

### Poised to reap diversification gains despite debt pressure

In this report we present our views on Flour Mills of Nigeria Plc ("FLOURMILL" or "Flour Mills") following the company's Q1'15 results. We maintain our **BUY** rating on the counter with a TP of ₦71.62 which represents a 16.8% upside to current price of ₦61.30. Flour Mills' continuous diversification into other segments of the food market confers the company with a distinct potential for revenue growth even in this competitive environment. FLOURMILL is trading at a forward P/E of 27.3x, compared to a peer<sup>1</sup> average of 18.7x. Kindly find below our FY'15 outlook of the company and an analysis of its FY'14 and Q1'15 performance.

**High leverage pressures profit...** Back in 2013, Flour Mills completed a number of projects, including its 750,000MT sugar refinery in Lagos, worth ₦37.3 billion which were expected to boost revenues considerably in the medium term. In the 2014 Fiscal year, about ₦40.7 billion was further dedicated for additional refinery capacity in ROM Oils Limited Ibadan, expanded agricultural cultivation in line with the company's backward integration program, and the introduction of new products in different segments of the Nigerian market. Most of this expansion has been financed via debt, with interest bearing debt increasing 18.5% to ₦151.9 billion in FY'14 but declining 29.4% to ₦107.3 billion in Q1'15. Consequently, interest paid has been rising with interest expense up 41.2% YoY to ₦16.1 billion in FY'14 and 75.5% YoY to ₦5.5 billion in Q1'15. With management further outlining plans to spend up to ₦35.0 billion in FY'15 to finish expansion in ROM Oil mills and continue backward integration in its feedmilling, sugarcane and rice businesses, we are mindful of the potential negative effects associated interest charges could have on Flour Mills' profitability margins in the next few years.

**...However, sugar market share growth and expansion into new market segments to sustain revenue growth:** Now barely into its second year of operation, Flour Mill's Golden Sugar subsidiary ("Golden Sugar") is currently operating at about 48% of an installed capacity of 750,000 metric tonnes per annum (mt/pa), a significant milestone considering that the Nigerian sugar market was already dominated by Dangote Sugar and other medium sized players. Until recently, most of the sugar sales in Nigeria have been targeted at industrial customers and other businesses, with company management only beginning to promote its retail sales segment in Q1'15 (April to June, 2014). Following the initiation of the Nigerian Sugar Master Plan (NSMP) which banned the importation of packaged refined sugar, Golden Sugar's cubed sugar variety, which is one of the only indigenous cubed sugar varieties in the Nigerian market, could potentially become a household name in Nigeria. In addition, FLOURMILL's food segment, which is the highest contributor to its revenue (now 78% including Golden Sugar), is set on a significant growth path with the expansion of flour milling capacity in Apapa and Calabar, plus a newly commissioned 350,000 metric tonnes per annum(mt/pa) pasta factory. The expansion of the pasta business further gives Flour Mills the leeway to consolidate on its dominance of the spaghetti market. Management has further steered the company into new territory by entering the snack segment and edible oils segment of the food market with three novel snacks and the ongoing expansion of Rom Oil Mills Ltd. Taking the above into account, we foresee revenue increasing enough to negate the effects of increasing finance costs over the next five years.

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**BUY TP: ₦71.62**

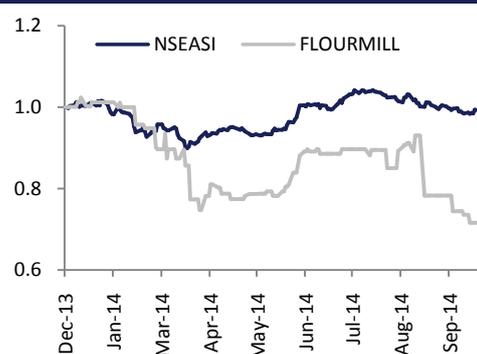
#### Stock Data

Bloomberg Ticker	FLOURMIL:NL
Market Price (₦)	61.30
Shares Outs (Mn)	2,624
Market cap (₦'Mi)	160,867

Price Performance	FLOURMIL	NSE
12-month (%)	(26.5)	12.9
6-month (%)	(9.3)	7.9
YTD (%)	(29.9)	(1.2)

Valuation	2014A	2015E	2016F
P/E (x)	31.7	27.3	22.2
P/BV (x)	1.8	1.7	1.6
Div. Yield (%)	3.3	1.9	2.2

