MERISTEM SECURITIES LIMITED
MEMBER OF THE NIGERIAN STOCK EXCHANGE
RC No:442255

Flour Mills of Nigeria Plc | NSE: Flourmills | Bloomberg: N/A | Reuters: FMNL.LG

Flour Mills of Nigeria Plc

How long more *"in the penalty box"*?

Investment Thesis

Meristem Research

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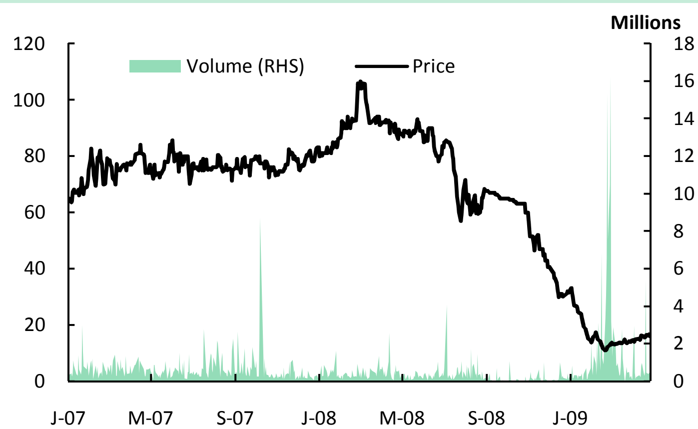
Flour Mills Nigeria Plc has a diversified business model covering Cement, Food, Packaging and Shipping with the first 2 (Cement and Food) constituting ≈ **85 percent of the Company's business volume**. We see this skewness as a "**positive value driver**" in the face of:

1. Nigeria's huge infrastructural need and the substantial demand gap for cement;

2. The resilience of the food sector and the dominant market share position of the Company's "Golden Penny Products" (**Pasta and other wheat products**) in the Flour industry.

While the downtrend in the share price of Flourmills appears **"justified"** in the light of the general market direction and the sequential de-growth observed in the Company's Q3 earnings during which the Company stepped on dollar only to pick Naira via dollar issuance facilities, **the magnitude of the share price decline, in our opinion, has gone below what the Company is fundamentally capable of supporting.**

Exhibit 1: Flourmills' share price: 52-week naira lost of 80%



Extract of performance metrics (Items in N'b except stated)

Key items	2008A	2009Q3	2009E	Growth
Turnover	127.7	112.2	167.2	**31.0%**
EBITDA	17.0	9.8	13.0	**-23.4%**
Earnings- Reported	6.3	0.8	2.1	**-67.7%**
Earnings-Normalized	6.3	5.4	7.2	**12.8%**
EPS-Reported	4.1	0.4	1.2	**-70.6%**
EPS-Normalized	4.1	3.1	4.2	**2.5%**
ROaE- Reported	23%	4%	7%	--
ROaE-Normalized	23%	25%	22%	--
P/E-Trailing	4.16 x	8.52 x	14.17 x	--
P/E-Normalized	4.16 x	3.10 x	4.06 x	--
P/BV	0.91 x	0.93 x	0.88 x	--

See page 27 for analyst certification and disclosures including investment banking relationships.

In the light of uncertainty in the domestic financial system, we are constrained to take cover in a **base case scenario** by stress-testing Flourmills earnings powers against a high cost of fund environment, knowing that the Company is more geared than its peers **(2008 Interest-bearing debt to equity ratio: Flourmills 1.32x vs. peers average of 0.49x).**

Even at this, the Company' valuation shows significant resilience confirming our view that the market over-reacted and thus over-discounted the Company's current earning weakness in its share price.

Our target price of N33.45k, which is a 70:30 percent blend of DCF and justified price multiple suggests a 59 percent upside potential. This implied a valuation level of 1.7x 2010e BV and 13x 2010e EPS.

From a broader perspective, most of the risks associated with our valuation are to the upside, implying their materialization could lever the Company's potency to surpass our forecasts and dwarf our target price. But not until we visibly spot a clear horizon above our base case scenario, we maintain our target price of N33.45.

Flour Mills of Nigeria Plc: *How long more in the Penalty Box?*

From a peak price of NGN105.58k in March 8, 2008, Flourmills' shares stooped to a floor of NGN11 on February 4 2009, culminating into 90%plunge vs. 70% for the broader market (in naira term). Given the historical low beta of the stock (<1), one would have expected it to outperform the broader market in this downturn. However, the unprecedented and exceptional loss of NGN6.7bn suffered from forex volatility by Flourmills in Q3 was more than a **raison d'être** for investors to melt severe punishment on the shares of an "erring company" through sell-off. **This has been the case of Flourmills being somewhat trapped in the penalty box.**

While admitting that Flourmills margin contraction and earnings de-growth are negative share price drivers, in our opinion, the shares of the Company might not qualify for a long-term candidacy in the **"box";** knowing that the loss was a one-off event, and with the expectation that margin will recover going forward, though probably at lower than historical level, based on our forecast estimates**.** This might likely make the journey back to historic price highs a 'tall order".

Overweight

Price (May 8, 2009)	NGN 21.01
12-M Target Price	NGN 33.45
Upside Potential	↑ 59.29%
52-Week High	NGN 93.00
52-week low	NGN 11.00
Beta	0.864
Financial Year end	March 31
Auditors	Akintola Williams Deloitte & Touche
Company website	www.fmnplc.com

Investment Scenario

Target Price: NGN 33.45

In arriving at a Target Price (TP) for the shares of Flour Mills of Nigeria Plc we applied a 70:30 weightage on DCF Models and Justified P/BV, reflecting our bias for the former. On this basis, we arrived at a TP of N33.45k, representing a 12-month upside

DCF Bull Case: NGN 37.62

Among the DCF models, the Discounted Free Cash Flow approach yielded the most bullish fair price of N40.09k. This is predicated on our forecast assumption of N35bn capital expenditure spread over the next 5 years (2009-2013) ***vs.*** N48b in the past 5 years (2004-2008), coupled with our base assumption of the Company's continued use of leverage which scales down it WACC. This 27 percent CAPEX trim down looks justifiable considering the recent huge CAPEX programme of the Company which has starved it of free cash flow in the past 4 years.

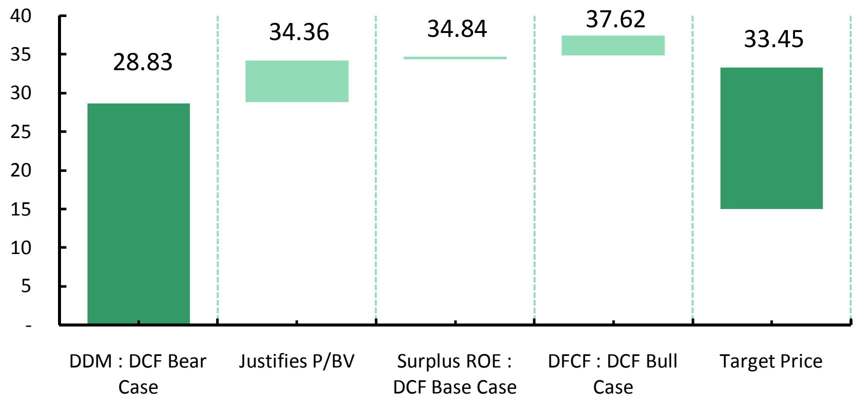
DCF Base Case: NGN 34.84

The Surplus ROE valuation, which involves discounting Flourmills' future excess returns, yielded our base case fair value of N31.74 for the Company's shares. This is premised on a relatively weak forecast ROaE in the next 3 years as the Company's current high debt is to provide cushion to operating capital and not to lever earnings in addition to huge interest burden weighting down net margin. Thereafter, we expect a strong ROaE rebound /recovery on the back of optimal leverage and as **rising EBITDA margin** plays out on bottom-line (net profit).

DCF Bear Case: NGN 28.83

Discounting Flourmill's expected dividend stream for the next 10 years and assuming a terminal value justified by a P/BV of 1x, we arrived at a fair value of N28.83k. This is premised on rising payout ratio in the next 10 years (expected to peak at 60 percent in 2015) as the company trends toward maturity, embarks on maintainable CAPEX programme and have enough free cash flow to reward investors.

