

Flour Mills of Nigeria PLC

₦46 billion 3-Year 14.5% Series 1 Fixed Rate Senior Unsecured Bond Due 2026
Under the ₦200 Billion Bond Issuance Programme

2023 Corporate Bond Rating Report



Research, Credit Ratings, Credit Risk Management

FLOUR MILLS OF NIGERIA PLC

₦46 billion 3-Year 14.5% Series 1 Fixed Rate Senior Unsecured Bond Due 2026 under the ₦200 billion Bond 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: 19 July 2023
Expiry Date: 8 May 2024

**This final rating will be subject to annual monitoring and review.*

Industry: Food and Agro-allied

Issuer Rating: A-
Expiry Date: 30 September 2023

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RATING RATIONALE

- Agusto & Co hereby assigns an “A-” rating to Flour Mills of Nigeria Plc’s (“Flour Mills”, “FMN”, “the Issuer” or “the Company”) ₦46 billion 3-Year 14.5% Fixed Rate Senior Unsecured Bond Due 2026 (“Series 1 Bond”, “the Bond” or “the Issue”) under the ₦200 billion Bond Issuance Programme. The rating underscores the Issuer’s good capacity to meet payment obligations on local currency debts evidenced by its healthy earnings and cash flows despite daunting business challenges. The rating also considers FMN’s strong market position within the domestic flour milling space as well as the potential synergy to be derived from the recent acquisition of a majority stake in Honeywell Flour Mills Plc (“Honeywell” or “HFMP”). However, the rating is constrained by concerns over the Company’s declining margins amid severe cost pressures and the continuous vulnerability of its future earnings to macroeconomic headwinds considering the undue exposure of its production process to external shocks and foreign exchange risks.
- Flour Mills of Nigeria Plc is a fully integrated food company and a leading flour miller with an installed capacity of over 3 million metric tonnes per annum. The Company has extensive product offerings in the wheat-based food and packaging segments under the Golden Penny and BAGCO brands respectively, and a robust distribution network of wholesalers and retailers in line with its business-to-business (B2B) and business-to-consumer (B2C) sales strategies. To further deepen its market reach, FMN acquired a 76.75% majority stake in Honeywell – the third-largest flour miller in Nigeria. We expect the operational synergy to be derived from the recent acquisition of a majority stake in HFMP to result in increased earnings, better cash flows and greater market share for FMN.
- In the six months ended 30 September 2022 (unaudited), Flour Mills’ revenue grew by 13.3% to ₦402.4 billion amid sustained volume growth supported in part by its competitive pricing model. However, the Company’s profit margins have continued to face huge cost pressures owing to the strategic decision to support sales volume as well as grow market share through moderate price adjustments.

TRANSACTION PARTIES

Issuer:

Flour Mills of Nigeria Plc

Lead Issuing House:

FCMB Capital Markets Limited

Joint Issuing House:

Chapel Hill Denham Advisory Limited
CardinalStone Partners Limited
Coronation Merchant Bank Limited
FBNQuest Merchant Bank Limited
Quantum Zenith Capital & Investments Limited
Stanbic IBTC Capital Limited

Trustee:

United Capital Trustees Limited

Solicitors to the Issuer:

The New Practice

Solicitors to the Transaction:

Banwo & Ighodalo

Reporting Accountants:

Deloitte & Touche

Auditors:

KPMG Professional Services

Registrar:

Atlas Registrars

Receiving Banks:

Access Bank Plc
First Bank of Nigeria Limited
First City Monument Bank Limited
Stanbic IBTC Bank Plc
United Bank for Africa Plc
Zenith Bank Plc

KEY TRANSACTION STRUCTURE

Bond Tenor:

Three years with semi-annual coupon payment and principal repayment. However, subject to a 12-month moratorium on principal.

Bond Status:

The Bond constitutes a direct, unconditional, senior and unsecured obligation of the Issuer and shall always rank pari passu with all other senior and unsecured indebtedness of the Issuer, present and future, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

The Issuer believes that this pricing strategy will translate to better earnings and cash flows in the medium term when consumer behaviour and industry conditions normalise.

