

Confronted With Significant Cost Pressure

Beverage and Confectionery Segment Boosts Topline

In its Q2:2021 financial scorecard, **CADBURY** registered an outstanding double-digit growth of 30.39% in revenue to NGN9.60bn (vs. NGN7.36bn in Q2:2020). **We note, however, that the firm's performance was flattered by the low base from last year as COVID-19 trade disruptions hampered sales in 2020.** On a cumulative note, H1:2021 revenue grew by 16.36% from NGN15.91bn to NGN18.52bn. The significant improvement was fueled by growth recorded in the refreshment beverage segment (+28.42%) and the confectionery segment (+31.69%). In our view, while the confectionery segment was majorly volume-driven as product prices remained relatively stable, the performance of the beverage driven was largely price-driven. Revenue from the intermediate cocoa products segment, which typically accounts for the lion share (c.75.31%) of the company's export earnings plummeted by 68.63%YoY (from NGN2.12bn in H1:2020 to NGN665mn in H1:2021) despite the reopening of the land borders. On this note, total export sales tumbled significantly by 79.09%YoY from NGN2.40bn in H1:2020 to NGN501mn in H1:2021. Domestic sales, however, acted as a buffer, edging upwards by 34.01% to NGN17.80bn in H1:2021. **We are cautiously optimistic about the firm's performance for the rest of the year. While the gradual improvement in economic activities and the firm's brand acceptance by consumers are major upsides, the persistent pressures on general price level and the resultant impact on consumers' disposable income pose threats to the outlook. Nonetheless, the low base impact from last year should provide an overriding support to 2021FY performance. Hence, we forecast a 9.87% growth in revenue to NGN38.89bn (vs. NGN35.41bn in 2020FY).**

Surge in Production Costs Halt Earnings Prospect

In H1:2021, topline growth was significantly outpaced by a surge of 29.60% in cost of sales. **In our opinion, mounting inflationary pressure, increase in production volume as well as exposure to foreign exchange volatility, had the largest impact on the movement in costs during the period.** Thus, cost to sales ratio expanded to 88.24% in H1:2021 from 79.22% in H1:2020. Despite the noticeable decline in administrative expenses (17.70%), total operating expenses ticked up by 4.61%YoY following the 11.71%YoY expansion in selling and distribution expenses. Consequently, the firm reported an operating loss of **NGN609.95mn**, implying a decline of 185.34% from NGN714.70mn in H1:2020.

The firm's finance cost amounted to NGN56.37mn in H1:2021, influenced by fresh NGN3.74bn long-term intercompany debt. As a result, the firm's total debt expanded to NGN7.65bn in H1:2021 from NGN3.45bn in 2020FY. The increased leverage pushed total debt ratio up to 18.43% in H1:2021 (vs. 10.40% in 2020FY), gearing ratio also followed suit, rising to 0.60x in H1:2021 from 0.25x in 2020FY, indicating an increasing use of debt.

Overall, bottom-line slumped to a loss position of **NGN516.18mn** in H1:2021 from a NGN536.66bn profit in H1:2020. **Our outlook for earnings is clouded by the rising cost pressures and the resultant impact on the firm's operating performance in the near term. Hence, following careful consideration of the factors highlighted we forecast a loss of NGN102.28mn in 2021FY from a profit position of NGN931.83mn in 2020FY.**

Recommendation

For 2021FY, we project an EBITDA of NGN1.89bn and an EV/EBITDA of 4.82x. Having adjusted for net debt of **-NGN7.65bn**, we arrived at our target price of NGN8.23 – a downside potential of -3.16% on the closing price as of the 24th of August 2021. Thus, we rate the counter **HOLD**.

Company	CADBURY
Valuation (Trailing)	
Trailing EPS	-0.06
BVPS	8.32
P/E	N/A
P/BV	1.02x
Target EV/EBITDA	4.82x
Dec-2021 Exp. EBITDA	1.89bn
Dec 2021 Target price	NGN8.23
Current Price	NGN8.50
Up/Downside Potential	-3.16%
Ratings	HOLD
Key metrics (Trailing)	
ROE	-0.95%
ROA	-0.29%
Net margin	-0.32%
Asset Turnover	1.02
Leverage	3.27
Share Price Data	
Year High	10.8
Year Low	7.75
YTD return	-28.24%
Beta	0.98
Adjusted Beta	0.99
Shares outstanding	1.88bn
Market cap [NGN]	15.96bn
Financial year end	Dec
Most Recent Period (MRP)	H1:2021

