

May 11, 2022

Earnings Note

Event

Following a record performance in 2021, Cadbury (“the Company”) started off the financial year with a strong 43% revenue growth to N12.79bn in Q1 2022. Also, Cadbury reported a marked increase in profit before tax by 538% to N2.20bn. Profit after tax also grew by 538% YoY at N1.54bn.

Price Increases Ease Cost Pressures

According to the revenue breakdown, the refreshment segment, which accounted for 71% of total revenue, grew the most by 60% to N9.08bn while the confectionary segment recorded a 16% growth to N3.42bn. However, the intermediate cocoa product segment declined marginally by 2% to N291mn.

Cost of sales grew by 29% to N9.56bn on the back of higher input cost. We believe that inflationary pressures in the global market, triggered by the sustained geopolitical tensions, resulted in higher commodity prices including cocoa—a key raw material for the company. However, gross margin expanded by 800 basis points, suggesting that the Company achieved an effective pricing in Q1 2022. In absolute terms, gross profit grew by 117% to N3.32bn.

Operating Efficiencies Boost Profit Margins

Operating expense grew by 14% to N1.32bn on the back of higher selling & distribution expense (+14% to N1.01bn) and administrative expense (+14% to N312mn).

Despite the rise in operating expense, operating margin expanded by 1,100 basis points to 15%, underscoring the Company’s operating efficiency and the impact of operating leverage. On the back of margin expansion, operating profit grew by 496% YoY to N1.92bn in Q1 2022. The improved profitability filtered through the bottomline.

Outlook

Cadbury’s Q1 2022 performance was significantly above what we expected. Although we expected the Company to increase prices, the magnitude of the actual price increase was higher than our expectations. The material decline in the Company’s cost margin evidenced this. The need to make the price adjustments became necessary following the cumulative impact of rising input costs due to supply chain disruptions and geopolitical conflict in Eastern Europe. Both developments have led to higher prices in the global commodities market. In addition, heightened domestic inflationary pressures do not bode well for most manufacturing companies in Nigeria.

In the subsequent quarters, we project an improved revenue growth and net margin expansion. We expect a combination of operating leverage and cost optimisation to drive the net margin expansion. In the medium term, however, we see topline growth moderating from high single-digit to low double-digit. This is because we expect consumers to react to higher prices. We also foresee increased competitive pressures in the industry. Operating expense grew by 14% to N1.32bn on the back of higher selling & distribution expense (+14% to N1.01bn) and administrative expense (+14% to N312mn).

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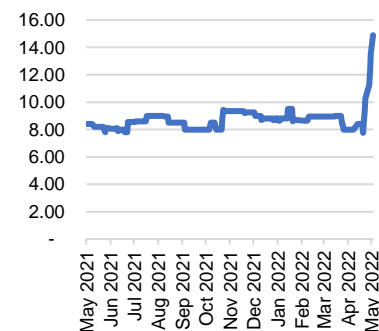
SELL

Fair Value Estimate:
N12.82

Stock Data

Current price (N)	17.00
Shares Outstanding (mn)	1,878
Market Cap (N'mn)	31,929
52-week high (N)	17.85
52-week low (N)	16.00
Trailing EPS (N)	0.24
Forward EPS (N)	1.75
Forward PE (X)	9.72
Justified PE Multiple (X)	7.33

Price movement



Stock Data

	FY 2020	FY 2021	FY 2022F
P/E	34.27x	71.00x	9.72x
P/BV	2.36x	2.34x	2.34x
PBT Margin	1%	3%	9%
PAT Margin	3%	1%	6%
RoE	7%	3%	7%
Dividend Yield	1%	3%	6%

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Our FY 2022 earnings per share forecast is N1.75 (previous: N0.50), with an expected N1.00 dividend (FY 2021: N0.40)—which implies a 60% dividend payout. At the current profitability trend and robust liquidity levels, we believe that the Company can declare as much as our dividend forecast.

We estimate a N12.82 fair value for the stock, using a blend of discounted cash flow, discounted dividend, and enterprise valuation methodologies. Based on our fair value estimate, the justified price to earnings ratio (P/E) of the stock is 7.33x. At current market price of N17.00, the stock trades at a forward P/E of 9.72x. Effectively, the stock currently trades at a premium to our fair value. Therefore, we recommend a SELL. Since the beginning of the year, the stock has risen by 93%.