- Going forward, FMN intends to protect its profit margins by implementing stringent cost optimisation and operational efficiencies across the business. Given its expanding production and distribution capacities, coupled with its strong brand acceptance, we believe that the Issuer is well-positioned to capture the huge growth opportunities that exist in the country's Flour Milling Industry.
- FMN raised a ₦46 billion Series 1 Bond on 9 May 2023. The Bond attracts a 14.5% fixed coupon rate determined through a book-building process payable semi-annually over three years, while the principal amount will be amortised half-yearly until maturity in 2026 after the expiration of a 12-month moratorium. The Issuer will use the net proceeds to refinance existing bank loans as well as to meet its working capital requirements.
- The Series 1 Bond will constitute direct, unconditional, senior and unsecured obligations of the Issuer, and shall rank pari passu with its present or future other unsecured obligations. In line with the Bond Trust Deed, FMN has pledged its future cash flows as the primary source of servicing the Series 1 Bond obligations (coupon and principal).
- Augusto & Co notes positively that the Issuer has continued to meet the payment obligations on its existing bank loans and corporate bonds. Based on our review of the Issuer's financial forecasts, we believe the sensitised earnings before interest, taxes, depreciation and amortisation (EBITDA) will be sufficient to cover its interest and debt repayment obligations at 4.1x and 2.0x respectively.
- Based on the Issuer's good capacity to repay obligations evidenced by its "A-" rating, we attach a **stable** outlook to the proposed ₦46 Billion 3-Year 14.5% Fixed Rate Senior Unsecured Bond Due 2026. Should there be a change in the current rating of the Issuer, our rating and outlook for the Series 1 Bond will be revised accordingly.

This Series 1 Bond Rating Report should be read in conjunction with Augusto & Co.'s 2022 Corporate Rating Report for Flour Mills of Nigeria Plc issued on 29 September 2022

Flour Mills of Nigeria PLC's up to ₦46 Billion 3-Year 14.5% Series 1 Fixed Rate Senior Unsecured Bond Due 2026

Use of Bond Proceed:

The Issuer shall utilise the net proceeds to refinance existing bank loans and to meet working capital requirements.

Primary Source of Repayment:

Operating cash flows of Flour Mills of Nigeria Plc.

Payment Account:

The Issuer shall, no later than fifteen (15) Business Days before the first Coupon Payment Date, set up a Payment Account in the name and under the exclusive control of the Trustee.

Listing:

An application will be made to list the Series 1 Bond on the Nigerian Exchange Group (NGX Group) and/or FMDQ

Figure 1: Strengths, Weaknesses, Opportunities and Challenges

Strengths

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

Weaknesses

- Declining profit margin across its food segment owing to soaring wheat and energy costs
- High dependence on imported wheat exposing FMN to foreign exchange volatilities
- Inadequate working capital

Opportunities

- Nigeria has the largest consumer market in Africa
- High consumption of staple foods in Nigeria
- Export potentials to other countries within the African continent
- Growing demand for locally produced packaging materials

Challenges

- Devaluation of the local currency and restrictive forex regime adversely affecting the price of imported raw materials and spares
- Weakening consumer purchasing power amid negative macroeconomic headwinds
- Unfavourable fiscal policies
- Adverse impact of worsening insecurity in Nigeria
- Decrepit national infrastructure - inadequate power supply and poor road network

PROFILE OF THE ISSUER

OVERVIEW AND BACKGROUND

Flour Mills of Nigeria Plc ("Flour Mills", "FMN" or "the Company") is a leading food processing and agro-allied company in Nigeria. FMN was initially incorporated as a private limited liability company in 1960 but commenced operations two years later with an installed flour milling capacity of 500 metric tonnes per day. In 1978, Flour Mills became a public limited liability company after its shares were listed on the Nigerian Exchange Limited. FMN has evolved to become one of the largest flour milling companies in Nigeria with an installed capacity of approximately 9,310 metric tonnes per day at its Apapa milling sites located within the Lagos metropolis.

In May 2022, Flour Mills of Nigeria PLC, through its affiliates – Ecowise Horizon Investment Limited and Greywise Investment Solutions Limited, completed the acquisition of a 76.75% equity stake in Honeywell Flour Mills Plc ("Honeywell" or "HFMP"). The cash consideration offered for the purchase of the majority stake amounted to ₦4.20 per share. Although management has disclosed that HFMP will continue to operate as a separate entity, we expect the acquisition to further deepen FMN's market share within Nigeria by at least 10%, especially in the B2C product categories, whilst expanding its footprint across other markets in Africa. Also, we foresee significant revenue and cost synergies from the eventual merger of the two entities.

Flour Mills has a well-diversified product portfolio grouped under the food and support services segments. The food segment comprises a range of wheat-based pasta, noodles, ball foods and flour products offered under its flagship brand – Golden Penny, while the support services segment provides packaging and logistics solutions under the BAGCO and Golden Transport brands. FMN has other products in the sugar, edible oil & fats, feeds and agro-inputs (seeds and fertilizers) categories, which are offered through its subsidiaries. FMN and its subsidiaries are collectively referred to as Flour Mills of Nigeria Group ("FMN Group" or "the Group").

