

# Flour Mills of Nigeria PLC

**₦46 billion 5-Year Series 2 Fixed Rate Senior Unsecured Bond Due 2029**

**Under the ₦200 Billion Bond Issuance Programme**

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## 2024 Corporate Bond Rating Report

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*Research, Credit Ratings, Credit Risk Management*

# FLOUR MILLS OF NIGERIA PLC

## ₦46 billion 5-Year Series 2 Fixed Rate Senior Unsecured Bond Due 2029 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:** 12 February 2024  
**Expiry Date:** 31 January 2025

*\*The rating is indicative and a final rating will be based on receipt of all duly executed contractual agreements. The final rating will be subject to annual monitoring and review.*

**Issuer Rating: A-**  
**Expiry Date: 30 September 2024**

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### RATING RATIONALE

- Agusto & Co hereby assigns an indicative “A-” rating to Flour Mills of Nigeria Plc’s (“Flour Mills”, “FMN”, “the Issuer” or “the Company”) up to ₦46 billion 5-Year Fixed Rate Senior Unsecured Bond Due 2029 (“Series 2 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 its maturing domestic debts evidenced by its healthy earnings and cash flows despite the challenging operating environment. The rating also considers FMN’s strong market position within the domestic flour milling space as well as the potential revenue and cost synergies to be derived from its brownfield acquisitions and backward integration programmes. The rating is however constrained by sustained inventory investments and prepayments relating to unsettled foreign currency (forex) forward contracts, which have continued to weigh on the Company’s cash flow and working capital positions, as well as concerns over its elevated debt profile and interest burden.
- 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. In a bid to improve the local sourcing of raw materials and lower input costs, FMN has continued to strengthen its partnership with various farmer groups in the country in line with its backward integration initiatives. However, the Company is yet to achieve considerable scale in this regard, hence, the high dependency on imported wheat.
- In the six months ended 30 September 2023 (unaudited), FMN’s revenue increased by 49.8% to ₦602.6 billion compared to a similar period in 2022 to reflect 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

*Flour Mills of Nigeria Plc's up to ₦46 Billion 5-Year Series 2 Fixed Rate Senior Unsecured Bond Due 2029*

## TRANSACTION PARTIES

### Issuer:

*Flour Mills of Nigeria Plc*

### Lead Issuing House:

*FCMB Capital Markets Limited*

### Joint Issuing House:

*Chapel Hill Denham Advisory Limited  
Comercio Partners Capital 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:

*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:

*Five years with semi-annual coupon payment and principal repayment (subject to a 12-month moratorium).*

### Bond Status:

*The Bond constitutes a direct, unconditional, senior, unsubordinated 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.*

moderate price adjustments despite cost headwinds. This is in addition to the higher interest costs and foreign exchange losses incurred during the period.

- As a result of the huge capital tied up in inventories and prepayment for forex forward contracts, FMN posted a negative operating cash flow (OCF) of ₦4.3 billion in the six months ended 30 September 2023 (Q2'2023/24). However, we consider this negative OCF as a timing difference associated with the Company's current operating cycle. Therefore, we still expect FMN to continue to generate sufficient earnings and operating cash flows to meet maturing debt obligations based on its strong brand equity and pricing power. Also, we believe that the overdue forex forward contracts, which stood at \$162 million as at 31 December 2023, represent a significant upside scenario for FMN's cash flow and liquidity when settled at the pre-unification exchange rate by the Central Bank of Nigeria (CBN).
- FMN intends to issue up to ₦46 billion Series 2 Bond in the first quarter of 2024 (Q1'2024). The Bond will attract a fixed coupon rate to be determined through a book-building process and payable semi-annually over five years, while the principal amount will be amortised every six months until maturity in 2029 after the expiration of a 12-month moratorium. The Issuer will use the net proceeds to refinance existing short-term loans.
- The Series 2 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 2 Bond obligations (coupon and principal).
- Despite the worsening cost pressures and other external shocks that have continued to strain its earnings and cash flows, FMN has met payment obligations on its existing bank loans and corporate bonds as and when due. Based on our review of the Issuer's five-year 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 4.3x and 2.1x respectively, which we consider good. Considering the current unfavourable interest rate environment in the country, we believe that the embedded early redemption clause (call option) offers some flexibility to the Issuer in the future.
- Based on its good cash-generating capacity and strong ability to refinance maturing obligations with ease, we attach a **stable** outlook to Flour Mills of Nigeria Plc's up to ₦46 Billion 5-Year Fixed Rate Senior Unsecured Bond Due 2029. However, our rating and outlook for the Series 2 Bond will be revised accordingly to reflect changes in the rating of the Issuer.

