



Dangote Flour Mills Plc

Nigeria | Equities | Consumer Goods | November 17, 2015

Update: Tiger Brands withdraws support; Mr. Dangote resigns

Tiger Brands Limited has cut off funding to its Nigerian unit as it launched a review of its investment in the loss-making Dangote Flour Mills and is currently exploring various alternatives with regard to its investment in Tiger Branded Consumer Goods Plc. Though, the company has changed its name to Tiger Branded Consumer Goods Plc to better reflect the new ownership of the company. While we understand the rationale behind the Tiger Brand's acquisition of a significant stake in DFM in 2012, we reckon the current challenges of DFM suggest strategy flaws of Tiger Brand's expansion into the Nigerian flour market. Dangote Flour Mill Plc appears to be battling tough competition, weakening consumer spending and inadequate funding. Hence, DFM struggled to make a profit for the three year period. For example, in 2012, DFM's loss after tax was ₦2.26billion which rose to ₦6.76billion and ₦6.28billion in FY'13 and FY'14 respectively. It also recorded a net loss position of ₦9.11billion in its 9M'15 results. DFM's weak bottom-line for the period hinged on a faster rise in "cost", which spiked ahead of revenue growth. The negative operating cash flow created a trend of sustained negative working capital leaving the company with no option than borrowings and in some cases drawing from reserves to fund working capital. With no significant investment observed within this period, however, increasing debt remains a major concern while shareholders value is being eroded at a rapid pace with shareholders' funds declining to ₦9.61billion in 2014, (FY'12: ₦25.32bn).

In our view, this among other things necessitated Tiger Brand's decision to stop providing further financial support for the company. Going forward, we anticipate that Tiger Brands will seek to sell their holdings in DFM to cut their losses. We evaluate the company using different analytical perspectives, including profitability, income, and liquidity ratios. Profitability ratios are negative, liquidity ratios are weak while EPS is negative. In our view, the current position of the company provides early warning signals of critical financial challenges.

While we await management guidance on funding and strategy going forward, we remain sceptical on DFM's (Tiger Branded Consumer Goods Plc) near term outlook. Hence, we reviewed our rating and therefore recommend a **SELL** on the stock.

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Price:

- Current	₦2.18*
- Target	Under review
Recommendation:	SELL

* As at Tuesday, November 17, 2015

Fig. 1: Stock data

FYE	September
Price Mov't: YtD / 52wk	-47.03%/-63.21%
52-week range	₦2.89- ₦9.56
Average daily vol./val.	720,150/₦1,980.41
Shares Outstanding (₦mn)	5,000
Market Cap. (₦mn)	12,050(\$61.18mn)
EPS, ₦- 12months trailing	-1.26
DPS, ₦- FY2014	0.10
FCF, ₦- FY2013	0.00

Source: Bloomberg, Company financials, DLM Research

Fig. 2: Key ratios

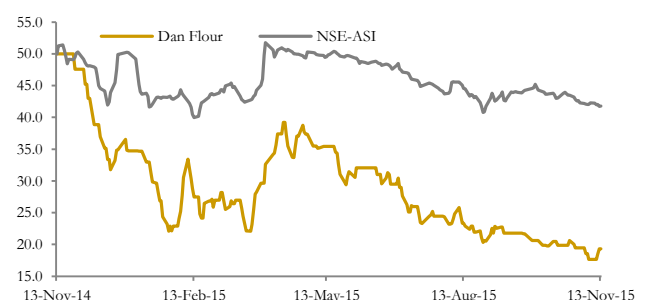
	9M'15	9M'14
Gross profit margin	-21.17%	-14.63%
Net profit margin	-27.53%	-15.04%
Equity multiplier	111.66x	5.04x
Asset turnover	0.60x	0.50x

Source: NSE, DLM Research

Fig. 3: Valuations

	FY2014	FY2015E	FY2016F	FY2017F
P/Sales	0.29x	0.25x	0.23x	0.21x
P/E	-1.92x	-2.07x	-2.52x	-3.88x
PEG	0.27x	0.28x	0.14x	0.11x
EV/Sales	1.00x	0.90x	0.91x	0.81x
P/B	1.25x	1.64x	1.92x	2.54x
ROE	-65.35%	-79.38%	-76.32%	-65.38%
ROA	-11.46%	-11.43%	-9.02%	-5.97%
Div. Yield	4.15%	0.00	0.00	0.00

