Conference Call transcript

15 July 2019

FLOUR MILLS OF NIGERIA 2019 ANNUAL RESULTS

Operator
Good day, ladies and gentlemen and welcome to the Flour Mills of Nigeria full year, 31st March, 2019 results call. All participants will be in listen-only mode and there will be an opportunity for you to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing star and then zero. Please also note that this call is being recorded. I would now like to hand the conference over to Anders Kristiansson, the group CFO for Flour Mills of Nigeria. Please go ahead, sir.

Anders Kristiansson
Thank you very much. Good afternoon, everybody. My name is Anders Kristiansson. I'm the CFO for Flour Mills of Nigeria. I will be giving this call together with Devlin Hainsworth who is our managing director for the food division. We released results for the full year, April, 2018 to March, 2019 on Friday and we have uploaded the analyst presentation on our web page and we would like to walk you through the results and then answer questions you may have. If you please look at the presentation you will see that over the macroeconomic overview where we are as a company as of now, the financial performance, business outlook, and then whatever questions you might have.

If we look at the macroeconomic environment we had an interesting 2018/19. We saw a slow recovery over the last year with the GDP growing quarter on quarter and ending Q4, where this is where we'll put most of our focus, at the 2% rate. We saw the inflation trending downward and we did see what was important, a fairly steady supply of dollar. We had a fear that the January to March time frame might be affected by scarcity of dollar. We saw no such impact and as of Q4 and beyond we have had access to the dollar at around a ₦360 exchange rate, fairly freely. We were affected in Q4 by the two dates of presidential election and the one or two dates of governor election which somewhat affected the Q4 performance. But overall Q4 from a macroeconomic environment we would of course have wanted the growth to be higher, but it was a fairly stable period. And then Devlin will introduce the company. So if you might want to look at slide six.

Devlin Hainsworth
Thank you, Anders. As Anders says my name is Devlin Hainsworth and I'm managing director of the food business. So on this chart I'd like to draw four main points, if I may, and the first one is that the FMN group is a fully integrated food company focused on five value chains and that is grain, sweeteners, oils and fat, starch and protein, and really combined these value chains account for a large portion of the Nigerian plate. Secondly backward and vertical integration of our supply chain not only secures the raw materials, it keeps us competitive obviously and for example I hear that quite frequently farms get brought up on the call. I mean, in terms of the farms we're not farmers, but through the farms we have the additional benefit of understanding specific value challenges and opportunities as well as securing supplies for that value chain.

The third point I'd like to draw out is in the Golden Penny brand name we have a brand that in both B2B and B2C is synonymous with quality and value for money and that's across segments and diverse product portfolios and really nobody has a basket of offerings the way that we do across these value chains, and finally the fourth point and final point for this chart. We are the biggest food company by revenue. We have both scale and market leadership importantly in some key food segments, be it in B2B, flour or corporate flour and of course pasta and ball food, we have both scale and market leading positions in those segments, which is critical, and overall as I said that makes us number one in the wheat value chain and in 18/19 in that wheat value chain we did see some share gain.

Moving on to the next chart, chart seven, we've structured ourselves as you know as four business units and we're reporting on that basis. Now all these business segments have scale obviously. In this year's numbers I'm sure you've seen food is around ₦335 billion in terms of revenue, Sugar at ₦83 billion, agro-allied at ₦88 billion and also logistics and support services ₦21 billion. So not only did this bring greater clarity in terms of performance as we update against a different segment, clearly we have obvious synergies available to the group by having these business segments. So a great example of that is route to market and our customer base in both B2B and B2C not only does that sustain our existing categories, it also helps further drive sugar and in terms of some of the newer categories that we have through our agro-allied, for example, the oils and fat we have a very strong food B2C platform to carry the consumer brands, and we're yet to see the full benefit of those synergies in the newer categories.

But that footprint is available to us, and also it's worth making the point I think within food specifically the regional footprint that we have with our operations in Calabar, Ibadan and in Kano also enables us to push out and execute regional plans, but also come up with tailored regional offerings. For example, at the turn of the year we introduced a new sorghum brand [unclear] vita, which is made and sold out of our Kano operation. So if we may move now to chart seven and really it just summarises the points I've made about the breadth of our portfolio in B2C and B2B and across the value chain, and it's both synergistic and very complementary and when I come back on towards the end of the presentation I'll talk more about innovation, but you can see there circled we had some new launches both in bread, flour and pasta to penetrate new segments and for example Mai Kwabo has really helped take pasta on, targeted at the north to a new level and further cemented our leadership within that critical category. Over to you, Anders.

Anders Kristiansson
Thank you very much, Devlin. If we go to slide nine you will see what I alluded to in the prior [unclear]. We had done some reorganisation of the businesses. That is to ensure that the organisation of structure reflect how we are operating the business and how we are looking at the business. We did the major one, which was that we created Agro-Allied holding company by breaking out the Golden Fertilizer Division from Flour Mills Company and combining the Golden Fertilizer company, the edible oil, Rom Oil, the Premier Feed, the fertilizer business, the aggregation business and all farms plus the Sunti Sugar farm and the Agro-Allied entity. This is how we manage the business.