*This Series 1 Bond Rating Report should be read in conjunction with Agusto & Co.'s 2023 Corporate Rating Report for Flour Mills of Nigeria Plc issued on 11 October 2023*

*Flour Mills of Nigeria Plc's up to ₦46 Billion 5-Year Series 2 Fixed Rate Senior Unsecured Bond Due 2029*

**Use of Bond Proceed:**

*The Issuer shall utilise the net proceeds to refinance existing short-term loans (bank overdrafts and Commercial Paper Notes).*

**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.*

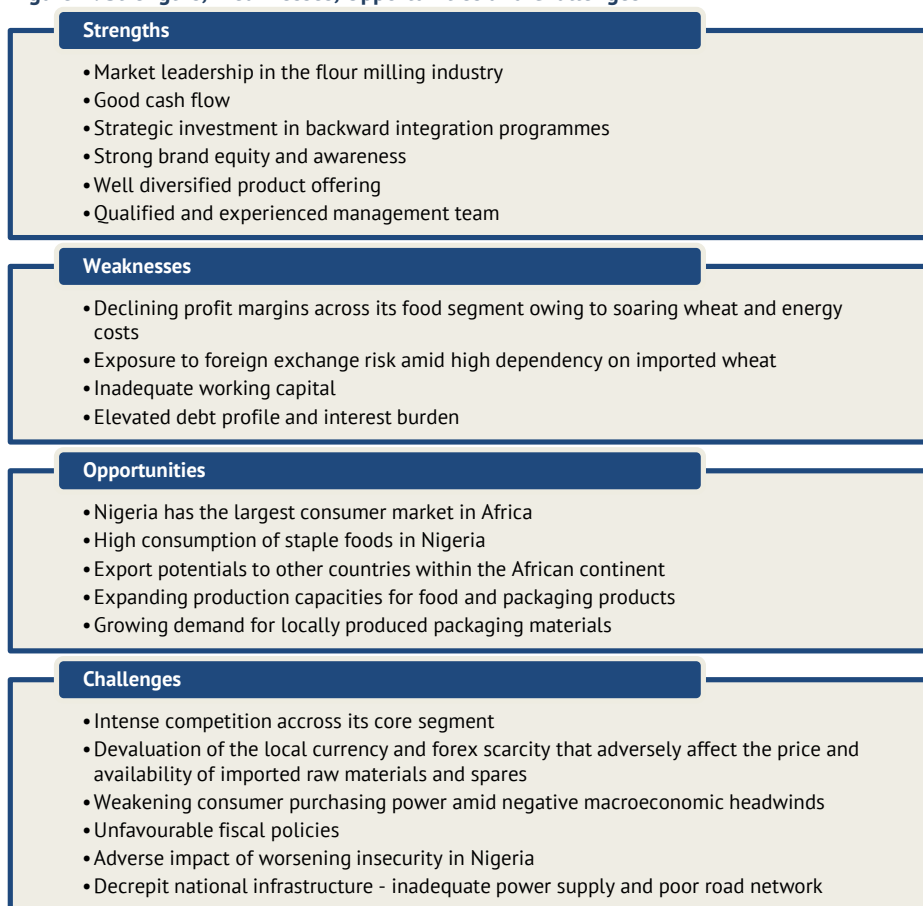
**Optional Early Redemption (Call Option):**

*The Issuer may, at its sole option and after giving the required notice and obtaining the requisite regulatory approval, redeem the Series 2 Bond in whole from the second year (being the second anniversary of the Issue Date).*

**Listing:**

*An application will be made to list the Series 2 Bond on the Nigerian Exchange Limited (NGX Group) and/or FMDQ*

**Figure 1: Strengths, Weaknesses, Opportunities and Challenges**



## PROFILE OF THE ISSUER

Flour Mills of Nigeria Plc ("Flour Mills", "FMN", "the Company" or "the Issuer") 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 ("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 reach within Nigeria, especially in the business-to-consumer (B2C) category where it has a competitive advantage. 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 its 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"). Our primary focus is on the food and support services, which are the main lines of business that are directly under the purview of FMN as a standalone entity.

In a bid to improve efficiency, the FMN Group structure was further streamlined in FYE 2023, which saw the transfer of investment in Golden Fertilizer Company Limited from Golden Sugar Company to Flour Mills of Nigeria Plc. During the year, the Company paid ₦600 million to acquire an additional 11,446,591 units of shares held by Dantata Investment and Securities Limited in Northern Nigerian Flour Mills Plc, thus resulting in a 60% equity stake in the subsidiary. Also, FMN completed the incorporation of a wholly-owned subsidiary, Golden Penny Power Limited, to carry on the business of power generation, transmission and distribution. Consequently, property, plant and equipment (worth ₦8.1 billion at book value) were transferred to the new power company from Golden Sugar Company (₦6.2 billion), Nigerian Eagle Flour Mills Limited (₦1.1 billion) and Premium Edible Oil Products Limited (₦850 million).

As part of measures to reinforce its strong market position, Flour Mills of Nigeria Plc (through its subsidiary, Nigeria Eagle Flour Mills Limited) acquired a 55% equity stake in Port Harcourt Flour Mills Plc from the River State Government on 24 May 2023. This was after the acquisition of a majority stake in Honeywell Flour Mill Plc in 2022. Based on the operational synergy to be derived from these acquisitions, we believe that the Issuer is well-positioned to capture the growth opportunities that exist within the B2B and B2C product categories. Therefore, we expect steady improvement in the Issuer's earnings and operating cash flows in the near to medium term.

