

# Cadbury Nigeria Plc.

## Worsening Condition

Last week (Friday), CADBURY released results for nine months and third quarter ended September 2016. The key features of the third quarter result are (1) y/y and q/q revenue growth -- after a disappointing second quarter and (2) elevated cost pressure -- which more than offset savings on operating expenses and resulted in a LAT. Combining Q3 with the half year results leaves revenue over nine months of 2016 slightly (1.2%) above 2015 equivalent, but the company declared a loss after tax.

We have revised estimates for CADBURY, considering the (1) price hikes taken late in September and middle of this month; (2) unabating cost pressure which management is unable to fully pass on; and (3) considerable savings in operating expenses.

The recovery of revenue in Q3 was volume driven, given that CADBURY delayed its price increase after a closer competitor – NESTLE – increased the price of its MILO by about 10-15% in July. Since late September however, the price of refreshment beverages (BOURNVITA, accounting for 60% of revenue) has been increased by about 15% cumulatively. Most distributors expect more PIs would be taken in this category before December. The distributors however confirmed that sales volume has been consequently impacted, and outlook is more to the downside. Overall, we adjust 2016F revenue growth estimate to 5.9% (vs. 6.9%) and retain 2017-2018F growth forecast of +5%.

Insight into the biggest drivers of the surge in CADBURY's input costs is limited by continued lack of communication from management. While the company is able to source cocoa powder locally through its wholly owned subsidiary, we understand that this key input has cost components that are linked to the exchange rate. Besides, the prices of sugar and dairy -- which are also essential inputs -- are linked to the exchange rate. Gas supply has not improved -- our channel checks reveal that some manufacturers have an average 80% diesel (which is indexed to the USD and more expensive than gas) in their energy mix. The NGN lost 9% to the USD in Q3 and most manufacturers see USDNGN of more than N350 before first quarter 2017.

On the positive, CADBURY reported relatively lower opex in each of the three quarters of this year. Hence, we have revised opex estimate much lower than previously forecasted. Much of the savings on opex this year came from administrative costs, especially in the third quarter which coincided with a restructuring exercise that took place within the organization.

We roll forward valuation to 2017 and arrive at N20.71 TP (previously N19.82). While the TP suggests impressive upside from current market value, investors are more likely to remain averse to CADBURY's shares in the near term considering (1) the likelihood of negative earnings in 2016F; (2) Nigerian investor negative perception of the company; and (3) limited visibility on the efforts of management to improve the performance of the company.

Income Statement (N'bn)	9M-16	9M-15	Q3-16	Q3 y/y	Q3 q/q
Revenue	21.33	21.07	7.41	6.8%	9.0%
Cost of Sales	16.85	14.67	6.98	49.9%	36.2%
Gross profit	4.48	6.40	0.43	-81.3%	-74.5%
Operating expenses	5.46	6.38	1.50	-22.3%	-32.2%
Operating profit	-1.03	-0.07	-1.16	-581.1%	129.0%
Finance income	0.19	0.11	0.10	102.3%	244.5%
Profit before tax	-0.84	0.04	-1.06	-463.1%	121.8%

## BUY

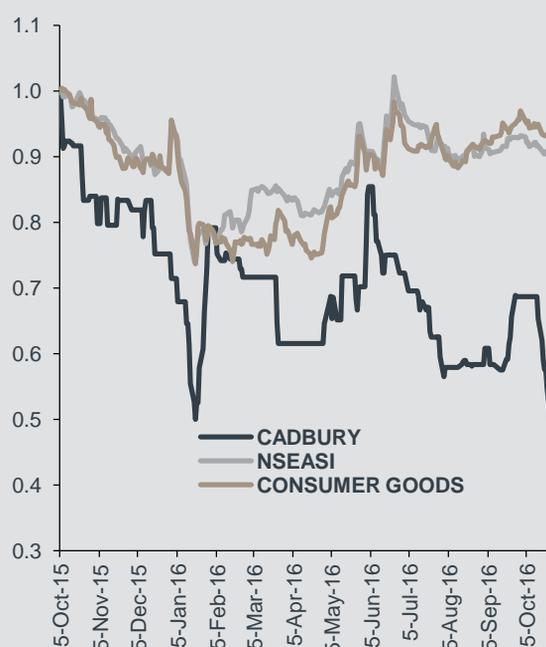
Target Price (N)	20.71
Current Price (N)	11.88
Implied Return (%)	74.31

### Company Data

NSE Code	CADBURY
Bloomberg Code	CADBURY:NL
Reuters Code	CADBURY.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	22.31
Free Float (%)	25.03