#### FLOURMILL YTD Price Performance Vs ASI (rebased)



Source: NSE, CardinalStone Research

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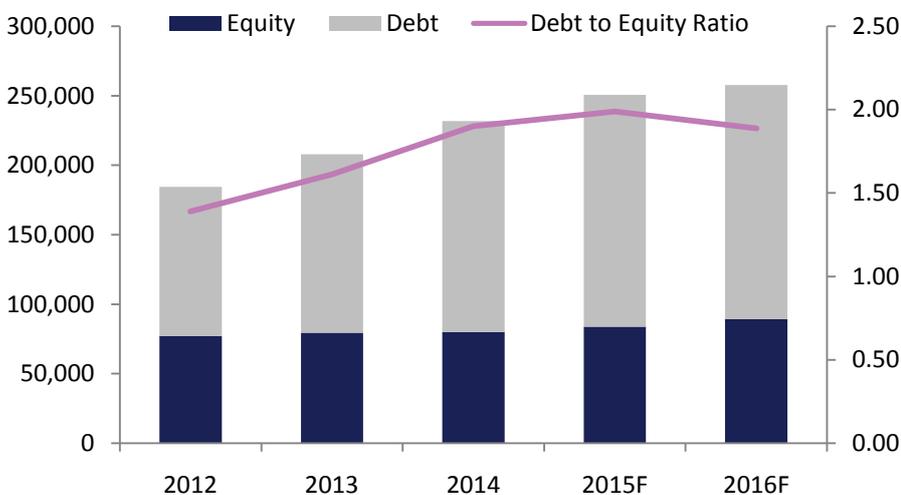
# Company Update

## Flour Mills of Nigeria Plc

**Catalyst:** If Flour Mills’ drive to grow market share in the sugar market is successful, we expect the group’s results to be largely positive and therefore spur activity in the stock. Golden Sugar already contributed 6.1% to the group’s FY’14 turnover operating at only 24% capacity and we are optimistic about its growth potential. Furthermore, given the ramp-up in FLOURMILL’s flour milling capacity in FY’14 (as a result of increasing demand in the bread and confectionery flour segments), we anticipate stronger demand and turnover growth in the rest of the fiscal year 2015. Hence, we envisage positive market reaction and buying sentiments as quarterly earnings are released.

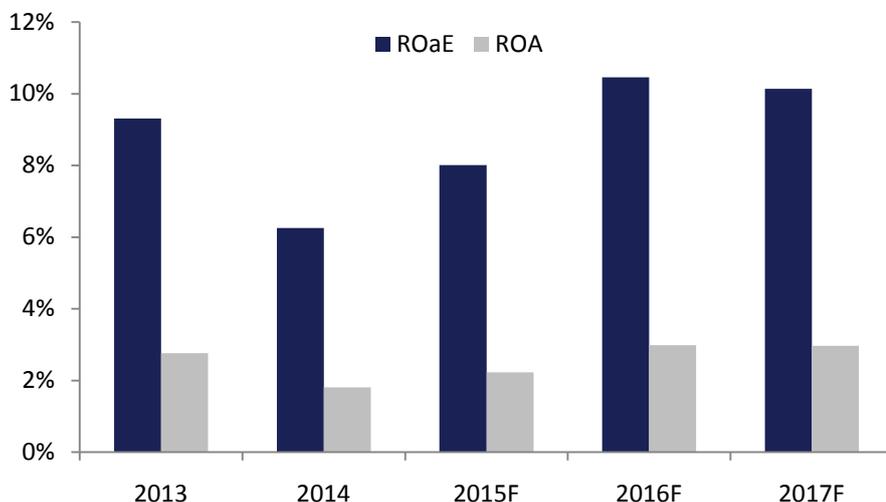
**Risks:** As highlighted in our Dangote Sugar H1’14 update (Dangote Sugar is the largest player by revenue and size in the Nigerian sugar market with up to 70% market share), the growth in demand for sugar over the next few years is projected at a modest 7% annually to 1.7 million mt/pa by 2017 from around 1.4 million mt/pa currently. This limits our upside expectation for Golden Sugar’s revenue considering the largely homogenous nature of the market for sugar making it difficult to wrestle market share from other competitors which include BUA, Josepdam, Olam Int’l and Confluence sugar, to name a few. Given ongoing expansion and investments, we also note that project completion is a key risk element as delay may impact negatively on revenue projections.