## OWNERSHIP STRUCTURE

As at 30 September 2023, Flour Mills of Nigeria Plc's authorised, issued and paid-up share capital stood at ₦2.1 billion, made up of 4,100,395,606 ordinary shares at 50 kobo each. Excelsior Shipping Company Limited owns a 63.3% equity stake in the Company. The remaining 36.7% stake was held by other individuals and institutional investors with none of them controlling up to 5% equity stake as at 30 September 2023.

## 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 an independent director), and an executive director. The Board is chaired by Mr. John G. Coumantaros, while Mr. Omoboyede O. Olusanya is the Group Managing Director. There was no alteration to the composition of the Board of FMN in the review period. We believe that the directors are drawn from diverse backgrounds with vast experience in board management.

**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'u M. Gwarzo OON       | Non-Executive Director             | Nigerian    |
| Mr. Yannis Katsaounis             | Non-Executive Director             | Greek       |
| Mr. Thanassis Mazarakis           | Non-Executive Director             | Greek       |
| Mr. Foluso O. Phillips            | Non-Executive Director             | Nigerian    |
| Alhaji Olalekan A. Salu           | 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' Management Account*

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. We recognise that the composition of these committees complies with the principles of good corporate governance as enshrined in the Nigerian Code of Corporate Governance.

## MANAGEMENT TEAM

The Managing Director is supported by a team of nine senior management professionals ("the ExCo") covering finance, operations, sales and corporate services. The members of the ExCo possess over two decades of relevant industry experience on average. We consider the management team to be adequately qualified and experienced.

*Flour Mills of Nigeria Plc's up to ₦46 Billion 5-Year Series 2 Fixed Rate Senior Unsecured Bond Due 2029*

**Table 2: Members of the management team**

| Name                        | Designation  |
|-----------------------------|--|
| Mr. Omoboyede O. Olusanya   | Group Managing Director                            |
| Mr. Anders Kristiansson     | Group Chief Financial Officer                      |
| Mr. Devlin Marc Hainsworth  | Managing Director, Foods Division                  |
| Mr. Waltonio Percival-Deigh | Director, Business Assurance                       |
| Mrs. Uchenna S. Ajo         | Group HR & Services Director                       |
| Mr. Cephas Afebuameh        | Group Director, Supply Chain                       |
| Mr. Bola Adeeko             | Group Director, Special Projects                   |
| Mr. Joseph O. Umlu          | Company Secretary & Group Director, Legal Services |
| Mr. Stoney Su               | Managing Director, Allied Division                 |
| Mr. Sadiq Usman             | Group Director, Strategy & Stakeholder Relations   |

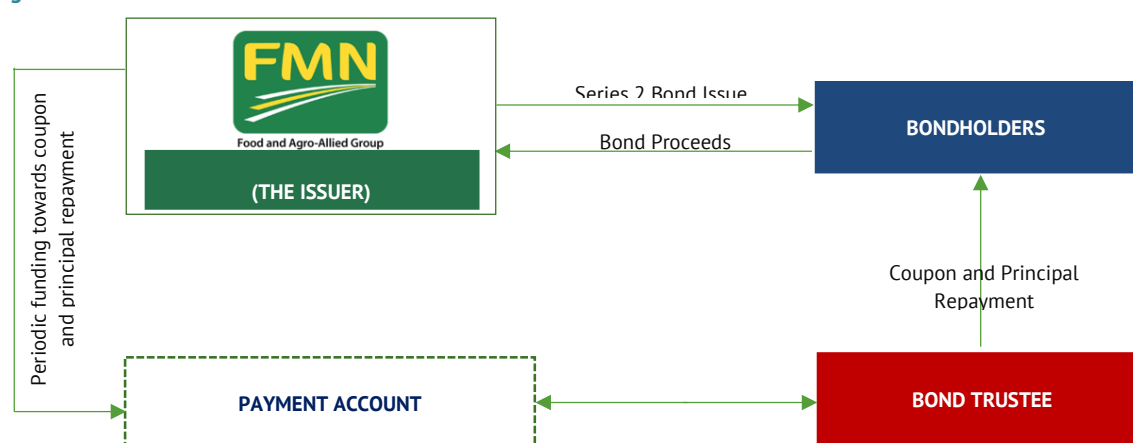
Source: Management Presentation

## TRANSACTION STRUCTURE

### OVERVIEW

Flour Mills of Nigeria Plc intends to raise up to ₦46 billion 5-Year Series 2 Senior Unsecured Bond in the first quarter of 2024 under its ₦200 billion Bond Issuance Programme. The Bond will attract a fixed coupon rate to be determined through a book-building process payable semi-annually over five years, while the principal amount will be repaid in eight semi-annual payments until maturity in 2029 after the expiration of the 12-month moratorium.