Source: Bloomberg, DLM Research

Fig. 4: Dan Flour vs. NSE, 52-wk movement (rebased)

Source: NSE, DLM Research

Fig. 5: Statement of Profit or Loss, ₦'mn

	FY2014	FY2015E	FY2016F	FY2017F
Turnover	41,268	47,458	52,204	58,469
Change %		15.00%	10.00%	12.00%
Cost of Sales	(38,872)	(44,611)	(48,028)	(52,622)
Change %		14.76%	7.66%	9.57%
Gross Profit	2,396	2,847	4,176	5,847
Change %		18.84%	46.67%	40.00%
SG&A	(7,539)	(7,119)	(7,309)	(7,601)
Change %		-5.57%	2.67%	4.00%
EBITDA	(6,432)	(3,797)	(2,506)	(1,052)
Change %		-40.97%	-34.00%	-58.00%
Operating Profit	(6,432)	(4,271)	(3,132)	(1,754)
Change %		-33.59%	-26.67%	-44.00%
Other Income	302	475	522	585
EBIT	(6,130)	(3,797)	(2,610)	(1,169)
Change %		-38.06%	-31.25%	-55.20%
Profit Before Tax	(9,285)	(5,819)	(4,783)	(3,105)
Change %		-37.33%	-17.81%	-35.08%
Taxation	(3,006)	-	-	-
Profit After Taxation	(6,279)	(5,819)	(4,783)	(3,105)
Change %		-7.32%	-17.81%	-35.08%

Source: Company's reports, DLM Research

Statement of Financial Position (N,m)

	FY2014	FY2015E	FY2016F	FY2017F
Non-current assets:				
Fixed Assets	26,342	29,243	29,243	29,243
Other non-current assets	4,928	4,271	4,176	4,093
Total noncurrent assets	31,270	33,514	33,419	33,336
Current assets:				
Inventories	5,429	3,667	3,947	2,883
Trade Debtors	6,933	5,201	5,721	6,408
Prepayment	-	-	-	-
Bank and Cash Balances	4,548	2,847	3,132	3,508
Other current assets	6,619	5,695	6,787	5,847
Total current assets	23,529	17,410	19,587	18,646
Total Assets	54,799	50,924	53,006	51,982
Current Liabilities:				
Overdraft	-	-	-	-
Trade payable	9,841	8,555	6,579	7,208
Short term loan	28,665	28,665	28,665	28,665
Other current liabilities	171	142	146	146
	38,677	37,363	35,390	36,020
Non-current Liabilities				
Long term loans	5,044	5,044	10,044	10,044
Other noncurrent liability	1,470	1,186	1,305	1,169
	6,514	6,230	11,349	11,213
Total Liabilities	45,191	43,593	46,739	47,233
Shareholders' equity	9,608	7,331	6,267	4,749
Liabilities and Equity	54,799	50,924	53,006	51,982

Source: Company's annual reports, DLM Research

Fig. 6: Profitability & return

	FY2014	FY2015E	FY2016F	FY2017F
Gross profit margin	5.81%	6.00%	8.00%	10.00%
Operating profit margin	-14.85%	-8.00%	-5.00%	-2.00%
Net profit margin	-15.22%	-12.26%	-9.16%	-5.31%
ROCE	-38.02%	-28.00%	-14.82%	-7.33%
ROE	-65.35%	-79.38%	-76.32%	-65.38%
ROA	-11.46%	-11.43%	-9.02%	-5.97%

Source: Company's annual reports, DLM Research

Fig. 7: DuPont Analysis

	FY2014	FY2015E	FY2016F	FY2017F
Total assets turnover	0.75x	0.93x	0.98x	1.12x
Net income margin	-15.22%	-12.26%	-9.16%	-5.31%
Equity multiplier	5.70x	6.95x	8.46x	10.95x
ROE	-65.07%	-79.24%	-75.94%	-65.12%

