GCR GLOBAL CREDIT RATING CO.
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Flour Mills of Nigeria Plc

Nigeria Corporate Analysis **October 2019**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long term	National	BBB+$_{(NG)}$	Stable	September 2020
Short term	National	A2$_{(NG)}$		

Financial data:

(USD'm comparative)[α]

	31/03/18	31/03/19
N/US$ (avg.)	305.8	305.6
N/US$ (close)	305.7	306.5
Total assets	1,045.6	1,015.2
Total debt	336.4	256.9
Total capital	485.7	443.8
Cash & equiv.	45.8	25.1
Turnover	1,273.4	1,211.4
EBITDA	132.3	85.6
NPAT	30.2	57.4
Op. cash flow	(128.1)	(21.2)
Market cap *	N61.5bn/USD200.7m	

[α] Central Bank of Nigeria ("CBN") exchange rate.
** As at October 3, 2019 @ N306.5/USD.*

Rating history:

Initial rating (June 2016)
Long-term: BBB+$_{(NG)}$
Short-term: A2$_{(NG)}$
Rating outlook: Stable

Last rating (September 2018)
Long-term: BBB+$_{(NG)}$
Short-term: A2$_{(NG)}$
Rating outlook: Stable

Related methodologies/research:

Global Master Criteria for Rating Corporate Entities, updated February 2018
Flour Mills of Nigeria Plc Rating Reports (2016-18)
Glossary of Terms/Ratio, February 2018

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Summary rating rationale

- The ratings of Flour Mills of Nigeria Plc ("FMN" or "the Company") are underpinned by its leading position in the Nigerian flour milling industry, driven by its experienced management team, substantial multi-product milling capacity, product diversification and wide distribution network.
- Revenue was marginally impacted by a challenging economic landscape, albeit in line with FY19 projections. While Global Credit Rating Co. Limited ("GCR") notes FMN's strong revenue baseline, 1Q FY20 results indicated a 10% y/y decline in the top line, with further variability likely to arise from the impact of the tough operating environment. Management projects a lean (4%) growth in FY20, reflecting expectations for increase in competition amid subdued demand. In the long term, top line growth is forecast to be driven by higher volumes and the introduction of higher margin products to the existing portfolio.
- Margins narrowed in FY19, primarily attributable to higher commodity prices of key inputs (mainly wheat) and increase in marketing and promotional activities. However, some uptick was seen in 1Q FY20 (relative to FY19, but below 1Q FY19) partly attributable to the exclusion of the agro-allied and fertilizer businesses in FY20. While some respite in commodity prices have recently occurred, FMN's profits will remain volatile and susceptible to vagaries in the international prices.
- In FY19, gross finance cost reduced by 42%, albeit credit protection remained low with a net interest coverage of 1.5x (FY18: 1.8x), due to the weakening in operating profits. GCR is particularly concerned by the persistently negative operating cash flow coverage of debt. Management projects a net interest coverage of 4.7x, on the back of enhanced operating income and lower interest payment, but expects a negative net operating cash flow in FY20, with significant improvement thereon only in the medium to long term.
- Consistent funding support to subsidiaries has been a major source of working capital pressure to FMN since FY17. This has resulted in negative operating cash coverage of debt in all the review years (save for FY16). While the management's intention is for subsidiaries to raise funding independently without recourse to FMN, GCR maintains the view that such funding support may continue over the medium term when the subsidiaries are expected to have seen substantial improvement in margins and garnered scale.
- FMN's debt position moderated 23% in FY19 as proceeds from bonds and rights Issues were utilised to redeem some short term debts. However, near-term maturities remained high at 72% (FY18: 85%), reflecting elevated refinancing risk, especially when taken in conjunction with negative free cash flows. To mitigate this, FMN is planning to issue a N20bn bond in FY20 and access additional long term concessional facilities to repay existing short term debt. This will see short term maturities moderate to 25% of total debt in the financial year, while net debt to EBITDA is projected to moderate gradually to 100% by FY23 from 272% in FY19 (FY18: 220%).

Factors that could trigger a rating action may include

Positive change: An upward ratings migration is dependent on significant ramp up in margins, positive operating cash flow coverage of debt, and improvement in the earnings based gearing.

Negative change: Persistently weak net interest coverage, lower profit margins, higher debt and increase in working capital pressures arising from funding support to related parties could place pressure on the ratings.