**Figure 1: Overview of the Transaction Structure**



Source: Pricing Supplement

The net proceeds from the Series 2 Bond will be used to refinance some short-term borrowings (including a short-term loan from a commercial bank and Commercial Paper Notes) as shown in the table below;

**Table 3: Utilisation of the Series 2 Bond Proceeds**

| Use of Proceeds                         | Amount<br>(₦'million) | % of<br>Proceeds |
|---|-----------------------|------------------|
| Refinance existing short-term bank loan | 38,000                | 83%              |
| Refinance Commercial Paper Notes        | 7,322                 | 16%              |
| Estimated issue costs                   | 678                   | 1%               |
| <b>Total</b>                            | <b>46,000</b>         | <b>100%</b>      |

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 near to medium term. This is based on our estimated interest cost savings to be derived from the proposed debt refinancing. Also, we expect the Series 2 Bond to somewhat ease the working capital pressure occasioned by the steady increase in the prices of its inputs on the back of the high inflation and persistent depreciation in the value of the naira.

## BOND REPAYMENT

The Series 2 Bond obligations (coupon and principal) shall be met 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 five. 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 2029 after the expiration of the moratorium period. The repayment schedule below is based on an indicative coupon rate of 15%. This will be updated with the actual bond size and coupon rate after the Issue Date.

**Table 4: Series 2 Bond Repayment Schedule**

| Bond obligations<br>Repayment<br>Interval | Principal<br>Repayment<br>(₦'million) | Semi-annual Coupon<br>Payment<br>(₦'million) | Total Payment<br>(₦'million) | Principal Outstanding<br>(₦'million) |
|---|---------------------------------------|--|------------------------------|--------------------------------------|
| Bond issuance                             | -                                     | -  | -                            | 46,000                               |
| 1   | -                                     | 3,450  | 3,450                        | 46,000                               |
| 2   | -                                     | 3,450  | 3,450                        | 46,000                               |
| 3   | 4,403                                 | 3,450  | 7,853                        | 41,597                               |
| 4   | 4,734                                 | 3,120  | 7,853                        | 36,863                               |
| 5   | 5,089                                 | 2,765  | 7,853                        | 31,774                               |
| 6   | 5,470                                 | 2,383  | 7,853                        | 26,304                               |
| 7   | 5,881                                 | 1,973  | 7,853                        | 20,423                               |
| 8   | 6,322                                 | 1,532  | 7,853                        | 14,101                               |
| 9   | 6,796                                 | 1,058  | 7,853                        | 7,306                                |
| 10  | 7,306                                 | 548  | 7,853                        | -                                    |



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The Series 2 Bond has an optional early redemption clause (call option), which allows the Issuer to redeem (in whole) the principal amount outstanding together with coupon accrued starting from the second year. The applicable call price will be the par value, which is ₦1,000 per unit of the Bond. Considering the country's volatile interest rate environment, the embedded call option allows the Issuer to retire the Bond at the current coupon rate and issue new bonds at lower rates, should it become favourable to do so in the future.

The Series 2 Bond constitutes a direct, unconditional, senior, unsubordinated 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 2 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 2 Bond remains outstanding, FMN irrevocably and unconditionally pledges the payment of all obligations to Bondholders. The 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 31 December 2023 (unaudited), the Issuer's outstanding interest-bearing debt stood at ₦449.8 billion. These loans, which have tenors of up to 5 years, attract interest rates of between 6% – 15% per annum. We do not anticipate a substantial increase in the Issuer's overall debt profile upon completion of the proposed Series 2 Bond issuance as the net proceeds will be used to refinance existing bank loans and Commercial Paper (CP) Notes.

**Table 5: Status of Indebtedness of the Issuer as at 31 December 2023**

| Outstanding Borrowings                          | Q3'23/24<br>(₦'million) | FYE'2023<br>(₦'million) |
|---|-------------------------|-------------------------|
| Short term loans                                | 68,000                  | 55,664                  |
| Corporate bonds and Commercial Paper (CP) Notes | 169,390                 | 100,262                 |
| Subsidized loans                                | 212,430                 | 56,431                  |
| <b>Total</b>                                    | <b>449,820</b>          | <b>212,357</b>          |