In a bid to improve efficiency, the FMN Group structure was streamlined with notable mergers among subsidiaries with similar business operations. Consequently, Golden Shipping Company Limited ceased to exist after merging with Apapa Bulk Terminal Limited, while Premium Edible Oil Products Limited combined with Agripalm Limited leaving the former as the surviving entity. Also, the net assets of Agri Estates Limited, Sunflag Farms Limited, Shao Golden Farms Limited and Golden Agri Inputs Limited were transferred to Golden Fertilizer Company Limited, while the fusion of Golden Sugar Company Limited and Premium Cassava Products Limited left the former as the surviving entity. During the FYE 2022, the Company completed the incorporation of another wholly-owned subsidiary (FMN International Limited) in Cyprus. The new subsidiary is expected to operate, coordinate and provide international logistics support to the FMN Group.

OWNERSHIP STRUCTURE

As at 30 September 2022, Flour Mills had an authorised share capital of ₦2.5 billion, made up of 5 million ordinary shares at 50 kobo each, while the issued and paid-up shares stood at ₦2.05 billion. Management has disclosed plans to cancel the unissued shares in full compliance with Section 124 of the Companies and Allied Matters Act

2020 (CAMA 2020)¹. Flour Mills of Nigeria Plc has over 81,000 shareholders, with Excelsior Shipping Company Limited holding the largest equity stake of 63.3%. The remaining 36.7% ordinary shares are held collectively by other individuals and institutional investors with none of them controlling up to 5% equity stake as at 30 September 2022.

BOARD COMPOSITION AND STRUCTURE

Flour Mills of Nigeria PLC has a fifteen-member Board of Directors ("the Board"), which comprises fourteen non-executive directors (including the Chairman and Vice Chairman), and an executive director. The Board is chaired by Mr. John G. Coumantaros, while Mr. Omoboyede O. Olusanya serves as the Managing Director following his appointment on 1 January 2021. The only notable change in the Board's composition was the appointment of Ms. Yewande Sadiku, an investment professional with over 28 years of cognate experience in banking and public service, as an independent non-executive director.

Table 1: Current Directors

Name	Designation	Nationality
Mr. John G. Coumantaros	Chairman	American
Mr. Paul M. Gbededo	Vice Chairman	Nigerian
Mr. Omoboyede O. Olusanya	Group Managing Director	Nigerian
Prof. Jerry Gana CON	Non-Executive Director	Nigerian
Mr. Alfonso Garate	Non-Executive Director	Spanish
Alhaji Rabi M. Gwarzo OON	Non-Executive Director	Nigerian
Mr. Ioannis Katsaounis	Non-Executive Director	Greek
Mr. Thanassis Mazarakis	Non-Executive Director	Greek
Mr. Foluso O. Phillips	Non-Executive Director	Nigerian
Alhaji Olalekan A. Saliu	Non-Executive Director	Nigerian
Mr. Folarin R. A. Williams	Non-Executive Director	Nigerian
Dr. Mrs. Salamat Hussaini Suleman	Non-Executive Director	Nigerian
Mrs Juliet Anammah	Non-Executive Director	Nigerian
Mr. Muhammad K. Ahmed OON	Non-Executive Director	Nigerian
Ms. Yewande Sadiku*	Independent Non-Executive Director	Nigerian

Source: Flour Mills' Audited 2022 Financial Statements

*Appointed effective 16 February 2022

FMN's Board performs its oversight function through these committees – the Statutory Audit Committee, the Remuneration/Governance Committee, the Audit and Risk Management Committee and the Local Content Committee. The composition of these committees complies with the principles of good corporate governance as enshrined in the Nigerian Code of Corporate Governance. Overall, we believe that the directors are drawn from diverse backgrounds with vast experience in board management.

¹ Section 124 of CAMA 2020 provides that no company shall have a share capital which is less than its minimum issued share capital and requires that every company with unissued shares, must not later than six (6) months from the commencement of CAMA 2020, issue shares up to an amount not below its minimum issued share capital.

MANAGEMENT TEAM

FMN's management team consists of the MD/CEO, the Group Chief Financial Officer and eight senior management personnel covering production, sales and corporate services. The members of the senior management team have over two decades of relevant and diverse experience in the FMCG space. We consider the management team to be adequately qualified and experienced.

