

FML embodies the essence of a strong distribution network in the FMCG sector

Company Profile: Incorporated in 1960, FML became the first foreign Company to become a Public Limited Liability in 1967. The principal activity of the company is the manufacture and distribution of dairy products and fruit drinks.

Coverage Update: Despite an improving and stable macro economy, systematic risk still persist in an economy recovering from shuttered consumer and business confidence coupled with volatile utility and FX prices. Not taking their achievements for granted, FML has however tactfully managed to maneuver through the economic headwinds with a number of operational efficient initiatives and an increased investment in capex. With companies across the divide struggling for topline growth, FML managed to grow revenues by 22 per cent on the back of a prior year growth of ~78 per cent. The company achieved this impressive milestone by increasing its investment in capex by ~692 per cent in order to expand its distribution network whilst simultaneously introducing new pricier products (mango and passion flavor) onto its product portfolio mix. Taking into account that current valuations appear stretched albeit for valid reasons especially when the stock returned ~40 and ~52 per cent in 2015 and 2016 respectively when the overall market declined ~12 per cent and ~15 per cent in the same periods, we update our recommendation of FML to ACCUMULATE from a buy based on 12-month fair value price target of GHS13.89. With an anticipated rebound in broad economic activity and the expectant ease in operating environment, we forecast FML still has "legs to run".

12-Month 2016 Synopsis

Revenue: Following a 77 percent increase in revenue in FY2015, revenue for FY2016 grew by 22.5 per cent. The sustained growth in topline can be attributed to the pervasive nature of FMLs distribution strategy, its entrenched position in the Ghanaian dairy products industry as well as the roll out of a new and pricier product.

Operating Expense: At a growth rate of 14 percent, opex grew below the year end inflation of 15.4 per cent and as a percentage of turnover this metric improved from 32.7 per cent to 30.4 per cent on account of improved input cost, CPI and a relative stable currency.

Rise in bottom line: Strong revenue growth and improved cost management filtered all the way down to bottom-line with eps rising 33 percent for the fiscal period.

Multiples

	2014A	2015A	2016A	2017E
EPS	0.13	0.43	0.57	0.7
EPS Growth (%)	(27.9)	222.8	33.0	24.4
BVPS	0.70	1.04	1.50	2.21
P/E (x)	39.6	17.2	19.6	16.0
P/B (x)	7.5	7.1	7.4	5.1
PEG	(1.4)	0.1	0.6	0.7
Payout Ratio (%)	67.9	21.0	18.2	-
ROE	18.9	41.3	37.9	32.1

FML Historical Results and 2017 Estimates

(All amounts in GHS'000)	2014A	2015A	2016A	2017E
Revenue	177,492	315,409	386,402	483,003
% Growth	27.9	77.7%	22.5%	25.0%
Cost of Sales	90,219	156,345	189,345	234,256
% of Revenue	50.8%	49.6%	49.0%	48.5%
Gross Profit	87,273	159,064	197,057	248,746
% of Revenue	49.2%	50.4%	51.0%	51.5%
Operating Expenses	69,272	103,085	117,533	143,452
% of Revenue	39.0%	32.7%	30.4%	29.7%
Operating Profit	18,001	55,979	79,524	105,295
% of Revenue	10.1%	17.7%	20.6%	21.8%
Profit Before Tax	20,541	59,779	82,255	108,676
% of Revenue	11.6%	19.0%	21.3%	22.5%
Tax Rate	30.2%	25.1%	24.5%	25.0%
Profit After Tax	15,401	49,716	66,128	82,257
% of Revenue	8.7%	15.8%	17.1%	17.0%

Source: FML financial statements and FCA Research.

Recommendation

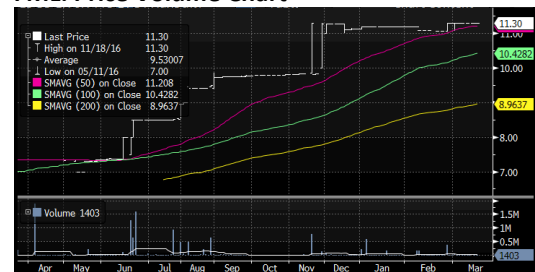
Target Price	(GHS)	13.89	Current FCA Rating	ACC.
Current Price	(GHS)	11.3	Previous FCA Rating	BUY.

Market Stats

Bloomberg Ticker	FML:GN
52- Week High (GHS)	11.3
52- Week Low (GHS)	7.0
Issued Shares	116.2 "M"
Free Float (%)	N/A
Market Cap. (GHS)	1.31 "B"
Market Cap (USD)	0.28 "B"

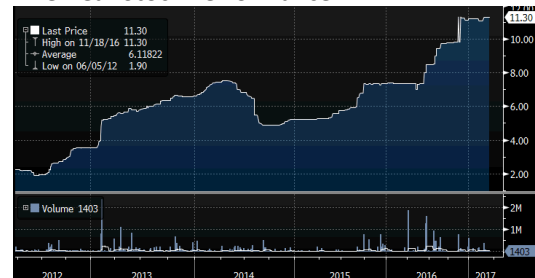
Source: Ghana Stock Exch., Bloomberg and FCA Research.

FML: Price Volume Chart



Source: Bloomberg.