So we have as of this year put in place one managing director who is overseeing all the businesses in Agro-Allied. He has a leadership team with a finance director, et cetera. We created this entity and there are obvious synergies between the Agro-Allied entity. The edible oil business sells the soya bean meal to the feed business. The feed business buys the maize from some of the farms. They buy the soya bean meal and they sell to the farmer. The fertilizer business sells to the farmer. We aggregate grains from the farmers for the other businesses. So by putting all of this under one structure we have generated synergies.

We have also ensured that the Agro-Allied HoldCo now is sufficiently capitalised so that they can buy their, in the [unclear] at the harvest season when prices are significantly lower. The Agro-Allied HoldCo was… The structure was put in place as of second half year and the official legal entity was approved in March and we have seen, as we will show you later on, something within the Agro-Allied space from operating much more coherently. So we have also merged the Golden Sugar Company and the Sunti Golden Sugar Estates. This is one as the Golden Sugar Sunti Estates is one, providing projects to the Golden Sugar Company and [unclear] for the sugar concession is the backbone integration, which we have to participate. We have also merged the Apapa terminal with Olympic Towers, which fall under the support services. So we are trying to create a more transparent organisation. Important to note is that these combinations, none of the shareholdings, were altered. So the Agro-Allied HoldCo is fully owned by the FMN Company, so there is no dilution of shareholding. Neither is there under the Golden, under the Sugar nor the Apapa and Olympic Tower combinations, respectively.

If we look at the financial highlights you will see on slide 11 what we perceived to be the main achievements during the quarter. We finished the year at a strong revenue base of ₦528 billion. It was a tough year and we have seen our revenue declining by 3%, but we have gained market share and we have cemented our leadership in the wheat value chain. The volumes sold were up 2% versus the last year. As we mentioned before we saw a year where the volume was picking up versus last year progressively. Q1, i.e., April to June, 2018 the volume was down 5%. Q2, the volume was flat versus last year. In Q3 we saw a significant 9% volume growth basically across all the value chain. In Q4 the volume growth was 2%. That was affected by the four days for additional public holiday, but there's been an upward growth of the volume. We have seen the continuous deleveraging of the balance sheet where the debt has gone from ₦190 billion two years to ₦110 billion now and minus 17% versus last year. As a consequence of that and the restructuring that we have done of the debt portfolio, the financing cost was down 30% versus last year and the third major achievement that we see is that we have restructured the Agro-Allied Division and thereby we see much stronger results in the Agro-Allied space.

If we go to the next slide, slide 12, you will see the detailed number. You will see the full year number to the right and you will see the Q4 to the left. If we look at Q4, we had a strong revenue growth of 10%, primarily driven by Sugar than Agro-Allied, but also growth in food. We were affected by the competitive landscape in two and we saw the gross margin being down 46%. There is a missing part here as we are selling a higher ratio of Agro-Allied, which by definition has a slightly lower margin and we are also seeing the food being competitive and we have made the commitment this year that we were going to strengthen our market share and we had to discount somewhat more than we had to do in prior years to keep the volumes. Operating expenses are down significantly versus last year. In prior year, in 2018 we had a ₦3.5 million one-off. So the real operating cost in 2018 would have been ₦5 million.

We had some phase in [?] impact in Q4, 2019 as we saw the trend of the volume and result which gave back on some anticipated programs and we reversed some accruals that we had done, leading up to there. So the real operating cost in Q4 is around ₦3.5 billion, taking pure quarter impact into account. It's still down versus last year. Financing cost down 16% and as a consequence the profit before tax has improved by ₦1.9 billion versus prior year. We traditionally have a weaker Q4 than Q3 and Q2 and this is the season with low can [?] produce and we see lower wheat production. This is also the quarter where the aggregate most of the grains and [unclear] input commodities that we will be using over the next quarters, so we don't have a higher working capital level. Still, we saw a ₦1.9 billion improvement.

In terms of tax we had food and sugar coming out of its pioneer status. We cancelled the pioneering status one year in advance, but we saw the profitability of Golden Sugar as a consequence of an early cancellation we had three years of commencement rolling, i.e., where we pay double taxation compared to the normal two. By combining Golden Sugar and Sunti we could mitigate the impact. Still we saw a ₦4 billion tax impact. The normal tax rate was running at ₦1.2 billion, possibly that we were making a loss in Q4. So net we were up ₦1.9 million before tax in Q4 and we had the Golden Sugar pioneering impact on tax.

For the full year volume is marginally down by 3%, sorry, revenue is marginally down by 3%, volume up by 2%. Gross profit primarily affected by the competitive landscape and slight limit. We saw the operating expense as being flat. If you look at the details you will see that we have invested into sales and distribution, we have invested slightly into marketing and the admin expenses are down versus last year. Financing costs are down 30% versus last year and profit before tax landed at ₦10.1 billion compared to ₦16.5 billion last year. We then had the commencement tax impact and we had the normal operating tax of ₦2.1 billion. So we closed the year at a ₦4 billion after tax profit.