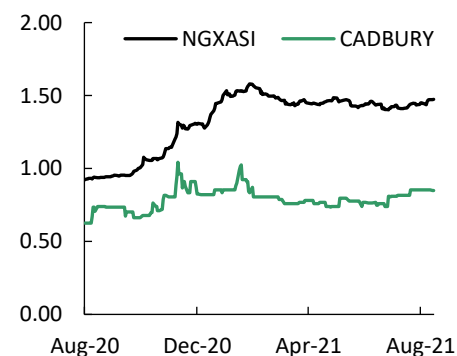


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	7.64
EBITDA per share						Max	8.85
Target EV/EBITDA		0.76	0.81	0.86	0.91	0.96	
	4.67x	7.64	7.87	8.11	8.34	8.57	
	4.74x	7.69	7.93	8.17	8.41	8.64	
	4.82x	7.75	7.99	8.23	8.47	8.71	
	4.89x	7.81	8.05	8.29	8.54	8.78	
	4.96x	7.86	8.11	8.36	8.60	8.85	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2020	H1:2021	2021 F	2022F	2023F	2024F	2025F
Revenue	15.92	18.52	38.88	43.08	47.54	52.55	58.21
Cost of sales	12.61	16.34	30.75	33.17	36.61	40.46	44.82
Gross Profit	3.31	2.18	8.13	9.91	10.93	12.09	13.39
OPEX	2.68	2.80	6.59	7.37	8.05	8.89	9.78
Other Income	0.08	0.01	0.09	0.10	0.10	0.12	0.14
Operating Profit	0.71	-0.61	1.62	2.63	2.98	3.32	3.74
Finance Cost	0.23	0.00	0.20	0.00	0.00	0.00	0.00
PBT	0.54	-0.52	-0.15	1.05	1.35	1.61	1.96
PAT	0.54	-0.52	-0.10	0.72	0.92	1.10	1.34

Balance Sheet	2020FY	H1:2021	2021 F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	12.76	12.71	12.22	11.78	11.57	11.42	11.43
Total Debt	3.45	7.65	0.00	0.00	0.00	0.00	0.00
Total Assets	33.21	41.51	32.28	32.08	33.73	36.10	38.87
Total Equity	13.55	12.70	14.32	14.88	15.63	16.51	13.55
Total Current Liabilities	14.47	19.56	11.97	11.85	13.13	14.49	16.44
Non-Current Liabilities	5.19	9.26	5.97	5.91	5.72	5.98	5.91
Total Liabilities	17.94	28.81	17.94	17.76	18.85	20.47	22.36

Financial Ratios	2020FY	H1:2021	2021 A	2022F	2023F	2024F	2025F
Gross Margin	16.66%	11.76%	20.90%	23.00%	23.00%	23.00%	23.00%
Operating Margin	5.35%	-2.28%	4.17%	6.11%	6.27%	6.31%	6.43%
Net Margin	2.63%	-1.39%	-0.26%	1.66%	1.93%	2.08%	2.29%
Return on Asset	2.81%	-0.32%	-0.36%	2.52%	3.22%	3.91%	4.74%
Return on Equity	6.88%	-0.71%	-0.83%	6.13%	8.03%	8.97%	10.18%
Return on Invested Capital	-6%	-8%	-1%	5%	7%	9%	11%
Asset Turnover	1.07x	0.45x	1.20x	1.34x	1.41x	1.46x	1.50x
Financial Leverage	2.45x	3.27x	2.25x	2.24x	2.27x	2.31x	2.35x
Debt to Asset Ratio	0.10x	0.09x	0.00x	0.00x	0.00x	0.00x	0.00x
Debt to EBIT Ratio	12.27x	-6.43x	-0.06x	0.01x	0.01x	0.01x	0.01x
Current Ratio	1.41x	1.47x	1.67x	1.70x	1.68x	1.69x	1.66x
Quick Ratio	1.05x	1.09x	1.14x	1.12x	1.13x	1.13x	1.11x

(Q1- First-Quarter); (H1- First-Half); (H2- Second Half); (FY- Full Year);(F- Forecast)

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Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

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
20-Aug-2021	8.50	8.16	8.23	HOLD	HOLD

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Cadbury Nigeria Plc	

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