

Cadbury Nigeria Plc

Nigeria | Equities | Consumer Goods | May 20, 2015

PAC RESEARCH

High input costs: The cause of overall operational inefficiency

1Q '15 revenue declines by 2.7 y/y. In the first quarter results to March 2015, Cadbury Nigeria reported a decline of 2.7% in revenue to ₦6.73billion compared with ₦6.92billion in the first quarter of 2014. The review period's revenue was lower than ₦7.21billion recorded in 4Q2014 by 6.6%; also it is lower than 8-quarter average of ₦8.08billion by 16.7%. Moreover, Cadbury Nigeria recorded 8-quarter high of ₦9.21billion in 4Q2013 and lowest in the review quarter.

Unfavourable volatility in exchange rates impacts input costs... For the review period, Cadbury Nigeria recorded an increase of 24.1% y/y in cost of sales (COS) to ₦5.04billion against ₦4.06billion in the previous year. In our view, the significant increase in COS was a result of the decline in the value of domestic currency relative to other major international currencies in the period with negative effect on the cost of imported input materials. In addition, the review quarter's COS is lower than ₦7.98billion in 4Q2014 by 36.8% and 8-quarter average of ₦5.65billion by 10.7%.

Furthermore, the inverse movements in the revenue and the COS led to an increase in COS/revenue ratio to 74.9% relative to 58.7% in 1Q2014. Also, our analysis revealed that the COS/revenue ratio in the review period is lower than 113.7% in 4Q2014 but higher than 8-quarter average of 71.0%. Consequently, gross profit which is a function of unit selling price, sales quantity and COS decline by 40.9% to ₦1.69billion against ₦2.86billion in the corresponding period of the previous year and gross profit margin stands at 25.1% relative to 41.3% in 1Q2014. We highlight that the company's input cost structure is not being affected by the volatility in the prices of cocoa bean in the global commodity market, because the company's subsidiary (Cadbury Cocoa Processing Company Ltd, formerly Stanmark Cocoa Processing Company Ltd) is meeting the supply needs of the company.

Fig. 1: Quarterly results highlights

	1Q2015	4Q2014	1Q2014	Q/q Δ	Y/y Δ
Revenue (₦mn)	6,732	7,206	6,920	-6.58%	-2.72%
Operating profit (₦mn)	-334	-952	877	-64.92%	-138.08%
Net profit (₦mn)	-304	-140	1,151	-117.14%	-126.41%

Source: NSE, PAC Research

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Price:

- Current	₦39.90*
- Target	₦27.97
Recommendation:	SELL

* As at Wednesday May 20, 2015

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-0.25%/-43.76%
52-week range	₦34.82 - ₦81.89
Average daily vol./val.	189,346 / ₦9.936mn
Shares Outstanding (₦mn)	1,878
Market Cap. (₦mn)	74,940 (\$394.42mn)
EPS, ₦- 12months trailing	0.21
DPS, ₦- FY2014	NIL
FCF, ₦- FY2014	-0.64

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

Fig. 3: Key ratios

	1Q2015	1Q2014
Gross profit margin	25.12%	41.32%
Net profit margin	-4.50%	16.63%
Equity multiplier	2.55x	2.38x
Asset turnover	1.06x	1.12x

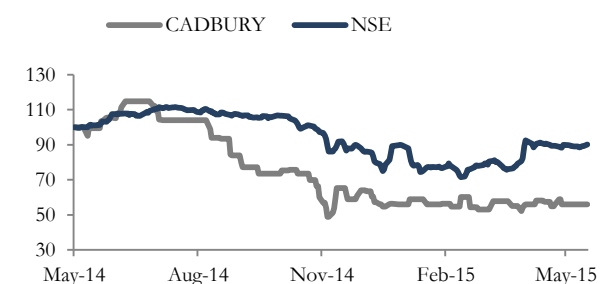
Source: NSE, PAC Research

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

Cocoa bean is the major raw material in the production of Cadbury Nigeria's flagship product – Bournvita.