Financial Performance Summary

Income Statement (N'mn)	Q1 2022	Q1 2021	% Change
Revenue	12,789	8,920	43%
Cost of Sales	(9,556)	(7,431)	29%
Gross Profit	3,233	1,490	117%
Other income (expenses)	17	0	284533%
Operating income	3,250	1,490	118%
<i>Selling and distribution expenses</i>	(1,015)	(893)	14%
<i>Administrative expense</i>	(312)	(274)	14%
Operating expenses	(1,327)	(1,167)	14%
Operating profit	1,923	323	496%
<i>Finance income</i>	376	23	1566%
<i>Finance cost</i>	(97)	0	100%
Profit before tax	2,202	345	538%
Tax	(661)	0	100%
Profit after tax	1,542	345	347%
Balance Sheet Information (N'mn)	3M 2022	FY 2021	% Change
Assets			
Non-current assets			
Property, plant and equipment	13,476	13,018	4%
Right of use assets	18	21	-17%
Intangible assets	12	13	-12%
Total non-current assets	13,505	13,053	3%
Current assets			
Inventories	8,997	4,292	110%
Trade and other receivables	4,897	9,794	-50%
Prepayments	1,063	1,490	-29%
Cash and cash equivalents	20,890	7,044	197%
Total current assets	35,847	22,620	20%
Total Assets	49,352	35,673	38%
Liabilities			
Non-current liabilities			
Borrowings	6,550	6,596	-1%
Deferred income	758	758	0%
Employee benefits	701	668	5%
Lease liabilities	3	5	-31%
Total non-current liabilities	8,012	8,027	0%
Current liabilities			
Borrowings	6,341	6,596	-4%
Current tax liabilities	771	758	2%
Trade and other payables	19,048	668	2751%
Lease liabilities	2	5	-66%
Total current liabilities	26,161	8,027	226%
Total liabilities	34,174	16,054	113%
Net Assets	13,712	13,636	1%

Source: Company Accounts, WSTC Research

Financial Projection

Income statement (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Revenue	42,372	53,994	59,652	65,669	71,046	76,318
EBITDA	1,855	5,960	6,374	7,112	6,307	7,160
EBIT	2,105	2,224	2,240	2,392	2,479	2,479
Profit before taxation (PBT)	1,098	4,832	4,978	5,872	5,230	6,312
Net profit (PAT)	450	3,286	3,385	3,993	3,556	4,292
EPS (₦)	0.24	1.75	1.80	2.13	1.89	2.29
DPS (₦)	0.50	1.00	1.29	1.52	1.35	1.71
Balance sheet (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Current assets	30,636	34,595	35,334	35,777	30,007	30,467
Non-current assets	13,053	13,506	13,133	12,605	11,860	11,062
Total assets	43,688	48,100	48,467	48,382	41,867	41,529
Current liabilities	22,025	24,670	23,579	22,633	20,672	18,585
Non-current liabilities	8,027	7,447	7,398	6,687	1,434	1,435
Shareholders' equity	13,636	16,008	17,515	19,086	19,785	21,533
Book value per share (₦)	7.27	8.52	9.33	10.16	10.53	11.46
Cash flow statement (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Cash from operating activities	5,402	7,915	5,921	6,948	5,791	5,837
Cash from investing activities	(726)	(1,313)	(739)	(436)	(130)	91
Cash from financing activities	6,697	269	(2,186)	(3,333)	(8,670)	(2,262)
Net increase/ (decrease) in cash	6,645	3,524	(550)	(813)	(6,959)	(754)
Free cash flow	(908)	2,370	837	1,388	305	(233)
Ratio analysis	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
EBITDA margin	4%	11%	11%	11%	9%	9%
Operating margin	1%	8%	7%	8%	6%	6%
ROE	3%	22%	20%	22%	18%	21%
ROA	1%	7%	7%	8%	8%	10%
Dividend payout ratio (%)	209%	57%	72%	72%	72%	75%

Source: Company Accounts, WSTC Research

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Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is $\geq 15\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 15% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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