

Flour Mills of Nigeria Plc

₦4.89 billion 5-Year 5.5% Series 4 (Tranche A) Fixed Rate Senior Unsecured Bond Due 2025 and
₦25 billion 7-Year 6.25% Series 4 (Tranche B) Fixed Rate Senior Unsecured Bond Due 2027
under the ₦70 billion Bond Issuance Programme

2020 Bond Final Rating Report



Research, Credit Ratings, Credit Risk Management

Flour Mills of Nigeria Plc

₦4.89 Billion Five-Year 5.5% Series 4 (Tranche A) Fixed Rate Senior Unsecured Bond Due 2025 and ₦25 Billion Seven-Year 6.25% Series 4 (Tranche B) Fixed Rate Senior Unsecured Bond Due 2027 Under the ₦70 Billion Debt Issuance Programme

Issue Rating:

A-

Good quality debt issue with low to moderate credit risk; strong capacity to pay returns and principal on local currency debt in a timely manner.

Outlook: Stable

Issue Date: 7 January 2021

Expiry Date: 30 September 2021
(The rating is subject to annual renewals)

Issuer's Rating: A-

Expiry Date: 30 September 2021

Industry: Food & Agro-Allied

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RATING RATIONALE

- Agusto & Co. hereby assigns an “A-” rating to Flour Mills of Nigeria Plc.’s (‘Flour Mills’, ‘FMN’ ‘Issuer’ or ‘the Company’) ₦4.89 billion 5-Year 5.5% Series 4 (‘Tranche A’) Fixed Rate Senior Unsecured Bond Due 2025 and ₦25 billion 7-Year 6.25% Series 4 (‘Tranche B’) Fixed Rate Senior Unsecured Bond Due 2027 under the ₦70 Billion Bond Issuance Programme. The rating assigned to the Series 4 (Tranche A & B) issuance mirrors the standalone rating of the Issuer, as the Bonds are senior unsecured and ranks pari passu with other senior debt of the Company. Agusto & Co. has assigned Flour Mills of Nigeria Plc. an “A-” rating, which expires 30 September 2021.
- The Company raised ₦29.89 Billion in aggregate sum under the Series 4 Bonds in October 2020. The Series 4 (Tranche A & B) Bonds (“the Bonds”) attracted fixed coupon rates determined through a book-building process and payable semi-annually over the 5-year and 7-year tenors respectively. The principal of the Bonds will be redeemed in lump sum at maturity in 2025 and 2027 respectively. The net proceeds of the Bonds will be used to refinance existing debt obligations of the Company.
- The Series 4 (Tranche A & B) Bonds are direct, senior, unsecured and unsubordinated obligations of the Issuer and shall rank *pari passu* with all other unsecured and unsubordinated obligations of the Issuer. In accordance with the Bond Trust Deeds and Pricing Supplements, the Issuer unconditionally and irrevocably pledges to repay the coupon and outstanding principal amount from its operating cash flow.
- In line with the Series 4 (Tranche A & B) Bond Trust Deed, a payment account shall be opened by the Issuer in the name of the Bond Trustees – United Capital Trustees Limited after the issue date. The payment account shall be under the custody and administration of the Trustees for the benefit of the Series 4 (Tranche A & B) Bondholders. The Issuer shall ensure that funds required to meet any of its payment obligations under the Trust Deed shall be paid into the payment account not later than five business days before the next coupon payment or the redemption date.

For more comprehensive information on the Entity, please refer to the credit rating report of Flour Mills of Nigeria Plc

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FMN Plc. ₦4.89 billion Five-year 5.5% Series 4 (Tranche A) Fixed Rate Senior Unsecured Bond Due 2025 & ₦25 billion Seven -Year 6.25% Series 4 (Tranche B) Fixed Rate Senior Unsecured Bond Due 2027

TRANSACTION PARTIES

Issuer:

Flour Mills of Nigeria Plc.

Lead Issuing House/Book Runner:

FCMB Capital Markets Limited

Joint Issuing Houses/Book Runners:

ARM Securities Limited
Cardinalstone Partners Limited
Coronation Merchant Bank Limited
FBNQuest Merchant Bank Limited
Stanbic IBTC Capital Limited
Quantum Zenith Capital & Investments Limited

Bond Trustee:

United Capital Trustees Limited

Solicitors to the Programme:

The New Practice (TNP)

Legal Adviser to the Trustee:

Udo Udoma & Belo-Osagie

Registrars:

Atlas Registrars Limited

Receiving Banks:

Access Bank Plc.
First Bank of Nigeria Limited
First City Monument Bank Limited

KEY TRANSACTION STRUCTURE

Bond Tenor:

7-year and 5-year, with semi-annual payment of coupon and bullet repayment of principal

Repayment Option:

Bullet lump sum

Bond Status:

Direct, unconditional, senior unsecured and obligation of the Issuer and shall at all times rank *pari passu* without any preference to among themselves. The payment obligations of the Issuer under the Bonds and in respect of the principal and any interest thereon, shall at all times rank at least equally with all other senior and unsecured obligations of the Issuer present and future, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights

Use of Bond Proceeds:

The net proceeds will be used by the Issuer to refinance existing short term debt obligations.