Five-Year Stock Performance



Source: Bloomberg

Five-Year Performance Comparison (%)

	2012	2013	2014	2015	2016
FML	49.8	86.5	(20.7)	40.0	51.6
GSE	23.8	78.8	5.4	(11.8)	(15.3)

Annualized Return (%)

	2012-2016
FML	36.28
GSE	11.76

Metrics of Comparable Firms

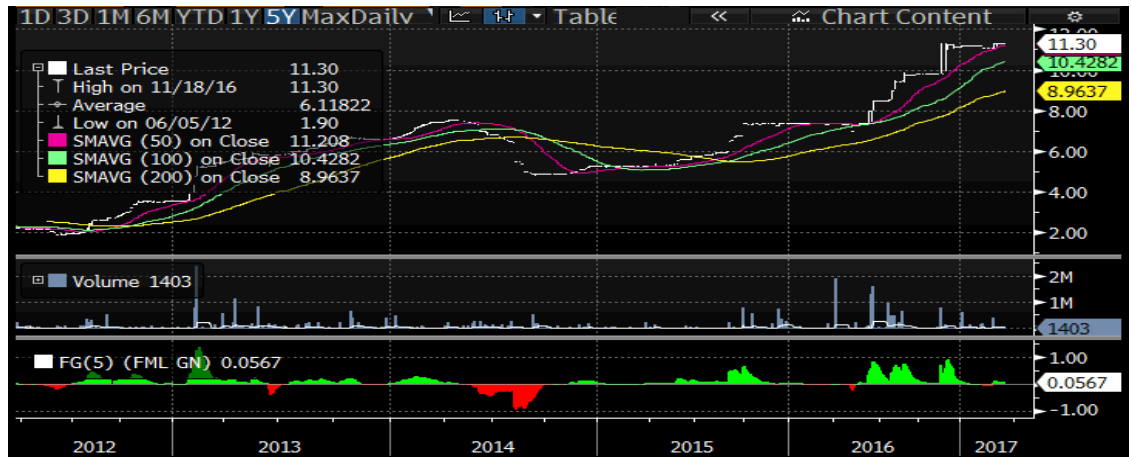
	P/E	P/B	YTD (%)
FML	19.7	7.53	1.44
GGBL	N/A	1.75	(7.8)
UNIL	14.13	7.36	4.44

DISCUSSION

Bull Story: FML has a strong presence in Ghana. It is a powerful brand that resonates very well with Ghanaians, therefore well respected. Increased investments in its distribution network over the past couple of years should continue to pay dividend in the form of increased revenue. Increased brand loyalty, introduction of new products and recovery in broad economic activity should sustain top-line growth.

Bear Story: Increased competition from rival dairy products and conscious shift from sugar based diets presents downside risk to the company. Volatility of the local currency which has depreciated significantly thus far could have a negative impact on cost build-up and consequently on the bottom-line if the trend persists

Technical Analysis in Brief: The FG indicator points to the fact that ultimately investors have been bullish on FML. Consequently, we have all moving averages trending northwards with the 50day MA above both 100 and 200 day MA. The stock is at its 52 week high and with a 5 year annualized return of 36.2 per cent vs the composite index at 11.76 per cent, FML will continue to play a very important role in any equity exposed portfolio.

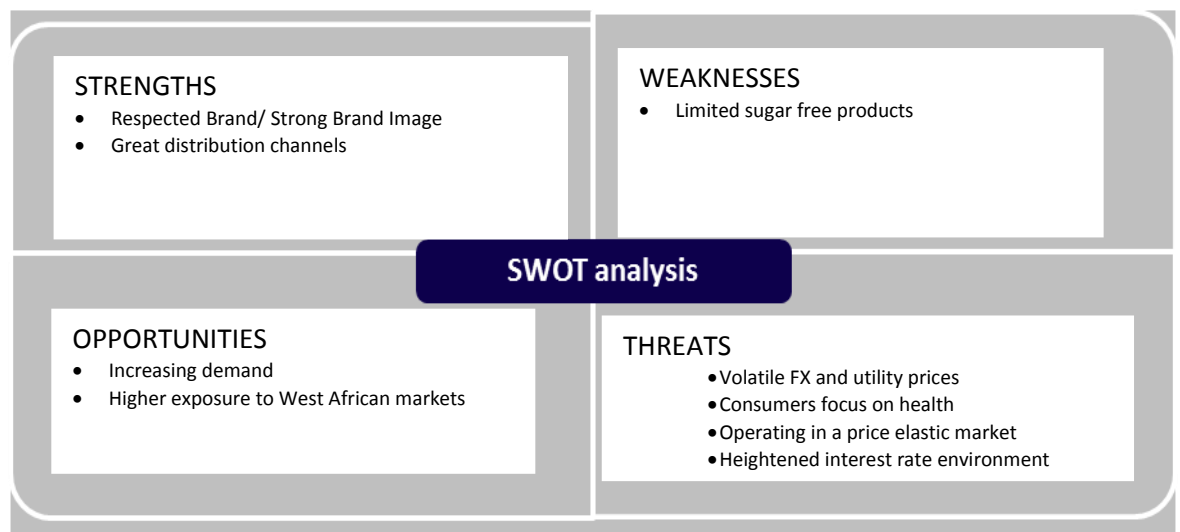


FY 2017 Expectation: We believe the expansion of its retail outlet and the investment into new product lines will sustain topline performance and in the process generating healthy returns for shareholders. Ultimately, the operating environment may be the biggest catalyst for companies in the FMCG sector and with initial real GDP forecast of 6.3 per cent, FML stands to make great strides in current fiscal year.

VALUATION

Valuation: We update our BUY recommendation to ACCUMULATE based on a 12- month fair value target of GHS 13.89. This represents a 22.92% capital gain in local currency terms. The stock's five year annualized return of 36.28% percent outperforms that of the market which has generated a return of 11.76% percent for the same period. The shares are currently trading at 16.0x forward earnings. On a forward P/B basis, the shares are trading at 4x forward book value. Applying both P/E and P/B valuations, we arrive at a target price of GHS 13.89.

SWOT ANALYSIS



The most obvious risks are macroeconomic conditions and high operational expenses, along with a gradual shift of consumers towards healthier and sugar free products.