Flour Mills Nigeria Plc Interest-bearing Debt to Equity ratio



Sources: CardinalStone Research, Company Financials

Forecasted ROE and ROA Growth



Sources: CardinalStone Research, Company presentation

## Performance Review

**Strong growth in food segment drives FY'14 topline:** Flour Mills' revenue grew 10% YoY in FY'14 to ₦332.1 billion buoyed by increasing sales in its food segment. The strong growth in food revenue (18% increase YoY to ₦259.8 billion) was buoyed by the introduction of Golden Sugar to Flour Mill's business portfolio. As at March 2014, Golden Sugar refinery had been in operation for less than a year, contributing ₦20.1 billion (6.1%) to Flour Mills' revenue, and has the potential to contribute even more as the plant ramps up utilisation. According to recent information from company management, Golden Sugar has increased its capacity utilization to 50% in August from less than 24% at the end of March 2014 and this bodes well for overall revenue growth for the group. The Food business including Golden Sugar remained the largest contributor to topline by a clear margin, accounting for 78% of Flour Mills revenue in FY'14 from 73% in FY'13, while the Agro-allied business maintained its 17% contribution to turnover.

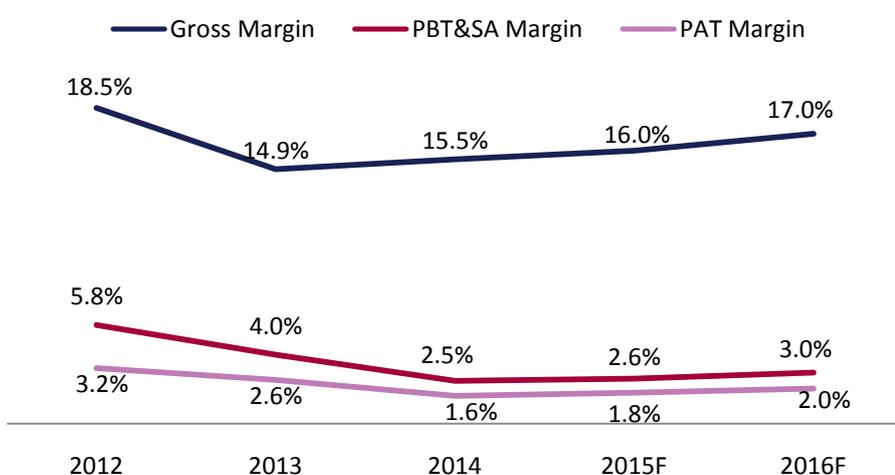
**Margins pressured by debt servicing costs and higher marketing expenses:** Although gross profit margins increased to 15.5% in FY'14 from 14.9% the previous period, an increase in selling and distribution expenses led to a decline in EBIT margins to 5.8% in FY'14 from 6.0% in FY'13. From the company's presentation, we deduce that the rise in these expenses was the result of higher marketing expenses and an expanded salesforce to promote its sugar business and other newly introduced products lines. Flour Mills group has also incurred more and more debt with interest bearing debt rising 18.5% to ₦151.9 billion and total debt rising 6.0% to ₦299.3 billion as various expansion plans were completed in FY'14. As a consequence, interest expense rose 41.2% YoY in FY'14 crashing profit before tax and share of associate profits (PBT&SA) margin to 2.5% in FY'14 from 4% the year before, with PBT&SA declining 31.9% YoY to ₦8.3 billion in FY'14

from ₦12.2 billion in FY'13. Moreover, this debt is likely to increase with company management highlighting continuous plans to vertically integrate its feed-milling business via the expansion of Kaboji Farms, and also outlining various expansion plans in the newly acquired ROM Oil Mills. Indeed, Flour Mill's management has estimated an investment of up to ₦35.0 billion for capital expansion in its various subsidiaries in this financial period.

**Revenue, EBIT dipped in Q1'15:** Flour Mills' revenue declined 5.6% YoY in Q1'15 to ₦83.9 billion, with gross profit also declining by 7.4% YoY to ₦9.7 billion. In a reduced marketing drive from last year, selling & distribution expenses declined considerably to ₦1.3 billion representing a 48.4% YoY decline. As a result, EBIT only dropped slightly by 2.1% to ₦6.7 billion from ₦6.9 billion with EBIT margin increasing to 8.1% from 7.8% in the same quarter last year.