- Flour Mills of Nigeria Plc. is one of the largest integrated food companies listed on the Nigerian Stock Exchange. FMN is the largest flour miller in the country, with a milling capacity of *circa* 3 million metric tonnes per annum. During the financial year ended 31 March 2020, Flour Mills' financial condition was characterised by significant improvement in its leverage metrics, good cash flow, good profitability and qualified and experienced management team. The rating recognises FMN's market leadership in the flour milling industry, wide and diversified product portfolio, extensive distribution channels, strong brands as well as significant investment in backward integration programmes.
- The Company's financial condition is tempered by its long-term funding mismatch, (which is being addressed with the Bond issuance), negative macroeconomic headwinds and shrinking consumer wallets, worsened by the adverse impact of the Coronavirus pandemic (COVID-19) on businesses and households.
- Flour Mills' strategic focus is to continue to feed the nation while improving product quality and service delivery. The Company's growth plan is hinged on accelerating its Business to Consumer (B2C) segment by investing in its marketing reach, while ensuring the product offerings are targeted at the key consumer segments. Management is strategically expanding its product offerings in the value consumer segment to gain traction and aid business growth in the near term. To this end, FMN launched new pasta and semolina under the 'Auntie B' brand name in March 2020 targeted at price-sensitive consumers. Agusto & Co. believes that this move should help to cushion the effect of the contraction in consumer disposable income on the Company's performance.
- Furthermore, the Issuer has revamped its route-to-market strategy improving its distribution model to include regional depots in a bid to drive product penetration in both urban and rural areas, as well as ensure prompt product delivery. FMN also expanded its distribution channels to aggressively drive volumes across its product lines. Whilst we note that the impact of Covid-19 pandemic on the food industry is somewhat mild, Agusto & Co. is of the view that operators with wide product portfolio, diversified investments and increasing financial flexibility as well as access to the capital market provide headroom for growth in the near term.
- Based on Agusto & Co.'s review of the Issuer's financial forecast over the duration of the Series 4 (Tranche A & B) Bonds, we believe that the sensitised cumulative operating cash flow is sufficient to cover total interest payment and total debt obligations 3.39 times and 2.3 times respectively over the tenor of the Issues. In our opinion, the Issuer has good capacity to meet the obligations on the Bonds as and when due.
- Based on the aforementioned, Agusto & Co. hereby assigns a **stable** outlook to the Series 4 (Tranche A & B) Bonds.

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Source of Repayment:

Operating cash flow of Flour Mills of Nigeria Plc.

Payment Account:

The Bond Trustee shall establish the Payment Account no later than 5 (five) Business Days after the Issue Date which shall be in the name and under the custody and administration of the Trustee.

Figure 1: Strengths, Weaknesses, Opportunities and Threats

Strengths

- Market leadership in the flour milling industry
- Strategic investment in backward integration programmes
- Strong brand name in the food industry
- Well diversified product offering
- Good cash flow
- Qualified and experienced management team

Weaknesses

- Shrinking margins
- Long term financing need

Opportunities

- Nigeria's large and growing population
- High consumption of staple foods in Nigeria
- Export potentials to neighbouring African countries following Nigeria's participation in the African Continental Free Trade Agreement (AfCFTA)

Threats

- Shrinking consumer wallets
- Weak macroeconomic climate
- Intense competition in the industry
- Susceptible to foreign exchange risks given the importation of some of its key raw materials.

ISSUER'S PROFILE

Overview

Flour Mills of Nigeria Plc. was incorporated as a private limited liability company in September 1960. The Company commissioned Nigeria's first flour mill in Apapa, Lagos with a grinding capacity of 500 metric tonnes of wheat per day in 1962. In 1978, FMN became a public limited liability company and listed its shares on the Nigerian Stock Exchange. The Company has grown to become Nigeria's largest flour milling company, with an installed milling capacity of circa (c.) 3 million metric tonnes per annum.

In the Company's 60-year-history, Flour Mills has remained the market leader in grain-based food ingredients, as Nigerians have a strong affinity for FMN products. Flour Mills is a fully integrated food company which utilises its investments in the agro-allied space to source some raw materials locally. The Company's principal business activities include flour milling, production of pasta, noodles, semolina and wheat meal. Flour Mills is also engaged in the manufacturing & marketing of laminated woven polypropylene and flexible packaging as well as bagging. FMN's subsidiaries are also engaged in primary agricultural ventures such as cassava farming, oil palm and other agro-allied activities.

As part of backward integration initiatives, Flour Mills' commissioned a ₦50 billion Sunti Golden Sugar Estate located on the banks of River Niger, in Mokwa, Niger State in March 2018. The Sugar Estate is owned by Sunti Golden Sugar Estates (SGSE) Ltd., a subsidiary of Flour Mills of Nigeria Plc. The Sugar Estate has over 15,000 hectares of irrigable farmland and a sugar milling capacity of 4,500 metric tons of sugarcane per day. At full capacity, the estate is expected to produce 1 million tons of sugarcane which translate into 100,000 metric tons of sugar yearly. The Sugar Estate has a production facility area of 15,100 hectares and a sugar cane cultivated area of 10,000 hectares. Sunti Golden Sugar Estate is enclosed within a 35-kilometer dyke which protects it from the River Niger and enables efficient cultivation of sugarcane, with infrastructure that includes drain pumps, pump stations and a power grid. In June 2018, FMN entered a strategic partnership with Corteva Agriscience™, Agriculture Division of DowDuPont for the development of hybrid maize seeds in Nigeria. The collaboration will allow the Company and Corteva Agriscience™ work together on key aspects of the maize value chain in Nigeria, with a focus on promoting modern farming techniques and practices, capacity development and knowledge transfer for the local production and use of improved and quality inputs, including seeds and crop protection. This partnership is expected to improve maize cultivation for use across FMN's operations.

During the year under review, the Company consolidated its investments in farms and rebranded the agro-allied companies. As a result, FMN changed the names of these agro-allied subsidiaries to compete favourably in the Nigerian Agri-business space, in addition to a more enhanced route-to-market strategy, improved packaging, and renewed marketing campaigns. This is in line with Flour Mills backward integration strategy to source raw materials locally while investing across the food value chain.

Flour Mills of Nigeria Plc. has a well-diversified product portfolio. The Company's range of flour and associated products include its flagship *Golden Penny Flour*, *Soft Biscuit Flour*, *Semovita*, *Goldenvita*, *Pasta Semolina* and *Noodle Flour*. The Golden Penny brand has grown to include *Golden Penny Pure Soya Oil*, *Golden Penny Pure Vegetable Oil*, *Golden Penny Margarine* and *Golden Penny Spread*. Other products include offals and pellets for

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animal feeds. FMN utilises a wide network of distributors spread across the Country. The Company has a strong brand equity and enjoys good patronage among Nigerian consumers.