Ratios	9M-16	9M-15	2016FY
Gross margin	20.99%	30.38%	20.72%
Opex margin	25.60%	30.29%	26.00%
EBIT margin	-4.82%	-0.35%	-5.13%
PAT margin	-3.95%	0.14%	-3.30%
RoAE	2.90%	4.98%	-8.56%
EPS (N)	-0.45	0.02	-0.52

### Price movement (CADBURY vs. Benchmark Indices)



# Financial Statement (N'billion).

Income Statement (N'm)	2012a	2013a	2014a	2015a	2016f	2017f	Profitability Ratios	2012a	2013a	2014a	2015a	2016f	2017f
Revenue	33,551	35,761	30,519	27,825	29,475	31,099	Gross prof it margin	33.1%	36.6%	27.5%	32.1%	20.7%	31.0%
Cost of sales	22,453	22,661	-22,135	-18,895	23,368	21,458	EBITDA margin	11.6%	22.5%	9.8%	12.0%	1.5%	11.8%
Gross profit	11,097	13,100	8,384	8,930	6,107	9,641	Operating prof it margin	11.6%	20.9%	3.7%	5.1%	-5.1%	5.1%
Operating expenses	7,205	7,438	-6,367	-7,531	7,663	8,101	PBT margin	16.4%	20.8%	7.8%	5.7%	-4.5%	5.8%
Other income/(expenses)	116	59	38	21	44	51	Net prof it margin	10.3%	16.8%	7.0%	4.1%	-3.3%	4.3%
Finance income	1,503	1,770	331	157	198	215	RoAE	18.8%	27.4%	11.6%	9.2%	-8.6%	11.6%
Finance cost	-	69	-	-	-	-	RoAA	9.4%	14.5%	5.9%	4.0%	-3.4%	4.3%
Profit before tax	5,512	7,421	2,386	1,577	-1,314	1,806							
Taxation	2,057	1,398	-249	-424	-342	469							
Profit after tax	3,455	6,023	2,137	1,153	-973	1,336							
Financial Position (N'm)	2012a	2013a	2014a	2015a	2016f	2017f	Liquidity Ratios	2012a	2013a	2014a	2015a	2016f	2017f
PPE	13,938	16,929	16,133	15,366	14,665	15,967	Working capital (N'm)	9,259	11,845	34	1,093	791	1,703
Intangible assets	55	12	342	283	246	284	Current ratio	1.5x	1.8x	1.0x	1.1x	1.1x	1.1x
<b>Total Non Current Assets</b>	13,992	16,941	16,475	15,672	14,911	16,251	Quick ratio	1.4x	1.7x	0.8x	0.9x	0.8x	0.9x
Inventories	2,044	1,881	2,393	1,936	3,084	3,371	Cash ratio	1.0x	1.2x	0.3x	0.5x	0.4x	0.4x
Trade & other receivables	6,267	6,390	6,093	5,166	5,839	6,367							
Prepayments	-	212	165	234	687	764							
Cash and bank balances	17,242	17,749	3,685	5,408	4,953	5,308							
<b>Total Current Assets</b>	26,164	26,231	12,336	12,745	14,564	15,810							
<b>Total assets</b>	40,157	43,173	28,811	28,417	29,475	32,061							
Trade & other payables	14,742	13,541	11,743	11,104	13,588	13,907							
Bank overdraft	1,500	-	-	-	-	1.00							
Current tax liabilities	663	845	559	547	185	199							
<b>Total Current Liabilities</b>	16,905	14,387	12,302	11,652	13,773	14,106							
Provisions (employee benefits)	3,098	4,314	3,236	4,132	4,892	5,013							
Deferred tax	114	476	524	-	-	1.00							
<b>Total Non-Current Liabilities</b>	3,212	4,791	3,760	4,480	5,266	5,367							
<b>Total liabilities</b>	20,117	19,178	16,062	16,132	19,039	19,473							
<b>SHF</b>	<b>20,039</b>	<b>23,995</b>	<b>12,749</b>	<b>12,285</b>	<b>10,435</b>	<b>12,588</b>							
							Earnings per share (N)	1.1	1.9	1.1	0.6	-0.5	0.7
							Dividend per share (N)	0.5	1.3	0.0	0.0	0.0	0.0
							Payout	45%	68%	0%	0%	0%	0%
							Dividend yield	1%	2%	0%	0%	0%	0%

Source: Company Accounts, Cordros Research

# Disclosures

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