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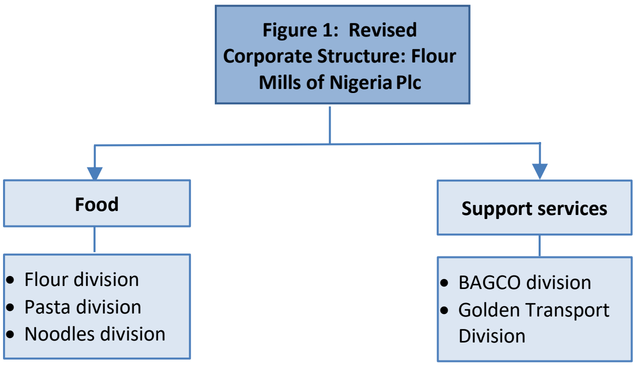
Company profile and recent developments

Established in 1960 and listed on the Nigerian Stock Exchange ("NSE") in 1978, FMN is the largest flour milling company in Nigeria, with about 28% of industry installed milling capacity. Integration along the value chain has supported an extensive product range including flour, foodstuffs, fertilisers, as well as internal packaging and logistics solutions; split into the Food, Agro-Allied and Support Services divisions as at FY19. Overall, the Company accounts for 70% and 92% of the Group's revenue and net assets respectively.

FMN recently underwent an operational restructuring of its subsidiaries in a bid to enhance operational efficiency and simplify its organisational structure. This involved the transfer of the fertilizer interests and shares in the Agro-Allied businesses to a newly incorporated holding company ("HoldCo"), Golden Fertilizer Company Limited ("GCFL"). For the support services division, the management also consolidated operations of the Apapa Bulk Terminal Ltd and Olympic Towers Ltd. In addition, the net assets of Sunti Golden Sugar Estates Ltd were also transferred to Golden Sugar Company Ltd ("GSCL"). The restructure fully took effect in 1Q FY20, with the results of the agro-allied and sugar segments reported only in the consolidated management accounts. Going forward, FMN intends to also consolidate the farming operations that directly complement its value chain.



FMN partners with key agro-allied companies and local farmers, and is integrating operations in order to mitigate foreign exchange risks, strengthen the value chain and reduce earnings variability. During FY19, this included the commencement of operations at the new Fertiliser Blending Plant in Kaduna, refurbishment of flour mills in Lagos, investment in gas fire plants (supportive of energy cost savings of c.N900m), and the launch of operations at all Silos.

Following the initial rights and bond Issues in FY19, FMN plans to raise an additional N20bn from a Series 3 Bond under its N70bn Medium Term Bond Programme. This will be used to settle existing short term debt.

As the ratings assigned assess the credit quality of the Issuer in respect of interest-bearing liabilities for which it is an obligor, the analysis focuses on Flour Mills Plc, and not on the consolidated position.

Shareholding and corporate governance

FMN has historically been largely compliant with requirements of the Companies and Allied Matters Act ("CAMA"), Securities and Exchange Commission ("SEC") and the NSE regulations. GCR does note the N1.6m fine paid to the NSE in FY19 for an unauthorised publication of its key business investment without prior approval, whilst taking cognisance of measures that have been put in place to prevent future regulatory breaches. The restructuring does help to simplify the Company structure, and should help in having a clearer overview of the corporate governance system in place.

The group board has oversight of financial, operational and compliance issues, while day to day responsibilities are delegated to the managing director and the management team. Non-executive directors come from diverse backgrounds, including manufacturing, sales management and commercial law. These directors also sit on the boards of other NSE corporates.

At FY19, 54.7% of the group's shares were foreign owned (by Excelsior Shipping Company Limited, Liberia), with the balance being individual and institutional Nigerian investors (with Stanbic IBTC Nominees Limited, holding 5.7% on behalf of portfolio investors). Aside these, no other shareholder held up to 5% of the Company's share capital as at 31 March 2019.

Table 1: Corporate governance summary

Board composition	
Number of directors	15
Independent non-executives	7
Non-independent non-executives	7 (Incl. chairman and vice chairman).
Executive	1 (the managing director).
Separation of the chairman	Yes.
Frequency of meetings	Minimum of quarterly.
Board committees	Remuneration/Governance committee, Risk management committee and Statutory audit committee.
Internal control & compliance	Yes, independent reports to the Board.
Financial reporting and audit	Financial statements comply with International Financial Reporting Standards ("IFRS"), as well as the requirements of Companies and Allied Matters Act ("CAMA") and the Financial Reporting Council of Nigeria Act. KPMG Professional Services issued a clean audit opinion on the FY19 financial statements (and the preceding 4 years).