Other Information

As at 31 March 2020, Flour Mills' total assets stood at ₦314.3 billion (2019: ₦314 billion), its shareholders' fund was ₦146.3 billion while its total liabilities stood at ₦167.9 billion. FMN generated turnover of ₦394.8 billion and recorded a profit after tax of ₦12.6 billion during the financial year ended 31 March 2020. FMN had an average staff strength of 3,680 employees (2019: 3,566 persons) in the period under review.

TRANSACTION STRUCTURE

Overview

Flour Mills of Nigeria Plc. ('the Issuer', 'FMN' or the 'Company') raised ₦29.89 billion Series 4 Bond on 14 December 2020 split into two tranches of ₦4.89 billion Five-year 5.5% Fixed Rate Senior Unsecured Bond Due 2025 ("Tranche A") and ₦25 billion Seven Year 6.25% Fixed Rate Senior Unsecured Bond Due 2027 ("Tranche B") under the ₦70 billion Debt Issuance Programme. The aggregate sum under the two tranches was ₦29.89 billion, being the fourth series under the Debt Issuance Programme.

Agusto & Co. notes that FMN had issued Series 1, 2 and 3 Bonds under the ₦70 billion programme in 2018 and 2020 with a combined value of ₦40.11 billion. The net proceeds of Series 4 Bonds will be fully utilised to refinance the Company's existing short-term debt obligations. The schedule of Bond utilisation is presented in table 1 below;

Table 1: Utilisation of Bond proceeds – Series 4 (Tranche A & B)

Purpose	Amount (₦' Billion)	% of Proceeds	Estimated completion date
Repayment of debt obligations	29.49	98	Within six months
Issue costs and expenses	0.4	2	Immediately
Total	29.89	100%	

Source: Bond Pricing Supplement

The Five-Year Senior Unsecured Fixed Rate Bond Due 2025 and Seven-Year Fixed Rate Senior Unsecured Bond Due 2027 attracted fixed coupon rates determined through a book-building process. The coupons on the Bonds shall be payable semi-annually in arrears on the scheduled coupon payment date over the 5-year and 7-year duration of the Bonds respectively (see table 3 below). The first coupon payment will be in six months from the date of allotment. The Series 4 (Tranche A & B) Bonds' principal shall be redeemed in lump sum on the final maturity dates in 2025 and 2027 respectively.

Table 2: Series 4 (Tranche A & B) Repayment Schedule¹

Bond obligations Repayment Interval	Months	Tranche A Estimated Coupon (₦' 000)	Tranche B Estimated Coupon (₦' 000)	Principal Amount Repaid (₦'000)	Outstanding Obligation (₦'000)
Bond issuance	0			-	29,890,000
1	1-6	134,475	781,250	-	29,890,000
2	7-12	134,475	781,250	-	29,890,000
3	13-18	134,475	781,250	-	29,890,000
4	19-24	134,475	781,250	-	29,890,000
5	25-30	134,475	781,250	-	29,890,000
6	31-36	134,475	781,250	4,890,000 ²	25,000,000
7	37-42	134,475	781,250	-	25,000,000

¹ Using a coupon rate of 5.5% and 6.25% respectively for both 5-year and 7-year Bonds while assuming Tranche A raises ₦10 billion and Tranche B raises ₦19.89 billion.

² The Tranche A Bond is expected to mature by Year 5

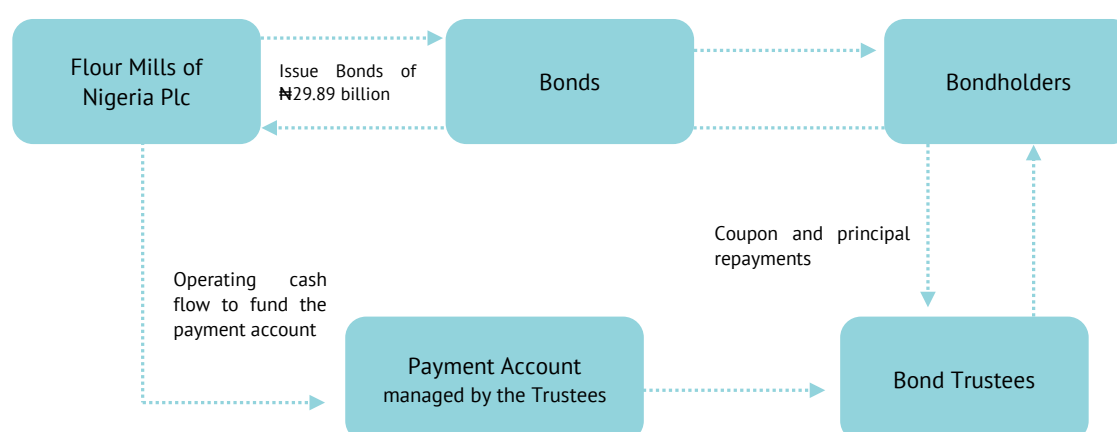
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Bond obligations Repayment Interval	Months	Tranche A Estimated Coupon (₦' 000)	Tranche B Estimated Coupon (₦' 000)	Principal Amount Repaid (₦'000)	Outstanding Obligation (₦'000)
8	43-48	134,475	781,250	-	25,000,000
9	49-54	134,475	781,250	-	25,000,000
10	55-60	134,475	781,250	-	25,000,000
11	61-66	-	781,250	-	25,000,000
12	67-72	-	781,250	-	25,000,000
13	73-78	-	781,250	-	25,000,000
14	79-84	-	781,250	25,000,000 ³	
Total		1,344,750	10,937,500		

The Bonds constitute direct, unconditional and unsecured obligations of the Issuer and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Issuer under the Bonds and in respect of the principal and any interest thereon shall at all times rank at least equally with all other senior and unsecured obligations of the Issuer, present and future but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

According to the Series 4 Bond Trust Deed, the Trustee shall establish a payment account not later than five business days after the issue date which shall be in the name and under the custody and administration of the Trustee – United Capital Trustees Limited for the benefit of Bondholders. For as long as the Series 4 (Tranche A and B) Bonds remain outstanding, the Issuer shall ensure that the amount to meet any of its payment obligations comprising principal amount and coupon, shall be paid into the payment account at least five business days before the next coupon payment date or final maturity date as the case may be.