Table 2: Other members of the management team

Name	Designation
Mr. Anders Kristiansson	Group Chief Financial Officer
Mr. Devlin Marc Hainsworth	Managing Director, Foods Division
Mr. Wale Adediran	Group Human Resources Director
Mr. Jack Joseph Cwach	Group Flour Operations Director
Waltonio Percival-Deigh	Director, Business Assurance
Paul Udochi	Head of Sales
Yiannis Katsichtis	General Manager, Pasta division
Russell Barry Prior	General Manager, Bagco Packaging Division
Mr. Joseph O. Umolu	Company Secretary

Source: Management Presentation

OTHER INFORMATION

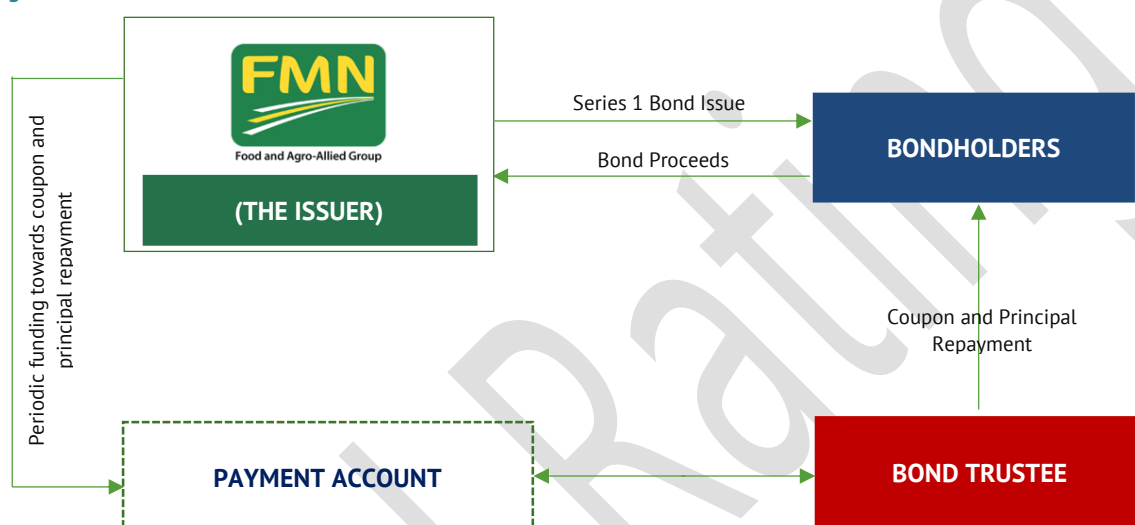
As at 30 September 2022 (unaudited), Flour Mills of Nigeria PLC's total assets and total liabilities stood at ₦534.6 billion and ₦360.3 billion respectively, while the total shareholders' funds were ₦174.4 billion. In the six months ended 30 September 2022 (Q2'2023), the Company generated a turnover of ₦402.4 billion and posted a profit after tax of ₦5.1 billion.

TRANSACTION STRUCTURE

OVERVIEW

Flour Mills of Nigeria Plc raised a ₦46 billion 3-Year 14.5% Series 1 Fixed Rate Senior Unsecured Bond on 9 May 2023 under its ₦200 billion Bond Issuance Programme. The Bond attracts a 14.5% fixed coupon rate determined through a book-building process payable semi-annually over three years, while the principal amount, will be repaid in four equal semi-annual payments until maturity in 2026 following a 12-month moratorium from the Issue Date.

Figure 1: Overview of the Transaction Structure



Source: Pricing Supplement

The net proceeds from the Series 1 Bond will be used to refinance existing bank borrowings and to support the Company's working capital requirements as shown in the table below;

Table 3: Utilisation of Bond Proceeds

Use of Proceeds	Amount (₦'million)	% of Proceeds
Refinance existing short-term loans and overdraft	37,370	81%
Working capital requirements	8,000	22%
Estimated issue costs and other expenses	630	1%
Total	46,000	100%

Source: Pricing Supplement

The proposed refinancing of expensive short-term bank loans with relatively cheaper long-tenured debt should have a positive impact on the Issuer's debt service costs and profit margins in the short to medium term. This is based on our estimated interest cost savings of between 300 to 500 basis points to be derived from the proposed debt refinancing. Also, we expect the Series 1 Bond to somewhat ease the working capital pressure arising from the steady increase in the price of raw materials amid high inflation and persistent currency devaluation.

BOND REPAYMENT

The Series 1 Bond shall be redeemed primarily from FMN's operating cash flows. A Payment Account (to be managed by the Trustee) will be set up and funded by the Issuer on every Funding Date (which is to be determined by the Trustee) with such sums equal in aggregate to the next scheduled coupon and redemption amount. The Trustee is required to transfer funds to the Registrar at least 3 Business Days before the Payment Date.

The coupon shall be payable semi-annually on the scheduled coupon payment dates over the next three years (see table 5 below). The first coupon payment will be payable six months from the Issue Date, while the principal amount will be redeemed on an amortising basis until maturity in 2026 after the expiration of the moratorium period.

