

Economic Alert iQ



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Local

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National Flour Mills (NFM) six months ended 30th June 2015

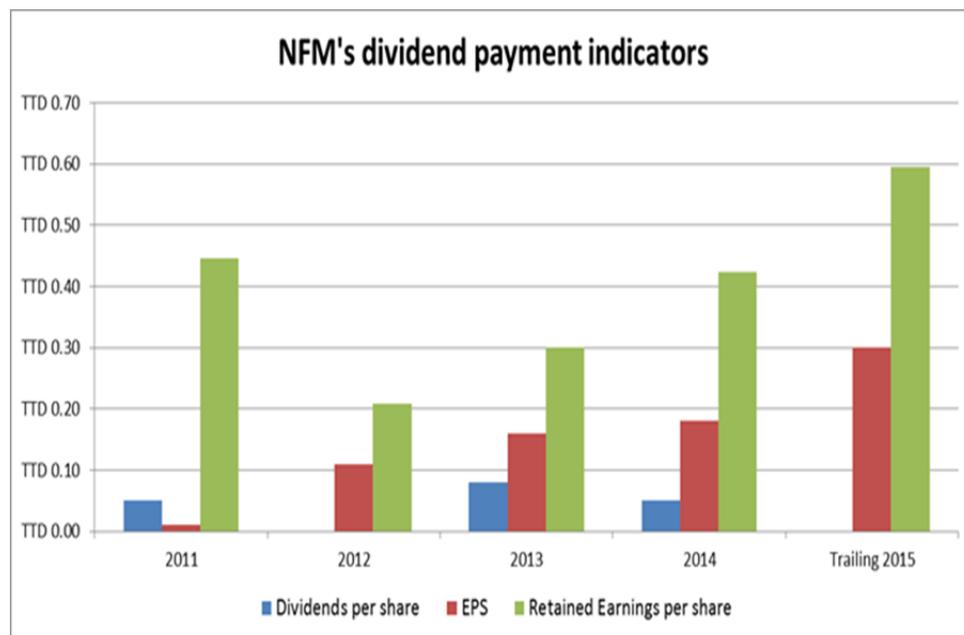
Financial Performance

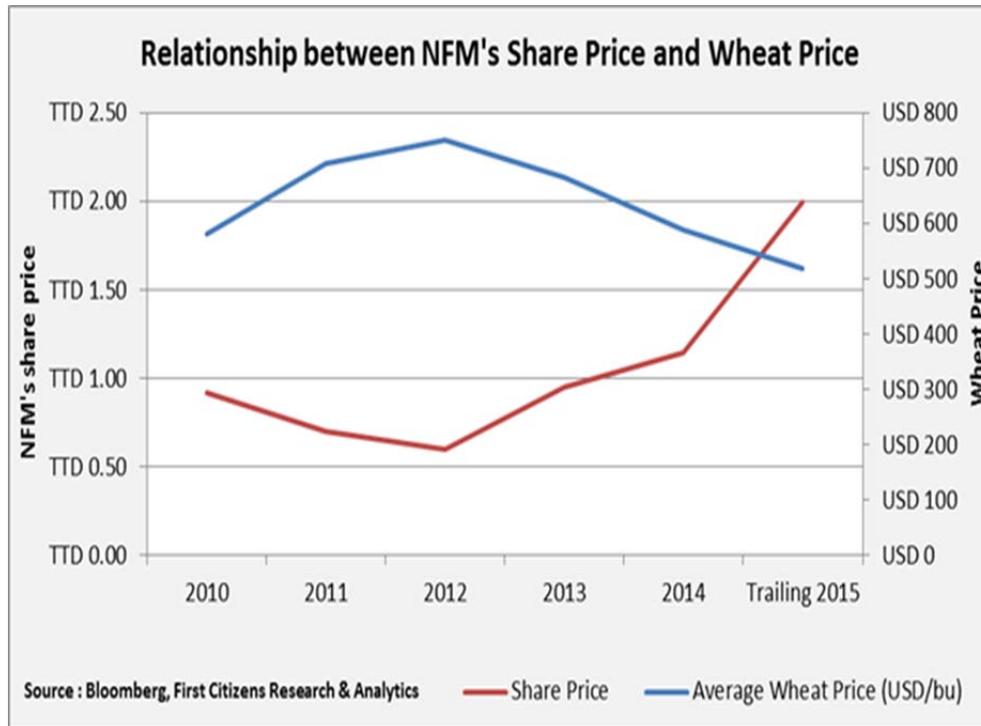
- For the second quarter of fiscal 2015, NFM's revenue increased by 14.97% to TTD245 million, when compared to the same period 2014.
- Gross profit margin at the end of June 2015 stood at 23.9%, up 5.7% from a year earlier indicating better management of NFM's direct cost of production.
- Operating profit margin jumped from 5.4% in June 2014 to 10.9% at the end of Q2 2015. Aiding this increase was a TTD2.3 million increase in other operating income.
- Profits for the year increased by a significant 203% to approximately TTD20.57 million from TTD6.79 million for the corresponding period last year.
- Earnings per share for the first two quarters of 2015 rose by 240% to TTD0.17 cents compared to TTD0.05 cents for the same period in 2014.
- NFM is currently trading at TTD2.00, up 73.91% year-to-date with a total trade volume of 2,229,264 for 2015.
- At the current price, NFM is trading at a P/E of 6.67X, above its 3-year average of 6.11X.
- NFM typically pays one dividend per calendar year; however the frequency and predictability of dividend payments have come under scrutiny. NFM is expected to pay a final dividend at the end of September 2015.
- This trailing dividend yield stands at 2.5% as a result of a the final dividend payment for 2014 (October 2014) of TTD0.05

