

Cadbury Nigeria Plc

Nigeria | Equities | Consumer Goods | July 22, 2015

PAC RESEARCH

2Q sales revenue on downward trend

Year-on-year revenue declines by 7.7% and 11.8% q/q. In the six months to June 2015, Cadbury Nigeria reported sales revenue of ₦14.14billion, down by 7.7% compared with ₦15.32billion in the previous year. On a quarterly basis, the company's revenue of ₦7.41billion in 2Q2015 exceeded ₦6.73billion in 1Q2015 by 10.0% but lower than ₦8.40billion in the second quarter of 2014. Similarly, the latest quarter's revenue is lower than our estimate of ₦8.32billion and 8-quarter average of ₦7.87billion by 11.0% and 5.9% respectively.

Cost of sales increases by 1.1% y/y despite a decline in revenue...

For the review period, the company's cost of sales (COS) of ₦10.01billion was up by 1.1% against ₦9.91billion in the corresponding period of 2014. The inverse movements in revenue relative to COS resulted in an increase in COS/revenue ratio to 70.8% against 64.7% in 1H2014. On a quarterly basis, COS of ₦4.97billion reported in 2Q2015 declined by 1.4% and 8.6% compared with ₦5.04billion and ₦5.44billion accordingly in 1Q2015 and the second quarter of 2014. Also, the latest quarter's COS is lower than 8-quarter average of ₦5.59billion by 11.1%. In addition, our analysis revealed that COS/revenue ratio of 67.1% in 2Q2015 is lower than both 74.9% in the first quarter to March 2015 and 8-quarter average of 71.9% but higher than 64.7% in 2Q2014.

Furthermore, the average prices of cocoa which is the major raw material for the leading product of the company – Bournvita – declined marginally by 0.4% to US\$2,931/metric tonnes in the period compared with US\$2,942/metric tonnes in the corresponding period of the previous year. Moreover, the prices of cocoa is expected to increase in the quarters ahead as global demand is projected to expand by 2.7% in 2015 on the back of rise in consumption in developing countries. Although, Cadbury Nigeria is expected to source the raw material domestically from its subsidiary – Cadbury Cocoa Processing Limited, therefore it might not be affected by the expected increase price.

Fig. 1: Quarterly results highlights

	2Q2015	1Q2015	2Q2014	Q/q Δ	Y/y Δ
Revenue (₦'mn)	7,406	6,732	8,401	10.01%	-11.84%
Operating profit (₦'mn)	20	-334	613	-105.99%	-96.74%
Net profit (₦'mn)	53	-304	457	-117.43%	-88.40%

Source: NSE, PAC Research

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Price:

- Current	₦35.05*
- Target	₦30.20
Recommendation:	SELL

* As at Wednesday July 22, 2015

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-16.75% / -55.15%
52-week range	₦33.30 - ₦74.25
Average daily vol./val.	171,425 / ₦7.759mn
Shares Outstanding (₦'mn)	1,878
Market Cap. (₦'mn)	65,830 (\$274.30mn)
EPS, ₦- 12months trailing	0.00
DPS, ₦- FY2014	NIL
FCF, ₦- FY2014	-0.64

Source: NSE, Company's Annual Reports, PAC Research

Fig. 3: Key ratios

	1H2015	1H2014
Gross profit margin	29.18%	35.34%
Net profit margin	-1.77%	8.25%
Equity multiplier	2.83x	2.70x
Asset turnover	1.03x	1.14x