Exhibit 3 **Flourmills Investment Scenarios: Target price presents 59% upside potential**

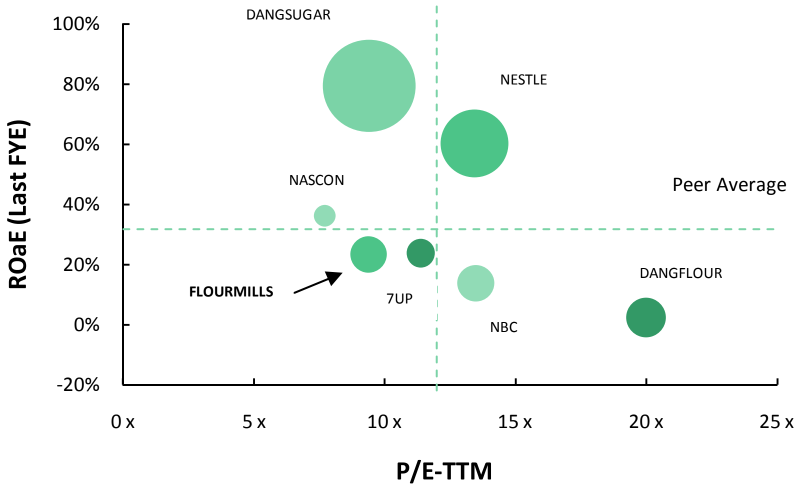


Source: Meristem Research

Peer Valuation

On a trailing P/E basis, Flourmills appears favoured compared to peer average as it currently trades at a P/E-TTM of 8.6x **vs**. peer average of 12.x. On a 2009 earnings basis, Flourmills stands the risk of being out of favour as we expect an earnings dip of 68 percent in 2009FY. However, on normalized basis and 2010e EPS, Flourmills presents a compelling valuation compared to peer average.

Exhibit 4 **Peer Valuation: Triangulation of P/E, ROaE and MC (**burble size shows Market Cap)

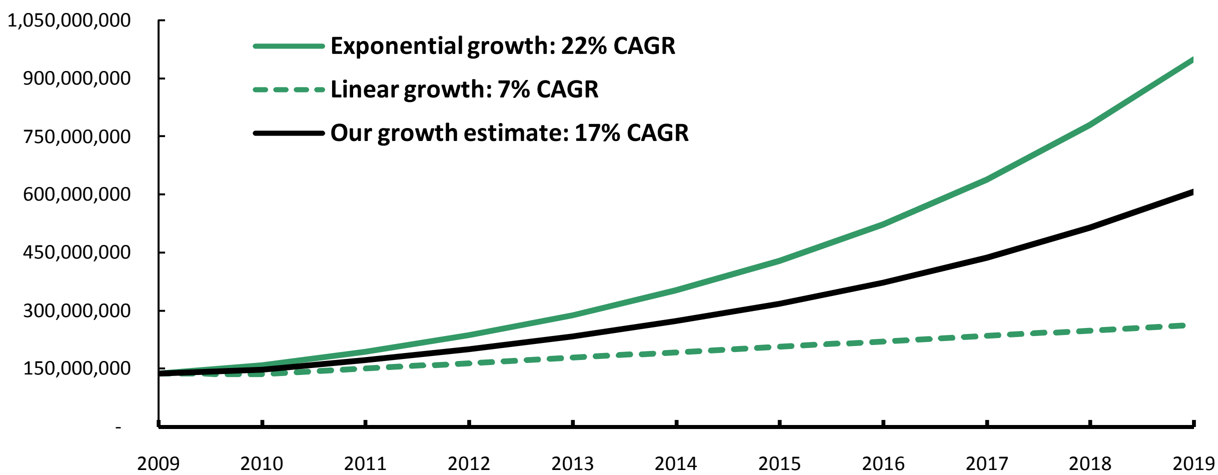


Source: Meristem Research

Forecasts

We are upbeat on 17 percent turnover growth compounded annually into 2019. In the face of the internal structure of Flourmills and its industry dynamics, we have made a turnover growth forecast of 17 percent compounded annually into 2019FY, which is a mid-estimate between an exponential and a linear growth models. This contrasts with 25 percent CAGR achieved by the Company between 2002 – 2009FY. This, in our opinion, appears fair and achievable given the impact of size factor on the internal drive of the Company to generate historic growth figures, the likely impact of competitors diluting market share and the expected reduction in its CAPEX programme.

Exhibit 5 **Flourmill's turnover forecast (NGN): We are upbeat on 17% CAGR into 2019**

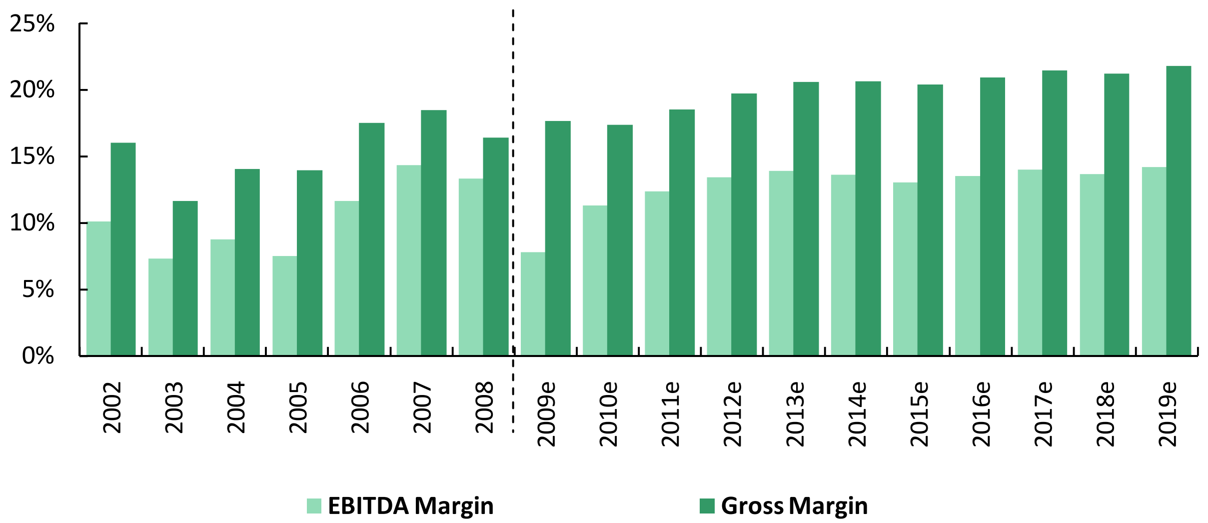


Source: Meristem Research

The key drivers of our base case turnover growth estimates are 3 subsidiaries of the Company: 1. **Cement:** following the completion of UNICEM's Greenfield cement plant at Mfamosing (near Calabar, Cross River State, Nigeria) with a capacity of 2.5million metric tons of cement per annum, we expect the subsidiary to deliver 19 percent CAGR in the forecast horizon (**This is inclusive of the contribution of Burham Cement**). 2. **Food** (including Pasta and wheat products): we forecast a 16 percent CAGR, and 3. **Packaging:** we expect 17 percent CAGR**.** With this growth momentum, we expect Cement and Food to constitute 90 percent of turnover by 2011 **vs**. 85 percent in 2008.

Significant improvement in cost structure lies ahead on the back of Kaboji Farm. We expect significant erosion in EBITDA margin in 2009FY to 8.1 percent **vs.** 13.3 percent in 2008, following the reported loss of N6.67bn from Forex volatility in Q3. Going forward, we expect EBITDA and **gross margins** to rebound in 2010 and rise gently thereafter following its backward integration strategy through optimal expansion in cultivation of its 10,000 hectares of land at Kaboji, Niger State. The impact of this on the Company's cost structure is instructive given that it currently imports about 73 percent of its raw material inputs with the attendant pressure on margin. We anticipate an average **EBITDA margin of 13 percent** over our forecast horizon vs. **10 percent achieved between 2002-2008**.

