FLOUR MILLS OF NIGERIA PLC

....Blistering Operating Profit Amid Operating Challenges

March 12, 2024 *Earnings Note*

Event

Flour Mills Nigeria Plc (‘the Group’) demonstrated remarkable growth in both revenue and operating profit in Q3 2024, despite facing headwinds such as elevated input costs and FX volatility. Management attributed this performance to volume growth in the quarter which complemented the pricing implemented across its business segments.

All segment reported double digit growth as the Group’s total revenue skyrocketed by 51% to N594.55 billion in Q3 2024 (Q3 2023: N393.39 billion). Notably, the Food segment experienced a remarkable 39% year-on-year growth, the Agro-Allied segment surged by 43% year-on-year, the Sugar segment increased by 115% year-on-year, and the Support segment grew by 36% year-on-year. In our view, this revenue uptick underscores the positive impact of the Group’s focus on B2C expansion and route-to market expansion.

The management also emphasised improvements in material cost optimisation, particularly in the Food segment. This resulted in a 31% increase in cost of sales which remained significantly below the revenue growth. Ultimately, the Group reported a remarkable surge in gross profit, escalating by 263% to N125.15 billion (Q3 2023: N34.44 billion), thereby gross margin expanded by 1200 basis points to 21% (Q3 2023: 9%).

Despite a notable 10% surge in operating expenses, totaling N20.01 billion in Q3 2024 (Q3 2023: N18.25 billion), the Group achieved an exceptional 549% increase in its operating profit, amounting to N105.13 billion (Q3 2023: N16.20 billion). This significant upsurge is due to the robust gross profit in the quarter.

The Group witnessed a simultaneous rise in finance expenses (24% year-on-year) and finance income (646% year-on-year), driven by the sustained high interest rates. This led to a 17% rise in net loss, reaching N17.59 billion (Q3 2023: N15.02 billion). Furthermore, the Group reported an FX loss of N76.99 billion in Q3 2024 (Q3 2023: N4.28 billion), as FX volatility persisted during the quarter.

Despite the impact of these costs on profitability, the Group sustained growth in its bottomline, as it reported a 103% net profit growth to N8.78 billion (Q3 2023: N4.32 billion).

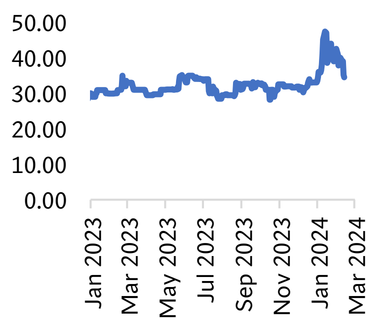
HOLD

Fair Value: N36.36

Total Return: +11%

Stock Data	
Current price (N)	33.55
Shares Outstanding (mn)	4,100
Market Cap (N'mn)	137,555
52-week high (N)	48.50
52-week low (N)	28.15
Trailing EPS (N)	7.25
Forward EPS (N)	0.43
Forward PE (X)	78.56
Justified PE Multiple (X)	85.15

Price Movement



Stock Data	FY 2022	FY 2023	FY 2024F
P/E	5.36x	4.63x	78.56x
P/BV	0.70x	0.61x	0.62x
PBT Margin	4%	3%	0%
PAT Margin	2%	2%	0%
RoE	15%	14%	1%
Dividend Yield	6%	7%	3%

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Q3 2024 Performance

Income Statement (N'mn)	Q3 2024	Q3 2023	Growth (%)
Revenue	**594,553**	**393,393**	**51%**
Cost of sales	(469,407)	(358,951)	31%
Gross profit	**125,146**	**34,442**	**263%**
Selling and distribution expense	(6,910)	(5,396)	28%
Administrative expense	(13,104)	(12,851)	2%
Operating expense	**(20,014)**	**(18,246)**	**10%**
Operating profit	**105,132**	**16,196**	**549%**
Non-operating profit/(loss)	**(96,615)**	**(9,626)**	**904%**
Impairment	(2,039)	1,108	-284%
Operating (losses) and gains	(76,987)	4,282	-1898%
Finance income	1,237	166	646%
Finance costs	(18,826)	(15,182)	24%
PBT	**8,517**	**6,569**	**30%**
Income tax	262	(2,251)	-112%
PAT	**8,779**	**4,318**	**103%**

Source: Company Accounts, Research

Outlook

We expect further price increases to be taken in order to protect margins amid rising input costs, while the Group's commitment to expanding its route-to-market also continues to bear fruit. However, the significant impact of FX losses on the Group's profitability is expected to continue for the rest of the fiscal year. Considering the FX losses incurred by the Group in Q3 2023, we lowered our net profit projection for the Group. We now expect a net profit of N1.75 billion for FY 2024 (previously: N7.02 billion).