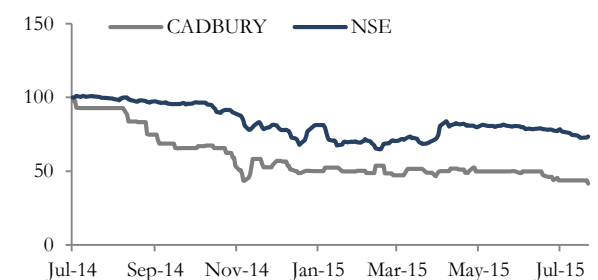
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2014	FY2015E	FY2016F	FY2017F
P/Sales	2.46x	2.42x	2.37x	2.34x
P/E	49.53x	35.01x	36.00	42.38x
PEG	n/a	0.85	n/a	n/a
EV/EBITDA	32.29x	19.44x	18.87x	17.49x
P/B	6.49x	6.17x	5.97x	5.73x
ROE	13.11%	17.62%	16.58%	13.52%
ROA	5.25%	7.10%	6.74%	5.64%
Div. Yield	0.00%	0.75%	1.00%	1.00%

Source: NSE, PAC Research

Fig. 5: CADBURY vs. NSE, 52-wk movement (rebased)



Source: Bloomberg, PAC Research

On the contrary, global production is expected to contract in the year by 5.7% reflecting sharp fall in output in Ghana and adverse weather condition in West Africa. It is noteworthy to state that West African countries of Cote d'Ivoire, Ghana and Nigeria including Central African country of Cameroon accounts for 70.0% of global cocoa production. From the foregoing, the Economic Intelligent Unit (EIU) forecasted an increase in the average prices of cocoa in the third and fourth quarter of 2015 to US\$3,350/metric tonne and US\$3,250/metric tonne respectively, and an increase of 2.1% y/y to US\$3,155/metric tonne in 2015. Consequently, gross profit declined by 23.8% to N4.13billion compared with N5.41billion in 2014, and gross profit margin dropped to 29.2% relative to 35.3% in the same period of the previous year.

Fig. 6: Prices of cocoa (metric tonne)



Source: NSE, PAC Research

...while operating expenses moved up by 9.8% y/y. Cadbury Nigeria's operating expenses of ₦4.45billion in 1H2015 increased by 9.8% y/y compared with ₦4.06billion in the previous period, the increase in the operating expenses despite a decline in revenue led to a higher operating expenses/revenue ratio of 31.5% relative to 26.5% in 2014. On a quarterly basis, the company recorded operating expenses of ₦2.42billion in 2Q2015, up by 19.5%, 19.0% and 33.2% compared with ₦2.03billion, ₦2.04billion and ₦1.82billion respectively in 1Q2015, 2Q2014 and 8-quarter average. Moreover, the company's operating expenses/revenue ratio of 32.7% in the latest quarter is higher than 30.1% and 24.2% in the first quarter of 2015 and the second quarter of the previous year respectively; it is also higher than 8-quarter average of 23.4%.

Overall, total costs increased by 3.6% y/y to ₦14.47billion in 2015 against ₦13.96billion and total costs/revenue ratio stood at 102.3% relative to 91.1% in 1H2014. Therefore, Cadbury Nigeria reported operating loss of ₦314million, down by 121.1% compared with operating profit of ₦1.49billion in the previous year and operating profit margin fell to negative 2.2% relative

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to positive 9.7% in 2014. Moreover, interest income and “other operating income” declined by 78.9% and 90.1% accordingly to ₦64million and ₦13million compared with ₦303million and ₦131million in the previous year. Consequently, the company reported a net loss of ₦250million, down by 119.8% compared with a net profit of ₦1.26billion in 2014, and net loss margin stood at 1.8% in the review period relative to net profit margin of 8.3% in the previous year.

Cadbury Nigeria underperforms the broad market. In the review period, the stock prices of the company recorded negative returns of 12.4% relative to negative returns of 3.5% recorded by the NSE-All Share Index. Similarly, in the corresponding period of the previous year, Cadbury Nigeria underperformed the broad market with -18.7% returns compared with +2.8% returns recorded by the equity market as measured by NSE-All Share Index. Also, in 12-month period ended June 2015, the company underperformed the market with returns of -52.8% against -26.8% recorded by the broad market.