Source: Management Presentation

## FINANCIAL FORECAST & ANALYSIS

FMN 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 expects its revenue to grow at a compounded annual growth rate (CAGR) of 24% over the forecast period.  | Despite the deteriorating market fundamentals, we foresee huge opportunities for sustained volume growth (particularly across the food segment) on the back of the country's large and growing population that needs to be fed. Also, we expect the Issuer's favourable product mix and competitive pricing to continue to support revenue growth over the forecast period. Therefore, we have adopted FMN's revenue estimates.  |
| Costs                 | <p>Material and other direct costs are estimated to increase by 32% in the first year and thereafter maintain a stable growth rate of 20% in the remaining four years.</p> <p>The Issuer expects its other operating expenses (excluding depreciation and amortisation) to represent about 4% of its yearly revenue.</p> | We have modified the Company's cost estimates in line with worsening inflationary and exchange rate pressures. Therefore, we have adjusted FMN's cost of sales to revenue ratio to align with its five-year average ratio of 85%, while adopting its operating expenses to revenue ratio of 4%, which is at par with its historical trend.   |
| Pre-tax profit margin | The Issuer projects a yearly pre-tax profit margin of 3%, 6%, 9%, 12% and 16% over the next five years.  | As a result of the higher interest costs and currency devaluation-induced foreign exchange losses incurred, FMN posted a pre-tax loss of ₦11.5 billion in the six months ended 30 September 2023. Despite management's optimism to bounce back to profitability in FYE 2023/24, we expect the rising cost pressures to continue to weigh on its overall bottom line. Therefore, we have adopted a very conservative 3% pre-tax profit margin over the forecast period. |
| Indicative coupon     | N/A  | In computing the Issuer's total debt service cost, we have used an indicative coupon rate of 15% for the Series 2 Bond. We will update our model with the actual coupon rate after the Issue Date.   |

Source: Flour Mills of Nigeria Plc's Financial Forecasts

Based on the assumptions above, the Issuer estimates a cumulative revenue of ₦9.3 trillion over the next five years ending 31 March 2029 with the food segment accounting for over 95% of this amount, while the rest will be contributions from the packaging and transport segments. Management intends to sustain revenue growth through increased investments in new affordable pack sizes whilst constantly altering its existing product portfolio to meet consumers' price perceptions and preferences. Based on its expanding production capacity and competitive pricing, we expect the Company to meet its revenue projections.

FMN estimates a cumulative direct cost of ₦7.7 trillion, representing about 83% of the cumulative revenues over the forecast period. However, Agusto & Co. has adjusted this in line with the rising energy prices and increasing

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worldwide grain supply shocks caused by the ongoing war in Ukraine 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 FMN's ongoing initiative to lessen dependency on imported raw materials through backward integration and its strategic focus on optimising input cost by altering its wheat blend (without compromising on the quality of its products), we still expect the vulnerability of the Company's direct costs to foreign exchange risks and other external shocks to persist.

Flour Mills of Nigeria Plc estimates a cumulative operating expense (including selling, distribution and other administrative expenses) of approximately ₦330.8 billion. We recognise that the projected operating expense to revenue ratio of 3.6% is at par with the Issuer's five-year historical trend. Overall, the Company expects its cumulative earnings before interest, taxes, amortisation and depreciation (EBITDA) to be ₦1.2 trillion, which translates to an EBITDA margin of about 14% throughout the Series 2 Bond. We recognise that the estimated EBITDA margin is about 500 basis points higher than the Company's historical average of 9%. The estimated cumulative finance costs from borrowings (including the Series 2 Bond) and estimated net foreign exchange losses of ₦236.1 billion represent about 3% of the cumulative revenue, which is still lower than our 5% threshold. As the forex situation in the country improves, we expect the settlement of overdue forward contracts by the Central Bank of Nigeria to boost FMN's overall liquidity as well as reduce its future borrowings. Therefore, we foresee a considerable reduction in the Company's interest costs and foreign exchange losses.

Overall, FMN estimates a cumulative pre-tax profit of approximately ₦980 billion over the forecast period, representing about 11% of the total revenue over the same period, compared to the average pre-tax profit margin of 3% recorded in the last five years. With the multiple headwinds of fuel subsidy removal, floating exchange rate regime and soaring inflation and energy costs weighing on both business costs and consumers' spending, FMN could face an uphill struggle to sustain a double-digit pre-tax profit margin. Therefore, 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          | Year 4          | Year 5          | Total            |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
|   | ₦'mn            | ₦'mn            | ₦'mn            | ₦'mn            | ₦'mn            | ₦'mn             |
| Total revenue   | 1,224,959       | 1,440,245       | 1,763,242       | 2,183,502       | 2,692,455       | 9,304,403        |
| Total direct cost (excluding depreciation)                        | (1,041,215)     | (1,224,208)     | (1,498,756)     | (1,855,976)     | (2,288,587)     | (7,908,743)      |
| Total operating expenses  | (48,998)        | (57,610)        | (70,530)        | (87,340)        | (107,698)       | (372,176)        |
| <b>EBITDA</b>   | <b>134,746</b>  | <b>158,427</b>  | <b>193,957</b>  | <b>240,185</b>  | <b>296,170</b>  | <b>1,023,484</b> |
| Interest on existing debt   | (58,806)        | (47,314)        | (51,109)        | (40,284)        | (14,826)        | (212,338)        |
| Indicative coupon on the Series 1 Bond                            | (6,900)         | (6,570)         | (5,148)         | (3,505)         | (1,606)         | (23,728)         |
| <b>Total interest payment</b>                                     | <b>(65,706)</b> | <b>(53,883)</b> | <b>(56,256)</b> | <b>(43,788)</b> | <b>(16,432)</b> | <b>(236,065)</b> |
| Repayment of existing borrowings (bank loans and corporate bonds) | (42,471)        | (42,471)        | (42,471)        | (42,471)        | (42,471)        | (212,357)        |
| Series 1 Bond principal obligation                                | -               | (9,137)         | (10,559)        | (12,202)        | (14,101)        | (46,000)         |
| <b>Total principal repayment</b>                                  | <b>(42,471)</b> | <b>(51,609)</b> | <b>(53,031)</b> | <b>(54,674)</b> | <b>(56,573)</b> | <b>(258,357)</b> |
| <b>Total interest coverage (times)</b>                            | <b>2.1</b>      | <b>2.9</b>      | <b>3.4</b>      | <b>5.5</b>      | <b>18.0</b>     | <b>4.3</b>       |
| <b>Total debt coverage (times)</b>                                |                 |                 |                 |                 |                 | <b>2.1</b>       |

