

# Cadbury Nigeria Plc.

## We remain sellers even at current price

**Update:** We update on CADBURY with a TP of NGN10.96 (29% downside) and maintain SELL recommendation. Despite having a challenging 2017FY, contrary to the rest of our consumer goods universe, the company reported a net profit of NGN300 million, from a loss in 2016FY. We forecast net profit to grow by 38% in 2018E, equating to DPS of NGN0.22/share. On our revised estimates, CADBURY is trading at 2018F P/E multiple of 65.6x, a significant premium to the 5-year historical average of 31.1x.

**Modest revenue growth in 2018E:** We forecast revenue growth to moderate to 8% in 2018E, from 10.3% in 2017FY. As with the industry, we expect revenue growth this year to be largely volume-driven. And specifically, for CADBURY, we look for management backing sales with a lot of promotional activities, including price discounting, given intense competition, especially in the Food Beverage segment. In this segment, we note from our recent survey of prices that *Bournvita* is cheaper, on average, compared to *Milo* by about 12%. The discount (48%) relative to *Milo* is significant on the fastest-selling 20g SKU. We also think *Bournvita* price is quite competitive at a premium of about 4% on average, relative to *Cowbell*.

**Dour gross margin outlook:** For us, CADBURY's gross margin outturn – excluding the one-off spring to 30% in Q3-17 – was impressive in 2017FY. We think this is down to prices, which management needed to keep competitive in order to support revenue. It is our understanding that CADBURY – factoring in discounts also – did not match NESTLE in the rate of price increases in 2016-2017FY, suggesting to us that some costs must have been absorbed. While we consider the moderating commodities price inflation and stable naira exchange rate outlook as tailwinds, we estimate gross margin to remain flattish at 22.5% in 2018E, below the company's historical average of 28.3%.

On the other hand, we forecast EBIT margin to increase to a 2-year high of 3.4%, but still below the 5-year historical average of 7%. Opex has been well-contained in the last two years, including the ratio to revenue which fell to record-low 20.6% last year. We note the consistently lower spending on (1) consultancy and professional fees, (2) advert and promos, and (3) travel and entertainment – in the last two years. We also note savings on personnel expenses (-12% in 2017FY) as part of measures towards resource optimization.

**Balance sheet:** A short term loan of NGN1.7 billion was drawn in Q4, bringing the balance of expensive short term borrowings (we estimate at average interest rate of 22%) to NGN3.6 billion as at end-2017FY. Although we project finance costs will be higher relative to 2017FY, we expect borrowings will be lower by end-2018E, as the sizeable settlement of trade payables in Q4-17 frees new cash for debt repayment.

## SELL

Target Price (NGN)	10.96
Current Price (NGN)	15.45
Implied Return (%)	-29.09

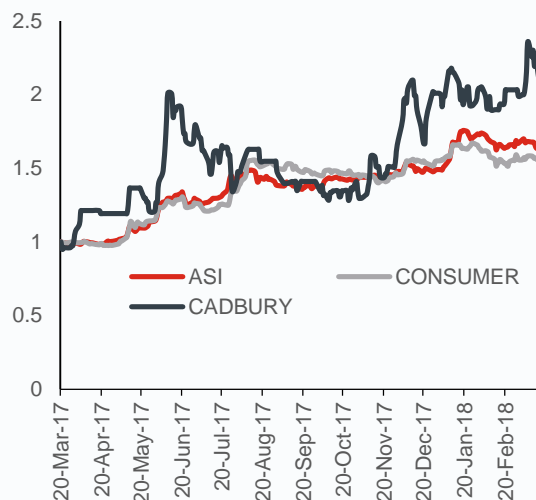
### Company Data

NSE Code	CADBURY
Bloomberg Code	CADBURY:NL
Reuters Code	CADBURY.LG
Sector	CONSUMER GOODS
Market Cap. (NGN'bn)	29.02
Free Float (%)	25.03

Ratios	Q4-2017	Q4-2016	2017FY
Gross margin	20.87%	27.54%	22.48%
Opex margin	14.88%	25.38%	20.63%
EBIT margin	6.54%	3.41%	2.15%
PAT margin	4.18%	9.45%	0.91%
RoAE	-4.19%**	4.92%**	2.63%
EPS (NGN)	0.19	0.36	0.16