If I can ask you to look at slide 13 you will see the detail behind the tax. So we close and apologise for the headings here, we should have fixed that, 18/19 is actually 19/20 and vice versa, so apologies for that. We closed 19/20 at 6.2 billion of tax and if we exclude the Golden Sugar commencement we had a 21% tax rate. Last year we had a 17.7% tax rate. We had no companies coming out of pioneering status next year. We will have a nine-month lag on Golden Sugar, which will hit next year, but we see the tax rate for next year to stay around 21% or 22%, so in line with what we see now. If I may ask you to look at the next slide, which is the efficiency slide you will here see of the revenue is flat versus last year despite the challenging environment with slightly reduced buying power and some consumers downgrading in the wheat value chain from the higher quality wheat to slightly lower quality wheat. That is offset by pasta picking up, but we saw an overall mixed impact on the wheat. You will see the opex is more or less flat versus last year. If we pack out the advertising and the sales and distribution, we are down versus the prior year and you will see how interest cover ratio stays at a very strong level despite the revenue being slightly down.

If we go to slide 16 you will here see the segments reporting. This is reporting that we started doing as of this year, and very happy to take any questions on this and we will fine tune this reporting as we move forward. What we effectively saw in Q4 was we saw Food growing by 3% on a revenue basis, we saw a 34% growth in Agro-Allied on a revenue basis and we saw a 34% growth in Sugar. So Agro-Allied as a consequence of the restructuring that we did increased focus. We also saw Agro-Allied improving gross margin versus last year by roughly ₦2 billion. We saw Sugar improving gross margin unfortunately not by 34%, but by ₦1 billion and we saw on a gross margin base a contraction on food and support services. If you look at the overall profit improvement of ₦1.9 billion versus prior year. We saw that primarily coming Agro-Allied and Sugar. If you look at the detail segment by segment before tax profitability, you will see some shift as the IFRS 9 implementation slightly impacted some of the inter-company loans but overall the ₦1.9 billion Q4 profit improvement was coming from Agro-Allied and Sugar.

If we look at the cash flow, we have [unclear] ₦72 billion of cash flow from operating activities, slightly downwards this last year. We had a cash capex of ₦27 billion, come investments from prior year were being finalised. We still see the company being at the end of its current investment cycle. We have completed the west mill which will give us additional building capacity. We have put in place an additional pasta line. We have more or less completed the Sunti investment. We are now at 2800 hectares and we have put in place, during last year, edible oil and consumer oil plus margarine in Rom Oil capacity. So we do see going forward that we will have a capex in the midterm significantly below the valuation. We had a reduction in the net borrowing and we had basically lower costs from financing activities, i.e. interest cost. So overall we generated ₦5 billion of cash in the year comparable ₦8.8 billion in the prior year when we had 39 billion of shares issuance. So overall from a cash flow point of view, it was short lived [?].

If we look at the next slide, you will see how we have shifted from short term debt to long term debt. And you will see how we divide March 2019 had a total net debt of ₦109 billion to be compared to ₦199 billion two years ago. So the debt reduction that we set out to do with the rights issue has been achieved. You will also see on the right how the net debt to EBITDA and net debt to equity is basically flat versus last year to improving despite lower EBITDA. So overall net debt of ₦109 billion.

On the following slide we will show you how we reduced the debt from ₦197 billion in 2017 to ₦110 billion end of this year. We have generated ₦82 billion cash from operations. We have reinvested ₦49 billion in capex behind the current investment cycle. We've received the ₦39 billion from the rights issue and we reduced other financing activities by ₦14 billion. So in total by generating ₦82 billion of cash, investing some of it in capex, taking the rights issue and reducing other financing costs, we have seen a 44% decrease in the net debt level and thereby reduce the leverage. The consequence of the result, the lower debt and the future lower capex [unclear], we are proposing to the AGM an increase of the dividend. The dividend was ₦1 per share last year. We are proposing a 20% increase to ₦1.20 per share which will take the overall dividends from ₦4.1 billion to ₦4.9 billion. This is subject to the AGM approval on September the 4th and the pay out will then be one week later. We have received a couple of questions and comments why we are taking up the dividend in a year where the overall results are lower than that of last year. This is primarily coming from the capex need that we see over the following year and also from the reduced leverage we're having and we are expecting to continue to work the leverage down over the next two years and are thereby comfortable that we can take up the dividend level somewhat. This concludes the financial presentation.

And if we look at the business outlook, I will do the overall and Devlin will then provide a lot more [unclear] on the food side. So if you look at the overall company, we are seeing whole sale is continued to execute the Agro-Allied turnaround strategy and our goal is to bring Agro-Allied to overall profitability level seen here and by doing this we are creating a third leg to the portfolio which originally consisted of Food and will now be having a fairly solid Agro-Allied division. With Agro-Allied, we are also reducing our dependency on import and creating more local driven segment. As part of the focused of Agro-Allied, we will be evaluating some of the more [unclear] farms and in some cases see whether we should be driving them or whether they should be handled by out growers team.

We will continue to be heavily focused on the agro-farm on the cassava plant which are key inputs for our edible oil and for starch business but we might be looking at some of the other farms. We are going to continue to focus on Sugar. Sugar is today making up two thirds of the profitability of Food. The Sugar has from 2012/2013 become a very significant second leg of the business with Agro-Allied now becoming the third. In Food, we will accelerate the expansion in B2C which Devlin will explain in greater detail. We will continue to manage the balance sheet and we are not happy with long term. We are happy with the reduction but we are looking at taking the leverage further down. We will continue to drive the synergies in the businesses and between the businesses and continue to increase operational efficiency. Our target is to double the EBITDA within a five year period on a currency neutral basis and that's the foundation that we are putting in place. And over to Devlin which will explain a bit more on the food side.

