Cadbury Nigeria Plc.

Has Q4-2016 Set the Tone for 2017?

Cadbury Nigeria Plc (CADBURY) was the only firm in our universe of consumer goods companies (with December year end) that reported loss after tax in 2016. The record challenging macroeconomic condition experienced in Nigeria constrained some major milestones (production capacity expansion, introduction of new products, and strengthening of RTM) which management expected to propel earnings from the 46% decline recorded in 2015. The company's poor performance centred on the second and third quarters which caught majority of the listed manufacturers unawares -- producers delayed pricing decisions amid spiraling FX-linked costs, and when taken, were quite understated.

Has Q4-16 set the tone for 2017...? Across the FMCG space, pricing adjustments were both frequent and bold between late September and December 2016, hence the broad outperformance seen with latest results. As earlier reported, price-driven revenue growth, and consequent improvement in gross margin, made the difference in the N279.3 million PBT (well ahead of consensus) which CADBURY reported during the three months period.

... Perhaps. In continuation from Q4-16, we understand further PI actions have been taken this quarter. The product in focus was the flagship *Bournvita* (excluding the 20g sachet), where total per carton price increase ranged from 17% to 37% based on feedback from major distributors. The price increase was in response to the action taken by NESTLE with respect to *Milo* (the leading refreshment food drink) earlier this quarter. Note that CADBURY's effective price increase should be lower than the above quoted range, given that the increases were accompanied with promotional activities -- to offset the impact on demand -- which, in most cases, involved reward with stocks. Distributors have also been informed that the price of the 20g *Bournvita* will be increased in April.

We understand that emphasis in 2017 will be on pushing further the above highlighted milestones set in 2015. These include (1) driving efficiency from the newly commissioned, larger *Bournvita* production facility and (2) strengthening RTM initiative by leveraging on the remodeled sales force scheme to improve visibility of products. Feedback from distributors on CADBURY's RTM initiative was positive (see our note: ***NESTLE and CADBURY; The Distributor's Feedback***), and we can attest to that from the increasing visibility of *Clorets* (breath freshening chewing gum), *Trident* (sugar-free chewing gum), and *3-in-1 Hot Chocolate Drink*, across both major retail outlets and "street" vendors.

In a less aggressive inflationary environment relative to 2016, CADBURY appears poised to benefit from price-driven margin enhancement above Q4-16 (27.5%). While gross margin in Q4-16 was shy of the 30% level we assumed for 2017F, the additional price increases taken this quarter, with further hikes possible into the year, should move margin further to our forecast level. In addition, we expect the continuous deployment of cost savings measures such as zero-based budgeting to drive margin expansion.

CADBURY's share price has correlated quite visibly with (1) its worsening earnings, (2) continued lack of communication from management on the efforts to improve performance, and (3) the Nigerian investor negative perception of the company. The stock's FPE of 15.1x is at discount to both its long term average 29.7x and NESTLE's FPE of 23.8x.

BUY

Target Price (N)	16.10
Current Price (N)	7.98
Implied Return (%)	101.74

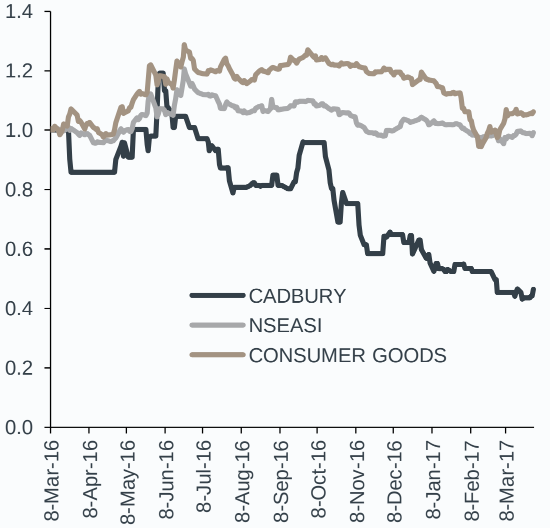
Company Data

NSE Code	CADBURY
Bloomberg Code	CADBURY:NL
Reuters Code	CADBURY.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	14.99
Free Float (%)	25.03

Ratios	Q4-2016	Q4-2015	2016FY
Gross margin	27.54%	37.44%	22.88%
Opex margin	25.38%	17.01%	25.53%
EBIT margin	3.41%	22.13%	-2.44%
PAT margin	6.31%	16.66%	-0.99%
RoAE	4.92%**	22.19%**	-2.54%
EPS (N)	0.29	0.60	-0.16

*Trailing 12m

Price movement (CADBURY vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Financial Statement (N'million).

