

Research Note Flour Mills of Nigeria Plc H1 2012 Results

01 November, 2011

- Flour Mills of Nigeria Plc (Flour Mills) recently released its unaudited financial results for the second guarter ended 30 September 2011, with a 20.2% increase in turnover from N89.5bn in Q2 2011 to N107.6bn. PBT however declined by 3.5% from N8.9bn to N8.6bn, while PAT remained relatively flat at N5.9bn. Pre and post tax margins also dipped by 190bps and 100bps to 8.0% and 5.5% respectively. Quarter-on-quarter (q-o-q), the company posted an impressive 34.4% increase in turnover from N45.9bn to N61.7bn. PBT and PAT also grew by 68.1% and 58.3% from N3.2bn to N5.4bn and N2.3bn to N3.6bn respectively.
- These results were broadly in line with our unannualized FYE 2012 profit estimates. Although turnover was 12.8% short of our N123.4bn estimate. PBT and PAT beat our N8.5bn and N5.8bn forecasts by 1.4% and 2.3% respectively. A relative decline in international wheat prices q-o-q presumably reduced the strain on the company's cost profile, thus explaining the marginal 3.5% drop in pre-tax profits (compared to a 33.5% dip in PBT in Q1 2012). Flour Mills recently received shareholders' approval to raise N28.3bn via a rights issue. Proceeds from the issue are expected to further drive the company's expansion plans, especially in the food and agro-allied sectors (edible oils, cereals, animal feed and mills for flour and its high margin products - Semolina and Pasta). These projects are expected to be completed and commissioned in 2012 and we anticipate a positive impact on revenues and profits in the medium to long term.
- Flour Mills currently trades at a trailing P/E of 7.3x earnings based on an EPS of N8.58 and current market price of N63.01 (as at October 31, 2011). This is a discount to its peer average trailing P/E of 13.3x. We believe that Flour Mills has prospects for growth, particularly in its high margin products, and restate our positive long-term outlook on the stock. Therefore, we place an ACCUMULATE recommendation on the stock, having established a target price of N70.20 based on a blend of valuation methodologies, which implies an 11.4% upside potential to its current price.



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Table: Flour Mills of Nigeria Plc; H1A 2012, H1A 2011, H1E 2012

FLOUR MILLS OF NIGERIA PLC	30-Sep-11	30-Sep-10	% change	Analyst's Forecast	% of Forecast
	N'000	N'000		N'000	
TURNOVER	N107,600,000	N89,500,000	20.2%	N123,411,650	87.2%
PBT	N8,580,000	N8,890,000	-3.5%	N8,464,630	101.4%
TAX	(N2,640,000)	(N3,050,000)		(N2,697,230)	
PAT	N5,900,000	N5,850,000	0.9%	N5,767,400	102.3%
PBT MARGIN	8.0%	9.9%		6.9%	
PAT MARGIN	5.5%	6.5%		4.7%	

Source: NSE, Afrinvest Research

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