

Cadbury Nigeria Plc.

In-line Q1-2018 performance. SELL reiterated.

Update: CADBURY published Q1-18 result yesterday, showing EBIT was higher by 76.2% while PBT was lower by 67.2%, both compared to Q1-17. We are not surprised by the lower PBT, which we had expected will be impacted by higher finance charges (+233% y/y), given the sizeable balance of borrowings at the beginning of this year, compared to 2017. Meanwhile, the reported PBT missed our estimate by 49%, owing specifically to the deviation on finance income line (46% below our estimate), but we expect this will normalize in subsequent quarters.

We retain our 8% revenue growth for 2018E: Q1-18 revenue grew 2% y/y, consistent with our 1.8% growth estimate. Given base selling price is lower by marginal single-digit, we estimate flat to modest volume contraction must have been recorded during the just concluded quarter, compared to last year. Retaining our 8% revenue growth estimate for 2018E suggests we look for a faster growth in subsequent quarters, and will be largely volume-driven, on continued promotional activities, including price discounting. We are aware of an ongoing *buy-1-get-1* free promo for the 450g *Bournvita Hot Chocolate Drink*.

Our gross margin estimate is also unchanged: At 21.8%, CADBURY's gross margin in Q1-18 is in line with our 21.9% estimate for the quarter, and 3 bps higher vs. Q1-17. We had stated in our last note on the company that we do not expect gross margin will be above the 22.5% rate achieved in 2017FY, and this view is unchanged. Margin headwinds are selling price competition (on stronger imports) and rising cocoa prices, while the tailwinds are stable FX and soft sugar (-28% YtD) and dairy prices (-6% YtD).

Also, at 2.6%, EBIT margin is in line in Q1-18. Our estimate for 2018E is unchanged at 3.4%, equating to +120 bps vs. 2017FY. Keeping opex under control is an aspect that CADBURY's management has performed better in recent years of strong pressure on market share and revenue. Opex declined by 2% y/y in Q1-18 while the ratio to revenue was lower by 78 bps. From 20.6% in 2017FY, we estimate opex margin will drop to 19.5% in 2018E, on slower opex growth of 2%, over revenue growth of 8%.

Balance sheet: The balance of short term borrowings was NGN4.3 billion, from the NGN3.6 billion at the beginning of the year. CADBURY's loans are expensive (we estimated 22% at the end of 2017FY), and we are not aware that they are being refinanced through commercial papers in this period of generally declining interest rates. Finance cost in Q1-18 is in line with our estimate. Finance income was lower, but we expect this would increase and converge with our estimate for the year, as cash grows following the payment of 2017FY dividend.

Valuation: We maintain SELL at NGN10.96 TP. Our estimates are unchanged. On our estimates, CADBURY is trading at 2018F P/E multiple of 61.5x, a significant premium to the 5-year historical average of 31.1x. The stock price is down 6% since our March 20th update.

SELL

Target Price (NGN)	10.96
Current Price (NGN)	14.50
Implied Return (%)	-24.44

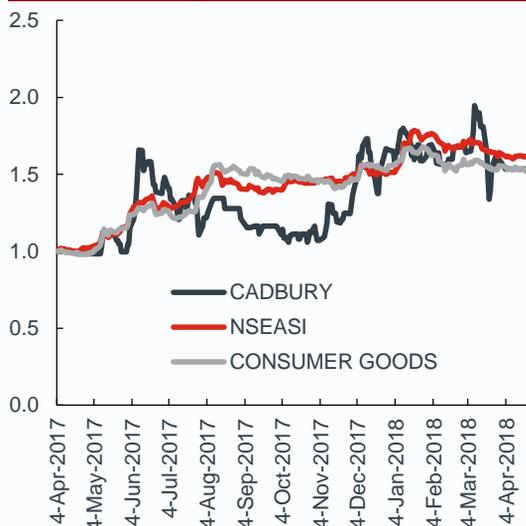
Company Data

NSE Code	CADBURY
Bloomberg Code	CADBURY:NL
Reuters Code	CADBURY.LG
Sector	CONSUMER GOODS
Market Cap. (NGN'bn)	27.33
Free Float (%)	25.03