**Thus FY and Q1 earnings came in lower:** Overall, after tax earnings for the FY came in at ₦5.4 billion, down 30.5% YoY from ₦7.7 billion in FY'13 triggering a decline in net profit margin to 1.6% from 2.6% the previous year mostly because of the losses from the newly commissioned Golden Sugar company. However, breakdown analysis by company management showed that bottomline for the group excluding Golden Sugar actually increased by 22.0% YoY to ₦9.4 billion in FY'14. This trend continued in Q1'15 (April to June 2014) as bottomline also dipped 22.3% YoY to ₦2.8 billion. Flour Mills' FY'14 EPS therefore came in at ₦1.9, down 34.9% from the ₦2.9 EPS recorded for FY'13. The considerable decline in EPS was however partly because of an exercise of share option rights after FLOURMILL's merger with Niger Mills Company Ltd and BAGCO Plc which increased its number of shares outstanding. We also note that Flour Mill's share of profit from UNICEM turned positive following consecutive full year periods of losses. In Q1'15, UNICEM contributed a profit of ₦1.3 billion to FLOURMILL's pre-tax profit representing a 600.6% YoY rise from ₦191 million in Q1'15.

FY'14 PBT and PAT Margins Analysis



Sources: CardinalStone Research, Company presentation

### Business Segment Review

#### The Food Business - New segment innovation and current capacity expansion, the theme for continued growth

The food business comprises of a number of products, and is divided into two sub-sectors; the branded consumer goods and the branded intermediate goods. The branded consumer goods consist of pasta, noodles, semovita, goldenvita, sugar, rice, edible oils, and snacks. While the branded intermediate products includes; flour, soft flour, confectionery flour, sugar, and edible oils. During the year there have been various expansion projects in the food milling/production plants including the commissioning of a new Agbara plant for the launching of FLOURMILL's novel product categories; baked snacks, powdered drinks and breakfast cereals. In FY'14, company management made a gradual push into the snack sector releasing three new products; Cheese balls, Noodles, and Golden bites chin-chin which is increasingly becoming popular. Flour Mills has the following subsidiaries under its food business;

- Northern Nigeria Flour Mills Plc (52.6% stake): NNFM is a flour milling company with capacity of 1,200MT per day. The company produces Golden Penny Flour, Golden Penny Semovita, Wheat Offlas, and a range of maize products. Revenue in NNFM declined 2.% YoY to N11.7 billion in FY'14 as the unrest and insecurity in the North impacted negatively on performance and slowed growth.
- Nigerian Eagle Flour Mills Limited (51% stake): Is a flour milling company in Oyo state with a capacity 340,000MT per year.
- Golden Pasta (100% stake): The company is involved in the production and sale of different variants of macaroni and spaghetti. Last year, the company commissioned additional long and short pasta lines in its Agbara plant to meet up with growing demand for its food products.
- Golden Noodles Company Limited (100% stake): Golden Noodles produces and sells noodles to the general public.
- Golden Sugar Company Limited (100% stake): Golden Sugar started operations in february 2013 as the company commissioned its 750,000 mtpa factory in Lagos. The company commenced with sale of industrial sugar and only began to push its retail packs towards the end of FY'14. Increasing sales from Golden Sugar, currently being operated at only 50% capacity, could impact food earnings positively contributing up to 12% of Flour Mills' turnover by 2016.

#### The Agro-allied Business – Various government incentives fuel backward integration plans

The agro-allied business covers fertilizer blending and distribution, domestic cultivation of sugarcane, soybean, maize, rice and oil palm. The company is also involved in crop processing, oil seed crushing and refining, and animal feed production. Under the agro-allied business, the company has the following subsidiaries;

- Premier Feed Mills Company Limited (62% stake): Premier Feeds is one of the major animal feed manufacturers in the country, and manufactures under its trade name TOPFEEDS. The company has a wide range of products which covers all aspects of animal feed requirements in the domestic economy.
- Kaboji Farms Limited (100% stake) – Kaboji Farms is a farming enterprise in Niger state with over 3,000 hectares of farmland which cultivates maize, soyabean, rice and cassava. FLOURMILL's have disclosed plans to increase the cultivated area further by

2,000 hectares over the next five years, entering into a technical assistance agreement with Adecoagro, a leading South American agro-industrial company, to help manage and develop Kaboji Farms.