Based on the sensitised forecast, we expect FMN's cumulative EBITDA of approximately ₦1 trillion over the next five years to be more than sufficient to cover payment obligations on the Series 2 Bond as well as other existing borrowings, thus resulting in interest and debt service coverage ratios of 4.3x and 2.1x 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 has continued to expand its product portfolio with the recent launch of Golden Penny Chocoh, a chocolate spread to meet the nutritional needs of consumers, whilst introducing new pack sizes of various price points to improve product affordability. Furthermore, FMN has continued to restructure its route-to-market model with increased investments in its transport fleet covering both the B2B and B2C categories. Despite the strain on disposable income, we expect consumers' spending on food and other essential items to remain elevated. Therefore, we foresee opportunities for volume growth across the Company's core segment.

Flour Mills of Nigeria Plc plans to issue up to ₦46 billion Series 2 Bond under its ₦200 billion Bond Programme to refinance existing loans. The Bond will attract a fixed coupon rate, which will be determined through a book-building process and payable semi-annually over five 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. On 9 May 2023, FMN successfully issued a ₦46 billion Series 1 Bond under the ₦200 billion Bond Issuance Programme and redeemed the ₦10 billion Series 2 Bond (under its previous ₦70 billion Bond Issuance Programme) in lump sum on 30 October 2023. As at 31 December 2023, Flour Mills of Nigeria Plc's outstanding bonds stood at ₦83.4 billion (see table below):

**Table 2: List of FMN's Outstanding Bonds**

| Bonds                | (₦billion)  | Maturity Dates   |
|----------------------|-------------|------------------|
| Series 1             | 46.0        | 9 May 2026       |
| Series 3 – Tranche B | 7.5         | 27 February 2025 |
| Series 4 – Tranche A | 4.9         | 14 December 2025 |
| Series 4 – Tranche B | 25.0        | 14 December 2027 |
| <b>Total</b>         | <b>83.4</b> |                  |

When issued, the Series 2 Bond is unlikely to significantly increase FMN's current borrowings and debt service costs considering that the entire bond proceeds will be used to refinance maturing short-term debts. Based on the Issuer's strong earnings forecast, we expect it to continue to generate sufficient operating cash flows to meet the combined payment obligations on the new bond as well as other existing debts. This is further supported by FMN's healthy interest and debt service coverage ratios over the forecast period. In addition, we believe that the considerable funding support from the unsettled forex forward contracts and 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 5-Year Series 2 Fixed Rate Senior Unsecured Bond Due 2029.

Flour Mills of Nigeria Plc's up to ₦46 Billion 5-Year Series 2 Fixed Rate Senior Unsecured Bond Due 2029

## FINANCIAL SUMMARY

| STATEMENT OF COMPREHENSIVE INCOME      | 31-MAR-21     |             | 31-MAR-22     |             | 31-MAR-23      |             | 30-SEP-23<br>UNAUDITED |              |
|--|---------------|-------------|---------------|-------------|----------------|-------------|------------------------|--------------|
|  | ₦'MNS         |             | ₦'MNS         |             | ₦'MNS          |             | ₦'MNS                  |              |
| TURNOVER                               | 535,882       | 100.0%      | 832,811       | 100.0%      | 923,016        | 100.0%      | 602,577                | 100.0%       |
| OPERATING PROFIT                       | 36,081        | 6.7%        | 36,784        | 4.4%        | 92,928         | 10.1%       | 30,288                 | 5.0%         |
| INTEREST EXPENSE                       | (10,032)      | -1.9%       | (15,196)      | -1.8%       | (29,214)       | -3.2%       | (21,441)               | -3.6%        |
| PROFIT BEFORE TAXATION                 | 28,184        | 5.3%        | 29,749        | 3.6%        | 32,253         | 3.5%        | (11,502)               | -1.9%        |
| TAX (EXPENSE) BENEFIT                  | (8,011)       | -1.5%       | (7,929)       | -1.0%       | (18,079)       | -2.0%       | (833)                  | -0.1%        |
| PROFIT AFTER TAXATION                  | 20,172        | 3.8%        | 21,820        | 2.6%        | 14,174         | 1.5%        | (12,335)               | -2.0%        |
| NON-RECURRING ITEMS (NET OF TAX)       | (958)         | -0.2%       | 932           | 0.1%        | -              | -           | -                      | -            |
| PROFIT AFTER TAX & NON-RECURRING ITEMS | 19,214        | 3.6%        | 22,751        | 2.7%        | 14,174         | 1.5%        | (12,335)               | -2.0%        |
| DIVIDEND                               | (5,658)       | -1.1%       | (6,691)       | -0.8%       | (8,809)        | -1.0%       | -                      | -            |
| <b>PROFIT RETAINED FOR THE YEAR</b>    | <b>13,557</b> | <b>2.5%</b> | <b>16,060</b> | <b>1.9%</b> | <b>5,365</b>   | <b>0.6%</b> | <b>(12,335)</b>        | <b>-2.0%</b> |
| OTHER APPROPRIATIONS/ ADJUSTMENTS      |               |             |               |             | 497            |             | -                      |              |
| PROFIT RETAINED B/FWD                  | 69,002        |             | 82,559        |             | 98,619         |             | 104,481                |              |
| <b>PROFIT RETAINED C/FWD</b>           | <b>82,559</b> |             | <b>98,619</b> |             | <b>104,481</b> |             | <b>92,146</b>          |              |