Table 4: Series 1 Bond Repayment Schedule

Bond obligations Repayment Interval	Principal Repayment (₦'million)	Semi-annual Coupon Payment (₦'million)	Total Payment (₦'million)	Principal Outstanding (₦'million)
Bond issuance	-	-	-	46,000
1	-	3,335	3,335	46,000
2	-	3,335	3,335	46,000
3	11,500	3,335	14,835	34,500
4	11,500	2,501	14,001	23,000
5	11,500	1,668	13,168	11,500
6	11,500	834	12,334	-

Source: Series 1 Pricing Supplement

The Series 1 Bond constitutes a direct, unconditional, senior and unsecured obligation of the Issuer and shall always rank pari passu and without any preference among themselves. The payment obligations of the Issuer under the Series 1 Bond in respect of the principal amount and coupon shall always rank at least equally with all its other senior and unsecured indebtedness and monetary obligations (present and future), but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights. For as long as the Series 1 Bond remains outstanding, FMN irrevocably and unconditionally pledges the payment of all obligations to Bondholders.

The Series 1 Bond will be issued by way of an offer for subscription through a book-building process to qualified institutional investors and high-net-worth individuals, and will be subject to the approval of the Securities & Exchange Commission (SEC). The Bond will be listed on the Nigerian Exchange Limited and/or the FMDQ Securities Exchange Limited. In the event of an oversubscription, the Issuer may issue up to an additional 15% of the qualifying Book in line with prevailing regulations.

DETAILS OF INDEBTEDNESS OF THE ISSUER

As at 30 September 2022, the Issuer's outstanding interest-bearing debt stood at ₦111 billion. These loans, which have tenors of up to 5 years, attract interest rates of between 6% – 18% per annum. We do not anticipate a substantial increase in the Issuer's overall debt profile upon completion of the proposed Series 1 Bond issuance as the bulk of the net proceeds will be used to refinance existing bank loans.

Table 5: Status of Indebtedness of the Issuer as at 30 September 2022

Outstanding Borrowings	FYE 2021 (₦'million)
Short term loans	20,000
Corporate bonds	53,640
Subsidized loans	37,407
Total	111,047

Source: Management Presentation

NEGATIVE PLEDGE

Whilst portions of the Series 1 Bond remain outstanding, the Issuer shall not, without the written consent of the Trustee, secure any financial indebtedness, unless the Issuer shall at the same time as the creation of such indebtedness or encumbrance grant to the Trustee (for the benefit of the Series 1 Bondholders) the same or equivalent security as is granted to the indebtedness. We have not considered the negative pledge in assigning the rating.

FINANCIAL FORECAST & ANALYSIS

The Issuer has prepared a five-year financial forecast from 2023/2024 to 2027/2028 covering statements of comprehensive income, statements of financial position and statements of cash flow together with their underlying assumptions. Agusto & Co. has adopted some aspects of the Issuer's financial projections, on account of the reasonableness of the assumptions and sensitized the cost estimates in line with historical trends and current economic realities. Some of the critical assumptions supporting the projections are stated below;

Table 6: FMN's assumptions and basis for financial forecast

Description	Flour Mills' Assumptions	Agusto & Co.'s Adjusted Assumptions
Revenue	The Issuer estimates a compounded average growth rate (CAGR) of 23% over the forecast period.	We foresee enormous opportunities for volume growth (particularly across the food segment) following the recent acquisition of Honeywell. Also, we expect the Issuer's favourable product mix and competitive pricing to continue to support sales volume over the forecast period. Therefore, we have adopted FMN's revenue estimates.
Costs	Direct production and other overhead costs are to increase by 23% and 5% respectively over the next five years.	We have adjusted direct production costs to consider the impact of currency devaluation on key inputs and sensitized other overheads in line with the country's worsening inflationary pressure.

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Description		Flour Mills' Assumptions	Agusto & Co.'s Adjusted Assumptions
Pre-tax margin	profit	The Issuer estimates an average pre-tax profit margin of 9% over the forecast period	We have adjusted the pre-tax profit margin estimates to align with FMN's five-year (2018 – 2022) historical trend by considering the rising cost pressures and subdued consumer spending that has continued to limit its ability to fully pass on cost increases to consumers.

Source: Flour Mills of Nigeria Plc's Financial Forecasts

Based on the assumptions above, the Issuer estimates a cumulative revenue of ₦4.4 trillion over the three years ending 31 March 2026. Over 95% of the projected revenue will be generated from the food segment, while the rest will be contributions from the packaging and transport businesses. This is consistent with FMN's expanding product portfolio and aggressive investments in its route-to-market capabilities with the addition of new distribution vans to bolster its fleet. Based on the operational synergy to be derived from the recent acquisition of Honeywell, we believe that FMN is well-positioned to capture the growth opportunities that exist within the B2B and B2C product categories. Therefore, we expect the Company to meet its revenue projections.