Earnings diversification

FMN continues to widen its distribution network and customer base, which has further entrenched its leading market position in a number product lines. Further diversification has mostly been in Food (which accounted for 93% of total revenue in FY19). Due to the general decline in volumes in FY19 (resulting from constrained demand amidst reduced average disposable income levels), the Food division lost over N5bn in revenue. While stronger Agro-Allied revenue was achieved due to higher traded volumes of edible oils to bulk consumers, the division is only expected to achieve substantive scale in the long term.

Food margins remain under pressure, as suppressed volumes have coincided with high and volatile input costs, especially wheat, which accounts for over 80% of the cost of sales. While Agro-Allied typically reports unstable gross margin, the strong uptick in profitability in FY19 followed the cut back of import requirements through the implementation of import substitution drives. However, following the corporate restructuring that was fully effected in 1Q FY20, the agro-allied subsidiaries are no more reported under the Company, but within the consolidated position. Support Services remain largely complementary, with revenues from the unit coming mostly from packaging. While there is potential for meaningful growth from logistics, this is only expected to be realised well beyond the rating horizon.

Operating environment and competitive position

Nigeria's rapidly expanding urban population continues to support high demand for flour and agro-allied products. Other key industry strengths include efficient marketing and distribution strategies, innovation, and the increased prominence of domestic brands amidst the continued ban on the importation of certain food products. That said, industry growth is hampered by the high imported inflation on inputs that are either not grown locally or where local production is insufficient to meet demand. The industry is inherently low margin, with earnings mostly volume-driven. Despite the Nigerian Government's efforts to stimulate local wheat production, Nigeria's output is forecast to remain less than 10% of demand in the medium term. The industry is also faced with massive infrastructural deficit and other systemic problems, which contribute to earnings volatility/variability. As such, a number of players are investing in backward integration, which will ensure the security of the supply chain as well as support operational efficiencies.

FMN is the largest player in the Nigerian flour milling industry, with an estimated market share of over 40%[1] in FY19. Other major players include Dufil Prima Foods Plc, the Olam Group and Honeywell Flour Plc.

Table 3: Key comparatives (N'm)	**FMN* Mar. 2019**	**Dufil Dec. 2018**	**Honeywell Mar. 2019**
Revenue	*370,205.5*	*206,173.0*	*74,409.1*
EBITDA	**26,157.1**	**24,194.0**	**6,153.2**
Op. profit	15,052.9	20,674.6	3,414.7
Net finance cost	(10,014.4)	(8,349.1)	(3,308.5)
NPBT	**18,536.2**	**13,737.6**	**607.8**
Total debt	**78,739.7**	**84,262.2**	**55,239.3**
Cash	*(7,678.3)*	*(2,232.4)*	*(10,666.9)*
Net debt	**71,061.4**	**82,029.8**	**44,572.4**
Equity	*136,029.8*	30,573.4	56,631.7
Key ratios (%):			
Revenue growth	(0.3)	20.0	4.1
Gross margin#	11.6	20.8	18.6
Op. margin	4.1	10.0	4.6
Net int. coverage (x)	1.5	2.5	1.0
Net debt: EBITDA	271.7	339.1	724.4
Net debt: equity	52.2	268.3	78.7

*Company numbers Source: Audited Financials
normalised for depreciation charged to cost of sales.

The capital intensive nature of the business presents high entry barriers, while consolidation is in evidence. Specifically, Olam Group acquired BUA Flour Mills in January 2016 and is in the process of acquiring Dangote Flour Mills Plc, subject to regulatory approval. This has intensified competition, as business combinations present opportunities for rapid accumulation of capacity, which in this instance has also seen the opportunity for internationally-backed players to consolidate their market position.

