

CADBURY NIGERIA PLC



...Rebound to Growth Despite Operational Bottlenecks

August 1, 2022



Earnings Note

Event

Cadbury sustained her solid earnings momentum in Q2 2022 by reporting stellar revenue and net profit growth. Revenue rose by 57% YoY to N15.09bn, while net profit expanded by 1,427 basis points (bps) to N800mn (Q2 2021: net loss of N861mn).

Owing to the persistent rise in input costs, we posit that the Company implemented price increases to protect margins. The effective transfer of cost burden to consumers resulted in a 281% YoY increase in gross profit. Meanwhile, operating expenses grew by just 4% YoY, which emphasised the Company's operating efficiency. The combined impact of price increases and operating efficiency delivered an earnings rebound for the Company.

However, despite the rather impressive topline growth, we note the material increase in inventory. On a quarter-on-quarter basis, inventory levels increased by 20% with 'goods-in-transit' accounting for 100% of the increase. This suggests that finished goods were stuck en route to the market. In our view, we link the development to higher transportation costs, particularly relating to higher diesel prices.

Also, trade and other receivables increased by 39% on a QoQ basis. This might suggest to us that consumers are possibly beginning to respond to higher prices.

Nonetheless, despite the working capital pressures in Q2 2022, the Company's cash balance remained strong, as it closed at N21.56bn (3% QoQ; 20% YTD). The cash position was largely due to a 23% QoQ rise in trade payables (delayed payments to creditors).

Cadbury (N'mn)	Q2 2022	Q2 2021	Q1 2022	Q1 2021
Revenue	15,088	9,602	12,789	8,920
Revenue growth	57%		43%	
Gross profit	2,621	688	3,233	1,490
Gross margin	17%	7%	25%	17%
Operating profit	2,630	701	1,923	323
Operating margin	17%	7%	15%	4%
Net profit	800	(861)	1,542	345
Net margin	5%	-9%	12%	4%

Source: Company Accounts, WSTC Research

Outlook

Given the relatively stellar performance in Q2 2022 and Q1 2022, we revised our FY 2022 earnings estimate upwards to reflect the improved business fundamentals. We now expect earnings per share to close at N2.39 in FY 2022 (previous: N1.75). However, our dividend forecast remained unchanged at N1.00.

In the medium term, we expect growth to moderate due to underlying weaknesses in the economy. Specifically, erosion of consumer purchasing power amid declining income levels rising inflationary pressure, and heightened competitive pressures are some of the challenges that we expect to negatively impact the Company's financial performance.

After incorporating our near-term and medium-term growth outlook, we recommend a HOLD for the stock at an estimated fair value of N17.02. We believe that the stock's current share price already incorporates its long-term growth prospects.

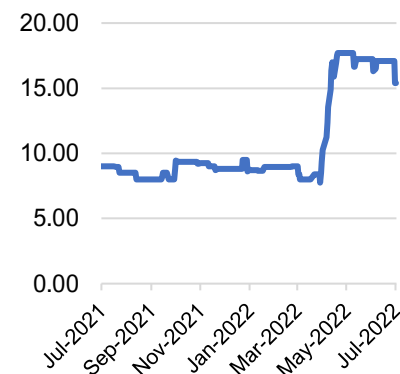
HOLD

Fair Value Estimate:
N17.02

Price Return: +0%

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)	7.65
Trailing EPS (N)	0.24
Forward EPS (N)	2.39
Forward PE (X)	7.12
Justified PE Multiple (X)	7.33



Stock Data

	FY 2020	FY 2021	FY 2022F
P/E	34.27x	71.00x	7.12x
P/BV	2.36x	2.34x	1.86x
PBT Margin	1%	3%	11%
PAT Margin	3%	1%	8%
RoE	7%	3%	29%
Dividend Yield	1%	3%	6%

Analysts

Abdulrauf Bello

a.bello@wstc.com.ng

Isaac Osaro

i.osaro@wstc.com.ng

Oluwadamilola Pase

o.pase@wstc.com.ng

H1 2022 Financial Performance Summary

Income Statement (N'mn)	H1 2022	H1 2021	%
Revenue	27,877	18,523	51%
Cost of Sales	(22,023)	(16,344)	35%
Gross Profit	5,854	2,178	169%
Other income (expenses)	26	13	104%
Operating income	5,880	2,191	168%
Selling and distribution expenses	(2,442)	(2,269)	8%
Administrative expense	(589)	(532)	11%
Operating expenses	(3,031)	(2,801)	8%
Operating profit	2,848	(610)	567%
Net finance income	497	94	430%
Profit before tax	3,345	(516)	748%
Tax	(1,004)	0	100%
Profit after tax	2,342	(516)	554%
Balance Sheet (N'mn)	H1 2022	H1 2021	%
Assets			
PPE	13,906	12,706	9%
Inventory	10,832	7,497	44%
Receivables	6,798	2,802	143%
Prepayments	690	557	24%
Cash	21,556	17,899	20%
Others	30	50	20%
Total Assets	53,812	41,510	30%
Liabilities			
Borrowings	12,874	7,668	68%
Trade payables	23,402	15,627	50%
Others	2,498	5,520	-55%
Total Liabilities	38,775	28,815	35%
Net Assets	15,038	12,695	18%

