed by a mix of equity and liabilities in the proportion of 30.62% and 69.38%, respectively.

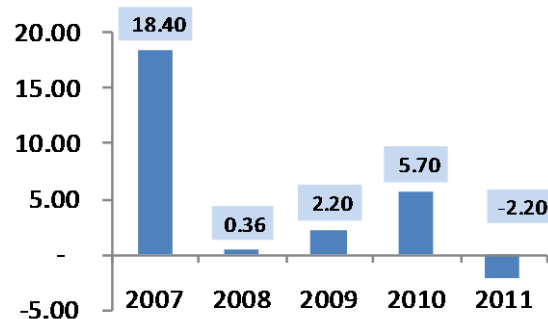
Funding Mix (2011)



Capital Employed vs Total Assets (2007 - 2011) N'bn

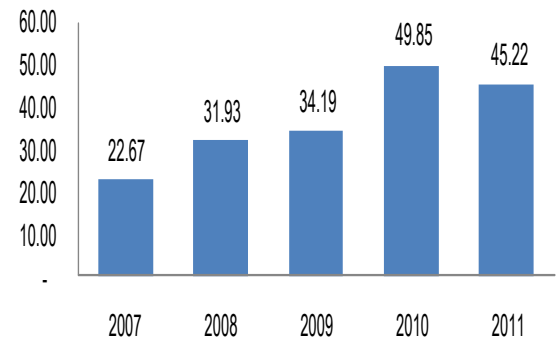


Working Capital (2007 - 2011) N'bn



The move has also improved the working capital of the company as it substituted short term debt for long term debt. The working capital stood at N18.41bn at the end of December 2011, a significant increase from N363.31mn as at the end of the previous year. In addition, the current ratio and the quick ratio as at end December 2011 stood at 1.33x and 0.50x respectively.

Shareholders' Fund (2007 - 2011)



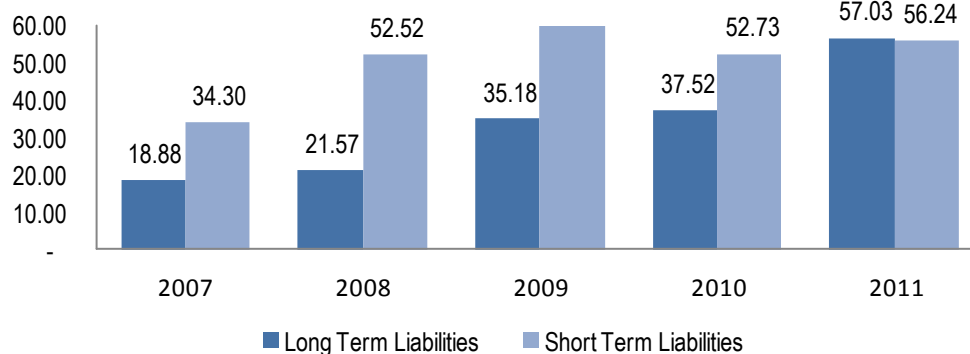
The capital employed (i.e. total assets less current liabilities) increased from N90.79bn in 2010 to N107.02bn in 2011 representing a growth rate of 17.85% for the period, and a CAGR of 26.46% between 2007 and 2011.

The debt ratio, which is the proportion of the company's total assets that is financed by long term and short term liabilities increased marginally to 69.38% from 62.89% in 2010.

6.2 Liquidity

The liquidity position of Flour Mills in 2011 remained strong and improved over 2010. The current assets of Flour Mills increased from N32.14bn in 2007 to N74.64bn in 2011, representing a CAGR of 23.45% and an increase of 40.59% between 2010 and 2011. The major contributors to the increase between the immediate two years are stocks (up by 48.94% to N46.63bn) and debtors (up by 35.69% to N8.62bn). Similarly, the current liabilities increased from N34.30bn in 2007 to N56.24bn in 2011, representing a CAGR of 13.16% between the period and a marginal increase of 6.65% between 2010 and 2011. Both current assets and current liabilities increased between 2010 and 2011, the current assets increased higher, leading to an improvement in the liquidity position. The current ratio increased to **1.33x** in 2011 from 1.01x in 2010. Also, the quick ratio recorded an increase to **0.50x** in 2011 from 0.41x in 2010.