The industry is exposed to significant foreign exchange risk, which, coupled with the high lending rates prevalent in the market, did elevate the cost of funding in FY19, in addition to already high production costs. However, stiff competition has limited producers' ability to pass on costs to consumers. The ease in the interest rates in recent months is noted, and FMN intends to renegotiate loan terms with lenders in this regard. FMN is mitigating foreign exchange risks through hedging. Although FMN reports the lowest margins relative to peers, a strong baseline volume underpins sustained (albeit volatile) profitability, while its relatively moderate gearing is supportive of a more sustainable credit risk profile.

Financial performance

A five-year synopsis of the Company's financials is appended to this report, with brief commentary hereafter. Due to the adoption of IFRS 9 (which required, *inter alia*, the provision for possible future credit losses in the first reporting period of a loan and measurement of some assets at fair value), there were significant changes to the financial statements in FY19, particularly relating to long term loans, trade and other receivables and non-operating profits. Comparative information for the previous year was not restated.

Whereas additional capacity supported especially strong revenue growth in FY17, competitive pressures amidst constrained disposable income levels has driven revenue compression since FY18. While management anticipates moderate growth in FY20, the Company's top line remains susceptible to pricing pressure.

These pressures are borne out in the sharp contraction in the gross margin, which fell to a review 11.6% in FY19 (FY18: 15.3%, period average: 13.5%), as sales prices remained constrained despite input cost inflation. Sharp increases were also reported in staff costs, and repairs and maintenance, reflecting the additional cost related to newly installed facilities. Positively, the Company achieved c.N1bn reduction in direct energy costs on the back of ongoing transition to gas power.

Overheads remain well contained, as evidenced in the relative resilience in the EBITDA, which does speak to operational efficiencies. That said, EBITDA fell by 35% to N26.2bn, while the uptick in depreciation in FY19 (due to the recently completed facilities) further amplified the contraction at the EBIT line. Overall, while production costs continue to place pressure on profitability, FMN is expected to continue to leverage scale to mitigate substantial margin volatility (as borne out by its ability to claw back some margin in 1Q FY19).

[1] Management estimate

Table 4: Income statement (N'm)	FY17	FY18	FY19	Budget FY19	% achvd
Revenue	*375,225*	*371,371*	*370,206*	*373,493*	*99.1*
Gross profit	56,958	56,932	43,036	53,336	80.7
EBITDA	44,930	40,465	26,157	43,948	59.5
Dep. & amort.	(8,535)	(8,484)	(11,104)	(8,592)	129.2
Op. profit	**36,396**	**31,981**	**15,053**	**35,595**	**42.3**
Net int. expense	(18,969)	(17,712)	(10,014.4)	(8,180)	-
Other	(6,447)	(2,241)	13,497.6	(88)	-
NPBT	**10,980**	**12,027**	**18,536**	**27,327**	**67.8**
Key ratios (%)					
Gross margin*	15.2	15.3	11.6	14.3	
EBITDA margin	12.0	10.9	7.1	11.8	
Op. margin	9.7	8.6	4.1	9.5	
Net int. cover (x)	1.9	1.8	1.5	4.4	

*Normalised for depreciation charged to cost of sales.

Having paid down most of its more expensive short-dated credit facilities and intra-group loans (that were obtained on commercial terms), FMN's gross interest reduced by over N11bn (42%) to N16bn. This was moderated by interest income from related parties (N5.3bn) and short term deposits, resulting in a lower net finance charge of N10bn (FY18: N17.7bn). However, due to the contraction in the operating income, a lower net interest coverage of 1.5x was reported, indicative of weak credit protection. Overall, pressure on production costs was offset by dividend income and a reduced effective tax rate to support a review period high profit from continuing operations of N17.5bn (FY18: N7.9bn). FMN expects a sustained upstreaming of dividend income, although the variability of sugar earnings could result in volatility in such cash flows.

The stronger NPAT of N19.3bn in FY19 (FY18: N9.2bn) was supported by profit (of N1.8bn; FY18: N1.4bn) earned from the discontinuance of the fertilizer blending operations at the Company level, following the transfer of assets. The profits are fully attributable to the owners of FMN.

