CADBURY NIGERIA PLC

Equity | Nigeria | Food & Beverages

Vetiva Research
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FY 2010 Earnings Release

A Fresh Lease of Life

We retain our **"Accumulate"** rating on Cadbury Nigeria Plc (Cadbury) following the release of its FY'10 numbers which were largely in line with our estimates, but we note that taxation did throw up some surprise element, thus deviating Net earnings from our estimate. Our investment case is further underpinned by the company's plans toward expansion of its production plants in a bid to meet growing demand in the Nigerian market. We also note that the share price of Cadbury has declined by 9.6% since the release of the results. Our Target Price range for Cadbury stands at ₦23.90- ₦26.58 which gives a mid-point of ₦25.24 and an upside potential of 20.8%.

- **Strong Sales Growth YoY.** Turnover was largely in line with expectations as it grew by 14.0% YoY. In the course of the year, the company had made concerted efforts to push volumes into the market and increase penetration, which it did successfully, despite the challenges and the disruptions faced at its cocoa plant.
- **…Earnings Turn Positive first time in 3 years.** In the years following the publicized misstatement of financials, Cadbury had struggled to operate profitably due to high production costs and interest payment. Cadbury has been able to weather the storm, as it posted positive earnings in FY'10, indicating early wins in the restructuring and re-strategizing exercise by the company.
- **Kraft Foods SA makes Investment in Operations.** Cadbury's parent company, Kraft Foods SA disclosed its plans to invest about ₦8 billion in a new Bournvita manufacturing facility in Lagos. Up until now, Kraft Foods SA had not made known its plan for Cadbury Nigeria, but with this development, Kraft has indicated its confidence in Cadbury's products and its intentions. Although we are yet to fully assess the impact of this, we note that it is a positive development.
- **Landscape for Confectioneries.** With Cadbury back on its feet (even though we envisage some level of volatility in performance in the near term), the competition in the confectioneries business may again become more intense, particularly for rival companies such as Nestle. We note that Nestle has gained market share following Cadbury's 2006 troubles. We see bright prospects ahead for Cadbury, especially with enhanced support from Kraft.

Target Price Range
₦23.90– ₦26.58

Stock Data

Symbol:	NSE	Cadbury
	Bloomberg	Cadbury.NL
	Reuters:	Cadbury.LG

Current Price (NGN):	20.90
Trailing EPS (NGN):	0.37
Trailing P/E (x):	55.99
2010 P/E (x):	48.06
Shares Outstanding (mn):	3,129
Market Cap (NGNbn):	65.44
Year High (NGN):	19.90
Year Low (NGN):	15.60

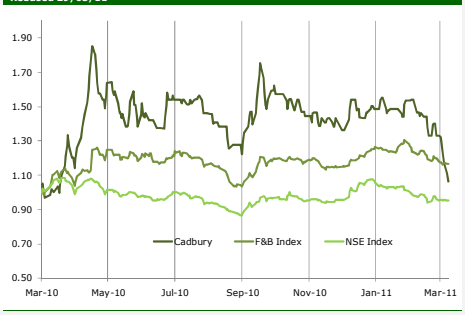
Share Price Performance

30 Days (%):	22.94
90 Days (%):	26.47
52 weeks (%):	9.89

Ownership Structure:

Cadbury Schweppes (%):	75.00
Others (%):	25.00

CADBURY VS FOOD & BEVERAGE VS NSE ALSI (YTD)
Rebased 29/03/11



Source: NSE, Vetiva Research

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Highlights of FY Performance

Results (N'Millions)	FY'10	FY'09	% Change	Vetiva's Estimate
Turnover	29,170	25,585	14.01%	28,911
PBT	1,952	(2,379)	n/a	2,138
Tax	(784)	1143	n/a	(641)
PAT	1,168	(1,235)	n/a	1,497

Source: Vetiva Research, NSE

- **Comparison with Vetiva's forecast.** Sales figure of ₦29.2 billion was largely in line with our estimate of ₦28.9 billion (variance of 0.9%), while Earnings fell below our forecast of ₦2.14 billion (PBT) and ₦1.49 billion (PAT) to ₦1.95 billion and ₦1.17 billion respectively. Before Tax Earnings fell short by 8.7% and After Tax Earnings fell short by 21.9%.