We maintain our HOLD recommendation for the stock, the Group's improved operating profit propelled a review of our fair value to N36.36 (previously: N35.45). At the current price of N33.55, the stock offers a total return of 11% to our fair value, inclusive of a dividend yield of 3%.

9M 2024 Performance

Income Statement (N'mn)	9M 2024	9M 2023	Growth (%)
Revenue	**1,559,201**	**1,113,969**	**40%**
Cost of sales	(1,328,543)	(1,010,740)	31%
Gross profit	**230,658**	**103,229**	**123%**
Selling and distribution expense	(18,687)	(13,334)	40%
Administrative expense	(38,294)	(30,940)	24%
Operating expense	**(56,981)**	**(44,275)**	**29%**
Operating profit	**173,676**	**58,954**	**195%**
Non-operating profit/(loss)	**(173,296)**	**(44,002)**	**294%**
Impairment	(2,422)	653	-471%
Operating (losses) and gains	(120,451)	(7,695)	1465%
Finance income	3,008	544	453%
Finance costs	(53,431)	(37,503)	42%
PBT	**380**	**14,952**	**-97%**
Income tax	(122)	(4,934)	-98%
PAT	**258**	**10,018**	**-97%**
Balance Sheet (N'mn)	**9M 2024**	**9M 2023**	**Growth (%)**
Assets			
PPE	334,224	339,509	-2%
Inventory	430,824	328,344	31%
Receivables	76,337	46,297	65%
Prepayment	273,143	149,636	83%
Cash	170,010	73,998	130%
Others	50,543	33,961	49%
Total Assets	**1,335,082**	**971,745**	**37%**
Borrowings	494,812	337,868	46%
Payables	463,256	303,984	52%
Others	160,510	131,466	22%
Total Liabilities	**1,118,578**	**773,319**	**45%**
Net Assets	**216,504**	**198,427**	**9%**

Source: Company Accounts, WSTC Research

Financial Projections

Income statement (NGN mn)	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Revenue	1,539,655	2,071,003	2,340,233	2,527,452	2,704,374	2,839,592	2,953,176
EBITDA	146,997	266,856	182,669	187,722	149,034	180,493	199,150
EBIT	119,582	242,923	153,753	156,746	149,034	180,493	199,150
Profit before taxation (PBT)	42,752	2,555	13,939	36,283	17,752	66,371	89,241
Net profit (PAT)	29,504	1,738	9,479	24,672	12,071	45,132	60,684
EPS (₦)	7.25	0.43	2.33	6.06	2.97	11.09	14.91
DPS (₦)	2.25	0.13	0.79	2.06	1.01	3.77	5.07
Balance sheet (NGN mn)	**FY 2023**	**FY 2024F**	**FY 2025F**	**FY 2026F**	**FY 2027F**	**FY 2028F**	**FY 2029F**
Current assets	710,286	945,198	833,897	797,073	812,716	862,721	843,918
Non-current assets	387,111	387,202	397,368	405,315	416,040	427,851	445,678
Total assets	1,097,396	1,332,400	1,231,266	1,202,387	1,228,756	1,290,572	1,289,595
Current liabilities	584,091	794,693	691,984	646,733	679,272	730,573	720,026
Non-current liabilities	288,080	319,957	312,522	307,280	297,397	266,568	230,448
Shareholders' equity	225,225	217,750	226,759	248,375	252,086	293,431	339,121
Book value per share (₦)	54.93	53.10	55.30	60.57	61.48	71.56	82.70
Cash flow statement (NGN mn)	**FY 2023**	**FY 2024F**	**FY 2025F**	**FY 2026F**	**FY 2027F**	**FY 2028F**	**FY 2029F**
Cash from operating activities	98,929	31,770	104,898	102,937	85,256	138,537	178,135
Cash from investing activities	(185,128)	(20,251)	(34,755)	(35,165)	(39,181)	(40,772)	(48,059)
Cash from financing activities	129,229	41,075	(140,000)	(106,219)	(71,379)	(88,388)	(103,392)
Net increase/ (decrease) in cash	43,031	52,593	(69,856)	(38,447)	(25,304)	9,377	26,685
Free cash flow to equity	100,884	63,224	(68,960)	(33,901)	(15,666)	15,312	44,138
Ratio analysis	**FY 2023**	**FY 2024F**	**FY 2025F**	**FY 2026F**	**FY 2027F**	**FY 2028F**	**FY 2029F**
EBITDA margin	10%	13%	8%	7%	6%	6%	7%
Operating margin	8%	12%	7%	6%	6%	6%	7%
ROE	14%	1%	4%	10%	5%	17%	19%
ROA	3%	0%	1%	2%	1%	4%	5%
Dividend payout ratio (%)	31%	31%	34%	34%	34%	34%	34%

Source: Company Accounts, WSTC Research

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