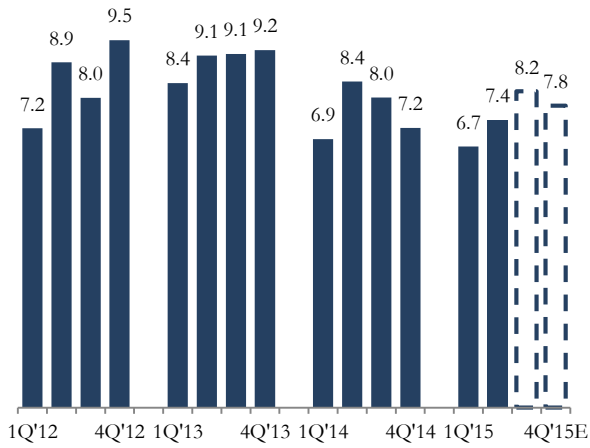
Valuation

Our Valuation puts the target price of the stock of Cadbury Nigeria Plc at ₦30.20. In arriving at the target price, we employed multiples of price/earnings, price/sales, price/book, and EV/sales. We also employed the discounted cashflow valuation methodology. Consequently, we maintain a SELL recommendation on the stock of the company.

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the challenging operating environment in Nigeria, insecurity challenges in the northern part of the country, demographic factor, the strength of consumer spending and the intensity of competition in the market.

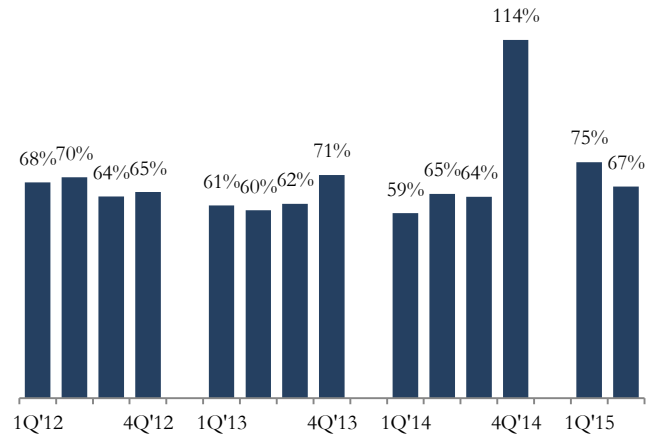
*“ Our Valuation
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Fig. 7: Quarterly sales revenue (₦billion)



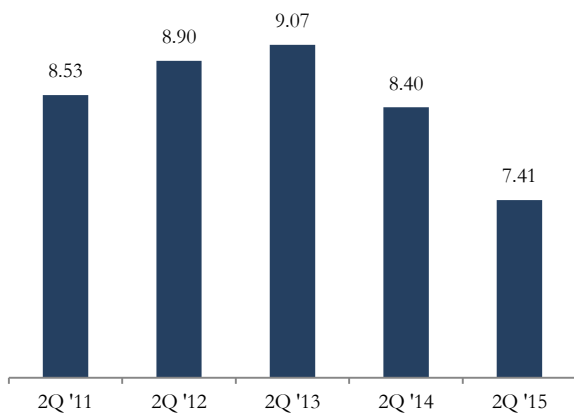
Source: NSE, PAC Research

Fig. 8: Quarterly COS/revenue ratio



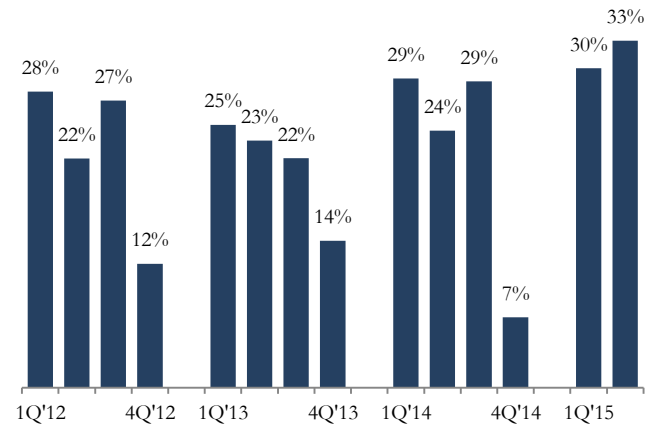
Source: NSE, PAC Research

Fig. 9: Second quarter sales revenue (₦billion)