| STATEMENT OF FINANCIAL POSITION AS AT     | 31-MAR-21      |               | 31-MAR-22      |               | 31-MAR-23      |               | 30-SEP-23<br>UNAUDITED |               |
|---|----------------|---------------|----------------|---------------|----------------|---------------|------------------------|---------------|
|   | ₦'MNS          |               | ₦'MNS          |               | ₦'MNS          |               | ₦'MNS                  |               |
| <b>ASSETS</b>                             |                |               |                |               |                |               |                        |               |
| CASH & EQUIVALENTS                        | 27,625         | 7.3%          | 20,274         | 4.2%          | 210,642        | 29.3%         | 399,979                | 43.6%         |
| TOTAL TRADING ASSETS                      | 133,535        | 35.1%         | 246,373        | 50.5%         | 275,859        | 38.4%         | 288,390                | 31.4%         |
| TOTAL LONG TERM ASSETS                    | 219,163        | 57.6%         | 220,970        | 45.3%         | 232,783        | 32.4%         | 229,823                | 25.0%         |
| <b>TOTAL ASSETS</b>                       | <b>380,323</b> | <b>100.0%</b> | <b>487,618</b> | <b>100.0%</b> | <b>719,285</b> | <b>100.0%</b> | <b>918,192</b>         | <b>100.0%</b> |
| GROWTH                                    | 21.0%          |               | 28.2%          |               | 47.5%          |               | 27.7%                  |               |
| <b>LIABILITIES &amp; EQUITY</b>           |                |               |                |               |                |               |                        |               |
| TOTAL INTEREST BEARING LIABILITIES (TIBL) | 83,619         | 22.0%         | 95,162         | 19.5%         | 212,358        | 29.5%         | 357,270                | 38.9%         |
| TOTAL NON-INTEREST BEARING LIABILITIES    | 136,825        | 36.0%         | 217,792        | 44.7%         | 325,107        | 45.2%         | 391,436                | 42.6%         |
| TOTAL LIABILITIES                         | 220,444        | 58.0%         | 312,954        | 64.2%         | 537,465        | 74.7%         | 748,706                | 81.5%         |
| SHAREHOLDERS' EQUITY                      | 159,879        | 42.0%         | 174,664        | 35.8%         | 181,821        | 25.3%         | 169,485                | 18.5%         |
| <b>TOTAL LIABILITIES &amp; EQUITY</b>     | <b>380,323</b> | <b>100.0%</b> | <b>487,618</b> | <b>100.0%</b> | <b>719,285</b> | <b>100.0%</b> | <b>918,192</b>         | <b>100.0%</b> |