Table 5: YTD financial performance (N'm)	1Q FY18	1Q FY19	1Q FY20	Y/y growth (%)	Forecast FY20	% achvd
Revenue	*105,099*	*98,489*	*88,506*	*(10.1)*	*385,563*	*23.0*
Gross profit	14,144	15,973	11,636	(27.2)	40,053	29.1
EBITDA	10,937	11,214	7,081	(36.9)	31,496	22.5
Depreciation	(2,038)	(2,349)	(2,454)	4.5	(10,927)	22.5
Op. profit	**8,899**	**8,865**	**4,627**	**(47.8)**	**21,413**	**21.6**
Net interest exp.	(4,720)	(2,781)	(1,978)	(28.9)	(4,582)	43.2
NPBT	**4,179**	**5,858**	**2,725**	**(53.5)**	**15,986**	**17.0**
Key ratios (%)						
Gross margin*	13.5	16.2	13.1	-	10.4	-
EBITDA margin	10.4	11.4	8.0	-	8.2	-
Op. margin	8.5	9.0	5.2	-	5.6	-
Net int. cover (x)	*1.9*	*3.2*	*2.3*	-	*4.7*	-

*Normalised for depreciation charged to cost of sales.

Margins ticked up in 1Q FY20 relative to FY19, but was below 1Q FY19 due to the exclusion of the agro-allied and fertilizer businesses in FY20. A revised projection has thus being provided, reflecting moderations in the forecasts based on current/expected market realities, the impact of the proposed bond Issue and the expected performance and position of the Company post the restructuring. In this regard, 1Q FY20 margins indicate strong annualised performance relative to budgets, albeit still underperforming the target as the expected moderation in input costs only materialised in 2Q. On the back of independent forecasts[2], projecting a reduction in the international wheat price over the next three quarters, GCR expects moderate improvement in the margins in FY20.

Cash flow

Cash generated by operations has been volatile over the review period, in line with variations in profitability. In FY19, this reduced by N18.2bn to N30.6bn, largely reflecting the decline in EBITDA. Positively, working capital pressures eased materially from the substantial cumulative absorption reported in the previous two years (of N124bn). Working capital movements continue to be underpinned by financing for group subsidiaries (mostly in the form of funding secured by FMN and on lent), the accumulation of stocks, and prepayments for raw material imports, with FMN providing a centralised procurement capacity.

Table 6: Movement in working capital (N'm)	FY17	FY18	FY19	1Q FY19
Inventory	(26,340.0)	(9,326.8)	(3,885.4)	6,904.0
Trade receivables	(266.2)	666.4	(776.4)	1,609.2
Trade payables	26,409.4	(14,184.8)	14,532.5	(3,922.5)
Net trading assets change	***(196.8)***	***(22,845.2)***	***9,870.6***	***4,590.8***
Net related party exposure	(13,707.2)	(83,549.9)	(41,166.1)	(9,687.7)
Prepayments for imports	(39,956.5)	35,486.6	2,449.0	(3,172.6)
Provisions and other	1,956.5	(1,629.7)	(2,945.5)	(4,237.7)
Other working capital changes	***(51,707.1)***	***(49,693.1)***	***(35,771.6)***	***(17,098.1)***
Movement in WC	**(51,903.9)**	**(72,538.3)**	**(25,901.0)**	**(12,507.3)**

Pressures arising from FMN's own working capital cycle have eased materially due to support from creditors (and reduced stocking pressures/production efficiencies). That said, its overall liquidity requirements remain inextricably linked to the working capital cycle of its subsidiaries, which, coupled with related foreign currency distortions have elevated funding requirements. In FY19, N65.7bn in new loans was made out to related parties (FY18: N22.6bn), while N42.2bn in trade debtors (FY18: N106.1bn) was termed out into non-current loans receivable. Positively, N100.8bn was released from debtors (FY18: N73.6bn release), pointing to some efficiencies being built into the Company's cash management cycle. FMN's working capital position in recent years has also been distorted by non-repeating adjustments, including for IFRS 9 in FY19 (N11.5bn) the conversion of loans to equity (FY17: N33.3bn). In addition, despite the high ongoing inventory requirements, stock movements have relatively normalised from the capacity driven high absorption in FY17. Although partly due to subdued demand, the release from stocks in 1Q FY20 helped to contain the overall working capital requirement, this remains susceptible to exogenous vagaries, mainly from wheat prices.

[2] Trading Economics commodities forecast, 2019-2020

Overall, and after accounting for a high but comparatively lower net finance cost, FMN reported a lower net operating cash outflow of N6.5bn (FY18: N39.2bn). With a further outflow in 1Q FY19, FMN's operations have absorbed a cumulative N84bn in cash since FY17, reflecting increased pressure on the credit risk profile. While the changes to its structure and positioning are noted, FMN would therefore have to demonstrate a sustainable cash conversion (and overall cash management cycle) to support an improvement in its credit protection metrics.