Devlin Hainsworth
Yes, so picking up your point there, Anders, on chart 22. So more than doubling the Food EBITDA in five years. So really the strategic focus there is captured there both for the kind of short and the midterm and I'll just draw out a few of them more [?] designs to have as the leading Food business, number one in the wheat value chain and to really accelerate growth. So talking about B2B through regional plan, quality, customer service in both corporate [?] and bread flour and winning with bakeries and we do have quite a large sales resource focused on the bakeries and we have data [?] and we act on that. We'll look to drive value from B2B and as Anders says, really the key part of the strategy is to accelerate the expansion of the B2B portfolio and I think I'm right in saying that a few years back B2C kind of at the gross profit level accounted for about 10% of our value within Food. It's now closer to 40% and the intention is to increase that by doing a few key things. One of them is obviously driving existing categories harder. So even with something like pasta, we have a household penetration, difficult to know for sure but we have studies and there is data that is available. We have, we believe, 78% household penetration with fairly modest frequency levels. So even on a big established category like pasta there are opportunities to drive both the penetration and the frequency harder.

And then if you drop down to [unclear] food or Semovita, the household penetration for that is 43% so still big opportunities to grow that and we'll do that obviously with some tried and tested areas of brand support, advertising. It's important to feed the brand health of the Golden Penny trademark in these key categories. And also by further accessing new segments and regions and I think a great example of that is the success we've had with Mai Kwabo pasta in the north for example. And so you'll be seeing us coming out with new offerings that will drive accessibility into new regions. A big area of opportunity also for accelerating the expansion of B2C is winning with our route to consumer. So again, it's very difficult to say but we believe there are over 900,000 food outlets up and down and across the country. We believe that we have around distribution of our main [unclear] which again would be pasta, in about 400,000 of those. So there's opportunity and we've built plans for each year of the five years to increase the levels of point of sales such that we'll have it from 400,000 to 600,000 and we'll also expand the breadth of the portfolio. And we're doing that with our dealer base, we're developing that relationship. We're deploying more vans to go directly and through the dealers. So we're not only accessing a point of sale, we're also more efficient in covering those through the regular haulage of the vans. So that will further build it. If you look at the opportunity that we have to really roll out oils and fat, the distribution on that for example, is very low. So there's a lot of focused activity that will accelerate the growth of B2C.

Moving onto new categories, we've done a lot to restructure and put more resource into our approach on innovation which I've touched upon in terms of some of the extensions that we've seen even over the last few months. But really, we'll also be looking at new categories as well in terms of where we can bring the Golden Penny brand to play and to bring the quality and the value for money and where we will have some right to play if you like and bring some category, new users to those categories. There'll be further work on the supply chain. We will be expanding our G2C. Golden Transport operation will also be taking more control of our primary distribution in service of that. And really, I've seen it so much over my 18 months here with Flour Mills, getting the quality right each and every time and also looking to improve efficiency gains will further drive the existing categories and the new categories. And at the end of the day, it's all done with people and we've done a lot with the extended Food leadership team within the Food business. We're really trying to work in an agile fashion and really break any residues of silos down and really execute at some pace against the insights that we've picked from the market. So that hopefully gives you a flavour of what work we've been doing for the last few months and what we'll focus on the next year and five years ahead.

Anders Kristiansson
All right. I think that's the end of our formal presentation. If there are any questions, over to you Chris.

Operator
Thank you very much sir. Ladies and gentlemen, at this time if you do wish to ask a question, please press star and then one on your touchtone phone. If you decide to withdraw your question, please press star and then two to remove yourself from the queue. Our first question is from Damilola Olupona of ARM. Please go ahead.

Damilola Olupona
All right. Good day. Thank you for the presentation. I have a few questions for you. So the first thing is, what were the major drivers of revenue [unclear] for 2018? I understand you grew revenue by 10.1% in Q4 so can you just provide details as to the major driver of revenue per segment; Food, the Agro-Allied, Sugar. Then secondly, I'd also like you to shed more light the driver of the [unclear] raw material cost you over the last quarter of 2019 and if you can also share with us as well where you source your raw materials from and what raw material constitute the bulk of total raw material cost? Then, probably as well if you can share with those the FX rate at which you source your raw materials that will be useful as well. And then lastly, I would just like you to explain the reason behind reporting [unclear] in Q4 2019 despite reporting a loss before tax in the period. Thank you, that's my question for now.

Anders Kristiansson
Damilola thank you so much for the question. Could please repeat the fourth question?

Damilola Olupona
So the fourth question is I would like you to just tell us the major driver of revenue in the last quarter. I would like it if you can explain per segment, so the Food, Sugar and Agro-Allied. If you can just take it one after the other and tell us whether volume or price, what drove revenues.

