

Stronger Balance Sheet, Weaker Earnings

Increased Domestic Demand Props Topline Performance

Generally, 2021 was a good year for players in the consumer goods sector as companies delivered strong revenue figures, partly attributable to the low base effect from 2020. On this note, **CADBURY** posted double-digit (+19.67%) topline growth in its most recent financial scorecard (to NGN42.37bn from NGN35.41bn in 2020FY). Improved volume sales and upward price revision on some of its products in the refreshment beverage and confectionery segments (notably TomTom and BourNVita) were significant catalysts for the period's growth. Flowing from this, the refreshment beverage segment (+29.69%YoY) and confectionery segment (+14.40%YoY) recorded significant topline growth. However, sales from the company's intermediate cocoa products segment (which accounts for c.80% of the company's total export product) declined by 36.32%YoY to NGN1.80bn (from NGN2.83bn in 2020FY). As a result, export sales declined by 32.42%YoY to NGN2.10bn. We note that the severe congestion along the Lagos port has also been a significant factor responsible for the decline in export sales as it has maintained a downward trend since 2019. Nonetheless, revenue from the domestic market has continued to provide respite to cumulative revenue, increasing by 24.69%YoY to NGN40.27bn (from NGN32.29bn in 2020FY). **We expect export sales to maintain its downtrend as the Lagos port congestion persists. On the other hand, we remain optimistic about the firm's topline performance for the rest of the year. Our outlook is hinged on the continuous growth in domestic demand as the broad economic activities improves. However, the strained consumer purchasing power (resultant impact of the rising inflationary pressure) and heightened competitive environment constitute major headwinds to the company's domestic growth prospect. Hence, we project a 9.51%YoY growth in 2022FY revenue to NGN46.40bn (vs. NGN42.37bn in 2021FY).**

Cost Pressure Dampens Earnings

CADBURY's production cost grew faster than revenue (+28.25%YoY to NGN35.89bn), mainly influenced by the significant upswing in raw material cost (+48.59%YoY) and the foreign exchange scarcity in the domestic market. This pushed the cost to sales ratio higher to 84.71% from 83.34% in 2020FY. Operating expenses also climbed by 4.74%YoY due to the pressure from selling and distribution expenses (10.55%YoY), signifying management's increased effort to improve its route to market. Nonetheless, operating profit improved significantly by 74.39%YoY to NGN491.47mn, implying an operating margin of 1.16% from 0.80% in 2020FY.

There was a notable surge in finance cost to NGN856.03mn (vs. NGN408.07mn in 2021FY), influenced by the intercompany loan incurred during the period. As a result, the interest coverage ratio worsened significantly to 1.97x from 234.66x recorded in 2020FY. Notwithstanding, profit before tax increased by 169.05%YoY from NGN408.07mn to NGN1.10bn in 2021FY. The company recorded an effective tax rate of 59.04% (NGN648.21mn vs. tax credit of NGN523.76mn recorded in 2020FY). As a result, PAT came in lower (-51.74%YoY) to NGN449.71mn (from NGN931.83mn in 2020FY). **For the rest of the year, our earnings expectation is mainly dependent on our topline outlook and the ability of the firm to manage the rising cost pressure. Thus, we forecast a 2022FY PAT of NGN638.94mn, implying a net margin of 1.38% (from 1.06% in 2021FY).**

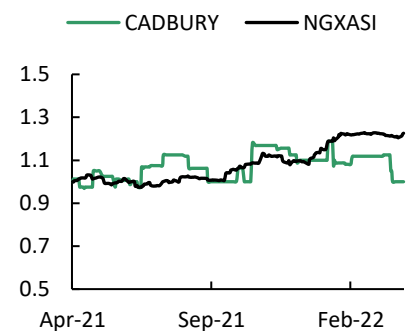
Fresh Debt Strengthens Liquidity Position

CADBURY's total debt ratio edged higher to 0.24x in 2021FY from 0.10x in 2020FY. Gearing ratio also increased to 0.77x from 0.26x in 2020FY, owing to the company's most recent intercompany loan, which increased the firm's cash balance (to NGN17.82bn from NGN11.11bn in 2020FY) and the cash ratio also expanded to 0.81x (from 0.77x in 2021). As a result, the company's working capital hedged higher by 45.72% to NGN8.61bn from NGN5.91bn in 2020FY, signifying its ability to cover its short-term obligation in the near term.

Outlook and Recommendations

We project a 2022FY expected EPS of NGN0.34 and a target PE of 21.58x. This yields a target price of NGN7.34 and an implied 8.23% downside potential based on the closing price on April 14th, 2022. Hence, we rate the ticker a **HOLD**.

