

# Cadbury Nigeria Plc

Nigeria | Equities | Consumer Goods | October 21, 2015

PAC RESEARCH

## Overall weak operational performance impacts valuation

9months 2015 revenue falls by 9.6% y/y. In the nine months to September 2015 results, Cadbury Nigeria recorded revenue of ₦21.07billion, down by 9.6% y/y compared with ₦23.31billion in the corresponding period of the previous year. On a quarterly basis, the company's revenue of ₦6.93billion in 3Q2015 is lower than ₦7.41billion and ₦7.99billion in 2Q2015 and 3Q2014 respectively by 6.4% and 13.2%. Similarly, the revenue in the latest quarter is lower than 8-quarter average of ₦7.60billion by 8.8%; it is also lower than our estimate of ₦8.15billion by 14.9%. In our opinion, the decline in revenue in the review period was a result of weak consumer spending, the activities of insurgency in the northern part of Nigeria which impacted distribution logistics in the region and the intensity of competition.

**Input costs remain flat despite a decline in revenue...** Cadbury Nigeria's cost of sales (COS) of ₦14.67billion in the review period was up marginally by 0.4% against ₦14.61billion in the previous period. The inverse movements in the revenue and the COS resulted in a higher COS/revenue ratio of 69.6% relative to 62.7% in the first nine months of 2014. Furthermore, the latest quarter's COS of ₦4.66billion was down by 6.3% and 8.8% compared with ₦4.97billion and ₦5.11billion accordingly in the second quarter of the review period and the third quarter of 2014. Also, it is lower than 8-quarter average of ₦5.47billion by 14.9%. In addition, our analysis revealed that COS/revenue ratio of 67.2% in 3Q2015 is almost flat compared with 67.1% in the second quarter of the period, but it is higher than 63.9% in 3Q2014 and lower than 8-quarter average of 72.6%. Therefore, gross profit declined by 26.5% to ₦6.40billion compared with ₦8.71billion in the previous year and gross profit margin stood at 30.4% relative to 37.4% in the previous period. In the review period, the prices of cocoa – the major raw material for the production of Bournvita, the flagship product of the company – stabilised.

Fig. 1: Quarterly results highlights

	3Q2015	2Q2015	3Q2014	Q/q Δ	Y/y Δ
Revenue (₦mn)	6,935	7,406	7,992	-6.36%	-11.84%
Operating profit (₦mn)	241	19	598	1,168.42%	-59.70%
Net profit (₦mn)	279	53	389	426.42%	-28.28%

Source: NSE, PAC Research

Moses Ojo  
moses.ojo@panafricancapitalplc.com

**Price:**

- Current	₦22.00*
- Target	₦26.46
<b>Recommendation:</b>	<b>SELL</b>

\* As at Wednesday October 21, 2015

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-45.00%/-58.10%
52-week range	₦21.90 - ₦52.51
Average daily vol./val.	149,554 / ₦5.585mn
Shares Outstanding (₦mn)	1,878
Market Cap. (₦mn)	44,320 (\$221.60mn)
EPS, ₦- 12months trailing	-0.06
DPS, ₦- FY2014	NIL
FCF, ₦- FY2014	-0.64

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

Fig. 3: Key ratios

	9M2015	9M2014
Gross profit margin	30.38%	37.35%
Net profit margin	0.14%	7.09%
Equity multiplier	2.68x	2.62x
Asset turnover	1.02x	1.10x

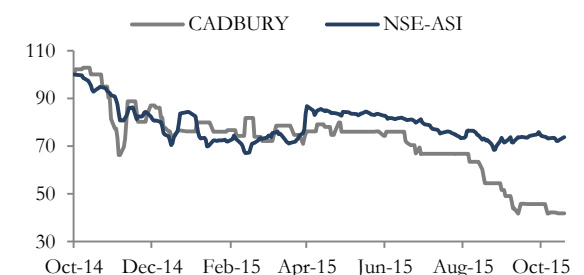
Source: NSE, PAC Research

Fig. 4: Valuations

	FY2014	FY2015E	FY2016F	FY2017F
P/Sales	1.35x	1.49x	1.52x	1.50x
P/E	27.31x	21.35x	22.72x	26.62x
PEG	n/a	0.52	n/a	n/a
EV/EBITDA	17.05x	10.95x	10.94x	10.00x
P/B	3.58x	3.43x	3.35x	3.27x
ROE	13.11%	16.07%	14.76%	12.29%
ROA	5.25%	6.44%	5.94%	5.03%
Div. Yield	0.00%	1.36%	1.82%	1.82%