Figure 2: Overview of the Transaction Structure



The Bonds constitute an irrevocable obligation of the Issuer and the aggregate amount of the Bonds to be issued is limited to the principal amount. The Bonds were issued by way of an offer for subscription through a

³ Expected maturity of Tranche B Bond is in Year 7

book-building process. Although subject to the approval of the Securities & Exchange Commission, the Bonds will be listed on the FMDQ Exchange and or the Nigerian Stock Exchange.

The semi-annual payment of coupons and the scheduled bullet repayment of the principal amount will be made from the Issuer's operating cash flow in line with the terms of the transaction documents. FMN shall fund the payment account in such frequency as may be determined by the Issuer and the Trustees for accumulating monies to pay coupon and where applicable repay the principal on the scheduled payment date. The money standing to the credit of the payment account shall be utilised to settle the obligations of the Series 4 (Tranche A & B) Bonds. The Issuer irrevocably acknowledges and accepts that the monies in the payment account shall be held by, or assigned by way of security to the Trustees, for the benefit of the Series 4 (Tranche A & B) Bondholders, in line with the Trust Deeds.

Negative Pledge

The Series 4 (Tranche A & B) Bonds are supported by a negative pledge stating that for as long as any of the Bonds remains outstanding, the Issuer shall not (without the prior consent of the Trustees in writing) create any security interest to secure any financial indebtedness unless the Issuer's obligations under the Bonds are secured equally and rateably therewith or have the benefit of such other security, guarantee, indemnity or other arrangements as the Trustees shall deem not to be materially less beneficial to the Bondholders. We have not considered the negative pledge in assigning the rating.

Details of Indebtedness

As at the financial year ended 31 March 2020, Flour Mills of Nigeria Plc's total borrowings stood at ₦57.02 billion, with maturities ranging from less than one year to five years.

Table 3: Status of Indebtedness of the Company

Unsecured borrowings	FYE 2020 (₦' Billion)	FYE 2019 (₦' Billion)
Bonds	40.11	20.11
Commercial Papers	7.74	21.40
Commercial Bank Loans	-	29.89
Real Sector Support Facility Scheme	6.75	-
Bank of Industry loan	1.32	1.98
Power & Airline Intervention Fund	0.99	-
Intercompany Loans	0.09	3.84
Total	57.02	77.22

Source: FMN's Financial Statements

FINANCIAL FORECAST

Flour Mills of Nigeria Plc. has prepared a seven-year financial forecasts from 2020/2021 to 2026/2027 covering the statement of comprehensive income, statement of financial position and cash flows together with the underlying assumptions. Agusto & Co. has adopted some aspects of the Issuer's financial projections, on account of the reasonableness of the assumptions and sensitised the cash generating capacity in line with current economic realities.

Table 4: FMN's Assumptions and Basis for Financial Forecast

Description	Flour Mills Assumptions	Agusto & Co.s Adjusted Assumptions
Revenue growth	7% growth in sales over the forecast period	We have adopted the revenue estimates of the Issuer over the forecast period.
Costs	Direct production costs and other overheads to increase by 5% and 3% respectively for the forecast period	We have adjusted direct production costs to take into account impact of devaluation on key inputs and sensitised other overheads, due to inflationary pressures in the economy.
Pre-tax profit margin	Cumulative margin of 9% over the forecast period	We have adjusted PBT margin in line with FMN's historical performance while taking into consideration growing competition in the food industry as well as shrinking consumer wallets.
Operating cash flow and trade receivables	FMN projects cumulative operating cash flow of ₦435.8 billion for the next seven years, mainly driven by average trade receivables period of 5 days, which is estimated to account for 7% of sales over the forecast period	We have sensitised operating cash flow owing to the weak consumer spending and cash collection delays from large distributors in the B2B segment, thus resulting in extended trade period. Therefore, we have adjusted trade receivables to account for 15% of sales, owing to the impact of negative macroeconomic headwinds.
Indicative coupon	9.5% and 10% for the Tranche A and B Bonds respectively	The actual coupon rates in light of the prevailing low interest environment and Flour Mills' track record in the domestic capital market was 5.5% and 6.25% for the Tranche A and B Bonds respectively.

Source: FMN

Following the underlying assumptions above, the Issuer estimates a cumulative revenue of ₦3.7 trillion over the seven-year period ending 31 March 2027, on the back of its average sales growth of 7% over the forecast period, which is below the cumulative average growth rate (2015-2020) of 10%. As a result, Agusto & Co. considers the Company's growth assumptions acceptable. Subsequent to FMN's financial year end 31 March 2020, Flour Mills' launched new pasta and semolina products under the 'Auntie B' brand name which are value-products targeted at price-sensitive consumers. Agusto & Co. considers this timely, particularly as we expect the product additions to cushion the effect of the contraction in consumer disposable income on the Company's performance. Going forward, we expect these products to garner more acceptance by consumers, which will aid to strengthen revenue in the near term. Flour Mills has also revamped its distribution strategy to

aggressively drive volumes across its product lines while accelerating growth in the B2C channels.

Agusto & Co. is of the view that the Covid-19 pandemic has had a mild impact on the performance of operators in the food industry; however, sourcing for imported raw materials could remain a challenge due to the devaluation of the domestic currency and foreign exchange demand controls imposed by the Central Bank of Nigeria. Therefore, we anticipate increase in input costs Which might be difficult to pass on to the customers in the short term given the shrinking wallet size so we expect the margin of FMN to shrink in the near term. We believe that operators with wide product portfolio with a good mix of premium and value products, investments in backward integration efforts and good ability to refinance provide growth potentials in the near to medium term.

