

Cadbury Nigeria Plc.

Lower-than-expected post-tax loss in Q2-18; 2018E EPS revised lower

Update: CADBURY released Q2-18 result, with a loss after tax of NGN455 million. We had expected a loss of NGN740 million. The result shows welcome growth in revenue and double-digit decline in opex, offset by significantly lower gross margin. Though the post-tax loss was lower than we expected, we cut our EPS estimate for 2018E, on higher downward revision of gross margin (-285 bps) than we reduced opex (-150 bps).

In-line Q2-18 revenue; 2018E growth estimate unchanged: The reported Q2-18 revenue was ahead of Q1-17 by 13.7% and beat our estimate by a marginal 0.3%. At current run-rate, we believe the company's revenue is in line with our 8% growth forecast for the year. We believe the revenue growth was largely volume-driven, as we are not aware of any price increase during the reference period. Whilst noting the aggressive sales drive going on mainly at the retail level – for *Bournvita* especially – we believe Ramadan-related consumption may have also boosted sales volume during the period. Domestic sales rebounded with a growth of 8% y/y (-0.5% y/y in Q1-18), while Exports grew by 59% y/y (vs. 102% y/y in Q1-18).

We cut gross margin estimate lower: At 10.9% in Q2-18, the achieved record-low gross margin (lowest since Q3-16) came in way below our 17.4% estimate. The lower outturn confirms our stance since the beginning of the year, that CADBURY's 2018E gross margin is unlikely to beat the 22.5% rate achieved in 2017FY. We consequently revise gross margin estimate for the year lower to 19.7% (from 22.5%), while reiterating (1) selling price competition and (2) rising cocoa prices (+20% YtD) as headwinds, and (1) stable FX and (2) soft sugar (-26% YtD) and dairy (-8% YtD) prices as tailwinds.

Both opex (-37% y/y and -17.8% q/q) and the margin (-1155 bps y/y and -536 bps q/q) came in surprisingly lower at NGN1.33 billion and 14.3% respectively. Notwithstanding, we cut our opex estimate for 2018E only marginally, while we wait for clarity on this line – we suspect that the traditionally low opex in Q4 may not come through this year. That said, we should mention that keeping opex lower is an aspect that CADBURY's management has performed better in recent years of strong pressure on market share and revenue.

Balance sheet: The balance of borrowings stood at NGN2.37 billion (vs. NGN4.3 billion in Q1-18), comprising solely drawn-down bank overdraft facility. This produced finance charge of NGN184 million, below the NGN195 million we estimated. And as expected, finance income grew q/q (+80%), but still trailing our expectation (NGN47 million vs. NGN73 million respectively). We made no changes to these lines. Capex stood at NGN232 million, much lower than the NGN699 billion spent as at H1-17.

Estimate and valuation: The net impact of the changes to our model is a cut to both our EPS estimate to NGN0.06 (from NGN0.24 previously) and TP to NGN10.00 (NGN10.96), with HOLD rating. CADBURY's stock has lost 26% since we updated on Q1-18 result, with a SELL rating. On our estimates, CADBURY is trading at forward (2018E) P/E multiple of 175.4x, a significant premium to its five-year historical average of 31.3x.

HOLD

Target Price (NGN)	10.00
Current Price (NGN)	10.70
Implied Return (%)	-6.54

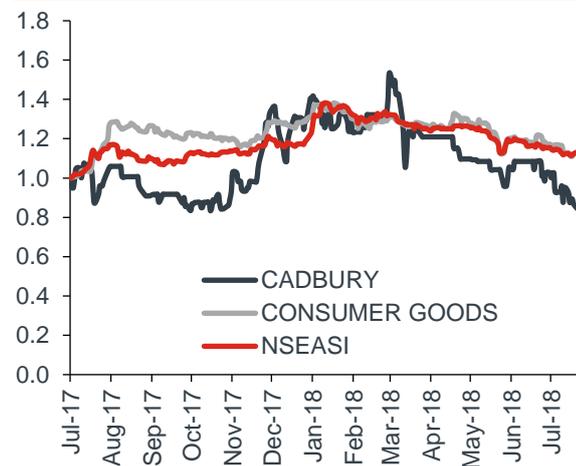
Company Data

NSE Code	CADBURY
Bloomberg Code	CADBURY:NL
Reuters Code	CADBURY.LG
Sector	CONSUMER GOODS
Market Cap. (NGN' bn)	20.10
Free Float (%)	25.03

Ratios	Q2-2018	Q2-2017	2017FY
Gross margin	10.88%	17.36%	22.48%
Opex margin	14.25%	25.81%	20.63%
EBIT margin	-3.42%	8.29%	2.15%
PAT margin	-4.78%	-10.49%	0.91%
RoAE	6.53*	--10.24%	2.63%
EPS (NGN)	-0.24	-0.46	0.16

*Trailing 12m

Price movement (CADBURY vs. Benchmark Indices)



Source: NSE, Bloomberg, Cordros Research

Summary of Results.