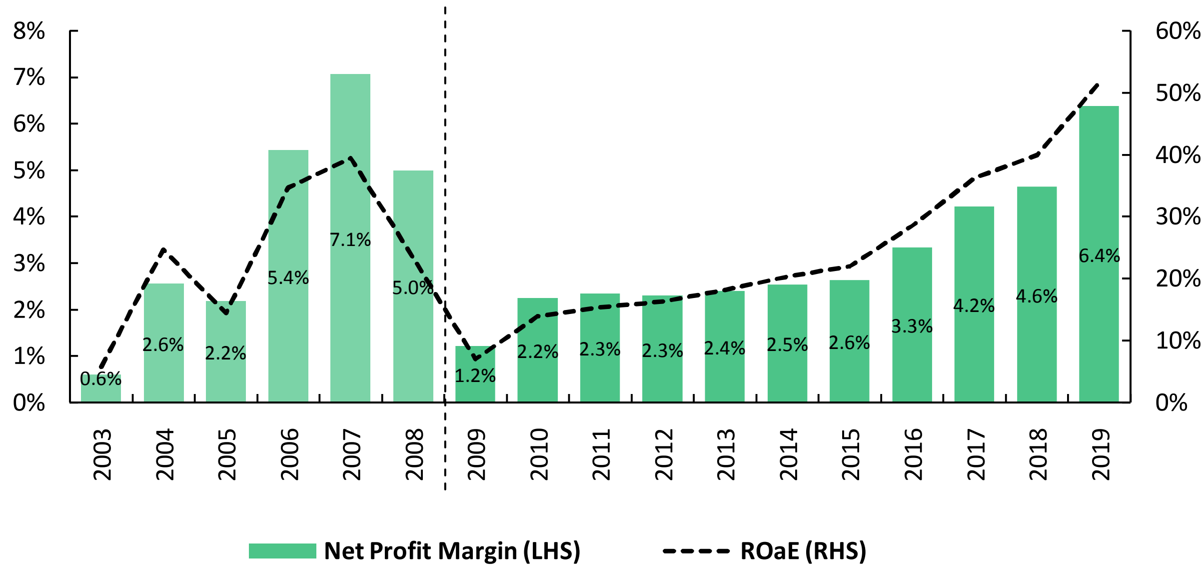
Exhibit 6 **Gross margins expected to rebound in 2010 and ascend gently on the back of Kaboji Farm**



Source: Meristem Research

Though improved EBITDA margin attests to operational value potential from Flour Mills' business lines, we anticipate significant headwinds on net profit margin and ROaE. Stemming from the Company's financing strategy which has engendered rising interest bearing debt to equity ratio; net profit margin and ROaE are likely to suffer intense pressure from high interest rate burden. This is even more instructive following the Company's liquidation of its raw material financing option via dollar issuance facilities through which it hitherto enjoyed a single digit interest rate band of between 6 -7 percent as against Naira rate of 15-16 percent in the past 3 years.

Exhibit 7 **Net profit margin and ROaE to likely hit significant headwinds in coming years**



Source: Meristem Research

To this end, we have modeled an average interest rate of 13 percent, in line with domestic economic reality, on Flourmills' rising interest bearing debt. If our **"business-as-usual" scenario of financing option plays out**, significant headwinds lie ahead of the Company's net profit margin and ROaE.

Detailed forecast models for Flour Mills of Nigeria Plc are given in the Appendix.

Valuation

In the valuation of the business of Flour Mills Nigeria Plc, we adopted the following methodologies.

- **Discounted Cash Flow Models:**
  - Using expected dividend streams as cash flow measure (DDM)
  - Using estimated Free Cash Flow to the Firm (FCFF)
  - Using Surplus ROaE as a cash flow measure
- **Justified Price-to-book value multiple - Justified P/BV**

Discounted Dividend Model (DDM)

In the estimation of the **Cost of Equity used to discount our dividend forecasts for Flourmills**, we have taken the perspective of a global investor and adopted the emerging market standard to correct for the structural imbalance in the domestic (Nigeria) debt market stemming from illiquidity and the inability of the market to adequately capture inflation expectations. **To this end, the risk free rate, in fact, appears not to be free. Hence, we have adjusted the risk free rate to adequately reflect current and expected inflation rates as under.**

Exhibit 8: Cost of Equity Estimation

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Risk Free rate (US Bond)	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
US inflation	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Domestic Inflation	15.0%	14.0%	13.0%	12.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Inflation differential	14.8%	13.8%	12.8%	11.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%
Estimated risk free rate	17.9%	16.9%	15.9%	14.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%	12.9%
Beta	0.85	0.90	0.93	0.96	0.97	0.98	0.99	0.99	0.99	1.00	1.00
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Cost of Equity	**22.2%**	**21.4%**	**20.6%**	**19.7%**	**17.8%**	**17.8%**	**17.9%**	**17.9%**	**17.9%**	**17.9%**	**17.9%**

Using these cost of equity estimates, we discounted to the present the future dividend streams for the next 10 years to arrive at the intrinsic worth of Flourmills. After the 10-year life-cycle of our forecast horizon within which we have assumed an average payout rate of 57 percent, we assumed a theoretical terminal value consistent with P/BV multiple of 1x (**vs. 2008P/BV of 0.83x**).

Exhibit 9

Dividend Discount Model	2009	2010	2011	2012	2013	2014	2015-2019	Terminal value	% of total
DPS (NGN)	0.65	1.15	1.40	2.14	2.57	3.16	45.52	**58.00**	**50.6%**
Growth rate	-35%	78%	21%	53%	20%	23%			
Cost of Equity	22%	21%	21%	20%	18%	18%			
Present Value (PV)	0.65	0.95	0.96	1.25	1.34	1.39	11.12	**11.17**	**38.7%**
Intrinsic Price (NGN)	**28.83**								

As shown in the exhibit above, Flourmills intrinsic value based on the present value of expected dividend streams gives N28.83k.

Discounted Free Cash Flow (DFCF)

As with DDM approach, we attempted the forecast of Flourmills Free Cash Flow to Firm (FCFF) underpinned by our forecasts of N38b CAPEX over the next five years (27 percent reduction compared to the past 5 year CAPEX). These cash flow forecasts are then discounted to the present using the Company's Weighted Average Cost of Capital (WACC) [see appendix for detailed WACC computation).

Exhibit 10

Discounted Free Cash Flow	2009	2010	2011	2012	2013	2014	2015-2019	Terminal value	% of Total
Free Cash Flow (N'm)	4,027	10,900	15,516	21,329	30,921	38,661	272,810	**99,086**	**20.1%**
Growth rate	-165%	171%	42%	37%	45%	25%			
WACC	17%	17%	17%	16%	16%	16%			
Present Value (PV)	4,027	9,316	11,393	13,493	16,931	18,222	79,115	**21,597**	**12.4%**

Enterprise Value	174,094
Less Debt	(109,821)
Fair Equity Value	64,274
Shares outstanding (m)	1,708
Intrinsic Price (NGN)	**37.62**

As shown in the exhibit above, Flourmills intrinsic value based on the present value of expected free cash flow gives N37.62k.

Surplus ROE Valuation

In this approach, we explored Flourmills' potential to create values to shareholders (profitably utilize its equity base) by generating returns in excess of market-determined (required) rate of return. We then add to Flourmill's 2008 book value the present value of these excess cash flows to arrive at the fair value of the company's equity.

Exhibit 11

Surplus ROE Valuation	2009	2010	2011	2012	2013	2014	2015-2019	TV	% of total
ROaE	7.0%	14.0%	15.4%	16.3%	18.2%	20.4%	36%		
Cost of Equity	***22%***	***21%***	***21%***	***20%***	***18%***	***18%***	***18%***		
Surplus ROE	(5,026)	(2,676)	(1,971)	(1,440)	89	1,228	75366	**99,086**	**60%**
Discount factor	1.00	0.82	0.69	0.58	0.52	0.44		**-**	
PV	**(5,026)**	**(2,204)**	**(1,355)**	**(840)**	**46**	**541**	**17,357**	**19,082**	**69%**

cumulative PV	27,601
Current BV	31,926
Fair Equity Value	59,528
Shares outstanding	1,708
Intrinsic value per share	**34.84**

As shown in the exhibit above, Flourmills intrinsic value based on the present value of Surplus ROE gives N34.84k.