Anders Kristiansson
No thank you so much. If we take them one by one, it was the fourth one that we couldn't fully comprehend but we'll come to that one. If we look at the first question; where did we get the growth from? We did get the growth from Agro-Allied which was growing by 34%. Within the Agro-Allied space for Q4 we saw a strong growth in the animal feed business where we launched a new Aqualine [unclear] and we also saw a strong growth in the poultry area. We saw the fertiliser business doing well. So within the Agro-Allied 34% growth, it was primarily coming from volume within those two segments. In edible oil we are starting to sell the spread and the consumer type oil through the Food B2C organisation. So we started to see [?] some traction there but that was less.

In Sugar, we did see a strong volume and overall growth. In Sugar, the whole had a 34% revenue growth but particularity of the Sugar business is of course that as the raw material prices go up, the pricing mechanism [?] that we have with the B2B customers is that we adjust the price according to the New York [?] selling price. So there was a price adjustment coming from the higher input price but we also the volume growing by 4%. This was a combination of higher volume and higher selling prices to adjust for the higher raw material price. In terms of your second question Dami of the drivers of the raw material cause. If you look at it segment by segment. In the Food space, we import the wheat to 99% I would say. We have some local material. The value add per segment varies.

The value add for pasta is fairly significant and for the more basic wheat is lower. But in the Food segment, the wheat products are imported. In Sugar, we do produce some cane up in up in Sunti but it's still in an expansion phase. So the sugar is imported today and as we see Sunti gaining traction, we will be selling brown sugar and sugar cane from Sunti but this is still in an expansion phase. In Agro-Allied more or less all of the raw material is coming locally. So in times of shortages, we did import some fuel or some other raw material but absolutely majority is locally sourced. In terms of FX rate, we saw an FX rate of around 360. We sourced the majority of this from the I&E window and we can get some FX through the different CBN auctions. Hopefully I answered your first three questions Dami.

Damilola Olupona
Yeah you have. I just want to ask a follow up question. For the FX before now, last year were you sourcing from the I&E window?

Anders Kristiansson
We have over the last year, [unclear] consistently sourced through I&E window plus whatever intervention that we have been able to access through CBN auctions etc.

Damilola Olupona
Okay, thank you.

Operator
Thank you very much. The next question is from Fola Abimbola of FBNQuest. Please go ahead.

Fola Abimbola

Hi Anders, and thanks once again for the presentation. So my first question is, are you seeing an improvement in the evacuation of your product from Apapa? The second one is your colleague, Devlin, seemed to be very optimistic about this Mai Kwabo pasta brand seeing that it's doing well in the north. What really differentiates this pasta brand from your Golden Penny? Is it pricing or is it just the name that is appealing to the guys over there? The third question is you mentioned that you are utilising some hectares of land for the Sunti plantation. And you gave a specific figure, but I didn't get that. Could you clarify, because I missed that? Those are my three questions.

Devlin Hainsworth

In terms of the evacuation of products from Apapa it has its good days and its bad days. But we have various measures in place including bringing in trucks through the night if necessary. So it does seem to be getting better. And although there can be some change in that situation from time to time it is an improving situation. And even when challenging we put in various measures to manage it as best we can. Your next point about Mai Kwabo pasta, I think it is quite different in terms its price positioning and the product. It's a different grist if you like. It's a different blend of wheat in terms of coming up with the right product for that potential offering. Its category brings a value for money quality, but it is differentiated from Golden Penny pasta. So I think it shows. Clearly there is the appeal of the name. We have been very targeted in terms of the dealers and the points of sale that we've been achieving. So it is very much a regional launch and I think it opens up the possibility of other regional launches, not under that brand name, but as something that will really target a different part of the country.

Anders Kristiansson

On the last question we have about 2,800 hectares under planation in Sunti now and we are going to increase it up to around 3,500 or 3,700 hectares. But we have done the majority of the groundwork for expanding further.

Fola Abimbola

Great. Thanks. Thank you.

Operator

Thank you. The next question is from [unclear] of Stanbic IBTC Pension Managers. Please go ahead.

Stanbic IBTC Pension Managers

Hi Anders. Thank you very much for your presentation. I have follow-up questions. Number one is can you please tell us the impact of smuggling on your business, particularly on the sugar division? The second question is if you could please give us an update on the backward integration specifically as regards the total area under consideration as well as volume of sugar produced. My third question is if you could give us a guidance on your volume growth in [unclear], the leverage level as well as your operating margin. Those are the three questions. Thank you very much.

Anders Kristiansson

All right. Thank you so much. In terms of smuggling of course we would be very happy if there were no smuggling. And we are losing volume because of smuggling. I think across the whole portfolio we are probably slightly less impacted. The two segments that would be primarily affected would be sugar and edible oil. In sugar we are selling a higher rate of our sugar to the industrial side. Sugar has a combination or a synergy together with flour, and we are selling a high level of our sugar to the B2B channel where the smuggling is less prevalent. It is more prevalent in the open market where we still have an opportunity. But today we are less affected even if we would very much like to see it curving down. In terms of CPO, yes it is a factor. And also there we would like to see less of course. But there we are a little bit more affected. So we are losing volume in the edible oil. And we hope that some of the initiatives that we have taken on curbing the CPO smuggling will have an impact.

