

Cadbury Nigeria Plc.

First Glance: Q1-17 PAT; Hard Landing From Q4-16

Cadbury Nigeria Plc (CADBURY) published Q1-17 result late yesterday, outperforming our estimate on revenue, but disappointed on earnings. PAT fell by 86.2% y/y, way behind our -47% y/y estimate. Principally, the decline in gross margin, both y/y and q/q, masked the positives -- revenue growth and declines in operating expenses (opex) and opex margin -- we observed in the result.

Revenue grew by 13.3% y/y (vs. Cordros' 7% y/y), driven essentially by relatively higher prices. We noted in our last update that CADBURY increased prices on some SKUs during the review period, in addition to the increases implemented in the second half of last year. Noting the limited detail on sales volume, it is obvious from the y/y revenue growth, which is well-behind the upper double-digit y/y mean price differential, that CADBURY may have reported lower volume during the period.

Also on the positive, opex fell by 6% y/y while opex margin contracted by 1161 bps relative to Q1-16. Against Q4-16, opex and opex margins fell by 25% and 573 bps respectively. The reported opex is 10% behind our estimate while the margin of 20% beat our 24% estimate. CADBURY's continued containment of opex (+1.6% opex in 2016FY), perhaps benefiting from the implementation of zero-based budgeting system, is impressive, considering the persisting inflationary environment.

That said, while the y/y decline in gross margin is consistent with our expectation, the q/q contraction is disappointing, as it (1) deviates from the increases (in the range of 28-255 bps) we have observed from the recently announced FMCG Jan-Mar results and (2) fails our "litmus test", which used Q4-16 gross margin as the benchmark for our universe of consumer goods. While noting visibility constraint, our hunch is that the q/q decline in margin could be mix or energy related, considering the relatively softer essential raw material input prices (cocoa -14.6%, Sugar -16.4%, and dairy products -1.5%).

A net finance cost of N24.8 million was reported during the period, against a net income of N54.1 million in Q1-16. Following the N17.8 million recorded in Q4-16 (the first since Q3-14), CADBURY reported a higher finance charge of N62.2 million in Q1-17. The charge follows a N1.71 billion overdraft facility drawn during the period. For the first time since returning excess capital to investors in 2013, CADBURY assessed short term debt facilities for working capital support in 2016.

While the decline in CADBURY's PAT is consistent with expectation, investors are likely to react negatively to the wider decline, especially given that some FMCG companies (NB and UNILEVER) have impressed during the same period. CADBURY's shares are down 9.62% YtD, but have accumulated 25.5% since the 2016FY result was announced. Our estimates are under review.

BUY

Target Price (N)*	16.10
Current Price (N)	9.30
Implied Return (%)	73.10

Company Data

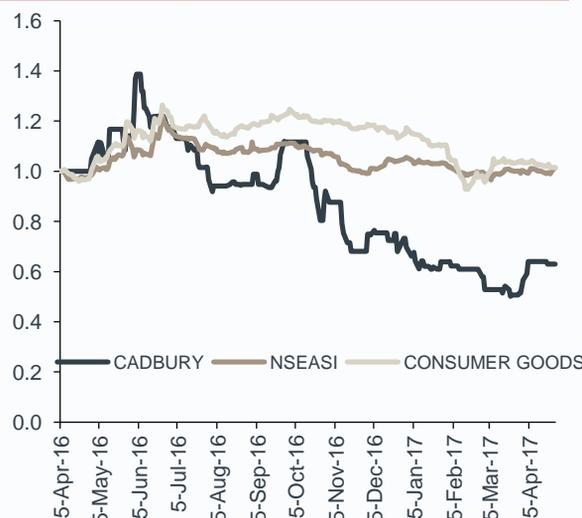
NSE Code	CADBURY
Bloomberg Code	CADBURY:NL
Reuters Code	CADBURY.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	17.47
Free Float (%)	25.03

Ratios	Q1-2017	Q1-2016	2016FY
Gross margin	21.81%	33.42%	22.88%
Opex margin	20.40%	24.50%	25.53%
EBIT margin	1.50%	8.98%	-2.44%
PAT margin	1.15%	9.45%	-0.99%
RoAE	-7.20%**	17.60%**	-2.54%
EPS (N)	0.05	0.36	-0.16

*Under Review

**Trailing 12m

Price movement (CADBURY vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Financial Statement (N'million).