Flour Mills of Nigeria Plc. estimates cumulative direct costs of sales at ₦3.16 trillion, representing 86% of revenue over the seven-year period. However, Agusto & Co. has adjusted the Company's cumulative direct cost of sales to ₦3.3 trillion, accounting for 89% of revenue over the forecast period. This is mainly due to our expectation of higher inputs costs, on account of devaluation of the domestic currency as well as inflationary pressures which has elevated the general production cost profile for manufacturing companies. Furthermore, cumulative overheads⁴ is estimated at ₦127.5 billion⁵, thus resulting in earnings before interest and taxes (EBIT) of ₦264.5 billion, which represents 7% of revenue over the forecast period, lower than 8.9% recorded in the last five years. FMN's estimated cumulative finance costs of ₦50.7 billion represents about 2% of cumulative sales, which in our opinion is good considering the projected interest expense to sales ratio is lower than 3% recorded in the 2020 financial year. Agusto & Co. believes that this level is achievable, given the prevailing low interest rate regime in the Nigerian debt capital market and the fixed coupon on the proposed bond.

We note that Flour Mills forecasts a cumulative pre-tax profit of ₦363 billion over the next seven years, accounting for 10% of revenue. However, Agusto & Co. has lowered the Company's pre-tax profit forecasts to ₦169.6 billion in a bid to align with its historical performance and heightening competition in FMN's key product markets. We also believe that Flour Mills' will record dividend income from its subsidiaries in the agro-allied space, which will provide support to pre-tax profits. As a result, we project a pre-tax profit margin of 4.5%, which is at par with its three-year (2017-2020) average of 4.5%. Agusto & Co. is of the view that the adjusted pre-tax profit is achievable, owing to the Company's market leadership position in the flour milling industry, strong brand which has become staple foods in Nigerian households and extensive distribution channels. Agusto & Co. believes that adopting an aggressive marketing stance coupled with FMN's enhanced distribution strategy will aid to strengthen margins in the near to medium term. In addition, we believe considerable growth opportunities exist, with Nigeria's large and growing population of 3.5% per annum⁶ and export potentials to other African countries riding on the Africa Continental Free-Trade Agreement.

The Issuer has projected a cumulative operating cash flow (OCF) of ₦435.86 billion, supported by the year-on-year growth in net income. However, Agusto & Co. has sensitised the operating cash flow to ₦213.7 billion, based on our adjustment to pre-tax profits and expectation of delays in cash collections from its large distributors, on account of the adverse impact of macroeconomic headwinds and low consumer spending. Following our adjustments, the projected OCF will cover interest payment 3.39 times over the forecast period,

⁴ This cover selling, distribution and administrative expenses

⁵ Includes non-operating losses and gains over the forecast period.

⁶ Nigerian Bureau of Statistics

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which we consider acceptable and just above our benchmark. Furthermore, we forecast total debt coverage at 2.3 times over the tenors of the Bonds, which is in line with our expectation.

Table 5: Adjusted Operating Cash Flow Statement

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
	₦'mns	₦'mns	₦'mns	₦'mns	₦'mns	₦'mns	₦'mns	₦'mns
Operating cash flow	14,490	15,829	14,395	21,392	27,961	51,788	67,890	213,743
Coupon on Tranche A Bond	(269)	(269)	(269)	(269)	(269)	-	-	(1,345)
Coupon on Tranche B Bond	(1,563)	(1,563)	(1,563)	(1,563)	(1,563)	(1,563)	(1,563)	(10,938)
Total Bonds Coupon	(1,831)	(1,831)	(1,831)	(1,831)	(1,831)	(1,563)	(1,563)	(12,282)
Net cash flow after coupon	12,659	13,998	12,564	19,561	26,130	50,226	66,328	201,463
Interest on existing debt	(10,077)	(10,201)	(8,017)	(6,603)	(5,286)	(5,286)	(5,286)	(50,756)
Tranche A Bond principal obligation	-	-	-	-	(4,890)	-	-	(4,890)
Tranche B Bond principal obligation	-	-	-	-	-	-	(25,000)	(25,000)
Total Interest coverage (times)	1.22	1.32	1.46	2.54	3.93	7.56	9.91	3.39
Total Debt coverage (times) ⁷								2.30

Source: FMN & Agusto & Co. Estimates

Overall, based on our review of the financial forecasts and adjustments, we believe Flour Mills of Nigeria Plc. possesses good capacity to cover the Tranche A & B Bonds obligations comprising coupon payment and principal repayment as and when due over the tenors of the Bonds.

⁷ This includes interest on existing borrowings of the Company

OUTLOOK

Flour Mills of Nigeria Plc. raised ₦29.89 billion in two tranches: ₦4.89 billion 5-year 5.5% Fixed Rate Senior Unsecured (Tranche A) Bond Due 2025 and ₦25 billion 7-year 6.25% Fixed Rate Senior Unsecured (Tranche B) Bond Due 2027 in December 2020. The coupon rate of the Tranche A & B Bonds was determined via a book-building process and payable semi-annually over the 5-year and 7-year periods. The Bonds principal obligations on the Series 4 (Tranche A & B) Bonds (“the Bonds”) will be repaid in lump sum at maturity in 2025 and 2027 respectively.

The net proceeds of the Bonds will be utilised to refinance existing debt obligations. Going forward, Agosto & Co. notes that the Bond issue will not significantly increase the Company’s leverage, particularly as the net proceeds will be used to refinance existing borrowings and address long term financing gap. The payment obligations of the Issuer under the Series 4 (Tranche A & B) Bonds comprising principal and coupon on the Issue shall at all times rank at least equally with all other senior and unsecured obligations of the Company, present and future. The Series 4 (Tranche A & B) Bonds are direct, senior and unsecured obligations of the Issuer, therefore the Company unconditionally and irrevocably, undertakes to repay the coupon and outstanding principal amount to the Series 4 (Tranche A & B) Bondholders in line with the Trust Deeds and Pricing Supplements.