Devlin Hainsworth
In terms of the question on market growth and our growth, I would like to split that into the B2B and B2C segments. I think within B2B bread flour we would certainly be growing with the market, and in terms of B2C we will be looking to grow ahead of the market because we're also taking on board the fact that we're coming out with some new offerings on the B2C key categories. So we would be looking to outperform the market there.

Anders Kristiansson
And yes, maybe to build a little bit on that, by the end of last year roughly 50% of the gross profits were coming from the B2C and it is now scaling up more to a 60% ratio. We were five years ago at 10% B2C. In both the edible oil and in the sugar we are less than 5% in case of sugar B2C. And what we see as very attractive is the ability to make a similar conversion in these two value chains where there is a large market in the B2C space as well. In terms of your last question on backward integration, we will continue to focus on the Sunti estate. We are as said moving towards the 3,500 to 3,700 hectares and we see ourselves achieving that as importantly we now have sugar canes that have been planted for a couple of years that are yielding higher levels of yield, even if we are far away from the yield levels that we would like to see long term. We are also focussing on the cassava and we continue to focus on the agri farm. And the backward integration is a key part of our long-term strategy.

Stanbic IBTC Pension Managers
Thank you very much. Just a last question from me. So based on the new [unclear] by the CBN as regards the FDR [?] I just wanted to know about the availability and pricing of loans. So what is your feel from these banks? Do you get cheaper loans? I just wanted to get more colour from you if you do have some. Thanks.

Anders Kristiansson
I think as one of the largest players in the agri space and as a key contributor to the backward integrate we evaluate a number of subsidised funding and of course we welcome the initiative to put the farming and the backward integration, without which it would be very challenging to run a feasible business during the first couple of years. We are having a combination of different facilities, both with CBN and with the Bank of Industry through the different commercial banks and we are looking at the FDR as well.

Stanbic IBTC Pension Managers
Okay. Thank you very much.

Operator
Thank you. The next question is from Moses Hammed of Investment One Financial Services. Please go ahead.

Moses Hammed
Thank you. Please, my first question is not a real question but just a recommendation. For the food segment I would like you to give us a breakdown of possibly volume or price level going forward. That would really help so I can break down for food or for sugar particularly. When I read the companies' results on sugar they give a breakdown of agri price level as well as volume level. I think that would help us so that we know which one is driving the business going forward. I think that will also give us a feel of what the price level is at the same time. My second question is, what is the capex level you guys are planning to do for the next financial year? If you can give us maybe next year and the following year that would be good. And to what extent do you think this Sunti sugar backward integration will affect the gross profit margin? My major concern is the gross profit margin level which is around 10%. I think that is very weak for the gross profit margin level before you break it down to

EBITDA margin. So I just want a clarification on the Sunti effect of backward integration on margin and the projected expenditure for capex. Thank you.

Operator
Moses, if you can just quickly recap your questions.

Moses Hammed
All right. Thank you. The first thing is the recommendation that for the segment we would like a breakdown of volume and prices if possible. At least average volume and average price level. That would give us a guidance or a feel of what is driving the top line going forward. If we can really see that we would really appreciate that. For food and sugar that would be good for our analysis. Then my question is on capex. How much are you planning to spend on capex in the next financial year? And then possibly give us a guidance on how this backward integration especially for the Sunti sugar plantation will help to drive the margin. Currently gross profit margin of 10% is quite weak. So we just want to know how this will affect margin, particularly gross profit margin. Thank you.

Devlin Hainsworth
I hear the recommendation. We will need to discuss that a bit internally because obviously some of this can be quite competitive sensitive information. I mean roughly without getting into specifics about 65% to 70% of your net sales is going through on the bread flour and the corporate flour. And in terms of the balance, the B2C, the two main categories are pasta and semovita. I think let us take that one away to see what in future can be done to give you more insightful information at a lower level. Are you going to pick up the capex question?

Anders Kristiansson
In terms of capex we are going to be spending a bit more in depreciation for the next two or three years. And we are looking to be in the teens more than in the 20s. So we are seeing a lower capex impact. In terms of backward integration it’s an interesting one. Backward integration has a direct impact on the profit margin in the agri space. The more we can source locally the more profitable the Agro-Allied unit is. In sugar it’s going to take some time before we reach volumes at Sunti that will have an impact on the margin. Also if you look at where the Sunti estate is we will probably be sending more into the middle belt region as opposed to transporting the sugar down to Apapa. But both of them will have a positive impact on the margin.

Devlin Hainsworth
If I could just add a little bit to the capex point. As Anders said in the earlier presentation, we’ve just commissioned a new mill here in Apapa and we also secured an additional pasta line which is going into Agbara. So we’re set there for capacity hand in hand with the increasing efficiencies for the next few years on the food side.

Moses Hammed
All right. Thank you.

Operator
Thank you very much. The next question is from Abdulrauf Bello of WSTC Financial Services. Please go ahead.

Abdulrauf Bello
Hi. Good afternoon. [Inaudible segment] other production expenses, some of which [inaudible segment]. So I would really appreciate it if you talked about the drivers of the [inaudible segment]. And the second question is what you are guiding for tax for FY2020.

Anders Kristiansson
Very happy to do. I heard employee costs. Which are the other costs which you would like us to clarify?