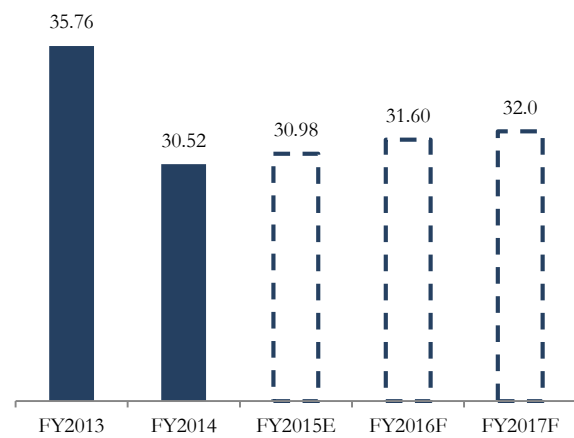
Source: NSE, PAC Research

Fig. 10: Quarterly operating expenses/revenue ratio



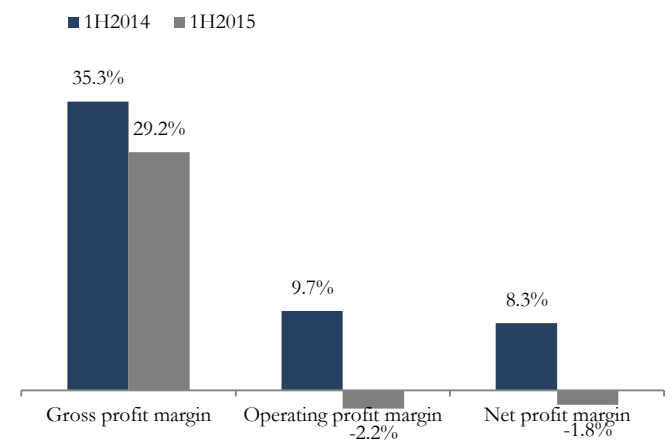
Source: NSE, PAC Research

Fig. 11: Annual sales revenue (₦billion)



Source: NSE, PAC Research

Fig. 12: Profit margins



Source: NSE, PAC Research

Fig. 13: Statement of Profit or Loss, ₦'mn

	FY2014	FY2015E	FY2016F	FY2017F
Revenue	30,519	30,983	31,603	31,982
Change		1.52%	2.00%	1.20%
Cost of sales	22,588	21,068	21,806	22,387
Change		-3.73%	3.50%	2.67%
Gross profit	7,931	9,915	9,797	9,595
Change		25.01%	-1.19%	-2.06%
Operating expenses	6,832	7,436	7,269	7,516
Change		8.84%	-2.25%	3.40%
Other operating income	38	48	76	65
Change		25.00%	60.00%	-15.00%
Operating profit	1,137	2,526	2,604	2,143
Change		122.18%	3.09%	-17.69%
Interest income	331	149	171	214
Change		-55.00%	15.00%	25.00%
Interest expenses	0.00	0.00	0.00	0.00
Change		0.00%	0.00%	0.00%
Profit before tax	1,468	2,675	2,776	2,358
Change		-82.23%	3.75%	-15.06%
Income tax expenses	45	535	694	589
Change		1,288%	29.69%	-15.06%
Profit for the year	1,513	2,140	2,082	1,768
Change		41.45%	-2.73%	-15.06%