Sort Term vs Long Term Liabilities (2007 - 2011) N'bn

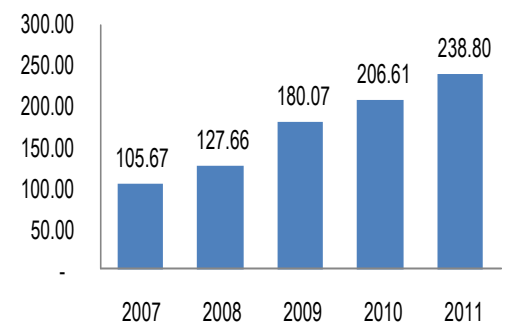


The net cash generated from operating activities decreased by 38.72% from N30.45bn in 2010 to N18.66bn in 2011. Net cash used for investing activities also decreased from N22.09bn in 2010 to N18.64bn in 2011, while the net cash available for financing activities increased to N10.22bn in 2011. The proceed of N37.50bn from an unsecured bond issue contributed significantly to the increase in net cash available for financing activities. The net increase in cash & cash equivalents in 2011 stood at N10.25bn, an increase from a loss position of N12.66bn in 2010. The cash and cash equivalent as at March 31, 2011 stood at a loss of N979.21mn. Cash generated during the year could not offset previous year loss.

6.3 Profitability

In spite of the unfavourable global and domestic financial market between 2010 and 2011, the company managers were able to deliver good returns to the shareholders and all other stakeholders of the company. Turnover increased from N105.67bn in 2007 to N238.80bn in 2011, representing a CAGR of 22.61% and increased by 15.58% between 2010 and 2011. Segmental analysis of the company shows that N236.48bn, representing 99.03% was derived within Nigeria, while N2.31bn, representing 0.97% was derived from outside Nigeria. Analysis of business sector shows that food accounted for 64.70%, while cement, fertilizer, packaging, livestock feeds, port operations & others accounted for 55.93%, 19.19%, 5.63%, 10.62%, 2.26% and 6.38% respectively.

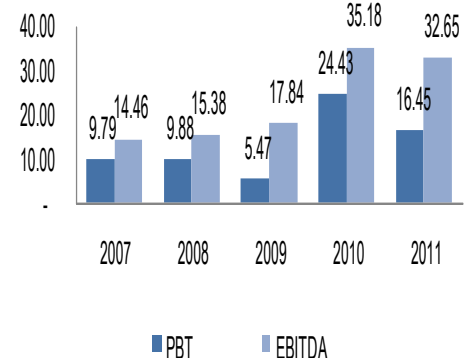
Turnover (2007 - 2011)



In spite of the unfavourable global and domestic financial system between 2010 and 2011, the company's managers were able to deliver good returns to the shareholders and all other stakeholders.

The cost of sales increased by 23.71% from N160.54bn in 2010 to N198.61bn in 2011, higher than the growth in the turnover, thereby leading to a decline of 12.77% in Gross Profit (GP) from N46.07bn in 2010 to N40.19bn in 2011. This situation was further compounded by a major cut-back in its cement business throughput due to the government's restriction on cement importation coupled with a fall in revenue arising from an increase in Export Duty from 5% to 20% and a levy of 15% on Cost Insurance Freight (CIF) value of cement imported from July 1, 2011. The increase in the price of wheat at the international market contributed to this. Selling & Distribution expenses increased significantly by 229.88% to N6.06bn in 2011 from N1.84bn in 2010, while Administrative expenses less depreciation decreased by 57.99% to N4.30bn from N10.23bn in 2010. The increase in selling and distribution expenses was as a result of the efforts of the company to create more awareness for its products through sales promotion and advertising.

PBT vs EBITDA (2007 - 2011)

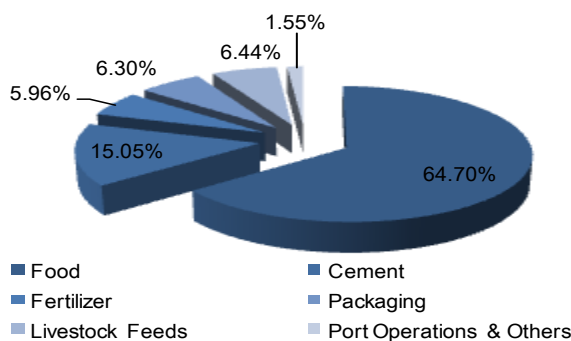


Analysis of business sector shows that Food accounted for 64.70%, while cement, fertilizer, packaging, livestock feeds, port operations & others accounted for 55.93%, 19.19%, 5.63%, 10.62%, 2.26% and 6.38% respectively.