- ROM Oil Mills Limited (90% stake) – A recently acquired subsidiary, ROM Oil is a mid-sized edible oil extraction and refining company in Ibadan. An investment of almost N13.4 billion was made in FY'14 to quadruple refining capacity thereby catering for the newly acquired 3,000 hectare oil palm plantation in Edo State called Agri Palm Ltd. It's edible oil produce will also supply FLOURMILL's noodles business and a new margarine plant to be commissioned next year. Apart from its edible oil produce, ROM Oil Mills residual produce will be converted to poultry feed and sold as another source of income
- Thai Farms International Limited (75% stake) –Thai Farms in Ogun state is involved in the processing of cassava tubers to produce high quality cassava flour.
- Golden Fertilizer (100% stake) – Golden Fertilizer is involved in fertilizer blending, distribution and supply.
- Sunti Golden Sugar Estate Ltd(100%) – The Sunti Golden Sugar estate is currently cultivating 10,000 hectares of sugarcane and rice on its 15,000 hectare land in line with FLOURMILL's backward integration plan. At optimum capacity, this estate will contribute 100,000 metric tons of raw sugar to the group's sugar refinery via its on-site mills which can process sugarcane to raw sugar.
- Agri-Farms(100%)- Agri-Farms is a 4,500 hectare rice farm in Niger, along the Niger river basin established to enhance rice production in Flour Mill's Sunti farms.

### **The Logistics and Support Business – Provides support for distribution**

Under the logistics and support business, Flour Mills provides a wide range of services including packaging, transportation, logistics, power generation, and port operations. The company has the following subsidiaries under this business;

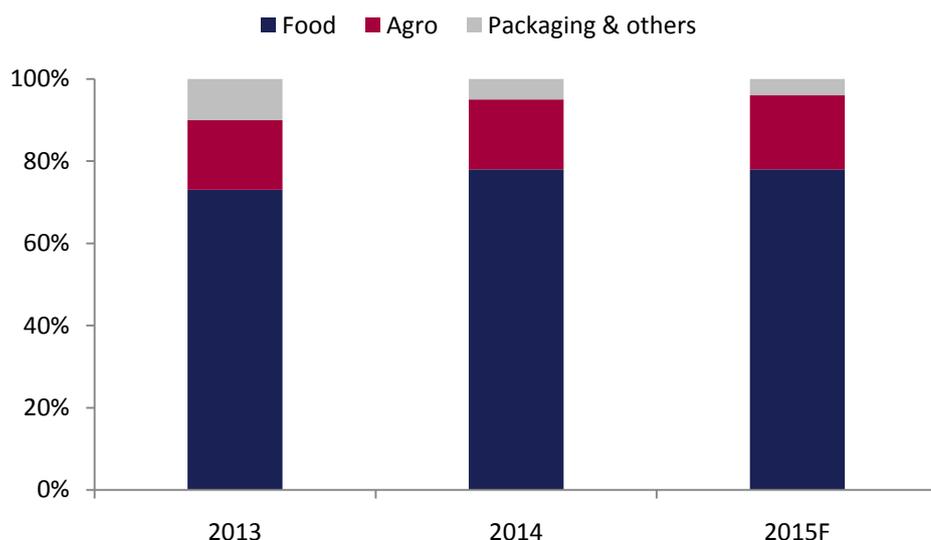
- Apapa Bulk Terminal Limited (100% stake): It was set up as an SPV to take advantage of the concession granted by the Nigerian Ports Authority/Bureau of Public Enterprises to manage and operate Terminals A and B of the Apapa Port Complete. The company offers services such as transit warehousing for export cargo, and network cargo distribution and delivery.
- Golden Transport Company Limited (100% stake): Golden Transport is a haulage and distribution company with over 380 trucks enabling efficient product delivery of Flour Mills goods to customers.
- BAGCO Division: BAGCO provides flexible packaging solutions to support the industrial and agricultural players in the economy.
- Other subsidiaries in the Logistics and Support business are, Golden Shipping Company Limited (100% stake), Flour Mills Registrars Limited (100% stake), BAGCO DIVISION(100%), IPP Power (100%) and a Real Estate business in which the company has a 100% stake.

### **Associate Company**

Flour Mills' associate company is UNICEM, a 2.5 million mt/pa integrated cement plant in which Flour Mills now has a 30% stake, up from a 28% stake in 2013, in a joint venture including Lafarge S.A (soon Lafarge Africa) and Holcim Ltd, the world's two biggest cement producers.

UNICEM recently succeeded in raising funds to build an additional 2.5 million mtpa which will raise the capacity of the cement plant to 5mtpa. Flour Mill's management is optimistic that UNICEM's expansion will boost profits for the group having contributed ₦1.3 billion to FLOURMILL's Q1'15 profits compared to a loss of ₦73.6 million at the end of FY'14.