While much lower than its subsidiaries' ongoing liquidity requirements, FMN's capex has also risen to build/maintain capacity, albeit partially met by dividend income in FY19. Notwithstanding the negative free cash flows, the Company paid N4.3bn in dividends during the year (albeit, in respect of dividend declared in prior year), compared to a four-year average of N3.4bn. The company maintains a dividend policy of N1 per share, subject to an increase no greater than 10% depending on profitability.

Funding profile

FMN's funding support to subsidiaries reduced by N10.8bn in FY19, underpinned by repayment of some of the long term loans as well as the impact of higher impairment charge (N3.6bn; FY18: N799m). Notwithstanding the overall reduction, the working capital cycle continues to represent a source of funding risk given exogenous pressures from foreign exchange and input cost variability.

While equity had climbed to a period high of N148.5bn in FY18, underpinned by a combination of a rights Issue and higher retained earnings, it was significantly depleted by c.N28bn related to adjustments on first time adoption of IFRS 9 in FY19. Thus, despite higher retained earnings in the year, shareholders' funds were eroded by over N12bn, materially underperforming targets.

Table 7: Funding profile (N'm)	**Actual**		**Forecast**	**Actual**	**Forecast***
	FY18	**FY19**	**FY19**	**1Q FY20**	**FY20**
Equity	*148,481*	*136,030*	*174,105*	138,196	147,405
Total debt	**102,833**	**78,740**	**62,833**	**98,197**	**75,363**
Cash	(14,000)	(7,678)	(14,294)	(9750.6)	(11,797)
Net debt	***88,833***	***71,062***	***48,539***	***88,446***	***63,566***
Ratios (%)					
Net gearing	59.8	52.2	27.9	64.0	43.1
Total gearing	69.3	57.9	36.1	71.1	51.1
Net debt: EBITDA*	219.5	271.7	100.7	312.3	201.8
Total debt: EBITDA*	254.8	301.0	130.3	346.7	239.3

*EBITDA is annualised for 1Q FY20.

FMN reported a second consecutive decline in gross debt to N78.7bn in FY19 from N153.1bn in FY17 (FY18: N102.8bn), supported by a combination of the utilisation of cash reserves and proceeds of the rights Issue. Notwithstanding this, gross and net debt balances still registered well above forecasts in FY19, due to the lower than expected earnings amid sustained negative free cash flows. Furthermore, despite the overall reduction in debt, earnings based gearing metrics deteriorated, with gross and net debt to EBITDA rising to 301% and 272% respectively in FY19 (FY18: 254% and 220%). Net debt had reportedly climbed to N88.4bn at 1Q FY20 (well above the full year budget), with net debt to EBITDA registering 312%.

While FMN's strong banking relationships and access to various capital market instruments for funding support is well noted, higher utilisation may further exacerbate gearing metrics particularly in the light of declining profitability. Commercial bank lenders include Zenith Bank Plc, First Bank of Nigeria Ltd, Union Bank of Nigeria Plc and others. All debt represents unsecured Naira obligations. Although aligned to the highly working capital intensive nature of its exposures, FMN's short-term debt maturity profile (with only 30% of debt long term at 1Q FY19) elevates refinancing risk, especially given persistently negative cash flows. GCR does take cognisance of the ongoing re-profiling of FMN's debt base, with longer term debt expected to be obtained at lower rates, especially from the bond and commercial paper markets. All FMN's debt bear a negative pledge. FMN obtained approval for the registration of a N100bn commercial paper programme in 2Q FY19, out of which N20.3bn was drawn down in FY19 and an additional N25.2bn drawn in 1Q FY20. The total unutilised portion as at 1Q FY20 stood at N54.5bn. A headroom of over N34bn also exists on the overdraft, BOI and CBN facilities, well above the working capital requirement of c.20bn for FY20.

The proposed bond[3] Issue in FY20 (expected to spread maturities over a longer period and be utilised to refinance short term debts), does enhance FMN's financial flexibility. The revised forecasts anticipate a net debt to EBITDA of c.200% in FY20 and to lower further to c.100% by FY23, underpinned by stronger earnings and a gradual reduction in debt.