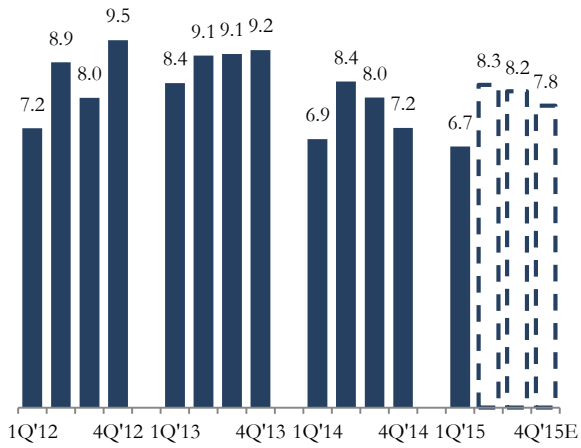
...while operating expenses remains flat. In the review period, the company posted operating expenses of ₦2.03billion, up marginally by 0.5% against ₦2.02billion in the first quarter of 2014. Also, the review period's operating expenses was higher by 334.3% and 14.1% compared with ₦467million and ₦1.78billion respectively in 4Q2014 and 8-quarter average. The marginal increase in operating expenses resulted in operating expenses/revenue of 30.1% relative to 29.2% in the previous year. In addition, the operating expenses/revenue ratio in the review quarter is higher than 6.7% in 4Q2014 and the 8-quarter average of 22.2%. Overall, total costs moved up by 16.3% to ₦7.07billion compared with ₦6.08billion in 1Q2014 and total cost/revenue ratio increased to 105.0% relative to 87.8% in the corresponding period of the previous year.

Consequently, the company reported operating loss of ₦333million, i.e. a decline of 138.0% against operating profit of ₦877million in 1Q2014 and operating loss margin stands at 5.0% relative to operating profit margin of 12.7% in 2014. Therefore, net profit declined by 126.3% to a net loss of ₦303million and net loss margin stands at 4.5% against net profit margin of 16.6% in the previous year.

Cadbury Nigeria underperforms the index in the past 12-months. In the past 12-month, the company's share prices declined by 43.8% compared with a 10.9% decline in the All Share Index (fig. 5). On the contrary, Cadbury Nigeria recorded a decline of 3.8% in its share price in the review quarter compared with capital gain of 25.2% in 1Q2014 while the index recorded a negative return of 8.4% in 1Q2015 and a positive return of 6.7% in the same quarter of the previous year.

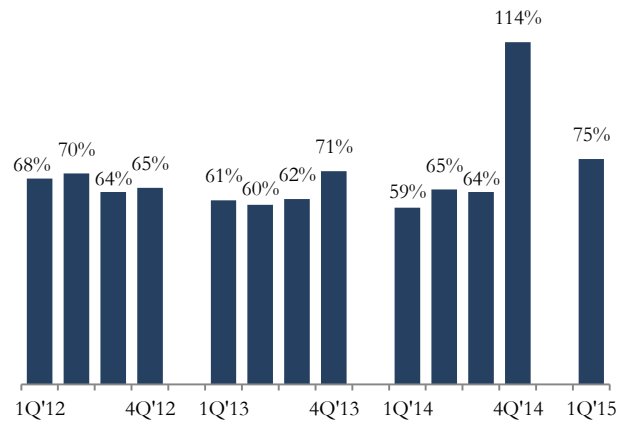
“ Also, the review period's operating expenses was higher by 334.3% and 14.1% compared with ₦467million and ₦1.78billion respectively in 4Q2014 and 8-quarter average. ”

Fig. 6: Quarterly sales revenue (₦billion)