Justified P/BV Valuation

In this approach we rode on our outlook for Flourmills to estimate the Company's justified P/BV. Premised on 57 percent average payout and 25 percent sustainable ROaE (below current industry average of 29 percent) over our forecast horizon, we observed that **Flourmills warrants a justified P/BV valuation of 1.66x. This implies that Flourmills current P/BV of 0.93x represents a 44 percent discount to justified level and 78 percent discount to its peers' average of 4.15x.**

In our opinion, this discount is overly aggressive and is more than enough to compensate for Flourmills earnings weakness.

Exhibit 12

Justifies P/BV Valuation	
Sustainable Payout ratio	56.73%
Sustainable ROaE	24.52%
Sustainable growth rate	10.61%
Cost of Equity	18.99%
Justified P/BV (x)	1.66x
2010e BVPS (NGN)	20.7
Justified Equity value	**34.36**

Applying this justified multiple on Flourmills 2010e BVPS implies an intrinsic price of N34.36k.

Unified Valuation: Blended target price

To arrive at a 12-month target price for Flourmills, we applied a 70:30 weightage scheme to DCF and Justified P/BV valuation respectively, suggesting our bias for the former. On this basis, we derived a blended target price of N30.96k for Flourmills in the next 12 month. **This presents an upside potential of 59 percent.**

Exhibit 14

Unified Valuation	**Weight**	**Price (NGN)**
Discounted Cash Flow (DCF)	**70%**	
DDM : DCF Bear Case	*30%*	28.83
Surplus ROE : DCF Base Case	*20%*	34.84
DFCF : DCF Bull Case	*20%*	37.62
Justified P/BV	**30%**	34.36
Our 12-month Target Price	**100%**	**33.45**

At this valuation level, we expect the Company to trade at 1.53x 2010e BVPS which still represents some 62 percent discount to the current peer average. On a P/E basis, the target price implies 13.0x 2010e EPS. **Hence, we express our overweight rating on the stock.**

Risk to our valuation

Upside risk

- **Cheaper financing option than we assumed**. We assumed a **"business-as-usual"** scenario in our forecast of Flourmills CAPEX programme which is expected to be financed largely by term loans from domestic banks with the attendant high interest burden likely to hurt earning**.**
- Similarly, we have assumed the financing of operating capital via same financing option. The Company's ability to negotiate and secure low interest rate debt facility in its financing decision could herald earlier rebound of margin and ROaE than we anticipate.

Downside risk

- International commodity price inflation could exert unanticipated pressure on Flourmills' margin since the Company has substantial exposure to international wheat market with imports accounting for some 75 percent of its raw material need.
- On the domestic front, Flourmills still remains susceptible to government regulations especially as regards its cement operations. Unpredictability of policy direction as regard importation of cement remains a veritable source of risk, knowing that our valuation draws significant strength on the Group's Cement Subsidiary.

From a balanced perspective, most of the imminent risks associated with our valuation are to the upside, implying their materialization could lever the company's potency to surpass our forecast and dwarf our target price. But not until we visibly spot a clear horizon above our base case scenario, we maintain our target price of N30.96.

Business Background

Corporate History

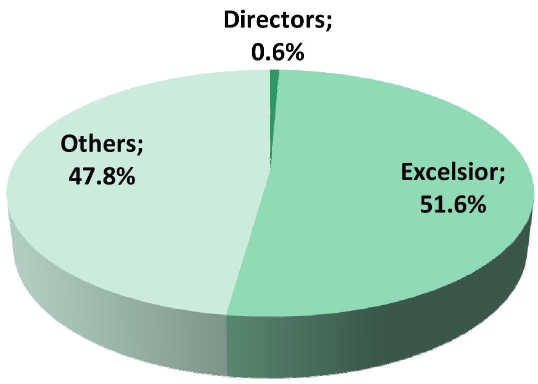
Since its incorporation in 1960 as a manufacturing company, FMN has grown its product base across sectors to become one of the largest industrial conglomerates in Nigeria. Despite its strong diversification, Flourmills maintains market leadership in most of it operating markets. It enjoys popular and highly recognizable brands, and an extensive distribution network.

FMN was listed on the Nigerian Stock Exchange (NSE) on 14th August, **1979** in the **Food/Beverage & Tobacco** sector due to being overweight on food in its product segmentation.

Shareholding Pattern/Structure

With a broad ownership base of approximately 67,244 shareholders, Flourmills has consistently ranked among the top 25 companies in terms of market capitalization. The shareholding is highly skewed. Besides **Excelsior Shipping Company Limited** with **51.59%** holding (**801,183,657** shares of 50k each), no other shareholder holds more than 5% share capital as at the Company's last financial year end March 31, 2008.

Exhibit 15 Shareholding Structure

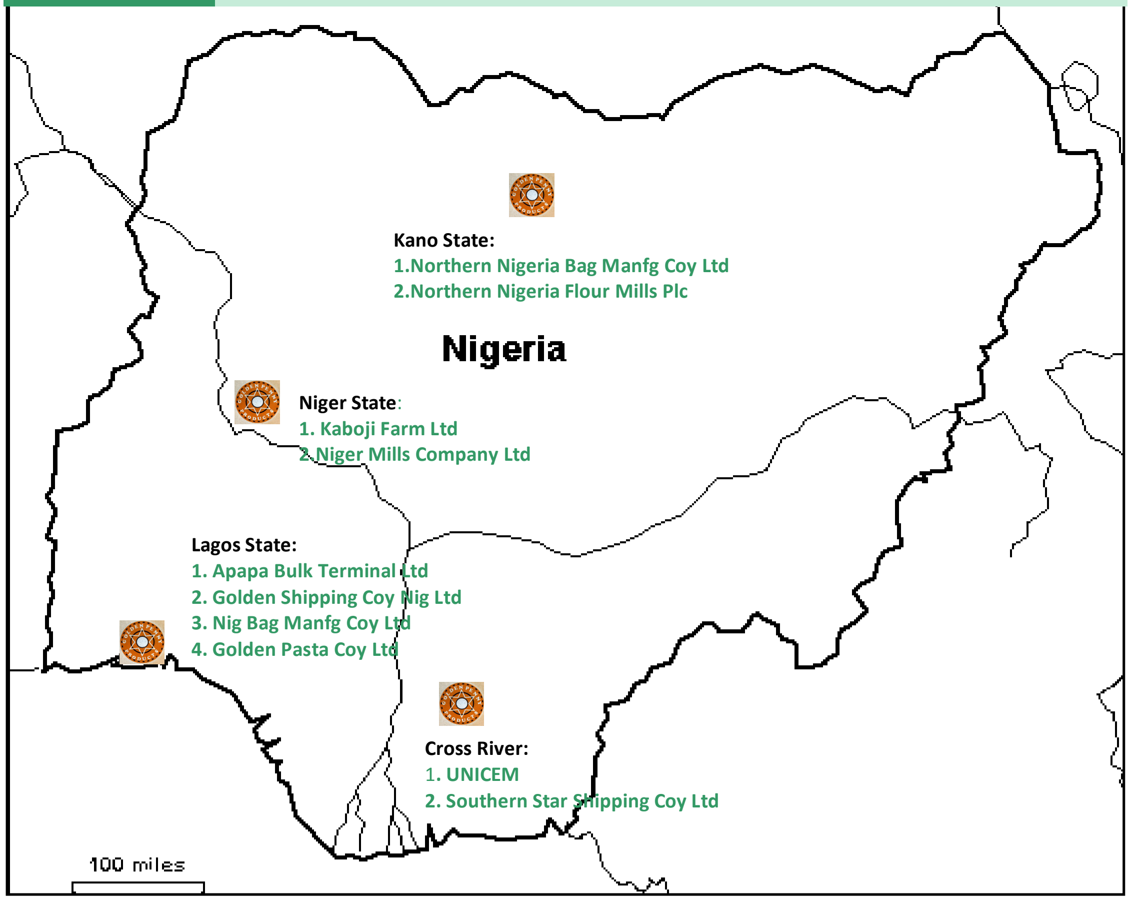


Source: Company's Annual Report and Accounts

Current business profile and geographical footprints

Flourmills of Nigeria Plc (FMN) is a conglomerate with interests in ***Food Sector*** **-** flour milling, pasta production; ***Agribusiness*** **-** fertilizer blending, mechanized farming***; Logistics*** **-** Haulage fleet, Port terminal operations; ***Packaging*** **-** polypropylene sacks and flexi wrap production and ***Construction*** **-** properties, cement manufacturing and bulk cement bagging.