Depreciation charge increased by 35.24% between 2010 and 2011. Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA), decreased by 7.20% from N35.18bn in 2011 to N32.65bn in 2010, while Earnings Before Interest and Tax (EBIT) also decreased by 7.26% from N23.76bn in 2010 to N22.03bn in 2011. The increase in the net financing cost led to a decline in PBT, as it decreased by 32.71% from N24.44bn in 2010 to N16.45bn in 2011. Gross profit margin by business sector shows that food business had a margin of 55.93%, and cement, fertilizer, packaging, livestock feeds and Port operations & other had a Gross Profit Margin of 19.19%, 5.63%, 10.62%, 2.26% and 6.38% in 2011, respectively. The operating profit decreased to N24.92bn from N29.47bn the previous year. PAT stood at N9.45bn in 2011 from N16.95bn in 2010, representing a decline of 15.43%.

Gross profit margin by business sector shows that Food business had a margin of 55.93%, and cement, fertilizer, packaging, livestock feeds and Port operations & other had a Gross Profit Margin of 19.19%, 5.63%, 10.62%, 2.26% and 6.38% in 2011, respectively.

Turnover by Business Sector - 2011



Gross Profit by Business Sector - 2011

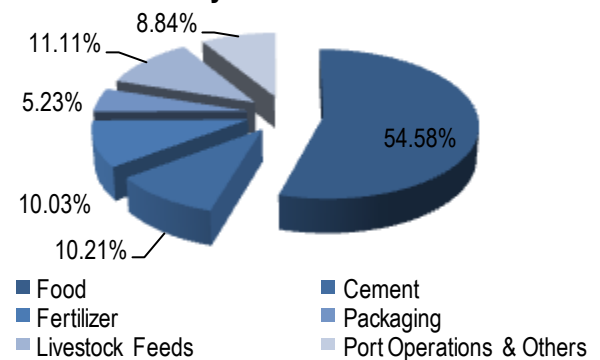


Table 10: Profit & Loss Account (N'mn)

	2011	2010	Change (%)	2009	2008	2007	CAGR(%)
Turnover	238,797	206,608	15.58	180,068	127,662	105,669	22.61
Cost of Sales	198,612	160,542	23.71	156,993	106,745	86,158	23.22
Gross Profit	40,185	46,066	(12.77)	23,075	20,917	19,510	19.80
Operating Profit	24,923	29,469	(15.43)	13,096	11,346	11,303	21.86
EBITDA	32,649	35,182	(7.20)	17,844	15,379	14,455	22.59
PBT	16,445	24,432	(32.69)	5,470	9,878	9,792	13.84
Tax	6,995	7,492	(6.63)	1,579	3,515	2,317	31.81
PAT	9,450	16,940	(44.22)	3,892	6,363	7,474	6.04

Balance Sheet (2007 - 2011), N'mn

	2011	2010	Change (%)	2009	2008	2007	CAGR (%)
Fixed Assets	71,801	60,632	18.42	47,831	38,603	34,003	20.55
Current Assets	74,644	53,095	40.59	67,347	58,272	32,140	23.45
Total Assets	163,262	143,520	13.76	137,520	109,150	76,142	21.01
Current Liabilities	56,238	52,732	6.65	65,181	52,523	34,296	13.16
Long Term Liabilities	57,028	37,521	51.99	35,181	21,571	18,879	31.83
Total Liabilities	113,266	90,253	25.50	100,362	74,094	53,176	20.81
Working Capital	18,406	363	4,996	2,166	5,749	(2,156)	-
Total Equity	49,995	53,267	(6.14)	37,158	35,057	22,966	21.47

Looking at the historical performance of Flour Mills, we note that it has consistently deployed its assets to generate adequate revenue to reward the equity holders and is generating adequate income to cover its interest obligations. Although, the financial crisis in 2009 had adverse impact on its profitability, the company has made adequate plans to prevent such outcome in the future. There was an increase in its interest cover to 3.54x in 2011, compared to 3.09x in 2010. As a result of this, while creditors will be comfortable dealing with the company, there is little risk on equity shareholders on account of short term loans. In order to take strategic advantage of the high margin business in the country, the company contracted a loan of US\$143.30bn in May 2011 and is also embarking on Rights Issue.

Looking at the historical performance of flour Mills, we note that it has consistently deployed its assets to generate adequate revenue to reward the equity holders and is generating adequate income to cover its interest

The return on equity stood at 18.77% in 2011, down from 33.13% in 2009. The return on assets stood at 13.53%, a decrease from 19.71% recorded in 2010. Return on capital employed declined from 31.16% in 2010 to 20.59% in 2011. Flour Mill's GP margin decreased to 16.83% in 2010 from 22.30% in 2010. EBITDA margin dropped to 13.67% in 2011, while PBT margin dropped to 6.89% from 11.83% in 2010. The contribution of employees to the company's profitability decreased between 2011 and 2010, as PBT per employee decreased to N4.59mn in 2011 from N8.37mn 2010, while cost per employee decreased marginally from N2.53mn in 2010 to N2.45mn in 2011.