Table 8: Debt profile	**Int. rate (%)**	**FY18 (N'm)**	**FY19 (N'm)**	**1Q FY20 (N'm)**	**Maturity**
Bank of Industry	7-10	3,143.0	1,989.1	1,988.0	2021
Intra group loans	13-25	12,996.7	3,834.3	7,669.7	on demand
Bank overdrafts	14-22	16,466.2	1,519.1	13,501.0	on demand
Other bank loans	13-18	26,562.7	29,890.5	33,531.7	2022
Bond and CPs	12-16	43,664.8	41,506.6	41,506.6	2021-23
Total		**102,833.5**	**78,739.7**	**98,197.0**	

[3] Transaction documentation is being compiled.

Flour Mills of Nigeria Plc

(Naira in millions except as noted)

Statement of comprehensive income	Year end: 31 March	2015	2016	2017	2018	2019	1Q-2020
Turnover		229,777.9	247,876.5	375,225.3	371,370.7	370,205.5	88,506.0
EBITDA		**17,421.6**	**16,132.2**	**44,930.1**	**40,465.2**	**26,157.1**	**7,080.5**
Depreciation		(5,943.8)	(7,869.8)	(8,534.6)	(8,484.2)	(11,104.2)	(2,453.7)
Operating income		**11,477.8**	**8,262.4**	**36,395.5**	**31,981.0**	**15,052.9**	**4,626.8**
Net finance charges		(5,895.3)	(12,003.7)	(18,969.3)	(17,712.2)	(10,014.4)	(1,977.7)
Abnormal/Exceptional items		(4,671.5)	9,989.8	(6,446.6)	(2,241.3)	13,497.8	76.1
NPBT		**911.0**	**6,248.5**	**10,979.6**	**12,027.4**	**18,536.2**	**2,725.2**
Taxation paid		1,508.6	4,177.3	(1,150.5)	(4,171.7)	(986.7)	(626.8)
Profit from continuing operation		**2,419.5**	**10,425.8**	**9,829.0**	**7,855.8**	**17,549.5**	**2,098.4**
Profit from discontinued operations		**0.0**	**0.0**	**0.0**	**1,389.0**	**1,768.1**	**0.0**
Other comprehensive income		298.9	(474.9)	644.4	(461.1)	220.1	(2.7)
Total comprehensive income		**2,718.5**	**9,950.9**	**10,473.4**	**8,783.6**	**19,537.8**	**2,095.7**
Statement of cash flows							
Cash generated by operations		**15,904.5**	**15,691.3**	**37,576.3**	**48,727.3**	**30,562.1**	**7,140.0**
Utilised to increase working capital		(25,804.6)	6,013.4	(51,903.9)	(72,538.3)	(25,901.0)	(12,507.5)
Net finance charges		(6,766.2)	(12,029.2)	(16,000.3)	(15,131.0)	(10,014.4)	(1,977.7)
Taxation paid		(1,245.3)	(102.2)	(1.3)	(226.5)	(1,116.4)	(626.8)
Cash flow from operations		**(17,911.6)**	**9,573.2**	**(30,329.2)**	**(39,168.6)**	**(6,469.6)**	**(7,972.0)**
Maintenance capex‡		(5,943.8)	(6,513.1)	(6,842.8)	(8,484.2)	(11,104.2)	(1,918.4)
Discretionary cash flow from operations		**(23,855.4)**	**3,060.1**	**(37,171.9)**	**(47,652.7)**	**(17,573.8)**	**(9,890.4)**
Dividends paid		(4,981.9)	(3,660.9)	(2,971.3)	(2,838.6)	(4,257.2)	0.0
Retained cash flow		**(28,837.3)**	**(600.9)**	**(40,143.3)**	**(50,491.3)**	**(21,831.0)**	**(9,890.4)**
Net expansionary capex		(11,246.4)	0.0	0.0	(27.6)	(6,106.0)	0.0
Investments and other		680.2	(37.5)	(272.0)	(1,503.8)	12,627.8	71.0
Proceeds on sale of assets/investments		0.0	0.0	156.5	1,864.1	39.1	0.0
Shares issued		0.0	0.0	0.0	39,303.0	0.0	0.0
Cash movement: (increase)/decrease		(7,091.1)	(9,178.6)	(7,158.3)	10,157.0	6,221.0	(2,072.3)
Borrowings: increase/(decrease)		19,565.0	(17,535.4)	47,417.1	643.4	9,049.0	11,891.8
Net increase/(decrease) in debt		**12,473.9**	**(26,714.0)**	**40,258.8**	**10,800.4**	**15,270.0**	**9,819.5**
Statement of financial position analysis							
