

Cadbury Nigeria Plc.

Q4-16 - First Glance: -81.8% y/y PBT; Earnings to Recover in 2017

Cadbury Nigeria Plc (CADBURY) released Q4-2016 and 2016 full year results yesterday. As in 2015, the profit (against our expectation of a loss) reported in the fourth quarter was a positive surprise, therefore resulting into a loss before tax of N562.9 million (vs. N1.58 billion profit in 2015) which came well-ahead of the N1.31 billion loss we had estimated. As expected, the Directors are not recommending dividend to shareholders.

The company's performance in the fourth quarter is consistent with those of some FMCG names -- NESTLE and NB -- that have filed year end 2016 results. As observed with NESTLE and NB, price-driven revenue growth, and consequent improvement in gross margin, made the difference in the N279.3 million PBT reported during the three months period. Revenue grew by 28.2% y/y and 16.8% q/q, beating our 20.7% y/y and 10% q/q forecasts. We recall that the price of BOURNVITA was increased at about the beginning of the fourth quarter (late September) and distributors confirmed additional PI was taken in December.

The price increases also had positive impact on gross margin, with the latter rising to 27.5%, after dropping to record low of 5.8% in the third quarter.

Operating expenses grew (91.2% y/y and 46.3% q/q) at a faster pace, after being tightly controlled in previous quarters. The amount reported was consistent with our expectation, and was driven by S&D expenses (14% y/y) and importantly, admin expenses of N849.3 million, from N31.3 million income in the same period of 2015.

We estimate PAT in 2017F to recover in line with the N1.3 billion we had forecasted. In a less aggressive inflationary environment relative to 2016, CADBURY is poised to benefit from price-driven margin enhancement above Q4-16. Although gross margin in Q4-16 was shy of the 31% 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. The continued increase in the price of NESTLE's *Milo* (the market leader in the refreshment beverages segment) provides CADBURY the leeway to adjust the price of its *Bournvita* (accounting for 55% of total revenue).

CADBURY's shares, ranked the worst performing in our coverage of consumer companies, have lost 28% YtD. Notwithstanding the compelling upside from current level, as previously stated, investors are likely to remain averse to the company's shares in the near term considering (1) the negative earnings reported in 2016; (2) Nigerian investor negative perception of the company; and (3) limited visibility on the efforts of management to improve the performance of the company.

BUY

Target Price (N)*	20.71
Current Price (N)	7.41
Implied Return (%)	179.47

Company Data

NSE Code	CADBURY
Bloomberg Code	CADBURY:NL
Reuters Code	CADBURY.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	13.92
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

*Under Review

** Trailing

Income Statement (N'bn)	Q4-16	Q4-16 y/y	Cordros est
Revenue	8.65	28.2%	8.15
Cost of Sales	-6.27	48.4%	-6.52
Gross profit	2.38	-5.7%	1.63
Operating expenses	-2.20	91.2%	-2.20
Other income/(loss)	0.11	-6.5%	0.09
Operating profit	0.29	-80.3%	-0.48
Finance income	0.00	-94.5%	0.01
Financial charges	-0.02		0.00
Profit before tax	0.28	-81.8%	-0.47
Tax charges	0.27	-164.7%	0.34
Profit after tax	0.55	-51.5%	-0.13

Disclosures

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