6.4 Management Efficiency

The number of times capital employed could generate revenue decreased to 2.23x in 2011 from 2.28x in 2010. This was due to the tough operating environment in which the company operated during the review period. We expect the ratio to improve following the current efforts of the FGN to improve infrastructure in the country, in addition to the initiatives of the company to address some of these challenges.

Table 11: Key Financial Ratio (2007 - 2011)

	2011	2010	2009	2008	2007
Gross Profit Margin (%)	16.83	22.30	12.81	16.38	18.46
EBITDA Margin(%)	13.67	17.03	9.91	12.05	13.68
PBT Margin (%)	6.89	11.83	3.04	7.74	9.27
ROE (%)	18.77	33.12	11.16	19.86	32.97
ROCE (%)	20.65	31.16	15.17	13.88	22.08
Collection Days	13.18	11.23	10.84	15.37	15.45
Payment Days	14.04	19.64	23.30	28.35	36.84
Current Ratio (x)	1.33	1.01	1.03	1.11	0.94
Debt Ratio (%)	69.38	62.89	72.98	67.88	69.84
Long Term Debt to Equity (%)	101.54	56.61	79.68	44.77	57.96
Interest Cover(x)	3.54	3.09	2.67	2.57	4.19
EPS(N)	4.52	9.67	2.23	4.08	4.81
DPS(N)	2.00	2.00	0.50	1.00	0.90
Net Asset Per Share(N)	26.60	31.18	21.75	22.57	14.79

Flour Mill's average collection period stood at 13.18days in 2011, while the payment period decreased to 14.04days in 2011. This has improved its cashflow position.

The Board members of Flour Mill is made up of seasoned professionals and people with proven track records in their business endeavours. The executive directors also have varied experience and exposure required to deliver superior value to their shareholders and positively impact other stakeholders.

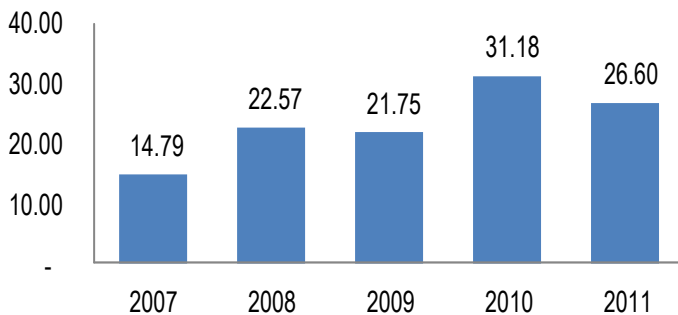
6.5 Investment Analysis

The performance of Flour Mills in the last five years has been stable despite the harsh macroeconomic environment in which the company carried out its operations. The Earnings Per Share (EPS) attributable to ordinary shareholders decreased marginally from N4.81 in 2007 to N4.52 in 2011 and declined by **53.26%** from N9.67 in 2010 to **N4.52** in 2010. The company paid a dividend of N2.00 to its shareholders whose names were in the register of members as at August 8, 2011 for the year ended March 31, 2011. The DPS for the year ended March 31, 2011 stood at N2.00, same as in 2010. The average dividend payout in the last three years is 26.11%. The low dividend payout may be a deliberate attempt by the board to raise internal cash for its growth initiatives. The net assets per share (NAPS) increased from N14.79 in 2007 to N26.60 in 2011, representing a CAGR of 15.81%, but a decrease of 14.67% between 2010 and 2011.

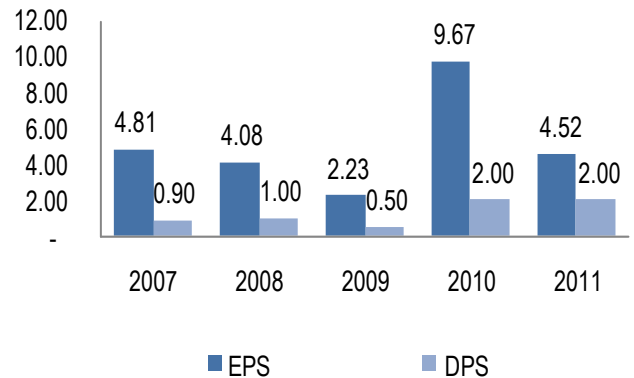
The Board members of Flour Mills is made up of seasoned professionals and people with proven track records in their business endeavours.

The low dividend payout by Flour Mills may be a deliberate attempt by the board to raise internal cash for its growth initiatives.

