

Persisting Profitability Challenges from FX Losses

Summary: Nestle Plc (NESTLE) delivered a topline growth of 18.93% YoY to NGN396.59bn during the period (vs. NGN333.47bn in 9M:2022), marking the highest revenue growth over the past 43 quarters. Domestic sales continued to be the main driver of revenue performance during the period expanding by 19.82% YoY to NGN396.10bn spurred by growth in both the Food (27.03% to NGN254.38bn) and Beverage (6.75% to NGN142.21bn) segments. However, export sales continued its downtrend (marking the fifth consecutive decline since the third quarter of 2022) primarily due to the substantial drop (-83.09% YoY) in exports sales to Ghana which contributes c.80% to total export revenue as at 2022FY.

During the period, production costs increased moderately by 9.36% YoY to NGN236.42bn, due to an uptick in raw materials and finished goods (13.10% YoY) as well as factory overheads (19.61% YoY). Propelled by revenue growth outpacing the rise in costs, the cost-to-sales ratio improved to 59.61% from 64.83% in 9M:2023. As a result, gross profit surged by 36.56% YoY to reach NGN160.17bn. Meanwhile, operating expenses climbed by 41.17% YoY, totalling NGN91.59bn, attributable to increases in both marketing & distribution expenses (up by 35.73% to NGN58.88 billion) and administrative expenses (rising by 7.48% to NGN9.70 billion), reflecting the prevailing higher inflationary environment. Riding on the excellent revenue performance, the company achieved an increase in its operating income, reaching NGN91.59bn compared to NGN64.88bn in the same period of 9M:2022. Furthermore, NESTLE reported a substantial surge of 2183.65% YoY in its net finance cost, soaring to NGN148.24bn. This notable increase predominantly resulted from a sharp rise in foreign exchange losses, which amounted to NGN127.46bn, higher than the NGN1.69bn recorded in 9M:2022.

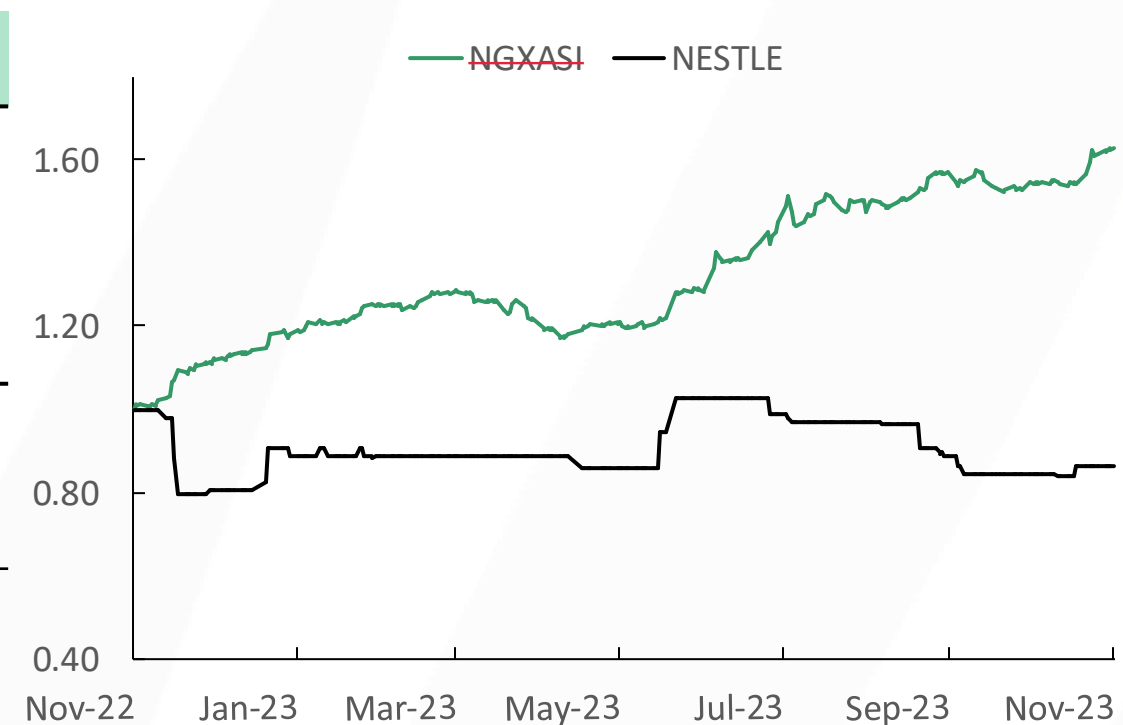
Consequently, both the profit before tax and the profit after tax declined significantly by 197.04% YoY and 207.26% YoY leading to a Loss before Tax and Loss after Tax of **-NGN56.66bn** and of **-NGN43.07bn**, respectively in 9M:2023.