The Issuer is expected to create a payment account not later than five business days after the issue date which will be managed by United Capital Trustees Limited for the benefit of Bondholders. The payment account will be funded with an appropriate amount from the operating cash flow of Flour Mills at least five business days before the next payment date to meet interest payment over the tenor of the Issue or the redemption date (as the case may be).

Flour Mills has projected a realistic revenue forecast over the seven-year period, taking into consideration its wide product portfolio most of which are food staples in Nigeria. Management is optimistic that the introduction of new products in the value segment coupled with the enhanced distribution strategy, as well as improved route-to-market, will aid to boost the Company’s performance in the near to medium term. Agosto & Co. has sensitized FMN’s expenditure and operating cash flow forecasts, owing to the rising input and operating costs, increasing competition in the food industry, shrinking consumer wallets due macroeconomic pressures and increasing trade receivable days. Based on our adjustments, we are projecting a pre-tax profit margin of 4.5%, which is at par with the three-year average, supported by dividend income from its subsidiaries. Agosto & Co. projects the Issuer’s operating cash flow capacity to meet interest payment and total Bond obligations of 3.39 times and 2.3 times respectively over the tenor of the Issue. Overall, the Issuer has a good capacity to meet its obligations on the Issue as and when due.

Based on the aforementioned, we attach a **stable** outlook to Flour Mills of Nigeria Plc’s ₦4.89 billion 5-year 5.5% Series 4 (Tranche A) Fixed Rate Senior Unsecured Bond Due 2025 and ₦25 billion 7-year 6.25% Series 4 (Tranche B) Fixed Rate Senior Unsecured Bond Due 2027.

This Series 4 (Tranche A & B) Bond Rating Report should be read in conjunction with Agosto & Co.’s 2020 Corporate Rating Report for Flour Mills

FMN Plc. ₦4.89 billion Five-year 5.5% Series 4 (Tranche A) Fixed Rate Senior Unsecured Bond Due 2025 & ₦25 billion Seven -Year 6.25% Series 4 (Tranche B) Fixed Rate Senior Unsecured Bond Due 2027

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION AS AT	31-Mar-20		31-Mar-19		31-Mar-18	
	₦'000		₦'000		₦'000	
ASSETS						
IDLE CASH	16,032,397	5.1%	9,978,297	3.2%	16,300,426	5.1%
MARKETABLE SECURITIES & TIME DEPOSITS						
CASH & EQUIVALENTS	16,032,397	5.1%	9,978,297	3.2%	16,300,426	5.1%
FX PURCHASED FOR IMPORTS	11,563,084	3.7%	7,010,242	2.2%	6,974,145	2.2%
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS	5,979,860	1.9%	5,180,351	1.6%	5,054,944	1.6%
STOCKS	50,348,034	16.0%	52,482,577	16.7%	61,409,280	19.0%
TRADE DEBTORS	7,091,166	2.3%	9,269,399	3.0%	5,682,887	1.8%
DUE FROM RELATED PARTIES	9,917,318	3.2%	31,317,103	10.0%	42,085,498	13.0%
OTHER DEBTORS & PREPAYMENTS	12,975,360	4.1%	13,688,988	4.4%	8,166,083	2.5%
TOTAL TRADING ASSETS	97,874,822	31.1%	118,948,660	37.9%	129,372,837	40.1%
INVESTMENT PROPERTIES	56,844	0.0%	58,899	0.0%	60,954	0.0%
OTHER NON-CURRENT INVESTMENTS	44,666,634	14.2%	44,005,134	14.0%	35,280,134	10.9%
PROPERTY, PLANT & EQUIPMENT	89,144,006	28.4%	88,803,208	28.3%	83,837,249	26.0%
SPARE PARTS, RETURNABLE CONTAINERS, ETC	11,345,872	3.6%	15,747,437	5.0%	10,345,958	3.2%
GOODWILL, INTANGIBLES & OTHER L T ASSETS	55,146,485	17.5%	36,516,552	11.6%	47,407,024	14.7%
TOTAL LONG-TERM ASSETS	200,359,841	63.8%	185,131,230	58.9%	176,931,319	54.8%
TOTAL ASSETS	314,267,060	100.0%	314,058,187	100.0%	322,604,582	100.0%
Growth	0.1%		-2.6%		-6.2%	
LIABILITIES & EQUITY						
SHORT TERM BORROWINGS	1,553,349	0.5%	1,519,149	0.5%	16,466,200	5.1%
CURRENT PORTION OF LONG-TERM BORROWINGS	10,275,267	3.3%	55,425,053	17.6%	71,382,864	22.1%
LONG-TERM BORROWINGS	46,741,771	14.9%	21,795,459	6.9%	14,984,392	4.6%
TOTAL INTEREST-BEARING LIABILITIES (TIBL)	58,570,387	18.6%	78,739,661	25.1%	102,833,456	31.9%
TRADE CREDITORS	50,866,921	16.2%	49,112,957	15.6%	34,580,478	10.7%
DUE TO RELATED PARTIES	7,962,168	2.5%	11,530,500	3.7%	581,345	0.2%
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS	13,790,645	4.4%	12,036,155	3.8%	8,873,032	2.8%
OTHER CREDITORS AND ACCRUALS	13,231,546	4.2%	5,925,169	1.9%	5,391,876	1.7%
TAXATION PAYABLE	2,566,482	0.8%	775,960	0.2%	1,097,052	0.3%
DIVIDEND PAYABLE	2,370,330	0.8%	2,177,173	0.7%	1,981,752	0.6%
DEFERRED TAXATION	10,665,100	3.4%	8,150,526	2.6%	9,805,335	3.0%
OBLIGATIONS UNDER UNFUNDED PENSION SCHEMES	7,926,591	2.5%	6,680,813	2.1%	6,013,960	1.9%
MINORITY INTEREST						
REDEEMABLE PREFERENCE SHARES						
TOTAL NON-INTEREST-BEARING LIABILITIES	109,379,783	34.8%	96,389,253	30.7%	68,324,830	21.2%
TOTAL LIABILITIES	167,950,170	53.4%	175,128,914	55.8%	171,158,286	53.1%
SHARE CAPITAL	2,050,197	0.7%	2,050,197	0.7%	2,050,197	0.6%
SHARE PREMIUM	75,377,444	24.0%	75,377,444	24.0%	75,377,444	23.4%
IRREDEEMABLE DEBENTURES						
REVALUATION SURPLUS						
OTHER NON-DISTRIBUTABLE RESERVES	(113,016)	0.0%	(94,316)	0.0%	(72,556)	0.0%
REVENUE RESERVE	69,002,265	22.0%	61,595,948	19.6%	74,091,211	23.0%
SHAREHOLDERS' EQUITY	146,316,890	46.6%	138,929,273	44.2%	151,446,296	46.9%
TOTAL LIABILITIES & EQUITY	314,267,060	100.0%	314,058,187	100.0%	322,604,582	100.0%