Abdulrauf Bello
Okay. So the [unclear] and other production expenses. I noticed a spike [break in audio] clarification on those line items.

Operator
I'm sorry sir, the line is very faint. I don't know if you got the questions.

Anders Kristiansson
In terms of the employee costs we do see some increases on employee costs in terms of the direct labour as we are increasing the capacity and as we are doing more harvesting. We do see an increase there. We do have the 10% to 12% annual salary increases that of course are impacting. Especially in the food space with Devlin we are looking at things like how we can rationalise and how we can have the staff count to ensure that we maintain the direct labour cost. But we will see them going up on an annual basis, one, as the business expands, and two, with the inflationary increases here. If we look at where we see the employee costs having gone up percentage-wise the highest it is in the sales and distribution and in the advertising area. And that's completely in line with our strategy to look at category management within the B2C to look at the trade representatives. And as a consequence we will for one or two years see slight increases there, more than offset by the higher sales that we get from the B2C channel.

Devlin Hainsworth
Over the last year we've built a marketing department and we've put additional in sales people in order to address the opportunities in terms of increasing points of sale.

Anders Kristiansson
In terms of the tax we were running at 21% this year. We do not see any substantial changes to the 21%, so we see the tax staying around 21% to 23% for the next year or two.

Operator
Thank you. The next question is from Ifedayo Olowoporoku of Vetiva Capital Management. Please go ahead.

Ifedayo Olowoporoku
Good day. Thank you for the call. Just one question. I would like to understand the movement in gross margin in the fourth quarter and why it was so weak. What segments contributed to the weak gross margin in Q4? Thank you.

Anders Kristiansson
Thank you. If we look at it there were basically two impacts. We do see a continued very competitive landscape in the food segment and we do see that the consumer especially in the wheat value chain go from slightly more expensive flours to slightly more inexpensive flours. So we did see a margin contraction in the food. It is a competitive landscape and we had managed to increase the market share and to maintain our market leadership, but we have had to play the [unclear] game there. In the long run we are fairly comfortable that the prices will have to return upwards, and then we see the market share we would like to have. We had a second impact of the Agro-Allied segment gaining importance. The margins especially in some of the more input related areas such as the feed business etc. as a percentage are slightly lower than what we see in the B2C food. It is coming from the competitiveness, some consumers down trading in the flour, and from Agro-Allied gaining importance.

Ifedayo Olowoporoku
Thank you.

Operator
Thank you. The next question is from Abiola Gbemisola of Chapel Hill Denham. Please go ahead.

Abiola Gbemisola
Good afternoon. Thanks for the call. I have a question around the competitive landscape in Nigeria. Early this year we saw that Olam announced the acquisition of Dangote Flour. My question is around the milling fees [?] for your business. I understand that the contribution of revenue from your milling to your [unclear] is 4% [?] or thereabouts. I think it is a significant business line for you. So in terms of competition what do you think about the competition that you're going to get from Olam as well as the overall competitive landscape for you going forward. Thank you.

Devlin Hainsworth
Thanks for that question. Clearly we know we've been competing with Olam, with Dangote for a number of years. So we have some understanding of the strengths and opportunities etc. So consolidation I think was pretty inevitable. And looking at the bigger Olam if you like it in one way brings challenges but in another it takes a variable out of our competitive game, because instead of two players there is one. We are still very committed to executing our strategy and delivering our game if you like. And of course we will gain what that bigger Olam looks like, but it doesn't deflect us from really driving and executing against our strategy. So some challenges and maybe some benefits from some consolidation within the industry. And we're very clear where we want to go and get share, where we're going to defend share category by category. So there is no doubt that the competitive situation will remain challenging and we've got to be on our game.

Abiola Gbemisola
Okay. So a follow up question to that please. Remember when you were discussing earlier you mentioned that you saw volume growth during the year of around 12% and then you were able to gain more market share. Are you saying you were able to gain that market share by lowering prices during the year? Is that correct? And is that the game that you would use going forward to ensure that you maintain your market share?

Devlin Hainsworth
We gained overall. We grew within food. Certain segments were a little bit depressed through the year. Others were a little bit more buoyant and we outperformed them. So pasta was a good example of where we grew. And there wasn't a lot of discounting within pasta. We came out with a slightly lower priced offering but overall we grew well within pasta. So it really varies by segment. And it is more competitive in bread flour. Some of the gains were in the north and against the less profitable parts of the portfolio. But we still have a very considerable business within Lagos, west and also in B2B in bread flour in east. So it's important to look at the mix in terms of which brands are growing in which regions, which is why I stressed the regional plans that we have worked on and will continue to execute and really get behind. So it's a bit more complex than indicated and we do see some growth from the more profitable segments in the more profitable regions against the backdrop of B2C continuing to gain its share of our total food business.

Abiola Gbemisola
Okay. And the last question is a follow-up as well. So if you were to break down your operations across the geographical regions in Nigeria where do you get the most margins from?

Devlin Hainsworth
I said earlier that we had operations in Calabar, Ibadan and Kano. We have our big scale play in terms of Apapa here and we get the best economies of scale. So by dint of that the regions closer to here tend to be the more profitable ones. But that doesn't mean that we don't want to play across the country.

Abiola Gbemisola
Okay. Thank you.