FMN estimates a cumulative direct cost of ₦3.9 trillion, representing 88% of the projected revenue over the next three years. However, Agusto & Co. has adjusted this to 90% owing to the increasing volatility of the global economy as well as the strain of currency devaluation and foreign exchange illiquidity, which we believe will continue to trigger an upsurge in the prices of imported input materials. Whilst we recognize continuous investments in various backward integration strategies to lessen dependency on imported raw materials, the devastating flooding and herder-farmer conflicts that have impaired crop production in the country are major obstacles that will continue to militate against FMN's input self-sufficiency drive. Therefore, we expect the vulnerability of the Company's direct costs to foreign exchange risks to persist.

Flour Mills of Nigeria Plc estimates a cumulative operating expense (including selling, distribution and other administrative expenses) of approximately ₦180 billion over the forecast period, while cumulative other income to be earned over the next three years stands at approximately ₦45.1 billion. Overall, the Company expects cumulative earnings before interest, taxes, amortisation and depreciation (EBITDA) of ₦378.5 billion, which translates to an average EBITDA margin of about 9% over the tenor of the Series 1 Bond. We recognise that the estimated EBITDA margin is at par with the Company's historical trend. The estimated cumulative finance costs from both existing borrowings and the Series 1 Bond of ₦136.1 billion represent about 3% of cumulative revenue, which is below our 5% threshold. However, we expect FMN's interest expense to revenue ratio to inch up in the first year of the Series 1 Bond issuance but expect extra earnings from new investments to somewhat cushion the anticipated rise in debt servicing costs in subsequent years.

Overall, FMN forecasts a cumulative pre-tax profit of ₦242.5 billion over the next three years, representing 6% of total revenue over the same period, compared with the average pre-tax profit margin of 3% recorded in the last five years. To the extent that FMN is unable to pass on cost increases to its consumers, we expect its pre-tax profit margin to continue to mirror historical trends.

Table 7: Adjusted Operating Cash Flow Statement

	Year 1	Year 2	Year 3	Total
	₦'mn	₦'mn	₦'mn	₦'mn
Total revenue	1,076,012	1,470,859	1,838,580	4,385,451
Total direct cost (excluding depreciation)	-968,411	-1,323,773	-1,654,722	-3,946,906
Total operating expenses	-32,280	-44,126	-55,157	-131,563
Total other income (net non-operating gains)	26,900	36,771	45,964	109,635
EBITDA	102,221	139,731	174,665	416,617
Interest on existing debt*	-21,520	-29,417	-36,772	-87,709
Coupon on the Series 1 Bond	-6,670	-5,836	-2,501	-15,007
Total interest payment	-28,190	-35,253	-39,273	-102,716
Repayment of existing borrowings (bank loans and corporate bonds)*	-19,762	-19,762	-19,762	-59,286
Series 1 Bond principal obligation	-	-23,000	-23,000	-46,000
Total principal repayment	-19,762	-42,762	-42,762	-105,286
Total interest coverage (times)	3.6	4.0	4.4	4.1
Total debt coverage (times)				2.0

Source: Financial Forecast of the Issuer and Agusto & Co. Estimates

*This excludes outstanding interest-bearing debts of Honeywell Flour Mills Plc.

Buoyed by its strong market position and brand acceptance, we believe that FMN is better positioned to deepen market penetration in Nigeria as well as capitalise on the growth potentials presented by the African Continental Free Trade Area (AfCFTA) agreement to expand its geographical spread and revenue streams. Therefore, we believe that the adjusted EBITDA and pre-tax profit are achievable.

Based on our conservative cost assumptions, we expect FMN's cumulative potential cash flow of ₦416.6 billion to be more than sufficient to cover payment obligations on its existing borrowings as well as the Series 1 Bond, thus resulting in a healthy interest and debt service coverage ratios of approximately 4.1x and 2.0x respectively, which we consider good.

OUTLOOK

FMN has continued to pursue strategic business opportunities, such as capacity expansion and realignment of its food segment, whilst advancing its backward integration and local content programmes aimed at minimising reliance on imported grains and exposure to external shocks. The Company recently launched the new Golden Penny noodles and spaghetti/macaroni variants such as Jollof (chicken and goat pepper soup flavours), Dawavita and Mai Kwabo, and introduced the Golden Penny Amazing Day breakfast cereal. In addition, FMN has continued to restructure its route-to-market model with increased investments in its transport fleet capacity covering both the B2B and B2C categories.