Source: NSE, PAC Research

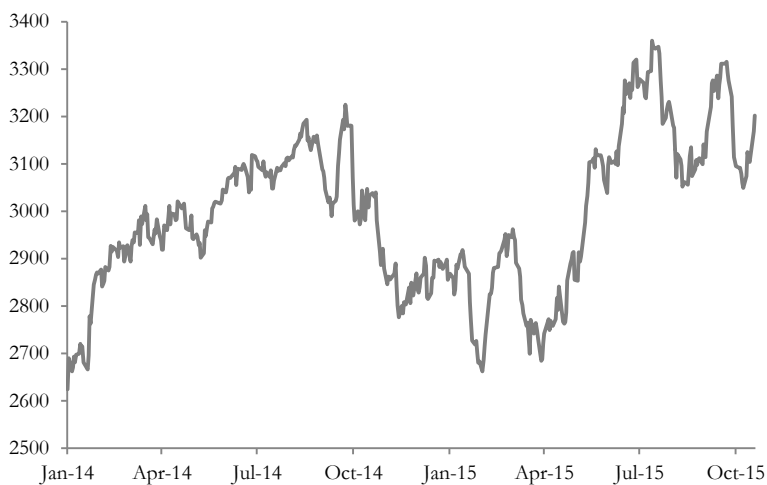
Fig. 5: CADBURY vs. NSE, 52-wk movement (rebased)



Source: Bloomberg, PAC Research

It traded at an average prices of US\$3,014/tonne, up by 0.6% compared with an average prices of US\$2,996/tonne in the corresponding period of the preceding year. However, the prices of cocoa is expected to rise mildly in the international commodity market in the quarters ahead as consumption is forecasted to outweigh production in the short to medium term. The increase in consumption is expected to be driven by improved standard of living in some emerging market economies; on the other hand production might improve in 2016 which is expected to put pressure on prices. Therefore, the commodity is expected to trade at an average prices of US\$3,135/tonne in 2015 and US\$2,975/tonne in 2016/17 crop year.

Fig. 6: Prices of cocoa (US\$/metric tonne)



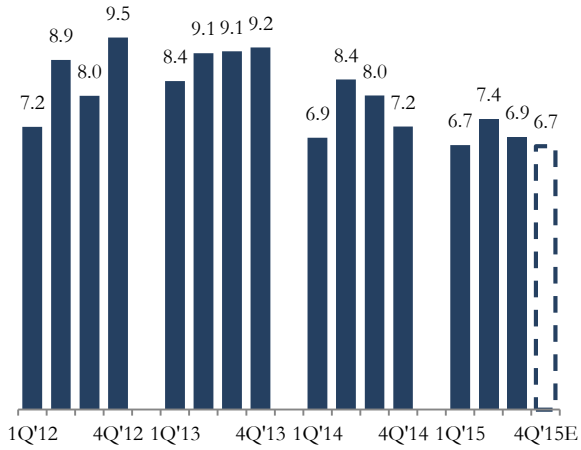
Source: NSE, PAC Research

...and operating expenses remains flat. For the review period, the company posted operating expenses of ₦6.38billion, up marginally by 0.3% against ₦6.36billion in the preceding period. The disproportionate movements in revenue and operating expenses led to an increase in operating expenses/revenue ratio to 30.3% relative to 27.3% in 2014. Furthermore, Cadbury Nigeria achieved efficiency in the running of the business in the latest quarter with operating expenses/revenue ratio of 27.8% relative to 32.7% and 28.9% in the second quarter of the year and the third quarter of 2014.

Overall, total costs stood at ₦21.05billion, up by 0.4% y/y compared with ₦20.97billion in 2014, and total cost/revenue ratio moved up to 99.9% relative to 90.0% in the previous year. Therefore, the company recorded operating loss of ₦73million compared with operating profit of ₦2.09billion in 2014, i.e. a decline of 103.5% y/y. Meanwhile, interest income of ₦114million in the period and a 98.4% decrease in income tax expenses turned the loss into a profit. Consequently, Cadbury Nigeria posted net profit of ₦29million, down by 98.2% compared with ₦1.65billion in the previous year and net profit margin fell to 0.1% relative to 7.1% in 2014.

