

# Cadbury Nigeria Plc.

## First Glance: Better-than-expected Q4-17 earnings salvage 2017FY

**2017FY update:** CADBURY published Q4-17 and 2017FY results today. For the full year, revenue grew by 10.3% while EBIT, PBT, and PAT of NGN711 million, NGN350 million, and NGN300 million were reported, vs. losses in 2016FY.

Net earnings was in loss (NGN64.5 million) as at 9M-17. So, the FY profit was on the back of the NGN364 million net profit reported in the final quarter (Q4-17). Compared to our estimate, revenue was ahead by 2% while net profit beat the NGN146 million we estimated. Effective tax rate was 14.4%, vs. the 32% we estimated.

The Board proposed a dividend of NGN0.16/share (vs. our estimate of NGN0.08/share), equating to a yield of 1% on today's price.

**Volume-driven revenue growth in Q4-17:** Q4-17 revenue was equally ahead of our estimate by 10%. The top-line grew by 0.7% y/y and 7.6% q/q during the period. Net revenue has now grown q/q consecutively for two years in Q4. NESTLE, the leader in the food beverage market, reported 7% q/q decline in revenue in Q4-17.

We believe CADBURY's revenue growth in Q4-17 was largely volume-driven, as opposed to Q4-16 which was majorly on prices. We were informed by distributors that there was an aggressive promotional activity in Q4, wherein customers were rewarded with discounts of as much as NGN800 for purchasing, say one carton of *Bournvita*. The promo was specifically for *Bournvita* 20g and 500g (refill), which we understand are cash cows for CADBURY.

**Weak Q4-17 gross margin:** Gross margin outturn was a negative surprise. Compared to Q4-17 and Q4-16, gross margin fell by 667 bps and 916 bps respectively. The cashback we mentioned above may have depressed gross margin.

Opex was down 41% y/y and 27% q/q during the review period, while the ratio to net sales of 14.9% was lower 1,049 bps y/y and 691 bps q/q. CADBURY's Q4 opex is typically the lowest (although last year's was an exception). There was no specific quarterly breakdown of opex in Q4, but for the FY, S&D and admin expenses were lower by 7% and 23% respectively. While EBIT margin was higher relative to Q4-16, it fell by 210 bps compared to Q3-17, owing to the weaker gross margin.

**Balance sheet:** A short term loan of NGN1.7 billion was drawn in Q4. Gross borrowing as at end-2017FY was NGN3.6 billion, producing finance charge of NGN548 million, the highest in a single year for the company since 2009. It would seem the borrowing was deployed towards settling trade payables which reduced by NGN3.1 billion from 9M-17.

**Valuation:** We have a SELL recommendation for CADBURY (NGN9.18 TP), with YtD return of -1.4%. On our numbers, CADBURY is trading at 2018F P/E multiples of 42.8x, a significant premium to the 5-year historical average of 31.1x.

# SELL

Target Price (NGN)*	9.18
Current Price (NGN)	15.45
Implied Return (%)	-40.55

### Company Data

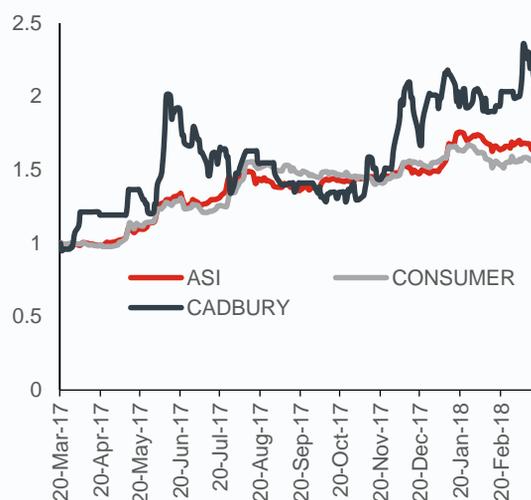
NSE Code	CADBURY
Bloomberg Code	CADBURY:NL
Reuters Code	CADBURY.LG
Sector	CONSUMER GOODS
Market Cap. (NGN'bn)	29.02
Free Float (%)	25.03

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

\*Under Review

\*\*Trailing 12m

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



Source: NSE, Bloomberg, Cordros Research

# Disclosures.

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