| CASH FLOW STATEMENT FOR Y/E                         | 31-MAR-21       |  | 31-MAR-22       |  | 31-MAR-23       |  | 30-SEP-23<br>UNAUDITED |  |
|---|-----------------|--|-----------------|--|-----------------|--|------------------------|--|
|   | ₦'MNS           |  | ₦'MNS           |  | ₦'MNS           |  | ₦'MNS                  |  |
| <b>OPERATING ACTIVITIES</b>                         |                 |  |                 |  |                 |  |                        |  |
| POTENTIAL OPERATING CASH FLOW                       | 41,720          |  | 47,502          |  | 59,233          |  | 16,586                 |  |
| WORKING CAPITAL CHANGES:                            |                 |  |                 |  |                 |  |                        |  |
| CASH FROM (USED BY) SPONTANEOUS FINANCING           | 27,229          |  | 80,749          |  | 109,604         |  | 65,508                 |  |
| CASH FROM (USED BY) WORKING ASSETS                  | (24,384)        |  | (112,839)       |  | (29,486)        |  | (12,530)               |  |
| <b>CASH FROM (USED IN) OPERATING ACTIVITIES</b>     | <b>44,566</b>   |  | <b>15,411</b>   |  | <b>139,350</b>  |  | <b>69,565</b>          |  |
| INTEREST PAID                                       | (10,032)        |  | (15,196)        |  | (29,214)        |  | (21,441)               |  |
| DIVIDEND PAID                                       | (5,441)         |  | (6,473)         |  | (11,097)        |  | 821                    |  |
| CASH USED IN PROVIDING RETURNS ON FINANCING         | (15,474)        |  | (21,669)        |  | (40,311)        |  | (20,621)               |  |
| <b>OCF AFTER PAYMENTS TO PROVIDERS OF FINANCING</b> | <b>29,092</b>   |  | <b>(6,257)</b>  |  | <b>99,039</b>   |  | <b>48,944</b>          |  |
| CASH FROM (USED IN) NON-RECURRING ACTIVITIES        | (958)           |  | 932             |  | -               |  | -                      |  |
| <b>CASH FROM (USED IN) INVESTING ACTIVITIES</b>     | <b>(41,590)</b> |  | <b>(13,568)</b> |  | <b>(25,866)</b> |  | <b>(4,520)</b>         |  |
| <b>CASH FROM (USED IN) FINANCING ACTIVITIES</b>     | <b>25,049</b>   |  | <b>11,543</b>   |  | <b>117,196</b>  |  | <b>144,913</b>         |  |
| CHANGE IN CASH INC/(DEC)                            | 11,592          |  | (7,351)         |  | 190,369         |  | 189,337                |  |
| OPENING CASH & MARKETABLE SECURITIES                | 16,032          |  | 27,625          |  | 20,274          |  | 210,642                |  |
| <b>CLOSING CASH &amp; MARKETABLE SECURITIES</b>     | <b>27,625</b>   |  | <b>20,274</b>   |  | <b>210,642</b>  |  | <b>399,979</b>         |  |

*Flour Mills of Nigeria Plc's up to ₦46 Billion 5-Year Series 2 Fixed Rate Senior Unsecured Bond Due 2029*

| KEY RATIOS  | 31-MAR-21 | 31-MAR-22 | 31-MAR-23 | 30-SEP-23<br>UNAUDITED |
|---|-----------|-----------|-----------|------------------------|
| <b>PROFITABILITY</b>  |           |           |           |                        |
| SALES GROWTH  | 36%       | 55%       | 11%       | 50%                    |
| OPERATING PROFIT MARGIN   | 7%        | 4%        | 10%       | 5%                     |
| RETURN ON ASSETS (PRE-INTEREST PRE-TAX)   | 10%       | 9%        | 9%        | 2%                     |
| RETURN ON EQUITY (PRE-TAX)  | 18%       | 17%       | 18%       | -14%                   |
| <b>CASH FLOW</b>  |           |           |           |                        |
| OCF AS % OF RETURNS TO PROVIDERS OF FINANCING   | 288%      | 71%       | 346%      | 337%                   |
| OCF AS % OF SALES   | 8%        | 2%        | 15%       | 12%                    |
| <b>WORKING CAPITAL</b>  |           |           |           |                        |
| WORKING CAPITAL NEED (DAYS)   | -         | 13        | -         | -                      |
| OVERALL WORKING CAPITAL DEFICIENCY (DAYS)   | -         | 2         | -         | -                      |
| <b>LEVERAGE</b>   |           |           |           |                        |
| INTEREST BEARING DEBT (NET OF CASH & EQUIVALENT) AS A % OF EQUITY (EXCLUDING REVALUATION SURPLUS) | 35%       | 43%       | 1%        | -25%                   |
| EBITDA COVERAGE (TIMES)   | 5.1       | 3.8       | 2.6       | 0.8                    |
| <b>NET ASSETS/(LIABILITIES) IN FCY</b>  |           |           |           |                        |
| NET EXPOSURE TO CURRENCY RISK (\$'000)  | (19,125)  | (81,676)  | (70,838)  | -                      |
| <b>OTHER ADDITIONAL INFORMATION</b>   |           |           |           |                        |
| STAFF COSTS (₦'MILLION)   | 23,592    | 27,792    | 34,065    | -                      |
| AVERAGE NUMBER OF STAFF   | 3,809     | 3,778     | 3,839     | -                      |
| STAFF COST PER EMPLOYEE (₦'MILLION)   | 6         | 7         | 9         | -                      |
| CAPITAL EXPENDITURE (₦'MILLION)   | 12,148    | 22,914    | 37,477    | 8,257                  |
| DEPRECIATION AND AMORTISATION (₦'MILLION)   | 11,015    | 11,770    | 13,854    | 7,481                  |
| EBITDA (₦'MILLION)  | 50,782    | 57,710    | 75,977    | 17,654                 |
| AUDITORS  | KPMG      | KPMG      | KPMG      | N/A                    |
| OPINION   | CLEAN     | 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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