\*\*Trailing 12m

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



Source: NSE, Bloomberg, Cordros Research

# Financial Statement (NGN'million).

Income Statement (N'm)	2014a	2015a	2016a	2017a	2018f	2019f	Profitability Ratios	2014a	2015a	2016a	2017a	2018f	2019f
Revenue	30,519	27,825	29,979	33,079	35,726	38,587	Gross profit margin	27.5%	32.1%	22.9%	22.5%	22.5%	22.6%
Cost of sales	22,135	18,895	23,119	25,644	27,678	29,876	EBITDA margin	13.0%	11.5%	2.5%	7.0%	8.1%	9.0%
Gross profit	8,384	8,930	6,860	7,435	8,048	8,712	EBIT margin	6.7%	5.1%	-2.4%	2.2%	3.4%	4.4%
Operating expenses	-6,367	-7,531	-7,655	-6,823	-6,967	-7,139	PBT margin	7.8%	5.7%	-1.9%	1.1%	1.8%	3.5%
Other income/(expenses)	38	21	61	99	116	139	Net profit margin	7.0%	4.1%	-1.0%	0.9%	1.2%	2.4%
Finance income	331	157	188	187	245	268	RoAE	11.6%	9.2%	-2.5%	2.6%	3.7%	7.6%
Finance cost	-	-	18	548	792	618	RoAA	5.9%	4.0%	-1.0%	1.1%	1.5%	2.9%
Profit before tax	2,386	1,577	-563	350	651	1,362							
Taxation	-249	-424	266	-50	208	436	Liquidity Ratios	2014a	2015a	2016a	2017a	2018f	2019f
Profit after tax	2,137	1,153	-296	300	443	926	Working capital (NGN'm)	34	1,093	988	1,711	3,063	3,898
							Current ratio	1.0x	1.1x	1.1x	1.1x	1.2x	1.3x
Financial Position (N'm)	2014a	2015a	2016a	2017a	2018f	2019f	Quick ratio	0.8x	0.9x	0.7x	0.6x	0.7x	0.7x
PPE	16,133	15,366	14,187	13,882	14,490	15,718	Cash ratio	0.3x	0.5x	0.2x	0.2x	0.3x	0.3x
Intangible assets	342	283	397	301	326	354							
<b>Total non Current assets</b>	<b>16,475</b>	<b>15,672</b>	<b>14,585</b>	<b>14,183</b>	<b>14,816</b>	<b>16,072</b>	Efficiency Ratios	2014a	2015a	2016a	2017a	2018f	2019f
Inventories	2,393	1,936	5,021	6,252	6,782	7,357	Fixed assets turnover	1.9x	1.8x	2.1x	2.4x	2.5x	2.5x
Trade & other receivables	6,093	5,166	4,953	4,890	5,304	5,754	Current assets turnover	2.5x	2.2x	2.2x	2.3x	2.2x	2.2x
Prepayments	165	234	823	500	542	588	Total assets turnover	1.1x	1.0x	1.1x	1.2x	1.2x	1.2x
Cash and bank balances	3,685	5,408	3,011	2,598	3,386	3,673	Inventory turnover	10.4x	8.7x	6.6x	4.5x	4.2x	4.2x
<b>Total current assets</b>	<b>12,336</b>	<b>12,745</b>	<b>13,808</b>	<b>14,240</b>	<b>16,014</b>	<b>17,371</b>	Receivables turnover	4.9x	4.9x	5.9x	6.7x	7.0x	7.0x
<b>Total Assets</b>	<b>28,811</b>	<b>28,417</b>	<b>28,393</b>	<b>28,423</b>	<b>30,829</b>	<b>33,443</b>	Payables turnover	1.8x	1.7x	2.0x	2.4x	2.9x	2.8x
Trade & other payables	11,743	11,104	12,567	8,860	10,064	11,195	Days inventory outstanding	35	42	55	80	86	86
Bank overdraft	-	-	151	3,600	2,808	2,190	Days collection/sales outstanding	75	74	62	54	52	52
Current tax liabilities	559	547	102	69	79	88	Days payable outstanding	100	100	78	70	70	70
<b>Total current liabilities</b>	<b>12,302</b>	<b>11,652</b>	<b>12,820</b>	<b>12,530</b>	<b>12,950</b>	<b>13,473</b>	Cash conversion cycle	9	16	38	65	68	68
Provisions (employee benefits)	3,236	4,132	4,328	3,861	4,385	4,878							
Deferred tax	524	348	188	290	1,610	2,725	Investment Ratios	2014a	2015a	2016a	2017a	2018f	2019f
<b>Total non-current liabilities</b>	<b>3,760</b>	<b>4,480</b>	<b>4,516</b>	<b>4,151</b>	<b>5,995</b>	<b>7,603</b>	Earnings per share (NGN)	1.1	0.6	-0.2	0.2	0.24	0.5
<b>Total Liabilities</b>	<b>16,062</b>	<b>16,132</b>	<b>17,336</b>	<b>16,680</b>	<b>18,946</b>	<b>21,076</b>	Dividend per share (NGN)	0.6	0.6	0.0	0.2	0.2	0.5
<b>SHF</b>	<b>12,749</b>	<b>12,285</b>	<b>11,057</b>	<b>11,743</b>	<b>11,884</b>	<b>12,368</b>	Payout	57.1%	105.9%	0.0%	100.5%	100.0%	100.0%
							Dividend yield	0.9%	3.8%	0.0%	1.0%	1.5%	3.2%
							P/E	65.2x	27.9x	-65.2x	98.1x	65.6x	31.3x
							EV/EBITDA	34.1x	8.4x	21.8x	13.2x	9.9x	7.9x

Source: Company Accounts, Cordros Research

# Disclosures

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