Income Statement (N'm)						Profitability Ratios					
	2014a	2015a	2016a	2017f	2018f		2014a	2015a	2016a	2017f	2018f
Revenue	30,519	27,825	29,979	31,631	33,377	Gross profit margin	27.5%	32.1%	22.9%	30.0%	30.1%
Cost of sales	22,135	18,895	23,119	22,142	23,347	EBITDA margin	12.6%	12.0%	2.5%	11.0%	11.1%
Gross profit	8,384	8,930	6,860	9,489	10,030	Operating profit margin	6.7%	5.1%	-2.4%	6.2%	6.2%
Operating expenses	-6,367	-7,531	-7,655	7,592	8,027	PBT margin	7.8%	5.7%	-1.9%	6.9%	6.9%
Other income/(expenses)	38	21	61	69	82	Net prof it margin	7.0%	4.1%	-1.0%	4.7%	4.7%
Finance income	331	157	188	200	210	RoAE	11.6%	9.2%	-2.5%	12.5%	12.1%
Finance cost	-	-	18	-	-	RoAA	5.9%	4.0%	-1.0%	5.1%	5.1%
Profit before tax	2,386	1,577	-563	2,167	2,295	Liquidity Ratios					
Taxation	-249	-424	266	693	734	Working capital (N'm)	34	1,093	988	1,707	1,931
Profit after tax	2,137	1,153	-296	1,474	1,560	Current ratio	1.0x	1.1x	1.1x	1.1x	1.1x
Financial Position (N'm)						Quick ratio	0.8x	0.9x	0.7x	0.7x	0.7x
PPE	16,133	15,366	14,187	14,969	15,647	Cash ratio	0.3x	0.5x	0.2x	0.2x	0.2x
Intangible assets	342	283	397	419	438	Efficiency Ratios					
Total non Current assets	16,475	15,672	14,585	15,389	16,086	Fixed assets turnover	1.9x	1.8x	2.1x	2.1x	2.1x
Inventories	2,393	1,936	5,021	5,226	5,462	Current assets turnover	2.5x	2.2x	2.2x	2.2x	2.2x
Trade & other receivables	6,093	5,166	4,953	5,298	5,538	Total assets turnover	1.1x	1.0x	1.1x	1.1x	1.1x
Prepayments	165	234	823	869	908	Inventory turnover	10.4x	8.7x	6.6x	4.3x	4.4x
Cash and bank balances	3,685	5,408	3,011	3,177	3,321	Receivables turnover	4.9x	4.9x	5.9x	6.2x	6.2x
Total current assets	12,336	12,745	13,808	14,569	15,229	Payables turnover	1.8x	1.7x	2.0x	1.8x	1.8x
Total Assets	28,811	28,417	28,393	29,957	31,314	Days inventory outstanding	35	42	55	84	84
Trade & other payables	11,743	11,104	12,567	12,608	13,035	Days collection/sales outstanding	75	74	62	59	59
Bank overdraft	-	-	151	152	157	Days payable outstanding	100	100	78	87	87
Current tax liabilities	559	547	102	103	106	Cash conversion cycle	9	16	38	56	56
Total current liabilities	12,302	11,652	12,820	12,862	13,298	Investment Ratios					
Provisions (employee benefits)	3,236	4,132	4,328	4,342	4,489	Earnings per share (N)	1.1	0.6	-0.2	0.8	0.8
Deferred tax	524	348	188	188	195	Dividend per share (N)	0.0	0.0	0.0	0.6	0.7
Total non-current liabilities	3,760	4,480	4,516	4,531	4,684	Payout	57.1%	105.9%	0.0%	80.0%	80.0%
Total Liabilities	16,062	16,132	17,336	17,393	17,982	Dividend yield	0.0%	0.0%	0.0%	7.9%	8.3%
SHF	12,749	12,285	11,057	12,565	13,333						

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.