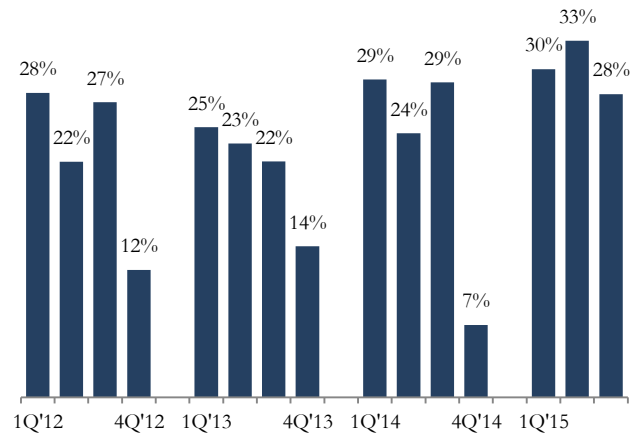
“ However, the prices of cocoa is expected to rise mildly in the international commodity market in the quarters ahead as consumption is forecasted to outweigh production.”

Fig. 7: Quarterly sales revenue (₦billion)



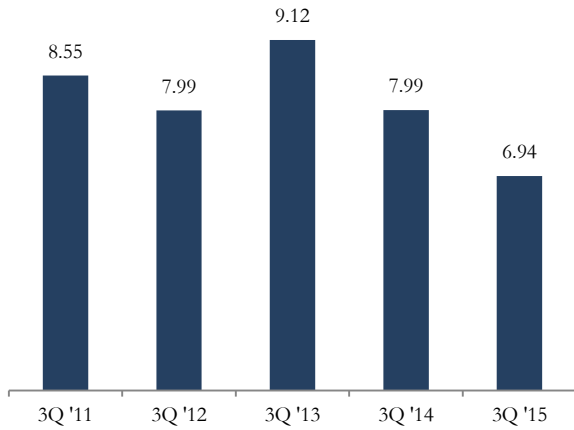
Source: NSE, PAC Research

Fig. 8: Quarterly COS/revenue ratio



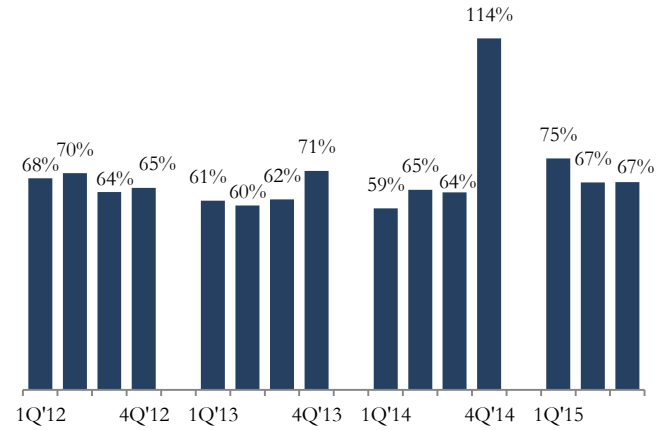
Source: NSE, PAC Research

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



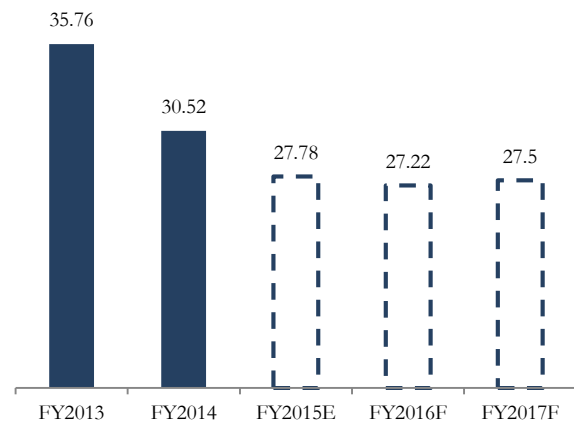
Source: NSE, PAC Research

Fig. 10: Quarterly operating expenses/revenue ratio



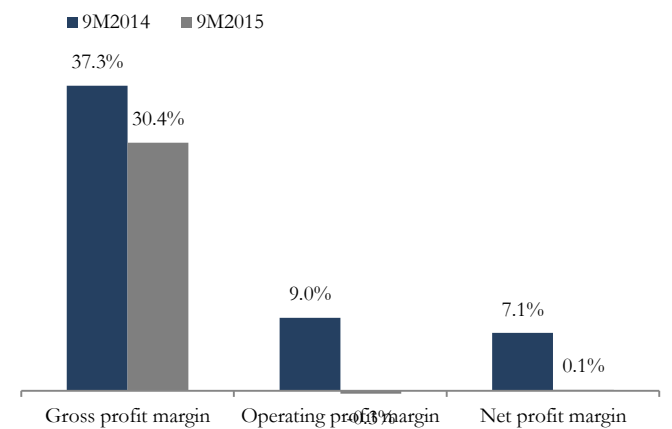
Source: NSE, PAC Research

Fig. 11: Annual sales revenue (₦billion)



Source: NSE, PAC Research

Fig. 12: Profit margins



Source: NSE, PAC Research

**Cadbury Nigeria under-performs the broad market.** In the review period, the company recorded total shareholders' returns (TSR) of -39.0% relative to -6.5% recorded by the equity market, compared with TSR of -40.0% and +3.4% achieved by Cadbury Nigeria and the equity market respectively in the corresponding period of the previous year. Similarly, the company recorded TSR of -43.0% in 52-week up till September 2015 against -13.5% achieved by the broad equity market and year-to-date TRS of -44.1% relative to -9.1% by the company and the market accordingly. Overall, Cadbury Nigeria under-performed the broad equity market in a 5-year period to September 2015 with TSR of -45.3% achieved by the company compared with +47.7% recorded by the market.