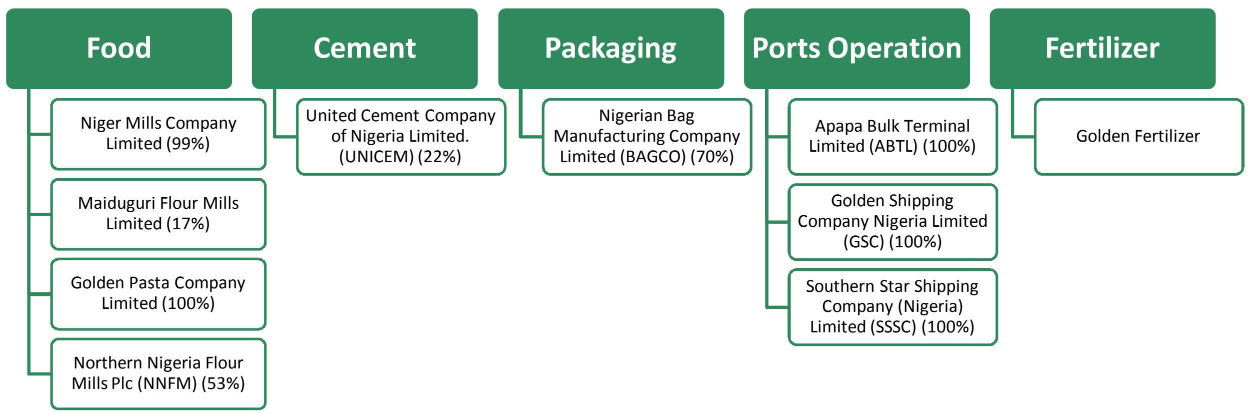
Exhibit 16 | **Flour Mills Group: Geographical footprints**



Key subsidiaries and associated companies

The subsidiaries and the associated companies of FMN are as shown in the following Exhibit.

Exhibit 17 **Subsidiaries and associated companies by business Segments**



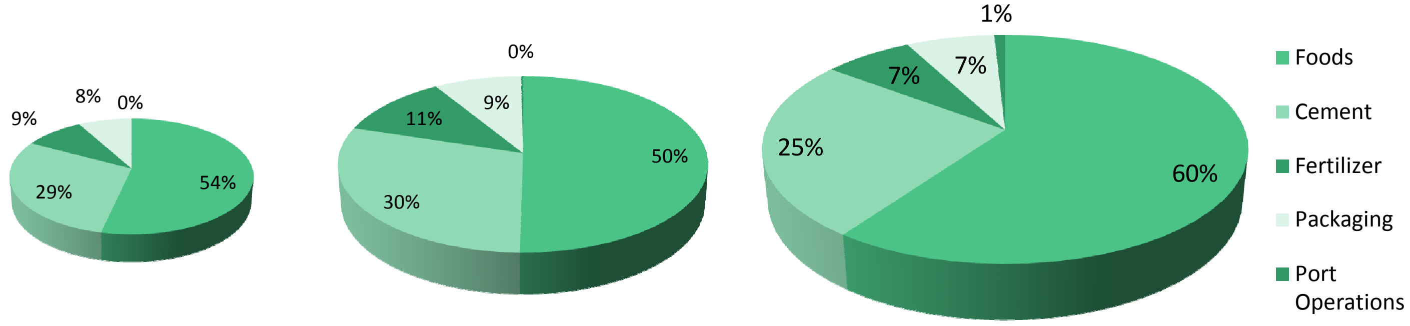
Source: 2008 Company's Annual Report and Accounts

Segment Analysis

The Food segment of FMN, made up of pasta and wheat products has traditionally been the largest driver of the group's business volume. As of 2008, **the Food segment contributed 60 percent** of the total sales of the group. Similarly, Cement and Packaging contributed 25 percent and 7 percent respectively.

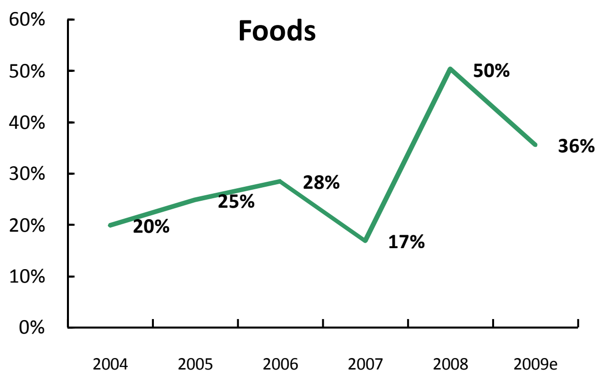
In terms of growth, the Food segment has shown the most momentum having **grown at 30 percent annually in the past 4 years**. Likewise**, Cement and Packaging grew by an average of 22 percent and 24 percent** respectively in the same period.

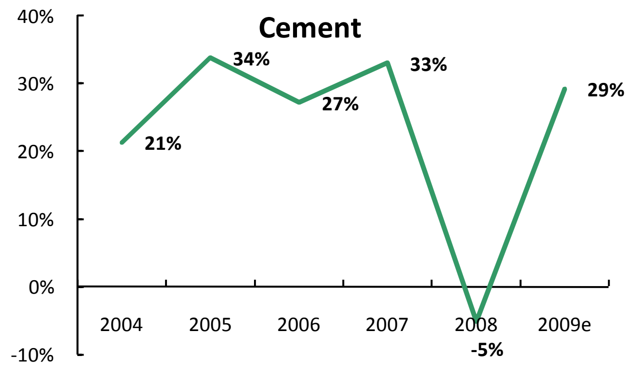
Exhibit 18 Contribution of product segments to group turnover; 2003, 2006, 2008

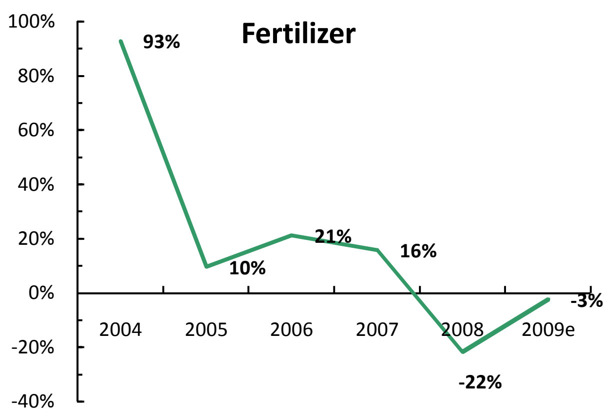


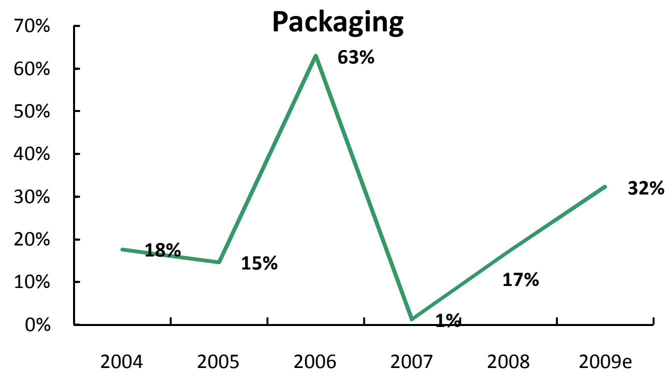
Year	2003	2006	2008
Turnover:	N42bn	N87bn	N128bn
Growth:		105%	48%