### Contribution to revenue by business segment



Sources: CardinalStone Research, Company Financials

## Forecasts & Valuation Assumptions

### DCF Assumptions

The Discounted Cash-Flow valuation for FLOURMILL spans a period of five years and our assumptions are highlighted below;

- The major revenue drivers for Flour Mills are the recent investments to increase capacity in the different business segments. Most significant is the company's commissioning of a 750,000MT sugar refinery in Lagos which was operating at nearly 24% capacity at the end of FY'14. The plant is currently operating at about 50% capacity producing 375,000 MT of sugar. We expect the revenue from the sugar refinery to more than double from ₦20.1 billion in FY'14 to ₦49.5 billion by FY'16, and then grow at a much lower compound rate of 2.6% annually till 2019. Also, the increase in flour milling capacity will also contribute significantly to revenue growth in the 'other foods' segment (food businesses apart from Golden Sugar) over the next few years as the company just launched new products in the snacks, powdered drinks and breakfast cereals segment of the market. We estimate that the other food segments will grow up to 3.5% YoY till 2019 as Nigeria's population and middle income earners grow.

# Company Update

## Flour Mills of Nigeria Plc

- As predicted in our FY'14 report, global wheat prices have generally trended downwards since its highs in 2013. The FAO estimates that global wheat prices will continue to drop because of bigger harvests in major producing regions and the increasing use of other crops as raw materials for feeds and other edible products. We therefore expect some downtick in the company's cost of sales (as % of sales) in FY'15 as wheat prices soften, and we assume this margin will fluctuate around this level over the next few years.
- Our WACC assumptions are as detailed in the table below;

### WACC Assumptions

RFR (1year exponential average of 10 year bond)	12.4%
After tax cost of debt	8.6%
Cost of Equity	16.5%
Stock Beta (3Y daily avg.)	0.83
Debt/Equity	2.04x
Weighted Avg Cost of Capital (WACC)	11.2%
LT growth rate	3.0%

Source: CardinalStone Research

### Valuation

Our weighted average DCF and P/E valuation for Dangote Sugar gives a revised TP of **₦71.62** (Previous: **₦97.62**), which implies a **16.8% upside** potential from current price of **₦61.30**. We therefore maintain a **BUY** recommendation on FLOURMILL. On our revised numbers, Flour Mills is trading at a trailing and forward P/E of 31.7x and 27.3x compared to industry average of 17.5x and 18.7x respectively.

Valuation - Enterprise Value DCF	(N'mn)				
	2015F	2016F	2017F	2018F	2019F
EBIT	23,683	28,343	30,731	31,773	33,058
Tax charge	-7,342	-8,786	-9,526	-9,850	-10,248
NOPAT	16,342	19,557	21,204	21,924	22,810
Less: Capex	-25,808	-19,540	-16,388	-12,762	-8,803
Add: Depreciation	8,393	8,783	9,830	10,340	10,516
+/- Decrease/Increase in OpWC	-5,712	-2,322	-2,340	-1,898	-1,726
Operating FCF	9,555	26,035	33,510	39,528	45,608
Discount factor	0.9479	0.8516	0.7651	0.6874	0.6176
Present Value of OpFCF	9,057	22,171	25,638	27,171	28,166
<b>Terminal Value</b>					
<b>Operating FCF</b>					565,630
Discount factor					0.6176
Present Value of OpFCF					349,314
<b>EV</b>					461,516
Less: Net debt					-141,635
Staff gratuities					-3,903
Minorities					-4,176
<b>Equity Value (Market cap)</b>					311,802
Price/Share					118.82
1 Yr TP (₦)					132.25

# Company Update

## Flour Mills of Nigeria Plc

### PE Valuation

PE (5YR. Daily AVG.)	20
FY'15 EPS	2.25
FY'15 TP	45.64

Weighted TP (FY'15)	71.62
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## Emerging Market Comparables Valuation

Name	Country	Mkt Cap \$' mn	EBITDA Mrgn	EV/EBITDA T12M	P/E Curr Yr	Est P/E Fwd
<b>FLOUR MILLS NIGERIA PLC</b>	<b>Nigeria</b>	<b>993</b>	<b>9.2</b>	<b>n/a</b>	<b>31.7</b>	<b>27.3</b>
DANGOTE FLOUR MILLS PLC	Nigeria	210	11.3	n/a	n/a	n/a
AGTHIA GROUP PJSC	United Arab Emirates	1,063	14.7	16.4	21.9	18.5
ZAD HOLDING CO	Qatar	318	n/a	n/a	10.7	n/a
OMAN FLOUR MILLS	Oman	257	n/a	10.1	14.0	n/a
SALALAH MILLS CO	Oman	188	n/a	n/a	12.4	n/a
TONGAAT HULETT LTD	South Africa	1,872	18.7	9.4	15.7	12.4
AFGRI LTD	South Africa	179	5.3	7.3	n/a	n/a
HONEYWELL FLOUR	Nigeria	194	10.9	11.7	9.5	7.2