Net Asset Value (2007 - 2011)



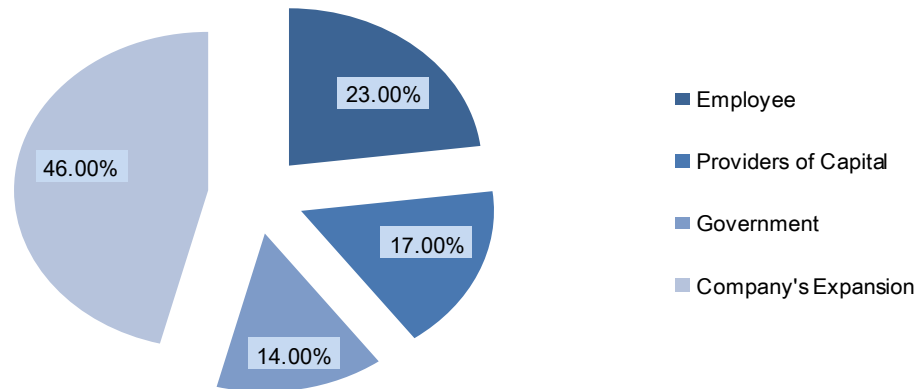
EPS vs DPS (2007 - 2011)



6.6 Value Added Distribution

The wealth created by the efforts of the company's employees stood at N38.21bn in 2011 from N46.26bn in 2009, representing a decline of 17.40%. The value added was distributed amongst employees, providers of capital, government and for company's expansion in the proportion of 23%, 17%, 14% and 46% respectively.

Distribution of Value Added (2011)



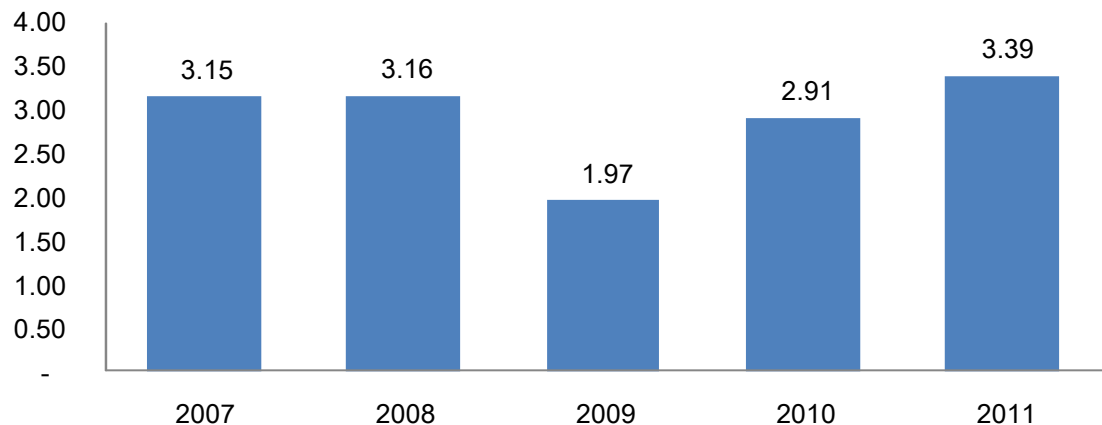
7.0 Bankruptcy Test – Altman Z- Score Model

We used the Z-Score model, developed by Edward Altman, to determine the probability of Flour Mills going into bankruptcy within 2 years from March 2011. The result of the test shows that the company scores a rating of 3.15, meaning that it is a safe company for all stakeholders based on the published financial for the period ended March 31, 2011. The 5 year Z-Score is presented on the table and chart below.

Flour Mills is a safe company for all stakeholders, based on 2011 Published Account.

	2011	2010	2009	2008	2007
OPBIT/Total Assets	0.14	0.20	0.08	0.07	0.12
Net Working Capital/Total Assets	0.11	0.00	0.02	0.05	(0.03)
Sales/Total Assets	1.46	1.44	1.31	1.17	1.39
Market Value of Equity/Total Liabilities	1.37	1.16	0.24	1.97	2.26
Accumulated Retained Earnings/Total Assets	0.20	0.27	0.16	0.19	0.20
Share Price (December)	82.65	61.06	14.20	94.00	77.45
Market Value of Equity	155,317	104,313	24,259	145,988	120,285
Z-Score	3.15	3.16	1.97	2.91	3.39

Z-SCORE (2007 - 2011)



The company's share of loss in UNICEM and the impact of the high cost of wheat, which the company could not shift totally to its customers may be responsible for the drop in the profitability. The company has indicated that UNICEM may start posting strong profitability in 2012.