Income Statement (NGN'bn)	30-Jun-18	30-Jun-17	y/y % Δ	Q2-18	Q2 y/y	Q2 q/q	Cordros Q2-18 est.	Q1-18
Revenue	17.55	16.26	7.9%	9.32	13.7%	13.2%	9.29	8.24
Cost of Sales	-14.74	-13.24	11.3%	-8.30	22.7%	29.0%	-7.67	6.44
Gross profit	2.81	3.02	-6.9%	1.01	-28.7%	-43.6%	1.62	1.80
Operating expenses	-2.94	-3.70	-20.5%	-1.33	-37.2%	-17.8%	-2.26	1.62
Other income/(loss)	0.03	0.02	33.8%	0.00	-133.8%	-114.2%	0.03	0.03
Operating profit	-0.11	-0.66	-84.1%	-0.32	-53.2%	-249.7%	-0.62	0.21
Finance income	0.07	0.07	10.7%	0.05	63.9%	80.4%	0.07	0.03
Financial charges	-0.39	-0.17	131.3%	-0.18	-13.0%	-11.2%	-0.19	0.21
Profit before tax	-0.42	-0.77	-44.7%	-0.46	-47.2%	-1546.7%	-0.74	0.03
Tax charges	0.00	0.00		0.01	228.3%	-200.0%		0.01
Profit after tax	-0.42	-0.77	-44.7%	-0.45	-48.1%	-2123.9%		0.02

Ratios	30-Jun-18	30-Jun-17	Q2-18	Q1-18
Gross margin	16.02%	18.58%	10.88%	17.42%
Cost of sales margin	83.98%	81.42%	89.12%	82.58%
OPEX margin	16.77%	22.78%	14.25%	24.38%
EBIT margin	-0.60%	-4.08%	-3.42%	-6.65%
PBT margin	-2.41%	-4.71%	-4.88%	-7.96%
PAT margin	-2.41%	-4.71%	-4.78%	0.27%
Tax rate	0.00%	0.00%	2.07%	30.00%
EPS (N)	-0.23	-0.41	-0.24	0.01

Source: Company Accounts, Cordros Research estimates

Financial Statements.

Income Statement (NGN'm)	2015a	2016a	2017a	2018f	2019f
Revenue	27,825	29,979	33,079	35,726	38,587
Cost of sales	18,895	23,119	25,644	28,696	30,975
Gross profit	8,930	6,860	7,435	7,030	7,612
Operating expenses	-7,531	-7,655	-6,823	-6,431	-7,139
Other income/(expenses)	21	61	99	116	139
Finance income	157	188	187	245	268
Finance cost	-	- 18	- 548	- 792	- 618
Profit before tax	1,577	-563	350	169	263
Taxation	-424	266	-50	54	84
Profit after tax	1,153	-296	300	115	179
Financial Position (NGN'm)	2015a	2016a	2017a	2018f	2019f
PPE	15,366	14,187	13,882	14,490	15,718
Intangible assets	283	397	301	326	354
Total non-Current assets	15,672	14,585	14,183	14,816	16,072
Inventories	1,936	5,021	6,252	6,782	7,357
Trade & other receivables	5,166	4,953	4,890	5,304	5,754
Prepayments	234	823	500	542	588
Cash and bank balances	5,408	3,011	2,598	3,386	3,673
Total current assets	12,745	13,808	14,240	16,014	17,371
Total Assets	28,417	28,393	28,423	30,829	33,443
Trade & other payables	11,104	12,567	8,860	10,238	11,592
Bank overdraft	-	151	3,600	2,808	2,190
Current tax liabilities	547	102	69	80	91
Total current liabilities	11,652	12,820	12,530	13,126	13,873
Provisions (employee benefits)	4,132	4,328	3,861	4,461	5,051
Deferred tax	348	188	290	1,687	2,899
Total non-current liabilities	4,480	4,516	4,151	6,148	7,950
Total Liabilities	16,132	17,336	16,680	19,274	21,823
SHF	12,285	11,057	11,743	11,556	11,620

Profitability Ratios	2015a	2016a	2017a	2018f	2019f
Gross profit margin	32.1%	22.9%	22.5%	19.7%	19.7%
EBITDA margin	11.5%	2.5%	7.0%	6.8%	6.3%
EBIT margin	5.1%	-2.4%	2.2%	2.0%	1.6%
PBT margin	5.7%	-1.9%	1.1%	0.5%	0.7%
Net profit margin	4.1%	-1.0%	0.9%	0.3%	0.5%
RoAE	9.2%	-2.5%	2.6%	1.0%	1.5%
RoAA	4.0%	-1.0%	1.1%	0.4%	0.6%

Liquidity Ratios	2015a	2016a	2017a	2018f	2019f
Working capital (NGN'm)	1,093	988	1,711	2,888	3,498
Current ratio	1.1x	1.1x	1.1x	1.2x	1.3x
Quick ratio	0.9x	0.7x	0.6x	0.7x	0.7x
Cash ratio	0.5x	0.2x	0.2x	0.3x	0.3x

Efficiency Ratios	2015a	2016a	2017a	2018f	2019f
Fixed assets turnover	1.8x	2.1x	2.4x	2.5x	2.5x
Current assets turnover	2.2x	2.2x	2.3x	2.2x	2.2x
Total assets turnover	1.0x	1.1x	1.2x	1.2x	1.2x
Inventory turnover	8.7x	6.6x	4.5x	4.4x	4.4x
Receivables turnover	4.9x	5.9x	6.7x	7.0x	7.0x
Payables turnover	1.7x	2.0x	2.4x	3.0x	2.8x
Days inventory outstanding	42	55	80	83	83
Days collection/sales outstanding	74	62	54	52	52
Days payable outstanding	100	78	70	67	68
Cash conversion cycle	16	38	65	68	68

Investment Ratios	2015a	2016a	2017a	2018f	2019f
Earnings per share (NGN)	0.6	-0.2	0.2	0.06	0.1
Dividend per share (NGN)	0.6	0.0	0.2	0.1	0.1
Payout	105.9%	0.0%	100.5%	100.0%	100.0%
Dividend yield	3.8%	0.0%	1.0%	0.6%	0.9%

P/E	27.9x	-65.2x	98.1x	175.4x	112.6x
EV/EBITDA	8.4x	21.8x	13.2x	8.1x	7.6x

Source: Company Accounts, Cordros Research estimates

Disclosures.

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