The Issuer's revenue has maintained an upward trajectory in the six months ended 30 September 2022 (unaudited) on the back of sustained volume growth despite input cost pressures from prolonged supply chain disruptions, coupled with the strain of foreign exchange illiquidity and high inflation rate. Given consumers' contracting disposable income and the intense price competition within the market, FMN intends to protect profit margins across its food segment by sustaining the competitive pricing strategy, whilst modifying its product packaging to

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increase affordability. Overall, we anticipate increased and sustained investments in the Issuer's route-to-market capabilities to drive volume growth, whilst aggressively pursuing various cost optimization programmes aimed at protecting its earnings and profit margins.

Flour Mills of Nigeria Plc issued a ₦46 billion Series 1 Bond under its newly registered ₦200 billion Bond Programme to refinance existing bank borrowings as well as support its working capital needs. The Bond attracts a 14.5% fixed coupon rate, which will be determined through a book-building process and payable semi-annually over three years, while the Bond principal will enjoy a 12-month moratorium (beginning from the Issue Date), and thereafter be amortised every six months over the remaining tenor.

As at 30 September 2022, the total outstanding bonds raised by the Issuer (under the previous ₦70 billion Bond Issuance Programme) stood at ₦59.89 billion (see table below). The Issuer has consistently met payment obligations on the outstanding Bonds from its operating cash flow. Considering that about 80% of the new bond proceeds will be used to refinance existing bank loans, we do not anticipate a significant increase in FMN's overall debt profile and debt service costs.

Table 2: List of FMN's Outstanding Bonds

Bonds	(₦'billion)	Maturity Dates
Series 2	3.75	30 October 2023
Series 3 – Tranche A	12.50	27 February 2023
Series 3 – Tranche B	7.50	27 February 2025
Series 4 – Tranche A	4.89	14 December 2025
Series 4 – Tranche B	25.00	14 December 2027
Total	53.64	

Source: FMN's Financial Statements

The Issuer is poised to become the leading consumer and B2B food brand in Nigeria on the back of the growth opportunities to be derived from the recent acquisition of Honeywell. Thus, we expect the double-digit sales growth to be sustained over the forecast period. However, we have sensitized FMN's cost estimates to better reflect economic realities. Notwithstanding, we expect FMN to continue to maintain operating cash flows that will be sufficient to meet payment obligations to its lenders as well as Bondholders. This is evidenced by its healthy interest and debt coverage ratios. In addition, we believe that the considerable funding support from its committed undrawn bank lines further demonstrates FMN's strong capacity to refinance maturing local currency debt obligations with ease.

Based on the above, we attach a **stable** outlook to Flour Mills of Nigeria Plc's up to ₦46 Billion 3-Year 14.5% Series 1 Fixed Rate Senior Unsecured Bond Due 2026.

FINANCIAL SUMMARY

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Mar-21		31-Mar-22		30-Sep-22 Unaudited	
	₦'million		₦'million		₦'million	
TURNOVER	535,882	100.0%	832,811	100.0%	402,358	100.0%
OPERATING PROFIT	27,170	5.1%	32,166	3.9%	21,711	5.4%
INTEREST EXPENSE	(10,032)	-1.9%	(15,196)	-1.8%	(11,586)	-2.9%
PROFIT BEFORE TAXATION	28,184	5.3%	29,749	3.6%	7,514	1.9%
TAX (EXPENSE) BENEFIT	(8,011)	-1.5%	(7,929)	-1.0%	(2,405)	-0.6%
PROFIT AFTER TAXATION	20,172	3.8%	21,820	2.6%	5,109	1.3%
NON-RECURRING ITEMS (NET OF TAX)	(958)	-0.2%	932	0.1%	932	0.2%
PROFIT AFTER TAX & NON-RECURRING ITEMS	19,214	3.6%	22,751	2.7%	6,041	1.5%
DIVIDEND	(5,658)	-1.1%	(6,691)	-0.8%	(8,791)	-2.2%
PROFIT RETAINED FOR THE YEAR	13,557	2.5%	16,060	1.9%	(2,750)	-0.7%
OTHER APPROPRIATIONS/ ADJUSTMENTS	-		-		(932)	
PROFIT RETAINED B/FWD	69,002		82,559		98,619	
PROFIT RETAINED C/FWD	82,559		98,619		94,937	