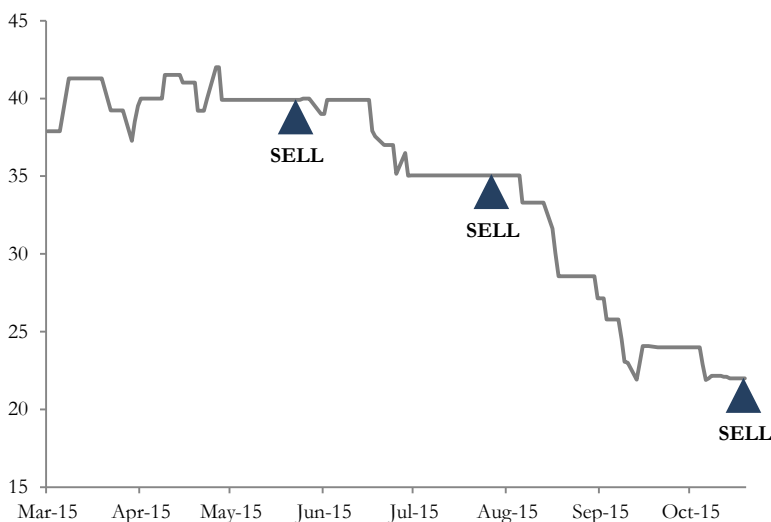
### Valuation

Our revised valuation puts the target price of the stock of Cadbury Nigeria Plc at ₦26.46. 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 maintained our 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 revised valuation puts the target price of the stock of Cadbury Nigeria Plc at ₦26.46.”*

**Fig. 13: Share price – our recommendation history**



Source: Bloomberg, PAC Research

Fig. 14: Statement of Profit or Loss, ₦mn

	FY2014	FY2015E	FY2016F	FY2017F
Revenue	30,519	27,775	27,220	27,546
Change		-8.99%	-2.00%	1.20%
Cost of sales	22,588	18,887	18,781	19,282
Change		-16.38%	-0.56%	2.67%
Gross profit	7,931	8,888	8,438	8,264
Change		12.07%	-5.06%	-2.06%
Operating expenses	6,832	6,666	6,260	6,473
Change		-2.43%	-6.08%	3.40%
Other operating income	38	48	76	65
Change		25.00%	60.00%	-15.00%
Operating profit	1,137	2,270	2,254	1,855
Change		99.60%	-0.70%	-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	2,418	2,425	2,069
Change		64.74%	0.26%	-14.67%
Income tax expenses	45	484	606	517
Change		-1,174.87%	25.33%	-14.67%
Profit for the year	1,513	1,935	1,819	1,552
Change		27.88%	-6.00%	-14.67%

