Nigeria | Equity Research | Transaction Update

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FLOURMILL acquisition of majority stake in HONYFLOUR

CardinalStone Research
research@cardinalstone.com

Flour Mills of Nigeria Plc (FLOURMILL) has announced an agreement with Honeywell Group Limited (HGL) and FBN Holdings Plc (FBNH) for a controlling stake in Honeywell Flour Mills Plc (HONYFLOUR). The deals would involve FLOURMILL acquiring 71.69% of HGL's stake for an enterprise value of N80 billion and FBNH's entire 5.06% stake in the target. This implies that upon completion of the deal, FLOURMILL would hold a 76.75% equity interest in HONYFLOUR.

Implied equity price to HGL AND FBNH

The final equity value per share will be subject to adjustments for net debt and working capital at the date of completion. Given that both HGL and FBNH deals were negotiated concurrently and agreed on the same date, management has guided that the basis for arriving at the final equity price per share will be the same for both deals.

Using the transaction terms for FLOURMILL's acquisition of HGL's 71.69% stake as a proxy for determining the implied purchase price to both HGL and FBNH, we assess the implied equity price per share below:

Figure 1: Implied equity price per share breakdown

Assuming no working capital adjustments		NGN
Enterprise value to HGL		80,000,000,000
Net debt adjustment (Sep'21)		51,221,000,000
Net-working capital adjustment		-
Equity value		28,779,000,000
Stake acquired	71.69%	20,631,665,100
HONYFLOUR outstanding shares (Sep'21)	7,930,197,658	5,685,158,701
Implied equity price per share		**3.63**

Our implied purchase price per share in the table above does not account for the possible adjustments to net working capital, which we adjudge to be too unstable to give a fair reflection of the potential final purchase price. To this point, we note that HONYFLOUR's Sep'21 net-working capital of N14.6 billion is significantly higher than its eight-quarter average of N4.0 billion and could materially bias the implied purchase price if used as the basis for determining the final equity price. Sensitising for potential changes to normalised or target working capital compared to actual working capital, based on our assessment of HONYFLOUR's historical numbers, suggests an implied purchase price of N3.12 – N4.67 per share.

Implication for HONYFLOUR minorities

In its disclosure, FLOURMILL hinted that HONYFLOUR would remain a listed entity, and its minority shareholders would be treated fairly in line with capital market regulations. On the surface, this suggests that HONYFLOUR will remain a subsidiary of FLOURMILL, but it is unclear if this truly reflects FLOURMILL's long-term strategic plan. In our view, maximum synergies would be realised upon full consolidation of both businesses into one entity, which could cascade into a possible tender offer to HONYFLOUR's minorities and the eventual delisting of the stock from the NGX.

Implication for FBNH

FBNH's disposal of its holding in HONYFLOUR appears in line with CBN's initial instruction in April to divest its stake in the miller. Assuming the deal is completed in FY'21, we estimate the likely gain on disposal to FBNH to range between N717 million and N1.3 billion. Our capital gain estimate compares our implied purchase price range with HONYFLOUR's close price of N1.33 on 31 December 2020, which, we believe, was used in determining the security's carrying value in FBNH's FY'20 books.

More favourably, the acquisition by FLOURMILL could potentially ease concerns about the performance of FBNH's loan exposure to HONYFLOUR. In its FY'20/21 audited results, HONYFLOUR disclosed a term loan of N10.4 billion obtained from First Bank of Nigeria Limited, with a restructured tenor of 6 years. It is, however, unclear how much of the firm's N37.9 billion short-term borrowings were also obtained from the bank.

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