Exhibit 19 Segment growth history: Growth picture of key segments





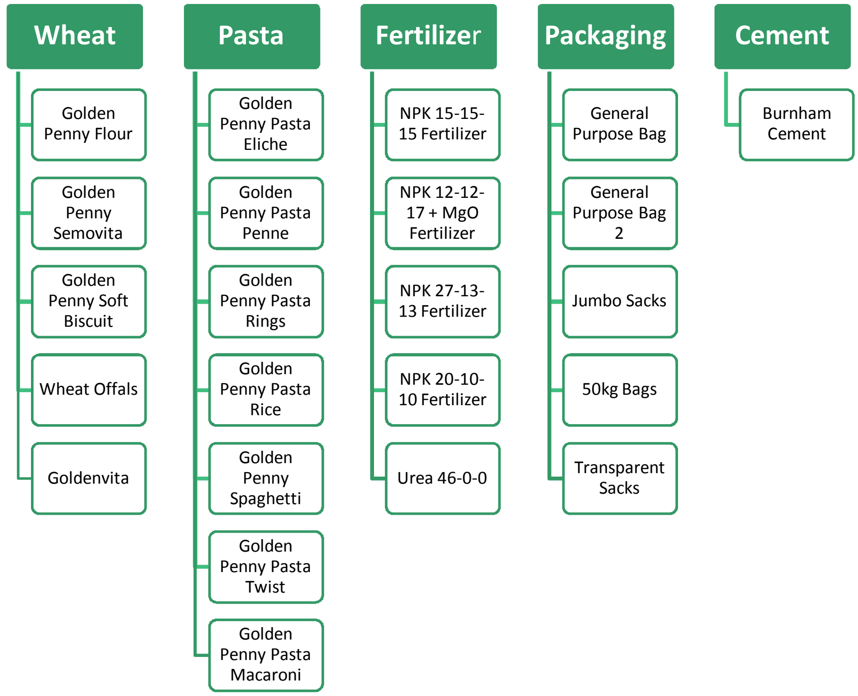




Product Portfolio Decomposition

FMN has well diversified product portfolio ranging from Food, Fertilizer, Packaging to Cement. The following Exhibit highlights the key products.

Exhibit 20 **Business Product Decomposition***



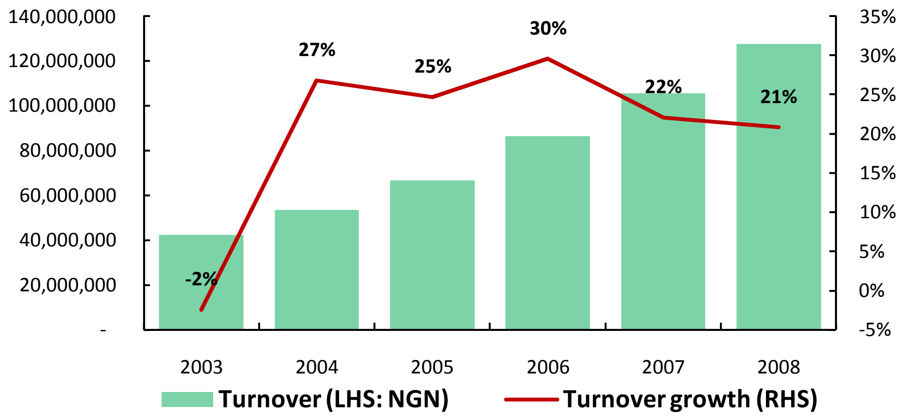
**Food comprises wheat and Pasta*

Financial Performance

Revenue

FMN revenue track has shown consistent upbeat growing from N42bn in 2003 to above N128bn in 2008, representing a CAGR of 25 percent. This impressive growth rate has been delivered largely on the back of robust growth in the Food and Cement segments of the Group.

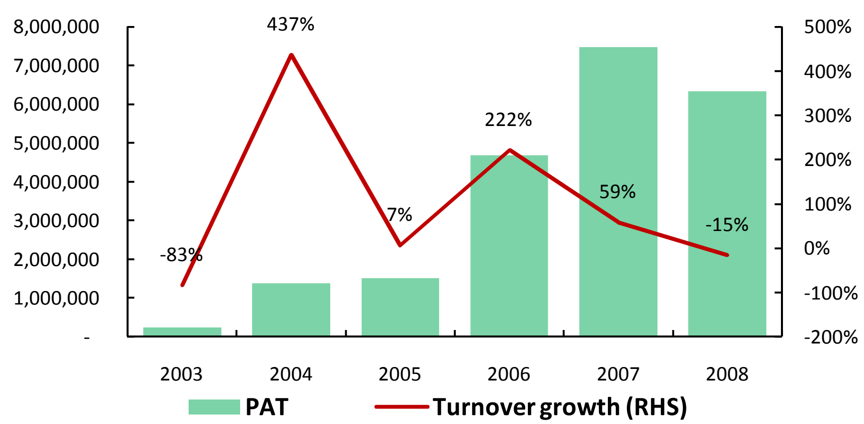
Exhibit 21 **Revenue has been growing at 25 percent 5-year CAGR**



Earnings

Similarly, FMN earnings have shown parallel picture of growth in the same time horizon but at **a significantly higher variability**. Adjusting for the significant dip in earnings in 2003, FMN has compounded its earnings between 2003 and 2008 at around 27 percent annual growth.

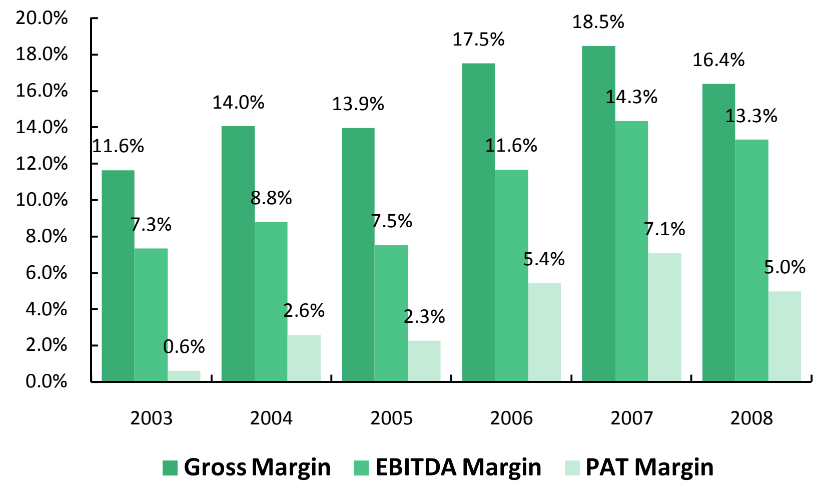
Exhibit 22 **Net Profit growth: Significant volatility reflecting business risk**



Margin

The high cost structure of FMN business operations has engendered a slim margin profile and the Group bottom line is largely volume-driven. While gross margin averaged out at a double-digit figure of 15 percent, FMN net profit margin has consistently perched around a single digit band with an average of 3.8 percent in the past 5 years though with a steady climb to 7.1 percent in 2007. Margin pressure might likely intensify going forward in the light of FMN high financial leverage.