Ratios	Q1-2018	Q1-2017	2017FY
Gross margin	21.84%	21.81%	22.48%
Opex margin	19.62%	20.40%	20.63%
EBIT margin	2.58%	1.50%	2.15%
PAT margin	0.27%	1.15%	0.91%
RoAE	1.98*	-7.20*	2.63%
EPS (NGN)	0.01	0.05	0.16

*Trailing 12m

Price movement (CADBURY vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Summary of Quarterly Results.

Income Statement (NGN'bn)	31-Mar-18	31-Mar-17	y/y % Δ	Q4-2017	Q3-2017	Q2-2017	Q1-2017	Cordros est.
Revenue	8.24	8.07	2.0%	8.71	8.10	8.19	8.07	8.22
Cost of Sales	6.44	6.31	2.0%	6.90	5.67	6.77	6.31	6.42
Gross profit	1.80	1.76	2.2%	1.82	2.43	1.42	1.76	1.80
Operating expenses	1.62	1.65	-1.9%	1.30	1.77	2.11	1.65	1.62
Other income/(loss)	0.03	0.01	353.3%	0.05	0.03	0.01	0.01	0.03
Operating profit	0.21	0.12	76.2%	0.57	0.70	-0.68	0.12	0.21
Finance income	0.03	0.04	-30.2%	0.06	0.06	0.03	0.04	0.05
Financial charges	0.21	0.06	233.3%	0.21	0.06	0.21	0.06	0.20
Profit before tax	0.03	0.10	-67.2%	0.41	0.70	-0.86	0.10	0.06
Tax charges	0.01	0.00	228.3%	0.05	0.00	0.00	0.00	0.00
Profit after tax	0.02	0.09	-76.3%	0.36	0.70	-0.86	0.09	

Ratios	31-Mar-18	31-Mar-17		Q4-2017	Q3-2017	Q2-2017	Q1-2017	Cordros est.
Gross margin	21.8%	21.8%		20.9%	30.0%	17.4%	21.8%	21.9%
Opex margin	19.6%	20.4%		14.9%	21.8%	25.8%	20.4%	19.7%
EBIT margin	2.6%	1.5%		6.5%	8.6%	-8.3%	1.5%	2.6%
PBT margin	0.4%	1.2%		4.8%	8.7%	-10.5%	1.2%	0.7%
PAT margin	0.3%	1.2%		4.2%	8.7%	-10.5%	1.2%	
Tax rate	30.0%	3.0%		12.1%	0.0%	0.3%	3.0%	
EPS (NGN)	1.2%	4.9%		19.4%	37.4%	-45.8%	4.9%	

Source: Company Accounts, Cordros Research estimates

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							
Total non Current assets	16,475	15,672	14,585	14,183	14,816	16,072	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
Total current assets	12,336	12,745	13,808	14,240	16,014	17,371	Receivables turnover	4.9x	4.9x	5.9x	6.7x	7.0x	7.0x
Total Assets	28,811	28,417	28,393	28,423	30,829	33,443	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
Total current liabilities	12,302	11,652	12,820	12,530	12,950	13,473	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
Total non-current liabilities	3,760	4,480	4,516	4,151	5,995	7,603	Earnings per share (NGN)	1.1	0.6	-0.2	0.2	0.24	0.5
Total Liabilities	16,062	16,132	17,336	16,680	18,946	21,076	Dividend per share (NGN)	0.6	0.6	0.0	0.2	0.2	0.5
SHF	12,749	12,285	11,057	11,743	11,884	12,368	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	61.5x	29.4x
							EV/EBITDA	34.1x	8.4x	21.8x	13.2x	9.3x	7.4x

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.