Fig. 14: Statement of Financial Position, ₦'mn

	FY2014	FY2015E	FY2016F	FY2017F
Non-Current Assets				
Property, plant & equipment	16,133	16,456	16,785	17,204
Intangible assets	342	445	445	445
Other non-current assets	9	9	10	11
Total non-current assets	16,484	16,909	17,239	17,660
Current Assets				
Inventories	2,393	2,608	2,687	2,848
Trade & other receivables	6,258	6,008	6,248	6,498
Cash & cash equivalents	3,685	4,632	4,705	4,326
Total Current assets	12,336	13,248	13,640	13,672
Total assets	28,820	30,157	30,879	31,332
Equity	11,542	12,143	12,557	13,074
Non-Current Liabilities				
Employee benefits	3,236	3,365	3,601	3,313
Total non-current fin. liab.	3,236	3,365	3,601	3,313
Current Liabilities				
Trade & other payables	13,518	14,194	14,478	14,738
Current tax liabilities	524	456	243	206
Total current liabilities	14,042	14,650	14,721	14,945
Total equity and liabilities	28,820	30,158	30,879	31,331

Fig. 15: Profitability & return

	FY2014	FY2015E	FY2016F	FY2017F
Gross profit margin	25.99%	32.00%	31.00%	23.50%
Operating profit margin	3.73%	8.51%	8.24%	6.70%
Net profit margin	4.96%	6.91%	6.59%	5.53%
ROCE	9.85%	20.80%	20.74%	16.40%
ROE	13.11%	17.62%	16.58%	13.52%
ROA	5.25%	7.10%	6.74%	5.64%

Source: Company's Annual Reports, PAC Research

Fig. 16: DuPont Analysis

	FY2014	FY2015E	FY2016F	FY2017F
Total assets turnover	2.64x	2.55x	2.52x	2.45x
Operating profit margin	3.73%	8.51%	8.24%	6.70%
Equity multiplier	2.50x	2.48x	2.46x	2.40x
ROCE	9.85%	20.80%	20.74%	16.40%

Fig. 17: Efficiency ratios

	FY2014	FY2015E	FY2016F	FY2017F
Fixed assets turnover	1.85x	1.83x	1.83x	1.81x
Current assets turnover	2.47x	2.34x	2.32x	2.34x
Total assets turnover	2.64x	2.55x	2.52x	2.45x
Inventory turnover	9.44x	8.43x	8.24x	8.09x
Receivables turnover	n/a	n/a	n/a	n/a
Payables turnover	n/a	n/a	n/a	n/a
Days inventory outstanding	39	43	44	45
Days collection outstanding	n/a	n/a	n/a	n/a
Days payable outstanding	n/a	n/a	n/a	n/a
Operating cycle (days)	n/a	n/a	n/a	n/a

Fig. 18: Liquidity ratios

	FY2014	FY2015E	FY2016F	FY2017F
Working capital (₦'millions)	-1,706	-888	-1,050	-1,008
Current ratio	0.88	0.94	0.93	0.93
Quick ratio	0.71	0.75	0.75	0.74
Cash ratio	0.26	0.33	0.32	0.29

Fig. 19: Long-term solvency & stability ratios

	FY2014	FY2015E	FY2016F	FY2017F
Gearing	0.00%	0.00%	0.00%	0.00%
Equity multiplier	2.50x	2.48x	2.46x	2.40x
Total debt-to-equity	1.50x	1.44x	1.46x	1.38x
Total debt-to-assets	59.95%	58.03%	59.23%	57.42%
Proprietary	40.05%	40.26%	40.67%	41.73%
Interest coverage	0.00x	0.00x	0.00x	0.00x
Cash coverage	n/a	n/a	n/a	n/a

Fig. 20: Shareholders' investment ratios

	FY2014	FY2015E	FY2016F	FY2017F
EPS, ₦	0.81	1.14	1.11	0.94
DPS, ₦	0.00	0.30	0.40	0.40
Payout	0.00%	26.33%	36.09%	42.48%
FCFPS, ₦	-0.64	-0.69	-0.63	-0.63

Source: Company's Annual Reports, PAC Research

Equity research methodology employed in this report

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top down and bottom up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management.

Our recommendation tends towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company’s most recent financials.

The variables used to arrive at the company’s investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profit margins, growth, economic viability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock’s current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to < 30%	BUY
-10% to < 10%	HOLD
<-10%	SELL

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