

Cadbury Nigeria Plc.

First Glance: Q3-17 PAT; A Sustainable Rebound?

CADBURY released Q3-17 result yesterday, showing revenue growth of 9.3% y/y and PAT of N702 million, from a loss reported in Q2. **Also worthy of note is that the reported profit is CADBURY's single-quarter largest since Q4-15, thanks to significant expansion of gross margin.** Compared to our estimate, revenue was ahead by 2%, while PAT beat by 78% following deviations on gross margin (-204 bps) and opex (-221 bps) lines.

While top-line continued to grow, the slower growth pace compared to the last three quarters, and notwithstanding the still low base prices of Q3-16, suggest that sales volume may have been very low y/y. That said, revenue has grown 14.3% y/y in nine months, with Non-Nigerian sales up 25%.

Gross margin of 30% was reported, as the technical fees (included in cost of sales) that significantly pressured margin in Q2 appears to have been fully settled. We note also the positive feed-through from both the continued stable exchange rate and softer cocoa prices (-6.83% Ytd and -4.82% compared to end-March in the international market).

Although there was no finance charge in Q3-16, the N60 million reported in the review period was significantly lower than Q2's N212 million (including FX loss of N105 million) which adversely impacted earnings during the period. Bank overdraft – which CADBURY has resorted to in recent quarters as a result of the devaluation impact on working capital – stood at N2.7 billion as at September ending, from N2.3 billion in June.

Asides finance charge, net profit would have been bigger, save for the double-digit increase in operating expenses (17.6% y/y). The opex, however, was lower than our estimate by 7%.

Overall, CADBURY's strong profit in Q3, following a negative surprise in Q2, leaves post tax loss after nine months at N64 million, from N766 million in H1. Compared to other quarters, CADBURY's results have been more stable in Q4. We look for the same this year, suggesting – given a stronger than expected Q3 – the company's earnings will likely close the year ahead of our previous estimate. That said, we do not expect investor will react accordingly to this result, given doubts as to the consistency of CADBURY's performance. Our estimates are under review.

Income Statement (N'bn)	30-Sep-17	30-Sep-16	y/y % Δ	Q3-2017	Q3 y/y	Q3 q/q
Revenue	24.37	21.33	14.3%	8.10	9.3%	-1.1%
Cost of sales	18.75	16.85	11.3%	5.67	-18.8%	-16.3%
Gross profit	5.62	4.48	25.5%	2.43	470.7%	71.0%
Operating expenses	5.53	5.46	1.2%	1.77	17.6%	-16.5%
Other income/(loss)	0.05	-0.05	-211.5%	0.03	-137.4%	158.9%
Operating profit	0.14	-1.03	-113.7%	0.70	-160.3%	-203.0%
Finance income	0.13	0.19	-31.0%	0.06	-39.1%	116.1%
Financial charges	0.33	0.00	0.0%	0.06		-71.6%
Profit before tax	-0.06	-0.84	-92.3%	0.70	-166.3%	-181.4%
Tax charges	0.00	0.00		0.00	-100.0%	-100.0%
Profit after tax	-0.06	-0.84	-92.3%	0.70	-171.0%	-181.7%

SELL

Target Price (N)*	9.18
Current Price (N)	10.65
Implied Return (%)	-13.76

Company Data

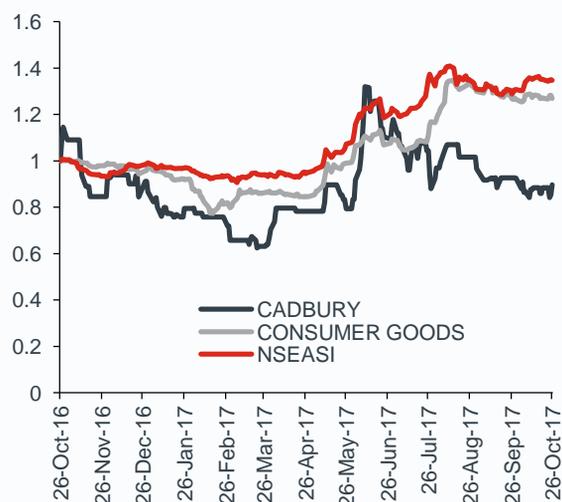
NSE Code	CADBURY
Bloomberg Code	CADBURY:NL
Reuters Code	CADBURY.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	20.00
Free Float (%)	25.03

Ratios	Q3-2017	Q3-2016	2016FY
Gross margin	30.04%	5.76%	22.88%
Opex margin	21.79%	20.26%	25.53%
EBIT margin	8.64%	-15.66%	-2.44%
PAT margin	8.66%	-13.35%	-0.99%
RoAE**	13.00%	8.45%	-2.54%
EPS (N)	0.37	-0.53	-0.16

*Under Review

**Trailing 12m

Price movement (CADBURY vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Disclosures

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