8.0 Q1 2011 Unaudited Result Update

The unaudited Q1, result of Flour Mills **Nigeria Plc (Flour Mill)** for the period ended March 31, 2011 showed that its Turnover (TO) increased by 5.48% to **N45.91bn**, compared with N43.52bn in the corresponding period of 2010. Profit Before Tax (PBT) however decreased by 33.51% between Q1 2010 and 2011 to **N3.20bn**. The company made a tax provision of **N915.97mn** in Q1 2011, compared with N1.54bn in the corresponding period of 2010. This brought about a 30.20% decrease in the company's Profit after Tax (PAT), which stood at N2.28bn in 2011, compared to N3.27bn in 2010.

The company's profit margins decreased in Q1 2011 over Q1 2010 but increased over the FY March 2011 figure. The PBT margin decreased to 6.97% in Q1 2011 from 11.06% as at Q1 2010 and up from 6.89% as at the end of the financial year in March 2011. This shows that the company's total costs as a percentage of TO stands at 93.03%, higher than 88.94% recorded in the corresponding period of 2010. PAT Margin stood at 4.97%, down from 7.52% in the corresponding period of 2010 but up from 3.96% as at FY 2011. The results also indicate that the TO, PBT, and PAT in the Q1, 2011 are 19.23%, 19.46% and 24.17% of the FY Audited TO, PBT and PAT for the period ended March 2011. The company's share of loss in UNICEM and the impact of the high cost of wheat, which the company could not shift totally to its customers may be responsible for the drop in the profitability. The company has indicated that UNICEM may start posting strong profitability in 2012.

A cursory look at the balance sheet position as at Q1 2011 compared with the position as at March 31, 2011 shows that the company's fixed assets decreased during the review period. Its fixed assets decreased marginally by 0.82% to N25.49bn from N25.70bn in FY 2010. Stock decreased by 7.12% to N12.89bn in Q1 2011 from N13.88bn in FY 2011. The company should continue to make appropriate efforts to reduce its stock level. Cash and bank balances decreased from N5.06bn in FY 2011 to N4.38bn in Q1 2011. Flour Mill's working capital appreciated to N29.35bn in Q1 2011 from N26.66mn in FY 2011. Also, the net assets increased by 5.43% to N44.35bn in Q1 2011 from N42.06bn as at FY 2011.

9.0 Historical Return Analysis

An analysis of the historical return on the investment in the Ordinary Shares of Flour Mills between January 2006 and the date of this report shows that it was a profitable investment. The total return during the period was made up of capital appreciation bonus issues and dividend payments, which the shareholders enjoyed on their investments. Flour Mills paid dividends consistently from 2006 to 2011.

Our illustration using **N100,000** initial investment in January 03, 2006 grew to **N403,555.04** as a result of capital appreciation, dividends and bonus earned. This resulted in a profit of **N303,555.04** and a return of **303.56%**. The number of shares the initial investment bought, net of transaction costs, was **3,693** units. The total dividend earned during the period was **N34,157**, while bonus earned during the period was **2,265 units**. The share price appreciated by **138.55%** from **N25.99** in January 03, 2006 to **N62.00** as at November 22, 2011.

10.0 Valuation

10.1 Our Valuation Forecast Drivers

We considered the following factors in arriving at the forecasts we used for the valuation:

- Strategic plans to take advantage of high profit margin business in agro-allied industries
- Various capacity expansion within the group company
- Contributions from UNICEM
- Aggressive marketing and promotion for its products
- Rebranding of its existing products to meet the needs of all types of consumers
- Modernisation of plants and equipment for improve efficiency

In arriving at a fair value for the ordinary shares of Flour Mills, we used two valuation methods which are Discounted Free Cash Flow Method (DCF) and Discounted Future Earnings Method (DFE). We project Turnover, Earnings Before Interest and Tax (EBIT), Earnings Before Interest Tax Depreciation and Amortization (EBITDA), Profit After Tax (PAT) and Dividend Payment for the periods ending March 2012, 2013, 2014, 2015 and 2016.

We estimate the **Turnover** of **N267bn, N321bn, N385bn, N456bn** and **N536n** for, 2012, 2013, 2014, 2015 and 2016, respectively. We estimate **EBIT** of **N25bn, N47bn, N58bn, N64bn** and **N67bn** for the same period, based on EBIT Margin of 9.50% for 2012, 14.50% for 2013, 15.00% for 2014, 14.50% for 2015 and 12.50 for 2016. We estimate **EBITDA** of **N35bn, N57bn, N69bn, N76bn** and **N80bn** for the same period.