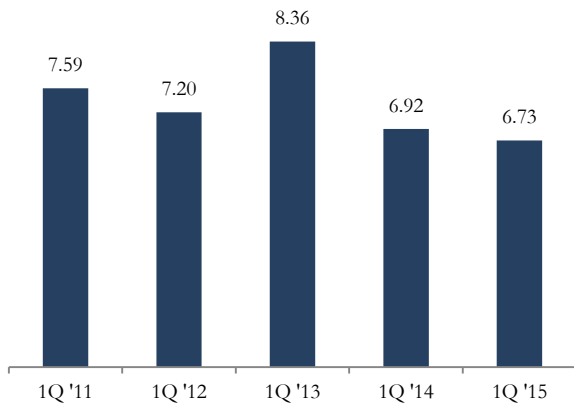
Source: NSE, PAC Research

Fig. 7: Quarterly COS/revenue ratio



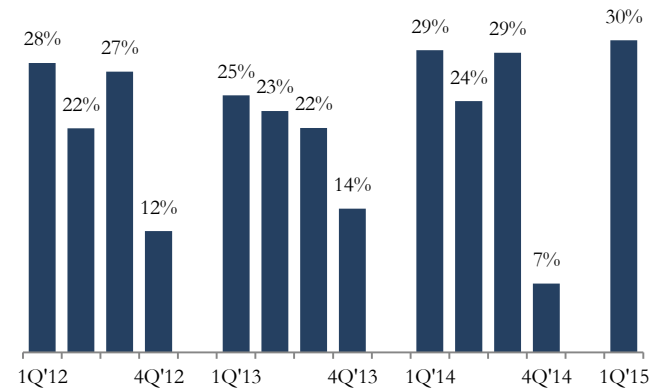
Source: NSE, PAC Research

Fig. 8: First quarter sales revenue (₦billion)



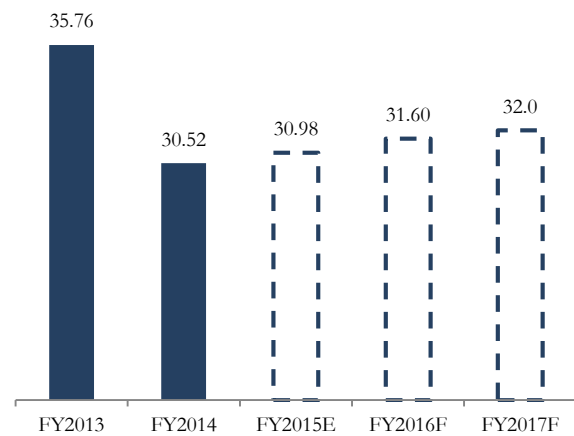
Source: NSE, PAC Research

Fig. 9: Quarterly operating expenses/revenue ratio



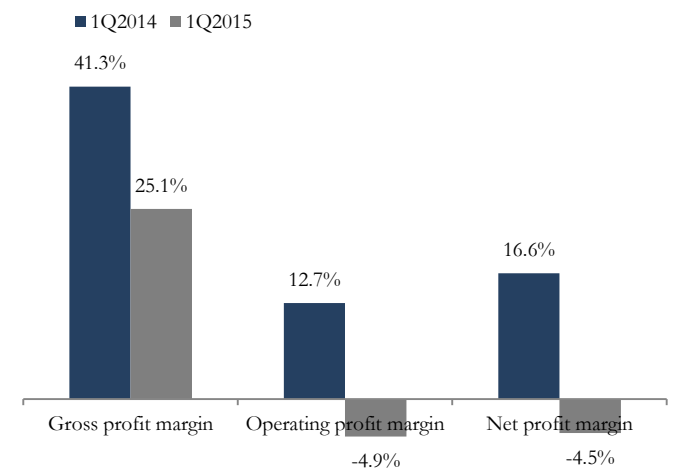
Source: NSE, PAC Research

Fig. 10: Annual sales revenue (₦billion)



Source: NSE, PAC Research

Fig. 11: Profit margins



Source: NSE, PAC Research

Valuation

Our Valuation puts the target price of the stock of Cadbury Nigeria Plc at ₦27.97. 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 recommend a SELL 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.

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Fig. 12: 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. 13: 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. 14: 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. 15: 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. 16: 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. 17: 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. 18: 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. 19: 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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