Source: Company's annual reports, DLM Research

Fig. 8: Liquidity ratios

	FY2014	FY2015E	FY2016F	FY2017F
Working capital (₦'mn)	-15,148	-19,953	-15,803	-17,374
Current ratio	0.61	0.47	0.55	0.52
Quick ratio	0.47	0.37	0.44	0.44
Cash ratio	0.12	0.08	0.09	0.10

Fig. 9: Efficiency ratios

	FY2014	FY2015E	FY2016F	FY2017F
Fixed assets turnover	1.57x	1.62x	1.79x	2.00x
Current assets turnover	1.75x	2.73x	2.67x	3.14x
Total assets turnover	0.75x	0.93x	0.98x	1.12x
Inventory turnover	2.63x	4.90x	12.17x	18.25x
Receivables turnover	5.95x	9.13x	9.13x	9.13x
Payables turnover	3.95x	5.21x	7.30x	7.30x
Days inventory outstanding	50.90	30	30	20
Days collection outstanding	61.32	40	40	40
Days payable outstanding	92.40	70	50	50
Operating cycle (days)	0.00	0.00	0.00	0.00

Source: Company's annual reports, DLM Research

Fig. 10: Long-term solvency & stability ratios

	FY2014	FY2015E	FY2016F	FY2017F
Gearing	0.00%	0.00%	0.00%	0.00%
Equity multiplier	5.70x	6.95x	8.46x	10.95x
Total debt-to-equity	3.51x	4.60x	6.18x	8.15x
Total debt-to-assets	61.51%	66.19%	73.03%	74.47%
Proprietary	17.53%	14.40%	11.82%	9.14%
Interest coverage	0.00x	0.00x	0.00x	0.00x
Cash coverage	0.00x	0.00x	0.00x	0.00x

Source: Company's annual reports, DLM Research

Fig. 11: Shareholders' investment ratios

	FY2014	FY2015E	FY2016F	FY2017F
EPS, ₦	-1.26	-1.16	-0.96	-0.62
DPS, ₦	0.00	0.00	0.00	0.00
Pay-out	0.00	0.00	0.00	0.00
FCFPS, ₦	0.00	0.00	0.00	0.00

Source: Company's annual reports, DLM Research

Equity research methodology employed in this report

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top down and bottom up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management. This equity research report qualifies as an initiation research report on the company whose stock has been analysed, hence the level and depth of details documented herein. Further updates on this company, or its stock, or both, will be communicated to investors via brief research notes or earnings-flash emails, as occasion demands.

Our recommendation is slightly biased towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials. The investment rank or grade given to a company is an alphabet which falls in the set {A+, A, B, C+, C, D, E, F}, where

- Grade A+ means the company has done excellently well on all fronts that form the basis of our consideration, and has a strongly positive performance outlook.
- Grade A means the company's performance is of high quality, but can be made better. Outlook for the company is positive.
- Grade B means the company performed marginally above average, at least relative to its peers, but faltered on some fronts. Outlook is weakly positive.
- Grade C+ means the company's performance is exactly average; outlook is neither positive nor negative.
- Grades C and D indicate that dwindling performance is the company's fate at the current time. Outlook for the company is mildly negative.
- Grades E and F mean the company is headed for towards jeopardy, which might impair its ability to continue as a going concern. Outlook for the company in this case is alarmingly negative.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profitability margins, growth, economic profitability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to <30%	BUY
-10% to < 10%	HOLD
<-10%	SELL

Source: Company Financials, DLM Research

In our analysis, we distinguish between fair value and price target. Fair value is our opinion of the actual fundamental worth of a stock, irrespective of what the market thinks of the stock or what investors are willing to pay for it. Value investors purchase stocks way below their fair values, while income investors might purchase stocks at their fair values at the very maximum.

Price target, on the other hand, is the estimated price we opine the stock will trade in the near to medium term. It is the price that, if realized, could result in the best investment returns, given prevailing market conditions. It gives an idea of the price other investors might be willing to pay for a stock regardless of its actual worth. We employ fair value, price target or both to determine a stock's upside or downside potential.

A BUY recommendation directly means what it says; purchase the stock according to your wallet and appetite for risk. A SELL recommendation prompts investors to exit their positions in the stock, as the analyst believes the stock is not worth investors' time and capital commitment. A HOLD recommendation generally tells investors to do nothing; if you have not bought the stock, do not buy it and if you have bought it, do not sell it.

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