Looking at our estimate of capital expenditure, notional tax payment and changes in working capital we arrived at Free Cash Flow of **N19bn, N22bn, N32bn, N37bn** and **N39bn, PAT** of **N18.6bn, N34bn, N42bn, N46bn** and **N49bn** and **Dividend Payment** of **N6bn, N11bn, N14bn, N15bn** and **N16bn** for the period, based on a dividend payout of 32% from its earnings. We applied a terminal growth rate of

An investment in Flour Mills shares in January 2006 till date recorded a total return of 303.56%

Buying the stock at the Rights Issue Price of N62.00, holding it to our fair value of N83.30 and adding the present value of the 5-year forecast dividend, investors will earn a total return of 60.81%. Relating this return to the WACC at 15.91%, investment in shares of Flour Mills at the current Rights Issue price, which is also the current market price will earn an excess return (alpha return) of 44.90%.

7.72%, which is the latest real GDP growth rate for the Nigerian economy. We used a beta value of 1.07x based on the 5-year daily historical returns on the company share price and the Nigerian Stock Exchange All Share Index (NSE ASI). We used the marginal rate of 12.19%, based on the 12 month average marginal rate on 5 year FGN Bond as our risk free rate, and market premium of 8.00%, which is the equity market premium used for countries with similar credit rating as Nigeria. Applying foregoing parameters on the Capital Asset Pricing Model (CAPM), the cost of equity generates 20.8%. The company has various long term debts with different currency denominations and interest rate. The weighted after tax cost of debt on the different long term loan is estimated at 7.61% using a tax rate of 32%. The Weighted Average Cost of Capital (WACC), which is our discount rate was estimated at 15.91%. Using 2.334bn post Rights Issue shares in issue, the DCF Model generates N70.82 per share and the DFE Model generates N98.55 per share. Applying a weight of 55% to the DCF and 45% to the DFE, we arrive at a value of N83.30 per share, which is our fair value. Buying the stock at the Rights Issue Price of N62.00, holding it to our fair value of N83.30 and adding the present value of the 5-year forecast dividend, investors will earn a total return of 60.81%. Relating this return to the WACC at 15.91%, investment in shares of Flour Mills at the current Rights Issue price which is also the current market price will earn an excess return (alpha return) of 44.90%. The 2012 forward earnings yield based on the Right Issue price generates 12.87%, while the 2012 forward Dividend Yield based on N2.55 Dividend Per Share at Rights Issue Price generates 4.12%.

Looking at the strategic plans of Flour Mills we believe the company offer excellent growth potentials for both capital appreciation and dividend payment. We therefore advise current shareholders to take up their Rights in full.

Looking at the strategic plans of Flour Mills we believe the company offers excellent growth potentials for both capital appreciation and dividend payment. We therefore advise current shareholders to take up their Rights in full. Although the Rights Issue Price is the same as the current market price, we note that shareholders will avoid some transaction costs if they take up their Rights.

Table 13: Fair Value Sensitivity Table (N)

Growth Rates	Discount Rates					
		83.30	13.91 %	14.91 %	15.91 %	16.91 %
5.72 %	80.43	76.26	72.29	68.52	64.92	
6.72 %	86.00	81.60	77.41	73.41	69.61	
7.72 %	92.44	87.76	83.30	79.06	75.02	
8.72 %	99.94	94.94	90.18	85.65	81.33	
9.72 %	108.80	103.42	98.30	93.43	88.79	

Table 14: Valuation Forecast and Parameters – Discounted Free Cash Flow (DCF)

Year	0.36	2	3	4	5	Terminal Value
Period	MAR-12	MAR-13	MAR-14	MAR-15	MAR-16	-
Revenue (mn)	267,453	320,943	385,132	456,381	536,248	-
EBIT(mn)	25,408	46,537	57,770	63,893	67,031	-
EBITDA (mn)	34,690	57,064	69,293	76,213	80,147	-
FCF(mn)	19,120	22,240	31,668	37,488	39,124	323,365
Discount Rate (%)	15.91	15.91	15.91	15.91	15.91	-
Discount Factor	0.9486	0.7443	0.6421	0.5539	0.4779	-
Present Value (mn)	18,136	16,552	20,333	20,766	18,697	154,529

Enterprise Value (mm)	249,012
Debt(mn)	83,656
Equity Value(mn)	165,357
Number Shares(mn)	2,334
Value Per Share(N)	70.82
<i>* We use 0.36 for period 1</i>	

Table 15 : Valuation Forecast and Parameters – Discounted Future Earnings (DFE)