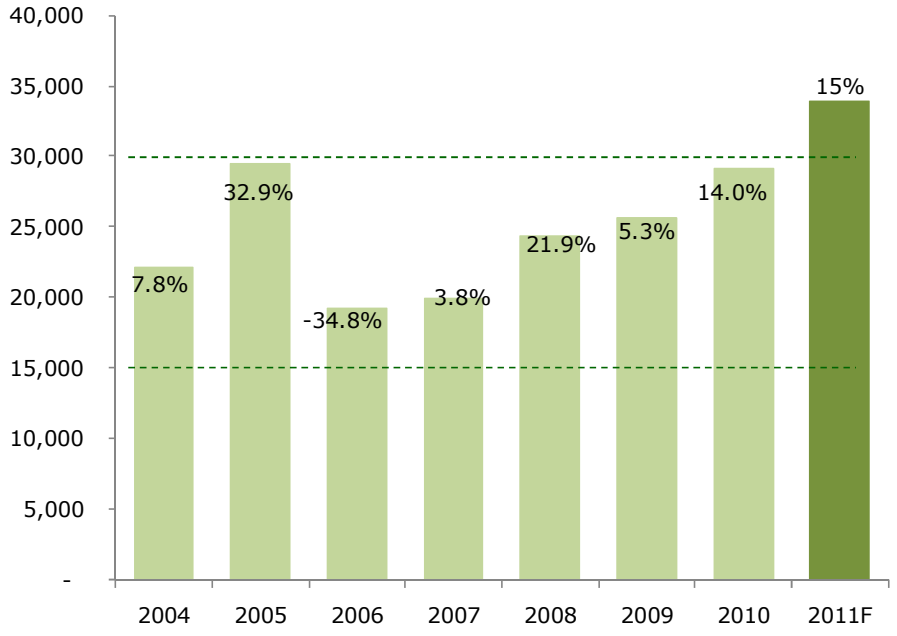
- **Sales Growth Increases YoY.** Q4'10 sales figure of ₦8.5 billion contributed the highest to cumulative turnover, coming in 22.6% higher than Q3'10 sales figure of ₦6.9 billion. This shows that Cadbury's sales surged within the three months to December; albeit noteworthy, this is not an established trend with Cadbury. On a YoY basis, sales improved by 14.0%. We suspect sales were driven by prime products Bournvita and Tom Tom. Also worthy of note, is the fact that in the second half of 2010, Cadbury, in its restructuring drive, had streamlined headcount at the cocoa plant (Stanmark Cocoa Processors in Ondo state). This situation led to the vandalism of equipments by disgruntled ex-employees, and we believe this may have affected production.

- **Earnings came in slower in Q4.** On a QoQ basis, Before Tax Earnings improved by 9.8% to ₦1.95 billion from ₦1.77 billion. However, we note that after tax earnings dipped from ₦1.27 billion in Q3'10 to ₦1.17 billion (FY'10). Although the company is yet to give details on this performance, we infer, from the numbers, that the dip is as a result of differences in tax allocation between Q3 and Q4. Profitability margins however bounced back from -9.3% (PBT) and -4.8% (PAT) to 6.7% and 4.0% respectively as at FY'10. On a QoQ basis, PBT margin increased to 2.1% whilst PAT margin remained negative at -1.2% in Q4'10, possibly due to the aforementioned tax reason.

- **Per Share Metrics.** Cadbury's trailing EPS declined by 31.1% to ₦0.37 from ₦0.54 in Q3'10. The Company now trades at 55.9x earnings (Sector P/E:11.3 and Market P/E:14.6).

Whilst this multiple may appear steep, we note that Cadbury is a company on the rebound, and expect improvement in bottom line in the coming years to bring multiples in line with peers.

CADBURY'S SALES GROWTH (YOY)
2004 – 2011F



Source: Company Financials

Revision to Forecast

- We have revised our FY'12 to FY'14 estimates slightly upward, premised on the company's initiative to expand its production capacity for Bournvita, and deepen market penetration for its three core brands, Bournvita, Tom Tom and Buttermint. Furthermore, we expect that cost of production will start to decrease over the next few years before it returns to pre-crisis levels, in line with peers. We note that cost of sales for Nestle is about 60% while Cadbury's currently stands at an average of 71%. Hence our slightly more optimistic view of the company's stance.
- We have reviewed downwards After Tax Earnings for FY'11, as we may still expect some surprise element on the tax line before earnings profile eventually stabilizes.
- **Our FY'11 projection for Turnover** now stands at ₦33.5billion which would translate to a 15% growth in Sales over FY'10 figure, and After Tax Earnings has been revised to ₦1.4 billion from ₦2.5 billion, implying a growth of 16.6% over FY'10.

Valuation

In valuing Cadbury, we applied the Discounted Cash Flow Method; we have assumed Cost of Equity of 16.33% and Terminal Growth Rate of 5.5%. Using Sensitivity Analysis to vary Discount and Growth Rates, we derived a Target Price range of **₦23.90 – ₦26.58,** this gives a mid-point of ₦25.24. Our target price holds an upside potential of 20.8%, hence, our **'Accumulate'** rating.
We expect the stock to trade within this range in normal market conditions.

Risk to Our Valuation

The attendant risk to our valuation for Cadbury and in the sector in which it operates includes;

i) Higher costs such as energy etc
ii) Decrease in disposable income and consequently consumer spending.
iii) Exchange rate risks.