Source: Company Accounts, WSTC Research

Financial Projections

Income statement (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Revenue	42,372	58,868	65,038	71,597	77,460	83,208
EBITDA	1,855	7,871	8,947	10,176	10,456	10,110
EBIT	2,105	2,224	2,240	2,392	2,479	2,479
Profit before taxation (PBT)	1,098	6,597	7,425	8,824	9,282	9,185
Net profit (PAT)	450	4,486	5,049	6,000	6,312	6,246
EPS (₦)	0.24	2.39	2.69	3.19	3.36	3.33
DPS (₦)	0.50	1.00	1.72	2.04	2.15	2.49
Balance sheet (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Current assets	30,636	37,926	39,066	40,526	35,561	36,944
Non-current assets	13,053	14,016	14,302	13,726	12,915	12,044
Total assets	43,688	51,942	53,368	54,252	48,476	48,988
Current liabilities	22,025	26,768	25,076	23,962	21,435	19,735
Non-current liabilities	8,027	7,991	7,938	7,162	1,435	1,436
Shareholders' equity	13,636	17,208	20,379	23,153	25,630	27,843
Book value per share (₦)	7.27	9.16	10.85	12.33	13.65	14.82
Cash flow statement (NGN mn)	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
Cash from operating activities	5,402	10,404	8,173	9,960	9,708	8,984
Cash from investing activities	(726)	(1,958)	(1,497)	(475)	(142)	99
Cash from financing activities	6,697	1,336	(2,213)	(4,220)	(10,172)	(3,726)
Net increase/ (decrease) in cash	6,645	5,708	(44)	137	(6,059)	(199)
Free cash flow	(908)	3,463	1,299	3,123	2,580	1,628
Ratio analysis	FY 2021	FY 2022F	FY 2023F	FY 2024F	FY 2025F	FY 2026F
EBITDA margin	4%	13%	14%	14%	13%	12%
Operating margin	1%	10%	11%	11%	10%	9%
ROE	3%	29%	27%	28%	26%	23%
ROA	1%	9%	10%	11%	12%	13%
Dividend payout ratio (%)	209%	42%	64%	64%	64%	75%

Source: Company Accounts, WSTC Research

Disclaimer & Disclosures

The value of any investment is subject to fluctuations, i.e. may rise and fall. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of an investment to increase or decrease. Hence investors may not get back the full value of their original investment.

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.

This document is not an offer to buy or sell any security. This document does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The appropriateness of a particular investment will depend on an investor's circumstances and objectives. The investments and shares referred to in this document may not be suitable for all investors.

This document is based on information WSTC Securities Limited (WSTC Securities) received from publicly available reports and industry sources. WSTC Securities may not have verified all of this information with third parties. Neither WSTC Securities nor its shareholders, directors, employees or advisors can guarantee the accuracy, reasonableness or completeness of the information received from any sources consulted for this publication; and neither WSTC Securities nor its shareholders, directors, employees or advisers accept any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document. This document is not to be relied upon and should not be a substitute for the exercise of independent judgment.

This document includes certain statements, estimates and projections concerning the anticipated future performance of securities listed on the Nigerian Exchange and as to the market for these shares. Such statements, estimates and projections are based on information that we consider reliable and may reflect various assumptions made concerning anticipated economic developments, which have not been independently verified and may or may not prove correct. No representation or warranty is made as to the accuracy of such statements, estimates and projections or as to their appropriateness for the purpose intended and it should not be relied upon as such. Opinions expressed are current opinions as of the date appearing on this material only and may change without notice. Other third parties may have issued other reports that are inconsistent with and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them.

This document is for information purposes only and private circulation. No portion of this document may be reprinted, sold or redistributed without the written consent of WSTC Securities.

Additional information on recommended securities/instruments is available on request.

WSTC Securities Limited is a Trading License Holder of the Nigerian Exchange Limited (NGX) and is registered with the Securities & Exchange Commission (SEC) as a Broker/Dealer to conduct Securities Brokerage & Dealing in Nigeria. Therefore, we may deal in any securities listed on the NGX.

WSTC Securities Limited has its registered office at 2, Maitama Sule Street, South-West Ikoyi, Lagos, Nigeria.

Email: research@wstc.com.ng

Website: www.wstc.com.ng

© WSTC Securities Limited 2022.