Fig. 15: Statement of Financial Position, ₦mn

	FY2014	FY2015E	FY2016F	FY2017F
<b>Non-Current Assets</b>				
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
<b>Total non-current assets</b>	<b>16,484</b>	<b>16,909</b>	<b>17,239</b>	<b>17,660</b>
<b>Current Assets</b>				
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	4,530	4,440	3,850
<b>Total Current assets</b>	<b>12,336</b>	<b>13,146</b>	<b>13,375</b>	<b>13,196</b>
<b>Total assets</b>	<b>28,820</b>	<b>30,055</b>	<b>30,614</b>	<b>30,856</b>
<b>Equity</b>				
Equity	11,542	12,040	12,323	12,623
<b>Non-Current Liabilities</b>				
Employee benefits	3,236	3,365	3,601	3,313
<b>Total non-current fin. liab.</b>	<b>3,236</b>	<b>3,365</b>	<b>3,601</b>	<b>3,313</b>
<b>Current Liabilities</b>				
Trade & other payables	13,518	14,194	14,478	14,738
Current tax liabilities	524	456	243	206
<b>Total current liabilities</b>	<b>14,042</b>	<b>14,650</b>	<b>14,721</b>	<b>14,945</b>
<b>Total equity and liabilities</b>	<b>28,820</b>	<b>30,055</b>	<b>30,614</b>	<b>31,855</b>

Fig. 16: Profitability &amp; return

	FY2014	FY2015E	FY2016F	FY2017F
Gross profit margin	25.99%	32.00%	31.00%	30.00%
Operating profit margin	3.73%	8.17%	8.28%	6.73%
Net profit margin	4.96%	6.97%	6.68%	5.63%
ROCE	9.85%	18.85%	18.29%	14.70%
ROE	13.11%	16.07%	14.76%	12.29%
ROA	5.25%	6.44%	5.94%	5.03%

Source: Company's Annual Reports, PAC Research

Fig. 17: DuPont Analysis

	FY2014	FY2015E	FY2016F	FY2017F
Total assets turnover	2.64x	2.31x	2.21x	2.18x
Operating profit margin	3.73%	8.17%	8.28%	6.73%
Equity multiplier	2.50x	2.50x	2.48x	2.44x
ROCE	9.85%	18.85%	18.29%	14.70%

Fig. 18: Efficiency ratios

	FY2014	FY2015E	FY2016F	FY2017F
Fixed assets turnover	1.85x	1.64x	1.58x	1.56x
Current assets turnover	2.47x	2.11x	2.04x	2.09x
Total assets turnover	2.64x	2.31x	2.21x	2.18x
Inventory turnover	9.44x	7.55x	7.09x	6.97x
Receivables turnover	n/a	n/a	n/a	n/a
Payables turnover	n/a	n/a	n/a	n/a
Days inventory outstanding	39	48	51	52
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. 19: Liquidity ratios

	FY2014	FY2015E	FY2016F	FY2017F
Working capital (₦millions)	-1,706	-990	-1,284	-1,458
Current ratio	0.88	0.93	0.91	0.90
Quick ratio	0.71	0.75	0.73	0.71
Cash ratio	0.26	0.32	0.30	0.26

Fig. 20: Long-term solvency &amp; stability ratios

	FY2014	FY2015E	FY2016F	FY2017F
Gearing	0.00%	0.00%	0.00%	0.00%
Equity multiplier	2.50x	2.50x	2.48x	2.44x
Total debt-to-equity	1.50x	1.45x	1.48x	1.42x
Total debt-to-assets	59.95%	58.23%	59.64%	58.23%
Proprietary	40.05%	40.06%	40.25%	40.91%
Interest coverage	0.00x	0.00x	0.00x	0.00x
Cash coverage	n/a	n/a	n/a	n/a

Fig. 21: Shareholders' investment ratios

	FY2014	FY2015E	FY2016F	FY2017F
EPS, ₦	0.81	1.03	0.97	0.83
DPS, ₦	0.00	0.30	0.40	0.40
Payout	0.00%	29.12%	41.31%	48.40%
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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