Income Statement (N'm)	2014a	2015a	2016a	2017f	2018f
Revenue	30,519	27,825	29,979	31,631	33,377
Cost of sales	22,135	18,895	23,119	22,142	23,347
Gross profit	8,384	8,930	6,860	9,489	10,030
Operating expenses	-6,367	-7,531	-7,655	7,592	8,027
Other income/(expenses)	38	21	61	69	82
Finance income	331	157	188	200	210
Finance cost	-	- -	18	-	-
Profit before tax	2,386	1,577	-563	2,167	2,295
Taxation	-249	-424	266	693	734
Profit after tax	2,137	1,153	-296	1,474	1,560

Financial Position (N'm)	2014a	2015a	2016a	2017f	2018f
PPE	16,133	15,366	14,187	14,969	15,647
Intangible assets	342	283	397	419	438
Total non Current assets	16,475	15,672	14,585	15,389	16,086
Inventories	2,393	1,936	5,021	5,226	5,462
Trade & other receivables	6,093	5,166	4,953	5,298	5,538
Prepayments	165	234	823	869	908
Cash and bank balances	3,685	5,408	3,011	3,177	3,321
Total current assets	12,336	12,745	13,808	14,569	15,229
Total Assets	28,811	28,417	28,393	29,957	31,314
Trade & other payables	11,743	11,104	12,567	12,608	13,035
Bank overdraft	-	-	151	152	157
Current tax liabilities	559	547	102	103	106
Total current liabilities	12,302	11,652	12,820	12,862	13,298
Provisions (employee benefits)	3,236	4,132	4,328	4,342	4,489
Deferred tax	524	348	188	188	195
Total non-current liabilities	3,760	4,480	4,516	4,531	4,684
Total Liabilities	16,062	16,132	17,336	17,393	17,982
SHF	**12,749**	**12,285**	**11,057**	**12,565**	**13,333**

Profitability Ratios	2014a	2015a	2016a	2017f	2018f
Gross profit margin	27.5%	32.1%	22.9%	30.0%	30.1%
EBITDA margin	12.6%	12.0%	2.5%	11.0%	11.1%
Operating profit margin	6.7%	5.1%	-2.4%	6.2%	6.2%
PBT margin	7.8%	5.7%	-1.9%	6.9%	6.9%
Net prof it margin	7.0%	4.1%	-1.0%	4.7%	4.7%
RoAE	11.6%	9.2%	-2.5%	12.5%	12.1%
RoAA	5.9%	4.0%	-1.0%	5.1%	5.1%

Liquidity Ratios	2014a	2015a	2016a	2017f	2018f
Working capital (N'm)	34	1,093	988	1,707	1,931
Current ratio	1.0x	1.1x	1.1x	1.1x	1.1x
Quick ratio	0.8x	0.9x	0.7x	0.7x	0.7x
Cash ratio	0.3x	0.5x	0.2x	0.2x	0.2x

Efficiency Ratios	2014a	2015a	2016a	2017f	2018f
Fixed assets turnover	1.9x	1.8x	2.1x	2.1x	2.1x
Current assets turnover	2.5x	2.2x	2.2x	2.2x	2.2x
Total assets turnover	1.1x	1.0x	1.1x	1.1x	1.1x
Inventory turnover	10.4x	8.7x	6.6x	4.3x	4.4x
Receivables turnover	4.9x	4.9x	5.9x	6.2x	6.2x
Payables turnover	1.8x	1.7x	2.0x	1.8x	1.8x
Days inventory outstanding	35	42	55	84	84
Days collection/sales outstanding	75	74	62	59	59
Days payable outstanding	100	100	78	87	87
Cash conversion cycle	9	16	38	56	56

Investment Ratios	2014a	2015a	2016a	2017f	2018f
Earnings per share (N)	1.1	0.6	-0.2	0.8	0.8
Dividend per share (N)	0.0	0.0	0.0	0.6	0.7
Payout	57.1%	105.9%	0.0%	80.0%	80.0%
Dividend yield	0.0%	0.0%	0.0%	7.9%	8.3%

Source: Company Accounts, Cordros Research

Disclosures.

Analyst:

Christian Orajekwe (*christian.orajekwe@cordros.com)*

Analyst's Certification and Disclaimer

The research analyst(s) whose name(s) appear(s) on the cover of this report certifies (y) that:

(1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers;

(2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report; and

(3) all analysis made by the analyst(s) were in good faith and the views expressed reflect their opinion, without undue influence or any intervention.

Rating Summary & Definitions

Cordros Capital uses the following rating system:

BUY (OVERWEIGHT) - Over the next twelve months, we expect the stock to return at least 20% above the current market price.

HOLD (NEUTRAL) - Over the next twelve months, we expect the stock to range between <-10% and <+20% from the current market price.

SELL (UNDERWEIGHT) - Over the next twelve months, we expect the stock to be more than 10% below the current market price.

Important Disclosure

This document has been issued and approved by Cordros Capital (Cordros) and is based on information from various sources that we believe are reliable. However, no representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or fact or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction.

Investments discussed in this report may not be suitable for all investors. This report is provided solely for the information of Cordros clients who are then expected to make their own investment decisions. Cordros conducts designated investment business with market counter parties and customers and this document is directed only to such persons. Cordros accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only and may not be reproduced, distributed or published by any recipient for any purpose without prior express consent of Cordros. Users of this report should bear in mind that investments can fluctuate in price and value. Past performance is not necessarily a guide to future performance.

Cordros and/or a connected company may or may not have a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Cordros is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.