Appendix:

Cadbury Nigeria Plc Financial Model

INCOME STATEMENT (N'Mill)	2008	2009	2010	2011F	2012F	2013F
Turnover	24,298	25,585	29,170	33,546	39,584	48,688
Cost of Sales	(17,173)	(16,860)	-	(22,237)	(25,350)	(29,153)
Gross Profit	7,125	8,725	-	11,308	14,233	19,535
Interest receivable	152	281	-	388	446	513
Marketing & Distribution	(1,805)	(3,192)	-	(4,361)	(5,463)	(6,719)
Administrative expenses	(6,236)	(4,792)	-	(4,792)	(4,685)	(6,900)
Core operating profit	(764)	1,022	-	2,543	4,532	6,429
Other income	63	264				
EBIT	(701)	1,286	-	2,543	4,532	6,429
Interest Expense & Similar charges	(2,147)	(2,815)	-	(374)	(574)	(874)
Exceptional Expense		(851)	-	(218)	(218)	(598)
Interest Income			-			
Profit from operations	(2,848)	(2,380)	-	1,951	3,740	4,957
Profit before taxation	(2,848)	(2,848)	1,952	1,951	3,740	4,957
Taxation	95	95	(784)	(546)	(1,197)	(1,586)
Profit after taxation	(2,752)	(2,752)	1,143	1,405	2,544	3,371

BALANCE SHEET (N'Mn)	2008	2009	2010	2011F	2012F	2013F
Assets Employed						
Fixed Assets	12,613	11,142	11,518	13,361	15,766	19,392
Investment	1,975	3,162				
	14,588	14,304		13,361	15,766	19,392
Current Assets						
Stocks	3,588	3,027	3,426	3,563	3,706	3,854
Debtors & Prepayments	3,877	2,827	4,411	2,824	2,763	2,874
Due from related companies	200	57		65	68	71
Deposit for imports				-	-	-
Cash and bank balances	1,649	5,027	6,548	6,810	7,082	7,366
Total Current Assets	9,313	10,938		13,262	13,619	14,164
Total Assets	23,901	25,246		26,623	29,385	33,556
Capital and Reserves						
Share capital	550	1,565	-	1,565	1,565	1,565
Share premium	7,231	16,012	-	16,012	16,012	16,012
revaluation Reserve	4,308	4,196	-	4,196	4,196	4,196
General Reserve	(15,040)	(9,049)	-	(6,488)	(4,696)	(2,421)
	63	(59)	-	6	7	8
Shareholder's Fund	(2,888)	12,665	13,015	15,290	17,083	19,360

Key financial ratios and forecasts

RATIOS	2008	2009	2010	2011F	2012F	2013F
GROWTH RATES	**2008**	**2009**	**2010**	**2011F**	**2012F**	**2013F**
Turnover growth	22%	5%	14%	15%	18%	23%
Growth in EBIT	-70%	-284%	-	106%	78%	42%
Growth in PBT	-41%	-16%	-169%	0%	92%	33%
Growth in PAT	279%	-55%	-142%	20%	81%	33%
PROFITABILITY	**2008**	**2009**	**2010**	**2011F**	**2012F**	**2013F**
Return on Equity	185%	-26%		10%	16%	18%
Return on Assets	-11%	-5%	-	6%	9%	11%
Return on Net fixed assets	-21%	-10%	-	11%	18%	19%
Return on Invested Capital	0%	0%	-	0%	5%	5%
Growth rate (g)	185%	-26%		10%	20%	25%
MARGINS	**2008**	**2009**	**2010**	**2011F**	**2012F**	**2013F**
EBIT/Sales	-2.9%	5.0%	-	7.6%	11.5%	13.2%
Pretax Income/Sales	-11.7%	-9.3%	6.7%	5.8%	9.4%	10.2%
Net Profit Margin	-11.3%	-4.8%	4.0%	4.2%	6.4%	6.9%
PER SHARE DATA	**2008**	**2009**	**2010**	**2011F**	**2012F**	**2013F**
EPS	-2.50	-0.39	0.37	0.45	0.81	1.08
DPS	0.00	0.00	0.00	0.00	0.24	0.36
NAPS	-2.74	4.05	4.16	4.90	5.47	6.19
Sales/Share	22.07	8.18	9.32	10.72	12.65	15.56

INVESTMENT RECOMMENDATIONS

Vetiva uses a 5-tier recommendation system for stocks under coverage: Buy, Accumulate, Neutral, Reduce and Sell.

Buy/Overweight >+25.00% expected absolute price performance

Accumulate +10.01% to +24.90% expected absolute price performance

Neutral/Hold +5.00% to +10.00% range expected absolute price performance

Reduce +4.99% to -5.00% expected absolute price performance

Sell/Underweight <-5.00% expected absolute price performance

Definition of Ratings

Buy/Overweight recommendation refers to stocks that are highly undervalued but with strong fundamentals and where potential return in excess of **25%** is expected to be realized between the current price and analysts' target price.

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Neutral/Hold recommendation refers to stocks that are correctly valued with little upside or downside where potential return of between **+5.00% to + 10%** is expected to be realized between current price and analysts' target price.

Reduce recommendation refers to stocks that are overvalued but with good or weakening fundamentals and where potential return of between **+4.99%** and **-5.00%** is expected to be realized between current price and analysts' target price.

Sell/Underweight recommendation refers to stocks that are highly overvalued but with weak fundamentals and where potential return in excess of **-5.00%** is expected to be realized between current price and analysts' target price.

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