FMN Plc. ₦4.89 billion Five-year 5.5% Series 4 (Tranche A) Fixed Rate Senior Unsecured Bond Due 2025 & ₦25 billion Seven -Year 6.25% Series 4 (Tranche B) Fixed Rate Senior Unsecured Bond Due 2027

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Mar-20		31-Mar-19		31-Mar-18	
	₦'000		₦'000		₦'000	
TURNOVER	394,884,217	100.0%	370,205,529	100.0%	371,370,740	100.0%
COST OF SALES	(354,952,741)	-89.9%	(337,073,874)	-91.1%	(321,920,291)	-86.7%
GROSS PROFIT	39,931,476	10.1%	33,131,655	8.9%	49,450,449	13.3%
OTHER OPERATING EXPENSES	(25,327,395)	-6.4%	(19,203,128)	-5.2%	(16,810,123)	-4.5%
OPERATING PROFIT	14,604,081	3.7%	13,928,527	3.8%	32,640,326	8.8%
OTHER INCOME/(EXPENSES)	14,837,358	3.8%	22,401,709	6.1%	5,718,021	1.5%
PROFIT BEFORE INTEREST & TAXATION	29,441,439	7.5%	36,330,236	9.8%	38,358,347	10.3%
INTEREST EXPENSE	(11,903,754)	-3.0%	(16,025,840)	-4.3%	(24,941,948)	-6.7%
PROFIT BEFORE TAXATION	17,537,685	4.4%	20,304,396	5.5%	13,416,399	3.6%
TAX (EXPENSE) BENEFIT	(4,955,114)	-1.3%	(986,742)	-0.3%	(4,171,670)	-1.1%
PROFIT AFTER TAXATION	12,582,571	3.2%	19,317,654	5.2%	9,244,729	2.5%
NON-RECURRING ITEMS (NET OF TAX)	(313,458)	-0.1%	241,868	0.1%	(2,631,614)	-0.7%
MINORITY INTERESTS IN GROUP PAT						
PROFIT AFTER TAX & MINORITY INTERESTS	12,269,113	3.1%	19,559,522	5.3%	6,613,115	1.8%
DIVIDEND	(4,862,796)	-1.2%	(4,100,396)	-1.1%	(2,624,253)	-0.7%
PROFIT RETAINED FOR THE YEAR	7,406,317	1.9%	15,459,126	4.2%	3,988,862	1.1%
SCRIP ISSUES						
OTHER APPROPRIATIONS/ ADJUSTMENTS			(27,954,389)			
PROFIT RETAINED B/FWD	61,595,948		74,091,211		70,102,349	
PROFIT RETAINED C/FWD	69,002,265		61,595,948		74,091,211	
ADDITIONAL INFORMATION	31-Mar-20		31-Mar-19		31-Mar-18	
Staff costs (₦'000)	20,357,166		17,493,506		15,033,526	
Average number of staff	3,680		3,566		3,520	
Staff costs per employee (₦'000)	5,532		4,906		4,271	
Staff costs/Turnover	5%		5%		4%	
Capital expenditure (₦'000)	10,760,439		14,223,147		8,607,250	
Depreciation expense - current year (₦'000)	10,048,791		8,513,230		7,631,450	
(Profit)/Loss on sale of assets (₦'000)	-		-		-	
Number of 50 kobo shares in issue at year end ('000)	4,100,394		4,100,394		4,100,394	
Market value per share of 50 kobo (year-end)	2,125		1,800		3,730	
Market capitalization (₦'000)	87,133,373		73,807,092		152,944,696	
Market/Book value multiple	1		1		1	
Auditors	KPMG		KPMG		KPMG	
Opinion	CLEAN		CLEAN		CLEAN	

FMN Plc. ₦4.89 billion Five-year 5.5% Series 4 (Tranche A) Fixed Rate Senior Unsecured Bond Due 2025 & ₦25 billion Seven -Year 6.25% Series 4 (Tranche B) Fixed Rate Senior Unsecured Bond Due 2027