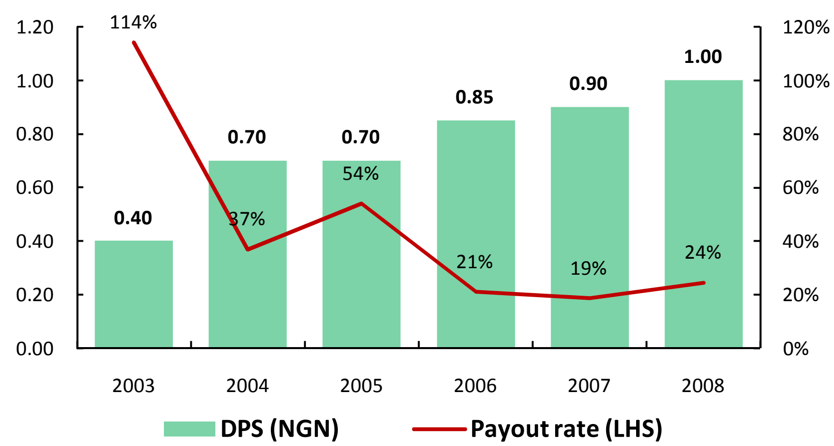
Exhibit 23 **Profitability: Margin remains slim; profitability is volume-driven**



Dividend

FMN has consistently been rewarding investors through annual cash dividend with an average payout of 45 percent. Adjusting for the 114 payout rate in 2003, following 83 percent slump in earnings, a more accurate payout picture gives 31 percent. This payout culture is not unconnected with FMN investment programme which gulped N47b in the same period.

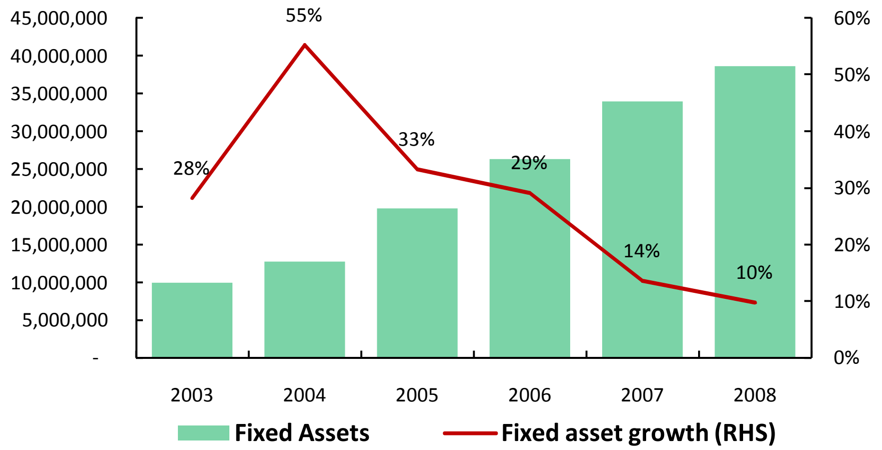
Exhibit 24 DPS has been rising while payout declines



Fixed assets and CAPEX

FMN grew its fixed assets by 31 percent CAGR from N10bn in 2003 to N39bn in 2008. This is underpinned by N47bn capital expenditure in the same period for capacity expansion, investment in subsidiaries and plants refurbishment. Though the investment appears huge, the growth rate has attenuated on the heel of the size factor.

Exhibit 25 Fixed asset shows declining growth rates



Working capital management

FMN has been grappling under consistent negative working capital until 2008 when, on our estimate, the Company recorded working capital of N6bn. This is largely due to a significant drop in receivable turnover from 11.36x in 2007 to 6.86x in 2008.

Exhibit 26 **Working Capital position (N'000)**

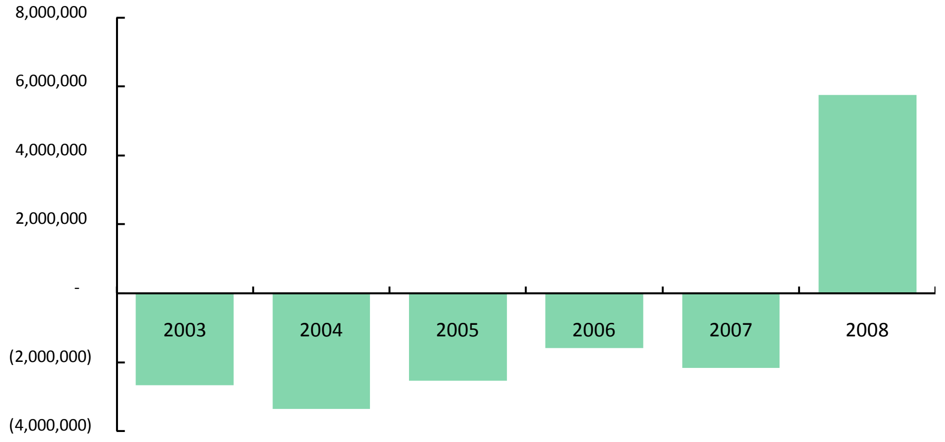
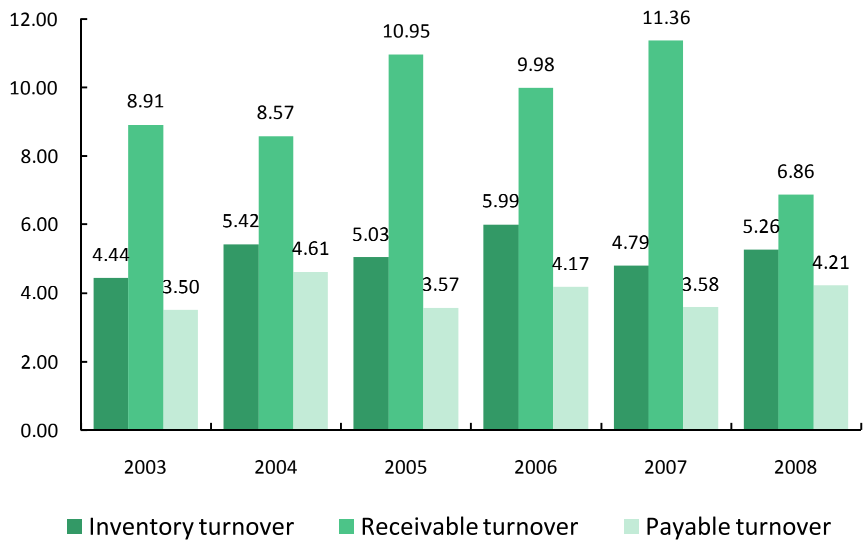


Exhibit 27 **Working capital efficiency measures**



Leverage

Though FMN has shown declining total debt-to-equity ratio falling from 0.8 in 2003 to 0.68 in 2008, a stricter measure of the Company's leverage by the proportion of interest bearing debt to equity shows increased financial leverage in recent years. This stems from financing option of using long term loan and bank overdraft facilities.

Exhibit 28 **Interest bearing debt to equity ratio has been on the rise**

Appendix

Flourmills Financial Model

Income Statement Model (in million naira except otherwise stated)

Income Statements								
		2006A	2007A	2008A	2009F	2010F	2011F	2012F
Segments	Foods	43,484	50,849	76,457	103,687	118,787	135,693	161,547
	Cement	25,618	34,089	32,348	41,809	52,578	67,847	79,449
	Fertilizer	9,846	11,404	8,920	8,696	8,374	5,315	3,575
	Packaging	7,469	7,559	8,850	11,707	13,631	15,831	18,538
	Port Operations	154	1,767	1,086	1,338	1,363	1,470	1,721
Group Turnover		**86,572**	**105,669**	**127,662**	**167,237**	**194,733**	**226,155**	**264,832**
Cost of sales		(71,418)	(86,158)	(106,745)	(137,701)	(160,958)	(184,274)	(212,638)
Gross Profit		15,154	19,510	20,917	29,536	33,775	41,881	52,193
Other Operating Income		1,454	2,755	5,080	(4,492)	2,282	2,360	2,440
Operating Expenses		(6,530)	(7,119)	(9,023)	(12,041)	(14,021)	(16,283)	(19,068)
EBITDA		**10,079**	**15,147**	**16,974**	**13,003**	**22,037**	**27,958**	**35,566**
Interest		(1,304)	(2,203)	(3,063)	(5,600)	(11,166)	(15,313)	-21290.635
Depreciation		(2,313)	(2,970)	(4,033)	(4,632)	(4,871)	(5,274)	(5,563)
Armotisation		(118)	(182)	-	-	-	-	-
Profit Before Tax		**6,344**	**9,792**	**9,878**	**2,771**	**6,000**	**7,371**	**8,713**
Tax (@ 30% effective rate)		(1,640)	(2,317)	(3,515)	(720)	(1,620)	(2,064)	(2,614)
Profit After Tax		**4,704**	**7,474**	**6,363**	**2,050**	**4,380**	**5,307**	**6,099**
Shares in Issues (m units)		1,165	1,553	1,553	1,708	1,708	1,708	1,708
EPS (N)- basic		4.0	4.8	4.1	1.2	2.6	3.1	3.6
DPS (N)		0.9	0.9	1.0	0.6	1.2	1.4	2.1
Underlining trends, assumptions and implied operating ratios								
Segment Contributions	Foods	50%	48%	60%	62%	61%	60%	61%
	Cement	30%	32%	25%	25%	27%	30%	30%
	Fertilizer	11%	11%	7%	5%	4%	2%	1%
	Packaging	9%	7%	7%	7%	7%	7%	7%
	Port Operations	0%	2%	1%	1%	1%	1%	1%
	Group turnover	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Profitability	Gross margin	18%	18%	16%	18%	17%	19%	20%
	EBITDA margin	12%	14%	13%	8%	11%	12%	13%
	Net margin	5%	7%	5%	1%	2%	2%	2%
Growth	Turnover	30%	22%	21%	31%	16%	16%	17%
	EBITDA	101%	50%	12%	-23%	69%	27%	27%
	EPS	210%	20%	-15%	-71%	114%	21%	15%
	DPS	21%	6%	11%	-35%	78%	21%	53%