STATEMENT OF FINANCIAL POSITION AS AT	31-Mar-21		31-Mar-22		30-Sep-22 Unaudited	
	₦'million		₦'million		₦'million	
ASSETS						
CASH & EQUIVALENTS	27,625	7.3%	20,274	4.2%	30,473	5.7%
TOTAL TRADING ASSETS	179,807	47.3%	278,804	57.2%	295,727	55.3%
TOTAL LONG-TERM ASSETS	172,890	45.5%	188,539	38.7%	208,418	39.0%
TOTAL ASSETS	380,323	100.0%	487,618	100.0%	534,619	100.0%
<i>Growth</i>	21.0%		28.2%		9.6%	
LIABILITIES & EQUITY						
TOTAL INTEREST-BEARING LIABILITIES (TIBL)	83,619	22.0%	95,162	19.5%	181,562	34.0%
TOTAL NON-INTEREST BEARING LIABILITIES	136,825	36.0%	217,792	44.7%	178,700	33.4%
TOTAL LIABILITIES	220,444	58.0%	312,954	64.2%	360,263	67.4%
SHAREHOLDERS' EQUITY	159,879	42.0%	174,664	35.8%	174,356	32.6%
TOTAL LIABILITIES & EQUITY	380,323	100.0%	487,618	100.0%	534,619	100.0%

CASH FLOW STATEMENT FOR Y/E	31-Mar-21		31-Mar-22		30-Sep-22 Unaudited	
	₦'million		₦'million		₦'million	
OPERATING ACTIVITIES:						
Potential operating cash flow	41,720		47,502		25,657	
WORKING CAPITAL CHANGES:						
Cash from (used by) spontaneous financing	27,229		80,749		(47,875)	
Cash from (used by) working assets	(33,068)		(98,997)		(16,923)	
CASH FROM (USED IN) OPERATING ACTIVITIES	35,881		29,253		(39,141)	
RETURNS TO PROVIDERS OF FINANCING						
Interest paid	(10,032)		(15,196)		(11,586)	
Dividend paid	(5,441)		(6,473)		(8)	
OPERATING CASH FLOW AFTER PAYMENTS TO PROVIDERS OF FINANCING	20,407		7,585		(50,735)	
CASH FROM (USED IN) NON-RECURRING ACTIVITIES	(958)		932		932	
CASH FROM (USED IN) FINANCING ACTIVITIES	25,049		11,543		86,401	
CHANGE IN CASH INC/(DEC)	11,592		(7,351)		10,199	
OPENING CASH & MARKETABLE SECURITIES	16,032		27,625		20,274	
CLOSING CASH & MARKETABLE SECURITIES	27,625		20,274		30,473	

Flour Mills of Nigeria PLC's up to ₦46 Billion 3-Year 14.5% Series 1 Fixed Rate Senior Unsecured Bond Due 2026

KEY RATIOS	31-Mar-21	31-Mar-22	30-Sep-22 Unaudited
PROFITABILITY			
SALES GROWTH	36%	55%	13%
OPERATING PROFIT MARGIN	5%	4%	5%
RETURN ON ASSETS (PRE-INTEREST PRE-TAX)	10%	9%	7%
RETURN ON EQUITY (PRE-TAX)	18%	17%	9%
CASH FLOW			
OCF AS % OF RETURNS TO PROVIDERS OF FINANCING	232%	135%	-338%
OCF AS % OF SALES	7%	4%	-10%
WORKING CAPITAL			
WORKING CAPITAL NEED (DAYS)	29	27	106
OVERALL WORKING CAPITAL DEFICIENCY (DAYS)	-	2	41
LEVERAGE			
NET INTEREST BEARING DEBT AS % OF AVERAGE TOTAL ASSETS (EXCLUDING CASH & REVALUATION SURPLUS)	55%	71%	68%
INTEREST COVER (TIMES)	4	2	-3.4
NET ASSETS/(LIABILITIES) IN FCY			
NET EXPOSURE TO CURRENCY RISK (\$'000)	(19,125)	(81,676)	-
NET EXPOSURE TO CURRENCY RISK (€'000)	-	(317)	-
NET EXPOSURE TO CURRENCY RISK (CHF'000)	-	(1,502)	-
OTHER ADDITIONAL INFORMATION			
STAFF COSTS (₦'MILLION)	23,592	27,792	-
AVERAGE NUMBER OF STAFF	3,809	3,778	-
STAFF COST PER EMPLOYEE (₦'MILLION)	6	7	-
CAPITAL EXPENDITURE (₦'MILLION)	12,148	22,914	15,537
DEPRECIATION AND AMORTISATION (₦'MILLION)	11,015	11,770	6,567
EBITDA (₦'MILLION)	49,819	57,410	32,517
AUDITORS	KPMG	KPMG	N/A
OPINION	CLEAN	CLEAN	N/A

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.

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