CASH FLOW STATEMENT FOR Y/E	31-Mar-20	31-Mar-19	31-Mar-18
	₦'000	₦'000	₦'000
OPERATING ACTIVITIES			
Profit after tax	12,582,571	19,317,654	9,244,729
ADJUSTMENTS			
Interest expense	12,682,800	16,025,840	24,941,948
Minority interests in Group PAT	-	-	-
Depreciation	10,048,791	8,513,230	7,631,450
(Profit)/Loss on sale of assets	-	-	-
Other non-cash items	-18,700	-27,976,149	38,760
Potential operating cash flow	35,295,462	15,880,575	41,856,887
INCREASE/(DECREASE) IN SPONTANEOUS FINANCING:			
Trade creditors	1,753,964	14,532,479	(14,184,793)
Due to related parties	(3,568,332)	10,949,155	(8,236,969)
Advance payments and deposits from customers	1,754,490	3,163,123	(2,055,694)
Other creditors & accruals	7,306,377	533,293	(1,148,116)
Taxation payable	1,790,522	(321,092)	(831,470)
Deferred taxation	2,514,574	(1,654,809)	3,901,065
Obligations under unfunded pension schemes	1,245,778	666,853	1,525,697
Minority interest	-	-	-
Cash from (used by) spontaneous financing	12,797,373	27,869,002	-21,030,280
(INCREASE)/DECREASE IN WORKING ASSETS:			
FX purchased for imports	(4,552,842)	(36,097)	19,273,096
Advance payments and deposits to suppliers	(795,509)	(125,407)	(3,951,530)
Stocks	2,134,543	8,926,703	(7,026,675)
Trade debtors	2,178,233	(3,586,512)	666,414
Due from related parties	21,399,785	10,768,395	54,150,978
Other debtors & prepayments	(2,961,466)	(5,522,905)	(1,113,049)
Cash from (used by) working assets	17,402,744	10,424,177	61,999,234
CASH FROM (USED IN) OPERATING ACTIVITIES	65,495,579	54,173,754	82,825,841
RETURNS TO PROVIDERS OF FINANCING			
Interest paid	(12,682,800)	(16,025,840)	(24,941,948)
Dividend paid	-4,669,639	-3,904,975	-2,674,599
CASH USED IN PROVIDING RETURNS ON FINANCING	(17,352,439)	(19,930,815)	(27,616,547)
OPERATING CASH FLOW AFTER PAYMENTS TO PROVIDERS OF FINANCING	48,143,140	34,242,939	55,209,294
NON-RECURRING ACTIVITIES			
Non-recurring items (net of tax)	(313,458)	241,868	(2,631,614)
CASH FROM (USED IN) NON-RECURRING ACTIVITIES	(313,458)	241,868	(2,631,614)
INVESTING ACTIVITIES			
Capital expenditure	(10,760,439)	(14,223,147)	(8,607,250)
Sale of assets	370,850	743,958	2,532,537
Purchase of other long term assets (net)	-11,216,719	-3,233,952	-77,484,072
Sale of other long term assets (net)	-	-	-
CASH FROM (USED IN) INVESTING ACTIVITIES	(21,606,308)	(16,713,141)	(83,558,785)
FINANCING ACTIVITIES			
Increase/(Decrease) in short term borrowings	34,200	(14,947,051)	(17,883,236)
Increase/(Decrease) in long term borrowings	(20,203,474)	(9,146,744)	(25,695,310)
Proceeds of shares issued	-	-	39,302,975
CASH FROM (USED IN) FINANCING ACTIVITIES	(20,169,274)	(24,093,795)	(4,275,571)
CHANGE IN CASH INC/(DEC)	6,054,100	(6,322,129)	(35,256,676)
OPENING CASH & MARKETABLE SECURITIES	9,978,297	16,300,426	51,557,102
CLOSING CASH & MARKETABLE SECURITIES	16,032,397	9,978,297	16,300,426

FMN Plc. ₦4.89 billion Five-year 5.5% Series 4 (Tranche A) Fixed Rate Senior Unsecured Bond Due 2025 & ₦25 billion Seven -Year 6.25% Series 4 (Tranche B) Fixed Rate Senior Unsecured Bond Due 2027

STATEMENT OF CASH FLOW			
FOR THE YEAR ENDED	Mar-20	Mar-19	Mar-18
	₦'000	₦'000	₦'000
Operating cash flow (OCF)	65,495,579	54,173,754	82,825,841
Less: Returns to providers of finance	(17,352,439)	(19,930,815)	(27,616,547)
OCF after returns to providers of finance	48,143,140	34,242,939	55,209,294
Non-recurring items		242	(2,631,614)
Free cash flow	48,143,140	34,243,181	52,577,680
Investing activities	(21,606,308)	(16,713,141)	(83,558,785)
Financing activities	(20,169,274)	(24,093,795)	(4,275,571)
Change in cash	6,367,558	(6,563,755)	(35,256,676)
PROFITABILITY	Mar-20	Mar-19	Mar-18
PBT as % of Turnover	4%	5%	4%
Return on equity	12%	14%	10%
Sales growth	6.7%	-0.3%	-1.0%
CASH FLOW			
Interest cover (times)	5.2	3.4	3.3
Principal payback (years)	0.9	1.45	1.24
WORKING CAPITAL			
Working capital need (days)	-	22	60
Working capital deficiency (days)	-	46	70
LEVERAGE			
Interest bearing debt to Equity	49%	57%	68%
Net Debt/Avg Total Assets Exc. Cash and Rev. Surplus	50%	54%	51%

RATING DEFINITIONS

Aaa	Highest quality debt issue with minimal credit risk; strongest capacity to pay returns and principal on local currency debt in a timely manner.
Aa	High quality debt issue with very low credit risk; very strong capacity to pay returns and principal on local currency debt in a timely manner.
A	Good quality debt issue with low to moderate credit risk; strong capacity to pay returns and principal on local currency debt in a timely manner.
Bbb	Satisfactory quality with moderate credit risk; adequate capacity to pay returns and principal on local currency debt in a timely manner.
Bb	Below average quality with moderate to high credit risk; speculative capacity to pay returns and principal on local currency debt in a timely manner.
B	Weak quality with high credit risk; speculative capacity to pay returns and principal on local currency debt in a timely manner.
C	Very weak capacity to pay returns and principal. Debt instrument with very high credit risk.
D	In default.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

FMN Plc. ₦4.89 billion Five-year 5.5% Series 4 (Tranche A) Fixed Rate Senior Unsecured Bond Due 2025 & ₦25 billion Seven -Year 6.25% Series 4 (Tranche B) Fixed Rate Senior Unsecured Bond Due 2027

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