Ordinary shareholders interest		96,555.0	98,280.9	106,047.4	148,481.0	136,029.8	138,196.1
Outside shareholders interest		0.0	0.0	0.0	0.0	0.0	0.0
Pref. shares and conv debentures		0.0	0.0	0.0	0.0	0.0	0.0
Total shareholders' interest		**96,555.0**	**98,280.9**	**106,047.4**	**148,481.0**	**136,029.8**	**138,196.1**
Short term debt		83,603.4	73,703.2	145,779.0	87,849.1	56,944.2	68,823.3
Long term debt		5,164.6	8,209.2	7,363.9	14,984.4	21,795.5	29,373.7
Total interest-bearing debt		**88,768.0**	**81,912.4**	**153,142.9**	**102,833.5**	**78,739.7**	**98,197.0**
Interest-free liabilities		46,110.2	51,140.1	82,674.6	68,324.8	96,389.3	87,201.8
Total liabilities		**231,433.2**	**231,333.4**	**341,864.8**	**319,639.3**	**311,158.7**	**323,594.9**
Property, plant and equipment		80,421.8	85,732.4	85,394.0	83,837.2	88,803.2	88,284.6
Investments and other		9,506.4	7,987.9	30,596.3	81,421.3	79,778.7	87,341.2
Cash and cash equivalent		13,120.9	21,671.2	26,529.5	14,000.4	7,678.3	9,750.6
Other current assets		128,384.2	115,941.9	199,345.1	140,380.4	134,888.5	138,218.5
Total assets		**231,433.2**	**231,333.4**	**341,864.8**	**319,639.3**	**311,148.7**	**323,594.9**
Ratios							
Cash flow:							
Operating cash flow: total debt (%)		neg	11.7	neg	neg	neg	neg
Discretionary cash flow: net debt (%)		neg	5.1	neg	neg	neg	neg
Profitability:							
Turnover growth (%)		(6.5)	7.9	51.4	(1.0)	(0.3)	(4.7)
Gross profit margin (%)**		13.0	12.2	15.2	15.3	11.6	13.1
EBITDA: revenues (%)		7.6	6.5	12.0	10.9	7.1	8.0
Operating profit margin (%)		5.0	3.3	9.7	8.6	4.1	5.2
EBITDA: average total assets (%)		8.2	7.5	17.1	13.1	8.6	9.2
Return on equity (%)		2.5	10.7	9.6	7.3	13.6	6.1
Coverage:							
Operating income : gross interest (x)		1.2	0.6	1.6	1.2	0.9	1.5
Operating income : net interest (x)		1.9	0.7	1.9	1.8	1.5	2.3
Activity and liquidity:							
Trading assets turnover (x)		6.2	8.9	17.8	11.6	10.8	15.2
Days receivable outstanding (days)		8.1	8.0	6.0	5.9	6.0	5.8
Current ratio (:1)		1.2	1.2	1.0	1.1	1.0	1.1
Capitalisation:							
Net debt: equity (%)		78.3	61.3	119.4	59.8	52.2	64.0
Total debt: equity (%)		91.9	83.3	144.4	69.3	57.9	71.1
Net debt: EBITDA (%)		434.2	373.4	281.8	219.5	271.7	312.3
Total debt: EBITDA (%)		509.5	507.8	340.8	254.1	301.0	346.7

‡Depreciation used as a proxy for maintenance of capex expenditure.
*Net of intangible assets.
**Normalised for depreciation charged to cost of sales.

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SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the ratings are valid till September 2020.

Flour Mills of Nigeria Plc participated in the rating process via teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to Flour Mills of Nigeria Plc.

The ratings above were solicited by, or on behalf of, the rated client, and therefore, GCR has been compensated for the provision of the ratings.

The information received from Flour Mills of Nigeria Plc and other reliable third parties to accord the credit ratings included:
- 2019 audited annual financial statement, and 4 years audited annual financial statements;
- Information specific to the rated entity and/or industry was also received; and
- completed rating questionnaire.