Performance Indicators

Indicator	HY 30 June 2015	HY 30 June 2014	Year ended 31 Dec 2014
EPS (TTD)	0.17	0.05	0.18
Revenue (TTD 000)	245,049	213,139	470,316
Gross Profit (TTD 000)	58,732	38,643	95,451
Net Profit (TTD 000)	20,572	6,791	21,778
Net Profit Margin	8.4%	3.1%	4.4%
ROA (%)	5.4%	1.9%	5.4%

EARNINGS PER SHARE VS DIVIDEND YIELD





Outlook

While the graph above shows an inverse relationship between Wheat price and NFM's share price, it is important to note that there are many other factors that would influence NFM's stock price on the TTSE. However, what the graph does imply is that the price of wheat would have a direct impact on the profitability of NFM and by extension investor sentiment and share price.

- According to the United States Department of Agriculture, World wheat supplies for 2015/2016 are expected to increase by 12.1million tons while consumption is expected to decrease by 5.4 million tons. Both indicators suggesting continued downward pressure on wheat prices.
- Favorable weather conditions in the summer of 2015 lead to the assumption of larger acreages in 2016. Initially, it was predicated that the passage of El Nino would have brought about drier conditions which were not suitable for agriculture. However, thus far for 2015, these predictions have not materialized and favorable crop harvests are expected. It is important to note that El Nino could shorten the winter season and thus affect winter wheat harvest.
- With the U.S. poised to increase interest rates in 2015, the U.S dollar experienced significance strengthening and as such commodities which are priced in US dollars became more difficult for importers such as Brazil and China thus adding downward pressure on the commodity price.

- NFM is on a drive to increase the contribution of exports to its bottom-line. As such the company is aiming to receive Safe Quality Food (SQF) Level 3 certification from the United States of America Food and Drug Administration (USFDA) which would open up the U.S market to NFM and reduce the company's reliance on T&T. This certification is expected to be achieved in 2016.
- The company is also seeking to expand its Animal Feed market offerings which may have significant impact on NFM's bottom line.
- Management restructuring coupled with renewed focus on cost management and efficiency should positively contribute to NFM's success.
- As indicated by the Chairman in his Q1 statement, a novel worker productivity scheme which was recently implemented should improve employee morale and productivity looking ahead.

Considerations/Risks

- NFM, being a closely held GOTT company is in some ways influenced by the policies of the government of the day. With an impending General Elections carded for September 2015, a change in Government could see a new board and management being implemented at NFM. Thus, being in a period of uncertainty as to the composition of the new central government may impact investor sentiment on the stock.
- Recent news about an impending TTNGI IPO carded for August 2015 could see slowed market activity as investors wait to take advantage of new opportunities. Additionally, NFM's share price has appreciated by 73.9% year-to-date and as such investors may book profits and re-invest in the IPO.
- NFM's success is tied to the international price of wheat and grain. As such, commodity prices which can be influenced by any number of factors could have a direct impact on the profitability of NFM.
- NFM's dividend growth has not been consistent over the past 10 years. In the absence of a clear dividend policy, First Citizens Research & Analytics can only infer from our analysis that dividends are most likely paid once NFM's retained earnings per share is above TTD0.30. However, there are many factors which can impact dividend payments therefore, communication from the company regarding the return of shareholders' capital is necessary.

Valuations

- Using the most recent available financial results for NFM (HY 2015), we have derived a projected growth rate of 4.07%. This rate was formed as a result of a mix between fundamental and dividend growth. However, as previously mentioned, the projected growth rate was limited by the volatility of NFM's dividend payments. Nevertheless, based on NFM's results from June 30th 2015 and using the projected growth rate, NFM's intrinsic price was valued at \$2.70 (compared to the TTD2.23 valuation projected from NFM's Q1 2015 results). This compares to the current market price of \$2.00. NFM's emphasis on improving operational efficiencies and further regional market penetration justifies current valuations and we believe that this a fair indication of the company's worth based not solely on its historic performance but more importantly on future prospects.

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