

First Topline Contraction in Five Years

Subdued Demand Weighs on Product Sales

CADBURY's 2020FY performance mirrored the impact of the slowdown in economic activities following the challenges posed by the coronavirus pandemic, and sustained pressure on consumer wallets. The company recorded a decline in all its product segments, hence, revenue dipped by 9.97% YoY to NGN35.41bn (vs. NGN39.33bn in 2019FY). **Notably, last year's revenue decline represents the company's first topline contraction since 2015FY.** Refreshment beverage sales which historically contributes c. 58.22% to overall revenue slumped by 6.71% YoY, while sales of Confectionary products also fell by 4.46% YoY. Intermediate cocoa products – *the company's major source of export earnings* – plunged significantly (-39.54% YoY to NGN2.83bn, from NGN4.69bn in the prior year), due to challenges associated with the land border closure. **We envisage a rebound in cocoa exports flowing from the Federal Government's decision to reopen the country's land borders in December 2020.** For local demand, we posit that a gradual recovery of economic activities and sustained improvement in the company's route to market strategy would support domestic sales over 2021FY. Hence, we forecast a 11.50% growth in revenue to NGN39.48bn (vs. NGN35.41bn in 2020FY).

Cost Management Fails to Save Bottomline

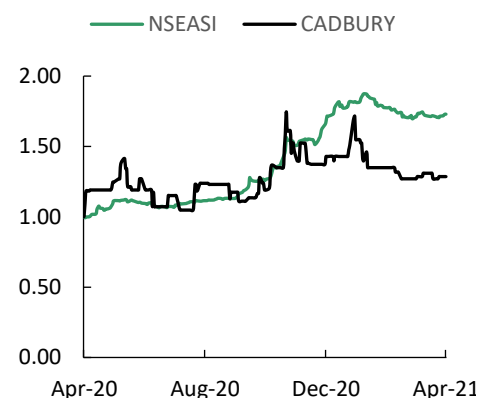
Despite the 6.31% increase in raw material costs during the year, total production costs fell by 4.82% to NGN29.51bn (vs. NGN31.00bn in 2019FY). This moderation however failed to reflect in the company's cost to sales ratio, which climbed to 83.34% (from 78.83% in 2019FY). Hence, gross margin also contracted to 16.66% (vs. 21.17%). The company slowed down on advertising and sales promotion (-40.90% YoY), and recorded declines in both technical services (-55.83% YoY) and office consumable expense (-38.65% YoY) - which eventually drove down Opex by 18.88% to NGN5.73bn. **The moderation in operating expenses reveals the company's efforts at containing costs amidst spiraling inflation and COVID-19 induced disruption to its operations.**

While gains from the disposal of property, plant, and equipment (totaling NGN67.66mn) provided some support, operating profits however dropped to NGN281.82mn, from NGN1.35bn in the previous year. PBT and PAT also plummeted by 73.48% and 12.98% YoY, respectively. Profit after tax (PAT) settled at NGN931.82mn (implied EPS: NGN0.50). **In 2021FY, the drive to push volumes and our expectation of higher raw material prices inform our 5.52% uptick in production costs.** We also considered the likelihood of the CBN's plan to include sugar (and wheat) in its FX restriction list - a move that could translate to a climb in production costs, crystallizing in the near to midterm. After carefully considering these factors, we forecast 2021FY net income would settle at NGN1.10bn – 18.81% higher than the NGN931.83mn recorded in 2020FY.

Fresh Debt Supports Liquidity

While the company has maintained a low levered balance sheet over the years, it obtained NGN3.45bn finance facility towards the end of 2020FY, to meet its importation needs. As a result, its cash balance improved by 150.96% to NGN11.11bn, while total debt ratio expanded to 0.10x. Cash and quick ratios also showed improvement from previous levels, ticking up to 0.77x and 1.05x (vs. 0.45x and 0.92x respectively), signaling better liquidity to cover short-term obligations.

Company	CADBURY
Valuation	
EPS	0.50
BVPS	7.21
P/E	16.33x
P/BV	1.12x
Target PE	13.84x
Dec-2021 Exp. EPS	0.59
Dec 2021 Target price	8.16
Current Price	7.80
Up/Downside Potential	+4.60%
Ratings	HOLD
Key metrics	
ROE	6.88%
ROA	2.81%
Net margin	2.63%
Asset Turnover	1.14
Leverage	2.45x
Share/Share Price Statistics	
Yr Hi	NGN10.80
Yr Lo	NGN8.00
YTD return	-25.93%
Beta	0.91
Adjusted Beta	0.94
Shares outstanding	1.88bn
Market cap [NGN]	15.21bn
Financial year end	December
Most Recent Period (MRP)	2020FY



Recommendation

We project a 2021FY expected EPS of NGN0.59 and a target PE of 13.84x. This yields a price target of NGN8.16, and an implied 4.60% upside potential based on the closing price on April 22nd,2021.

Hence, we rate the ticker a **HOLD**.

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs							Min	7.68
EPS							Max	8.66
	8.16	0.57	0.58	0.59	0.60	0.61		
Target PE	13.43x	7.68	7.80	7.91	8.03	8.15		
	13.63x	7.80	7.92	8.04	8.16	8.28		
	13.84x	7.91	8.04	8.16	8.28	8.40		
	14.05x	8.03	8.16	8.28	8.41	8.53		
	14.26x	8.15	8.28	8.40	8.53	8.66		

Financial Highlights (NGN' mn) Cadbury Nigeria Plc. 2020FY Audited Results

Profit & Loss Account	2020FY	2019FY	y/y Growth
Revenue	35,407	39,327	-9.97%
Cost of Sales	29,508	31,001	-4.82%
Gross Profit	5,899	8,326	-29.15%
Investment income	127	185	-31.21%
Other income	108	87	24.00%
Operating Expense	5,725	7,058	-18.88%
Finance Cost	1	1	5.72%
PBT	408	1,539	-73.48%
PAT	932	1,071	-12.98%
Balance Sheet	2020FY	2019FY	
Inventories	5,244	6,063	-13.50%
Trade and other Receivables	3,856	4,530	-14.88%
Cash and bank	11,116	4,429	150.96%
Property, Plant and Equipment	12,759	13,477	-5.33%
Other Assets	236	303	-22.17%
Total Assets	33,211	28,802	15.31%
Shareholders' fund	13,550	13,566	0.12%
Trade and Other Payables	10,910	9,617	-11.85%
Tax Liabilities	113	283	150.90%
Total Liabilities	19,661	15,236	29.05%

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Movements in Price Target

Company Name: Cadbury Nigeria Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
22-Apr-2021	7.80	N/A	8.16	N/A	HOLD

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Company	Disclosure
Cadbury Nigeria Plc	

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