Sources: CardinalStone Research, Bloomberg

### Financial Statements (N'Mn)

Income Statement (N'Mn)	2012	2013	2014	2015E	2016F	2017F
Revenue	258,268	301,941	332,143	368,691	390,810	409,700
Cost of Sales	(210,442)	(256,886)	(280,667)	(309,700)	(324,372)	(340,051)
<b>Gross Profit</b>	<b>47,826</b>	<b>45,055</b>	<b>51,476</b>	<b>58,991</b>	<b>66,438</b>	<b>69,649</b>
Sell.Distri. And Admin Expenses	(21,182)	(25,271)	(27,974)	(30,601)	(32,437)	(34,005)
<b>EBITDA</b>	<b>26,644</b>	<b>19,784</b>	<b>23,502</b>	<b>28,389</b>	<b>34,000</b>	<b>35,644</b>
Depreciation	(8,260)	(7,045)	(8,001)	(8,393)	(8,783)	(9,830)
<b>EBIT/Operating profit</b>	<b>21,215</b>	<b>18,146</b>	<b>19,375</b>	<b>23,683</b>	<b>28,343</b>	<b>30,731</b>
Interest Expense/Income	(6,299)	(5,943)	(11,074)	(13,960)	(16,688)	(18,183)
<b>Pre-tax earnings</b>	<b>12,049</b>	<b>11,165</b>	<b>8,228</b>	<b>9,650</b>	<b>11,582</b>	<b>12,474</b>
Taxation	(3,672)	(3,439)	(2,860)	(2,992)	(3,590)	(3,867)
<b>Profit after tax</b>	<b>8,377</b>	<b>7,727</b>	<b>5,368</b>	<b>6,659</b>	<b>7,991</b>	<b>8,607</b>
Minority Interest	(674)	(794)	(756)	(756)	(756)	(756)
<b>Profit Att. to Owners</b>	<b>7,703</b>	<b>6,933</b>	<b>4,612</b>	<b>5,903</b>	<b>7,236</b>	<b>7,851</b>
Statement of Financial Position (N'Mn)	2012	2013	2014	2015E	2016F	2017F
<b>Assets</b>						
Fixed Assets	103,744	141,078	169,288	186,703	197,460	204,018
Other Long Term Assets	21,758	28,886	27,118	27,118	27,118	27,118
Inventories	50,565	65,650	63,684	70,425	73,761	77,327
Trade Debtors	8,173	19,314	14,647	16,162	17,131	17,959
Bank and Cash Balances	26,239	21,837	16,825	4,903	3,855	1,345
Other current assets	22,378	3,371	5,687	6,206	6,569	6,880
<b>Total Assets</b>	<b>232,858</b>	<b>280,138</b>	<b>297,249</b>	<b>311,517</b>	<b>325,895</b>	<b>334,647</b>
<b>Liabilities</b>						
Trade Creditors	8,668	45,454	38,116	42,425	44,435	46,582
Bank overdrafts	33,643	53,878	48,750	20,000	20,000	20,000
Term Loans (current portion)	7,328	0	27,693	73,642	96,876	97,583
Amount due to related companies	0	46	34	38	40	42
Other Current Liabilities	25,183	15,132	14,065	18,875	2,726	2,940
Term loans (non-current portion)	28,833	39,863	48,614	48,614	48,614	48,614
Retirement Benefit Obligation	3,822	4,267	3,673	3,903	4,146	4,394
Deferred taxation	9,288	10,945	11,806	11,806	11,806	11,806
Other Non-current liabilities	33,750	28,068	20,938	4,454	4,453	4,453
<b>Total Liabilities</b>	<b>150,517</b>	<b>197,652</b>	<b>213,690</b>	<b>223,757</b>	<b>233,096</b>	<b>236,415</b>
<b>Capital and Reserves</b>						
Share capital	1,167	1,193	1,193	1,193	1,193	1,193
Share Premium	33,526	36,813	36,813	36,813	36,813	36,813
Retained Earnings	32,816	41,284	41,636	45,298	49,694	54,427
Other component of equity	14,832	3,196	3,918	4,457	5,100	5,799
<b>Shareholders' funds</b>	<b>82,341</b>	<b>79,570</b>	<b>79,923</b>	<b>83,585</b>	<b>87,980</b>	<b>92,714</b>
<b>Total liabilities and equity</b>	<b>237,999</b>	<b>280,137</b>	<b>297,249</b>	<b>311,517</b>	<b>325,895</b>	<b>334,647</b>