Year	0.36	2	3	4	5	Terminal Value
Period	MAR-12	MAR-13	MAR-14	MAR-15	MAR-16	
Revenue (mn)	267,453	320,943	385,132	456,381	536,248	
PBT(mn)	27,391	50,169	62,278	68,880	72,262	
TAX (mn)	8,765	16,054	19,929	22,042	23,124	
PAT(mn)	18,626	34,115	42,349	46,838	49,138	
Discount Rate (%)	15.91	15.91	15.91	15.91	15.91	
Discount Factor	0.9486	0.7443	0.6421	0.5539	0.4779	
Present Value (mn)						194,082

Enterprise Value (mm)	313,759
Debt(mn)	83,656
Equity Value (mn)	230,103
Number Shares(mn)	2,334
Value Per Share(N)	98.55
<i>* We use 0.36 for period 1</i>	

Table 16 :Valuation Summary

Model	Value(N)	Weight	Price(N)
Discounted Free Cash Flow (DCF)	70.82	55	38.95
Discounted Future Earnings (DFE)	98.55	45	44.35
Fair Value			83.30
Price as at November 22			62.00
Total Return (%)*			60.81
<i>* The total return is inclusive of the present value of the 5-year forecast dividend</i>			

Table 17: FSDH Research Earnings Forecast for (2012-2016)

	2012	2013	2014	2015	2016
Turnover(N'mn)	267,453	320,943	385,132	456,381	536,248
EBIT(N'mn)	25,408	46,537	57,770	63,893	67,031
EBITDA(N'mn)	34,690	57,064	69,293	76,213	80,147
PBT(N'mn)	27,391	50,169	62,278	68,880	72,262
Tax(N'mn)	8,765	16,054	19,929	22,042	23,124
PAT(N'mn)	18,626	34,115	42,349	46,838	49,138
Dividend Payment(N' mn)	5,960	10,917	13,552	14,988	15,724
EBIT Margin (%)	9.50	14.50	15.00	14.00	12.50
EBITDA Margin (%)	12.97	17.78	17.99	16.70	14.95
PBT Margin (%)	10.24	15.63	16.17	15.09	13.48
PAT Margin (%)	6.96	10.63	11.00	10.26	9.16
EPS(N)	7.98	14.61	18.14	20.06	21.05
DPS(N)	2.55	4.68	5.80	6.42	6.73
Earnings Yield at Fair Price (%)	9.58	17.54	21.77	24.08	25.26
Dividend Yield at Fair Price (%)	3.10	5.60	7.00	7.70	8.10
P/E Ratio(x) at Fair Price	10.44	5.70	4.59	4.15	3.96
Number of Shares(mn)	2,334.78	2,334.78	2,334.78	2,334.78	2,334.78
Dividend Payout	32.00	32.00	32.00	32.00	32.00
Rights Issue Price	62.00	62.00	62.00	62.00	62.00
Earnings Yield at Rights Price (%)	12.87	23.57	29.26	32.36	33.95
Dividend Yield at Rights Price (%)	4.12	7.54	9.36	10.35	10.86

Table 18: Annual Capital Growth & Returns Analysis of N100,000 Investment in Flour Mills Nigeria Plc since 03 January, 2006

Value Receipt Period	2006	2007	2008	2009	2010	2011	Total
Holding As At January	3,693	4,924	4,924	5,416	5,416	5,958	-
Bonus Shares Received	1,231	-	492.40	-	541.64	-	2,265.04
Cumulated Holding	4,924	4,924	5,416	5,416	5,958	5,958	-
Dividend Earned	2,825.15	3,988.44	4,432	2,437	9,750	10,724	34,157
Accumulated Shareholding	5,958						
Increase in Shareholding (%)	61.33						
Price (N)	62.00						
Market Value (N)	369,398						
Total Dividend (N)	34,157						
Value of Investment (N)	403,555						
Cost of Investment (N)	100,000						
Profit (N)	303,555						
Increase	303.56%						

Table 19: Comparable Analysis

Company	Flour Mills	Dangote Sugar	Dangote Flour
Turnover	238,797	89,980	67,601
Gross Profit	40,185	18,098	13,203
EBITDA	32,649	17,719	9,552
PBT	16,445	16,147	4,912
PAT	9,450	11,282	2,723
Total Assets	163,262	62,294	70,225
Current Liabilities	56,238	19,246	38,841
Long Term Liabilities	57,028	2,153	4,237
Interest Bearing Liabilities	25,266	-	8,441
Working Capital	18,406	26,333	(9,845)
Capital Employed	107,023	43,048	31,384
Net Assets	49,995	40,895	27,147
EBITDA Margin(%)	13.67	19.69	14.13
Interest Cover(x)	3.54	-	2.67
Debt Ratio (%)	69.38	-	61.34
Long Term Liabilities/Equity(%)	101.54	-	-

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