Operator
Thank you. The next question is from Damilola Olupona of ARM. Please go ahead.

Damilola Olupona
All right. Thank you for the opportunity again. I would just like to ask a follow-up question. I was just trying to digest the response you gave me regarding the driver of cost pressure over the period. I just want to ask a follow-up question regarding that. I understand that over Q4 2019 I understand the wheat prices were higher. But then when I look over the segments of your business sugar prices were lower in the period. CPO prices were also lower in the period. So in my head I'm trying to grapple with what really drove the higher cost of raw materials over the period. So please, if you pardon me again, I would just like you to explain where the major driver of that cost pressure is coming from. And how sustainable will it be? Will it be a one-off cost pressure or are we going to see that going forward?

Secondly, I would like to ask as well. I didn't get the numbers when you were giving the split of your business into B2C and B2B. So I would just like that split again for your food. What segment of that is B2B and what segment is B2C? And for Agro-Allied, sugar and other businesses as well I would really appreciate if you can give that. And lastly I would like you to share your capex plan for the 2019 financial year with us. And if you can also share that going forward as well.

Devlin Hainsworth
I think the wheat price is a big driver of the cost. Across board wheat prices were something of a headwind through parts of last year, particularly in H2.

Anders Kristiansson
I think the key driver was we saw a higher wheat price and simultaneously in Q4 we had a number of days of non-production. It was fairly competitive. So it was a combination of wheat price plus the discounts we had to give. Yes, effectively sugar and CPO were down on the spot market. We were sitting on some inventory and we did have an advantage of course. But the key driver was the wheat price. In terms of B2B versus B2C we are now at roughly… we were by the beginning of this year at 60/40 and we see the B2C gaining further share. In both Agro-Allied and edible oil and sugar the B2C is less than 10% in those segments. In terms of the capex plan, as Devlin mentioned we have done the major investment in the food space. We have completed the consumer oil plant and we have completed the margarine and spread plant in ROM Oil. So what we see now is more maintenance capex. And of course we will do one or two investments, but we do see the capex coming in below depreciation and in the teens where we've seen it before.

Damilola Olupona
Okay. Sorry, the last question please. I would assume that since you are growing your B2C segment I would assume that that would impact your gross margin positively, because I recall you mentioned that the B2C has higher margins compared to the B2B. So when are you going to start reaping the benefit of this higher margin from B2C? As it stands from your Q4 numbers it appears that you are not reaping the dividend of that.

Anders Kristiansson
There are several drivers. There is the driver of the wheat price. There is the driver of the competitive landscape. There is the driver of us commencing the market leadership. And there is the driver of the higher B2C. So we are starting to see the benefit. We are still in an investment phase in the B2C segment, but we will see increasing margin. And if you look at the contribution that we get from a ton of pasta compared to a ton of some of the less advanced flours there is a significant difference. So we do see it and we expect to see it gaining in importance.

Damilola Olupona
Thank you.

Operator
Thank you. We do have a follow-up question from Abdulrauf Bello. Please go ahead.

Abdulrauf Bello
[Inaudible segment]. So I want to know the driver of that. [Inaudible segment]. I would like to understand what [inaudible segment]. Thank you.

Devlin Hainsworth
Sorry, we couldn't hear that.

Anders Kristiansson
Our apologies. There was some distortion.

Abdulrauf Bello
So I said I observed the 30% increase in depreciation and 39% increase in factory repairs. And on the balance sheet I saw [unclear] growth in PPE. So I want to ask, is this in the [inaudible segment] as a result of ageing equipment or [inaudible segment]. I just want to understand what went wrong in the period and your outlook on [unclear] going forward.

Anders Kristiansson
In terms of the depreciation the key driver for the higher depreciation was that we have componentised the turbines especially in the sugar business. Traditionally we depreciated the whole turbine over an average of ten years. We are now looking at the core of the turbine being depreciated over five years. We saw that as we replaced the first cores of the turbines after the five years and we then adjusted the depreciation. So there is a catch up on the depreciation on the core of the turbines. But that was the primary driver for the increase in the depreciation. The second line item was on the CIP or…? Sorry, we couldn't really… I hope I answered the depreciation question.

Abdulrauf
Okay. What about the factory repairs?

Anders Kristiansson
The factory repairs. We have deliberately focussed on the maintenance in some of the flour related factories, partly to ensure the highest quality and partly to also drive up the efficiency. So there were some investments in terms of maintenance in especially the Apapa factories.

Abdulrauf Bello
Thank you.

Operator
Thank you very much. Gentlemen, we have no further questions in the queue. Do you have any closing comments?

Anders Kristiansson
No. Thank you everybody for joining the call. What we will decide to do is we will try to set up these calls on a quarterly basis. We did receive some feedback subsequent to the last call that we have not always been so proactive in terms of communicating and answering questions. We have an external communication department led by the company secretary and legal director who is on the web page. And we have also [unclear], our group treasurer, set up a more dedicated investor relations team. Their contact details are shared in the presentation, so if there are any follow-ups please feel free to contact them or me. And thank you very much for your time and all your interest.

Operator
Thank you very much, sir. Ladies and gentlemen, that then concludes this conference call and you may now disconnect your lines.

END OF TRANSCRIPT