Appendix

Balance Sheet Forecast Model (in million naira except otherwise stated)

Balance Sheet		2006A	2007A	2008A	2009F	2010F	2011F	2012F
Long-term	Fixed Assets	26,359	34,003	38,603	42,355	45,858	48,370	50,007
Assets	Interest in associated coys	1,135	9,522	11,373	11,373	11,373	11,373	11,373
	Goodwill	347	478	902	902	902	902	902
		27,841	**44,002**	**50,878**	**54,630**	**58,132**	**60,645**	**62,282**
Current	Stocks	11,921	17,987	20,306	26,956	30,869	35,340	40,780
Assets	Debtors and prep.	8,676	9,304	18,605	18,236	22,408	26,023	30,474
	Deposits for forex	159	-	-	-	-	-	-
	Deposit and cash	2,440	4,849	19,361	42,074	73,055	108,571	143,161
		23,196	**32,140**	**58,272**	**87,266**	**126,332**	**169,935**	**214,414**
Total Asset		**51,037**	**76,142**	**109,150**	**141,895**	**184,464**	**230,580**	**276,696**
Current	Creditors and accruals	(16,993)	(22,364)	(24,811)	(31,596)	(38,723)	(44,335)	(49,955)
Liabilities	Term loan (due < 1yr)	(4,816)	(3,299)	(2,806)	-	-	-	-
	Bank loans and O/D	(2,962)	(8,634)	(24,906)	(49,845)	(79,374)	(111,542)	(146,985)
		(24,772)	**(34,296)**	**(52,523)**	**(81,441)**	**(118,098)**	**(155,877)**	**(196,940)**
Long term								
Liabilities	Medium term loan	(6,877)	(13,142)	(14,292)	(18,446)	(22,136)	(27,670)	(30,437)
	Gratuity	(2,164)	(2,926)	(3,206)	(4,257)	(5,534)	(6,917)	(8,301)
	Deferred taxation	(2,009)	(2,811)	(4,073)	(5,676)	(7,379)	(9,223)	(11,068)
		(11,051)	**(18,879)**	**(21,571)**	**(28,379)**	**(35,048)**	**(43,810)**	**(49,805)**
Total Liabilities		**(35,822)**	**(53,176)**	**(74,094)**	**(109,821)**	**(153,146)**	**(199,687)**	**(246,745)**
Financed By:	Called-up share capital	582	777	777	854	854	854	854
	Share premium	5,867	5,867	5,867	5,867	5,867	5,867	5,867
	Capital reserve	837	837	4,963	4,963	4,963	4,963	4,963
	General reserve	7,928	15,192	20,320	21,263	23,672	26,591	29,031
Shareholders' fund		**15,214**	**22,672**	**31,926**	**32,947**	**35,356**	**38,275**	**40,715**
	Underlining trends, assumptions and implied operating ratios							
Returns	ROaA	10%	12%	7%	2%	3%	3%	2%
	ROaE	35%	39%	23%	7%	14%	15%	16%
Working	Inventory turn (x)	6	5	5	5	5	5	5
Capital	Receivable turn (x)	10	11	7	9	9	9	9
	Payable turn (x)	4	4	4	4	4	4	4
	Days of inventory out.	61	76	69	71	70	70	70
	Days of sales out.	37	32	53	40	42	42	42
	Days payable out.	87	102	87	88	90	90	88
Cash conversion cycle (CCC) in days		**10**	**6**	**36**	**23**	**22**	**22**	**24**

Appendix

Cash Flow Statement (in million naira except otherwise stated)

Balance Sheet							
	2006A	2007A	2008A	2009F	2010F	2011F	2012F
Profit After Tax	**4,704**	**7,474**	**6,363**	**2,050**	**4,380**	**5,307**	**6,099**
Depreciation	2,313	2,970	4,033	4,632	4,871	5,274	5,563
Amortization	118	182	-	-	-	-	-
Interest expense	1,304	2,203	3,063	5,600	11,166	15,313	21,291
Working capital adj.	(147)	(8,254)	(10,427)	129	(1,143)	(2,592)	(4,424)
Net Operating Cash flow	**8,291**	**4,575**	**3,032**	**12,411**	**19,273**	**23,302**	**28,528**
CAPEX	(9,286)	(12,429)	(9,264)	(8,384)	(8,373)	(7,786)	(7,199)
Others	(2)	2,706	396	-	-	-	-
Cash flow from investing activities	**(9,288)**	**(9,724)**	**(8,868)**	**(8,384)**	**(8,373)**	**(7,786)**	**(7,199)**
Proceeds of right issue	-	-	6,701	-	-	-	-
Dividend paid	(785)	(915)	(1,535)	(1,107)	(1,971)	(2,388)	(3,659)
Medium term loan	5,949	4,747	658	1,348	3,689	5,534	2,767
Interest paid	(1,304)	(2,203)	(3,063)	(5,600)	(11,166)	(15,313)	(21,291)
Cash flow from financing	**3,860**	**1,629**	**2,761**	**(5,359)**	**(9,448)**	**(12,168)**	**(22,183)**
Opening Cash and equiv.	(2,708)	155	(3,365)	(6,439)	(7,771)	(6,319)	(2,971)
Change in cash and equiv.	2,863	(3,519)	(3,075)	(1,332)	1,452	3,348	(854)
Cash and equiv. at year end	**155**	**(3,365)**	**(6,439)**	**(7,771)**	**(6,319)**	**(2,971)**	**(3,825)**

Appendix

WACC Computation											
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Cost of debt	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%
Credit risk premium	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Pre-tax cost of debt	23%	23%	23%	23%	23%	23%	23%	23%	23%	23%	23%
Tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
After tax Cost of debt	**16%**	**16%**	**16%**	**16%**	**16%**	**16%**	**16%**	**16%**	**16%**	**16%**	**16%**
Weight of Debt: D/[D+E]	0.77	0.83	0.87	0.89	0.91	0.92	0.93	0.93	0.92	0.91	0.80
Debt Portion of WACC	12%	13%	14%	14%	15%	15%	15%	15%	15%	15%	13%
Cost of Equity	**22%**	**21%**	**21%**	**20%**	**18%**	**18%**	**18%**	**18%**	**18%**	**18%**	**18%**
Weight of Equity: E/[D+E]	0.23	0.17	0.13	0.11	0.09	0.08	0.07	0.07	0.08	0.09	0.20
Equity portion of WACC	5%	4%	3%	2%	2%	1%	1%	1%	1%	2%	4%
WACC	**17%**	**17%**	**17%**	**16%**	**16%**	**16%**	**16%**	**16%**	**16%**	**16%**	**16%**

Appendix

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