Sources: CardinalStone Research, Company Financials

### Financial Statements (\$'Mn)

Income Statement (N\$'Mn)	2012	2013	2014	2015E	2016F	2017F
Revenue	1,658	1,939	2,133	2,367	2,509	2,630
Cost of Sales	(1,351)	(1,649)	(1,802)	(1,988)	(2,083)	(2,183)
<b>Gross Profit</b>	307	289	331	379	427	447
Sell. Distri. And Admin Expenses	(136)	(162)	(180)	(196)	(208)	(218)
<b>EBITDA</b>	171	127	151	182	218	229
Depreciation	(53)	(45)	(51)	(54)	(56)	(63)
<b>EBIT/Operating profit</b>	136	117	124	152	182	197
Interest Expense/Income	(40)	(38)	(71)	(90)	(107)	(117)
<b>Pre-tax earnings</b>	77	72	53	62	74	80
Taxation	(24)	(22)	(18)	(19)	(23)	(25)
<b>Profit after tax</b>	54	50	34	43	51	55
Minority Interest	(4)	(5)	(5)	(5)	(5)	(5)
<b>Profit Att. to Owners</b>	49	45	30	38	46	50
Statement of Financial Position (\$'Mn)	2012	2013	2014	2015E	2016F	2017F
<b>Assets</b>						
Fixed Assets	666	906	1,087	1,199	1,268	1,310
Other Long Term Assets	140	185	174	174	174	174
Inventories	325	422	409	452	474	496
Trade Debtors	52	124	94	104	110	115
Bank and Cash Balances	168	140	108	31	25	9
Other current assets	144	22	37	40	42	44
<b>Total Assets</b>	1,495	1,799	1,909	2,000	2,092	2,149
<b>Liabilities</b>						
Trade Creditors	56	292	245	272	285	299
Bank overdrafts	216	346	313	128	128	128
Term Loans (current portion)	47	0	178	473	622	627
Amount due to related companies	0	0	0	0	0	0
Dividend payable	162	97	90	121	18	19
Term loans	185	256	312	312	312	312
Retirement Benefit Obligation	25	27	24	25	27	28
Deferred taxation	60	70	76	76	76	76
Other Non-current liabilities	217	180	134	29	29	29
<b>Total Liabilities</b>	966	1,269	1,372	1,437	1,497	1,518
<b>Capital and Reserves</b>						
Share capital	7	8	8	8	8	8
Share Premium	215	236	236	236	236	236
Retained Earnings	211	265	267	291	319	349
Other component of equity	95	21	25	29	33	37
<b>Shareholders' funds</b>	529	511	513	537	565	595
<b>Total liabilities and equity</b>	1,528	1,799	1,909	2,000	2,092	2,149

Sources: CardinalStone Research, Company Financials

### Key Ratios

Key Ratios	2012	2013	2014	2015E	2016F	2017F
<b>Profitability</b>						
Return on Average Equity	12.66%	9.31%	6.27%	7.55%	8.59%	8.74%
Return on Average Assets	3.60%	2.76%	1.81%	2.14%	2.45%	2.57%
EBITDA Margin	10.32%	6.55%	7.08%	7.70%	8.70%	8.70%
EBIT Margin	8.21%	6.01%	5.83%	6.42%	7.25%	7.50%
Pretax Profit Margin	5.78%	4.04%	2.50%	2.64%	2.98%	3.06%
Net Profit Margin	3.24%	2.56%	1.62%	1.81%	2.04%	2.10%
<b>Valuation Multiples</b>						
P/E (x)	18.58	20.64	31.71	27.25	22.23	20.49
P/B (x)	1.78	1.77	1.75	1.67	1.58	1.49
Dividend Yield (%)	2.61%	3.26%	3.35%	1.86%	2.24%	2.41%
EV/EBITDA (x)	5.08	6.84	5.76	4.76	3.98	3.79

Sources: CardinalStone Research, Company Financials

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**Sell** < 0.00% expected share price performance

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# Company Update

## Flour Mills of Nigeria Plc

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Company	Disclosure
FLOUR MILLS OF NIGERIA PLC	

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