Company	CADBURY
Valuation	
EPS	0.24x
BVPS	7.26
P/E	33.41x
P/BV	1.10x
Target PE	21.58x
Dec-2022 Exp. EPS	0.34x
Dec 2022 Target price	7.34
Current Price	8.00
Up/Downside Potential	-8.23%
Ratings	HOLD
Key metrics	
ROE	3.30%
ROA	1.03%
Net margin	1.06%
Asset Turnover	0.97x
Leverage	3.20x
Share/Share Price Statistics	
Yr Hi	9.50
Yr Lo	8.00
YTD return	-15.79%
Beta	0.84
Adjusted Beta	0.89
Proposed Dividend	NGN0.50
Shares outstanding	1.88bn
Market cap [NGN]	15.03bn
Financial year end	December
Most Recent Period (MRP)	2021 FY



Analyst
Juliana Ogunkoya
julianaogunkoya@meristemng.com
 +234 (814) 618 3751

Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2022 Target Price to key model inputs							Min	5.16
							Max	9.54
EPS								
Target PE	7.34	0.24	0.29	0.34	0.39	0.44		
	21.48x	5.16	6.23	7.30	8.38	9.45		
	21.53x	5.17	6.24	7.32	8.40	9.47		
	21.58x	5.18	6.26	7.34	8.42	9.50		
	21.63x	5.19	6.27	7.35	8.44	9.52		
	21.68x	5.20	6.29	7.37	8.46	9.54		

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Revenue	35.41	42.37	46.40	51.23	56.55	62.44	68.94
Cost of sales	29.51	35.89	37.12	40.98	45.24	49.95	55.15
Gross profit	5.90	6.48	9.28	10.25	11.31	12.49	13.79
Operating expense	5.74	6.01	7.29	7.95	8.70	9.70	10.68
Operating profit	0.28	0.49	2.07	2.37	2.70	2.89	3.21
Finance cost	0.00	0.25	0.00	0.00	0.00	0.00	0.00
PBT	0.41	1.10	0.94	1.12	1.32	1.45	1.71
PAT	0.93	0.45	0.64	0.76	0.90	0.99	1.16
Balance Sheet	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	12.76	13.02	13.63	14.31	15.10	16.05	17.18
Total Debt	3.45	3.88	0.00	0.00	0.00	0.00	0.00
Total Assets	33.21	43.69	33.32	34.31	35.81	39.79	43.87
Total Equity	13.55	13.64	13.45	13.65	14.29	15.03	15.87
Total Current Liabilities	14.47	22.02	18.42	19.20	19.99	23.20	26.40
Non-Current Liabilities	5.19	8.03	1.45	1.46	1.53	1.56	1.59
Total Liabilities	19.66	30.05	19.87	20.66	21.52	24.76	28.00
Financial Ratios	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Gross Margin	16.66%	15.29%	20.00%	20.00%	20.00%	20.00%	20.00%
Operating Margin	0.80%	1.16%	4.46%	4.63%	4.78%	4.63%	4.66%
Net Margin	2.63%	1.06%	1.38%	1.49%	1.58%	1.58%	1.69%
Return on Asset	2.81%	1.03%	1.92%	2.22%	2.50%	2.48%	2.66%
Return on Equity	6.88%	3.30%	4.75%	5.59%	6.27%	6.57%	7.34%
Return on Invested Capital	-5.52%	9.80%	4.00%	4.78%	4.73%	5.39%	6.41%
Asset Turnover	1.07x	0.97x	1.39x	1.49x	1.58x	1.57x	1.57x
Financial Leverage	2.45x	3.20x	2.48x	2.51x	2.51x	2.65x	2.76x
Current Ratio	1.41x	1.39x	1.06x	1.04x	1.02x	1.01x	1.00x
Quick Ratio	1.05x	1.02x	0.59x	0.57x	0.53x	0.54x	0.53x

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

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
 isaacnaolapo@meristemng.com (+234 803 234 8275)
 contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
 seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
 crmwealth@meristemng.com (+234 01 738 9948)

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
 martinaosague@meristemregistrars.com (+234 802 303 1783)
 www.meristemregistrars.com (+23401-280 9250)

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
 trustees@meristemng.com

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
 ifeomaogalue@meristemng.com (+234 802 3942967)
 info@meristemng.com

Client Services

adefemtaiwo@meristemng.com (+234 803 694 3034)
 blessingogwu@meristemng.com (+234 706 896 5173)
 car@meristemng.com

Investment Research

timchanggwatau@meristemng.com (+234 703 188 3322)
 research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: meristem.com.ng/rhub

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

Reuters: www.thomsonreuters.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

FactSet: www.factset.com

Analyst's Certification and Disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covered in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

Investment Ratings

Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

Ratings Specification

- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

Definitions

Price Targets: Price targets reflect in part the analyst’s estimates for the company’s earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company’s earnings fall short of estimates.

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
14-Apr-2022	8.00	8.16	7.34	HOLD	HOLD

Company disclosures

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

Company	Disclosure
Cadbury Nigeria Plc	

- a. The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- b. The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- c. Meristem beneficially owns 1% or more of the equity securities of the company
- d. Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- e. Meristem beneficially holds a major interest in the debt of the company
- f. Meristem has received compensation for investment banking activities from the company within the last 12 months
- g. Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- h. The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- i. The company is a client of the stock broking division of the Meristem group.
- j. The company is a client of the investment banking division of the Meristem group.
- k. Meristem is the registrar to the company.
- l. The company owns more than 5% of the issued share capital of Meristem
- m. Meristem has other financial or other material interest in the company.

Conflict of Interest

It is the policy of Meristem Securities Limited and its subsidiaries and affiliates (Individually and collectively referred to as “Meristem”) that research analysts may not be involved in activities that suggest that they are representing the interests of Meristem in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured so as to avoid any conflict of interests.

For example, research analysts are not subject to the supervision or control of anyone in Meristem’s Investment Banking or Sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analysts’ published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

Important Disclosure

For U.S. persons only: This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

Legal entity disclosures

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars businesses which are regulated by the SEC and ICMR.

Copyright 2022 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Meristem Securities Limited.