Positive: Operating margin and asset turnover improved to 23.09% and 1.02x from 19.46% and 0.80x in 9M:2022, respectively.

Negative: Interest coverage ratio and debt to equity ratio worsened to 0.59x and -7.69x from 7.15x and 5.13x, respectively in 9M:2022 due to the impact of revaluation losses on the company's foreign exchange debt.

Outlook: For 2023FY, we expect a growth in topline of 28.48% YoY to NGN574.07bn. This is supported by upward price reviews and expectations of increases in sales from the festive season. However, due to the continued pressures from FX revaluation losses, and the rising cost environment, we anticipate further blows to profitability in 2023FY, thus settling at a loss after tax of **NGN56.16bn**, recording a decline of 214.62% YoY.

Valuation		Stock Highlights	
Trailing EPS	-43.22	Yr Hi	1,250.00
BVPS	-52.57	Yr Lo	1,020.00
P/E	-26.61x	YTD return	-4.55%
P/BV	-21.87x	Beta	0.29
Target EV/EBITDA	9.49x	Adjusted Beta	0.53
Dec-2023 Exp.		Shares outstanding	0.79bn
EBITDA	139.62	Market cap [NGN]	911.55bn
Dec 2023 Target price	NGN1,324.99	Most recent period	9M:2023
Current Price	NGN1,150.00		



Recommendation: BUY TP: 1,324.52 CP: 1,150.00 UPP: +15.18%

Financial Highlight (NGN'bn)			
Profit and Loss Account	9M:2023	9M:2022	YoY Growth
Revenue	396.59	333.47	18.93%
Cost of Sales	236.42	216.19	9.36%
Gross Profit	160.17	117.29	36.56%
OPEX	68.58	52.41	30.87%
Operating Profit	91.59	64.88	41.17%
Net Finance Income/(Cost)	-148.24	-6.49	-2183.65%
PBT	-56.66	58.39	-197.04%
PAT	-43.07	40.15	-207.26%
Balance Sheet			
	9M:2023	2022FY	YtD Change
Property, Plant and Equipment	138.34	116.74	18.50%
Total Asset	499.94	415.04	20.45%
Total Equity	-41.67	30.29	-237.57%
Total Debt	320.58	155.48	106.19%
Total Liabilities	541.61	384.75	40.77%

Key Metrics			
	9M:2023T	2022FY	3-yr Hist. Avg
Profitability Ratio			
ROA	-6.85%	11.80%	14.95%
ROE	82.20%	161.65%	126.70%
Net Margin	-10.86%	12.04%	12.36%
Efficiency Ratio			
Asset Turnover	1.02x	0.80x	1.25x
Liquidity Ratio			
Current Ratio	1.30x	1.33x	1.08x
Quick Ratio	1.00x	0.93x	0.75x
Cash Ratio	0.61x	0.54x	0.41x
Solvency Ratio			
Interest Coverage	0.59x	7.15x	12.29x
Debt to Equity	-7.69x	5.13x	2.16x
Debt to Asset	0.64x	0.37x	4.23x

Sensitivity Analysis of Dec-2023 Target Price to Key Model Inputs						Min	1,246.24
						Max	1,405.19
						EPS	
						135.43	137.52
						139.62	141.71
						143.80	
Target P/E	9.20x	1,246.24	1,265.52	1,284.79	1,304.06	1,323.33	
	9.34x	1,265.52	1,285.08	1,304.65	1,324.22	1,343.79	
	9.49x	1,284.79	1,304.65	1,324.52	1,344.39	1,364.26	
	9.63x	1,304.06	1,324.22	1,344.39	1,364.56	1,384.72	
	9.77x	1,323.33	1,343.79	1,364.26	1,384.72	1,405.19	

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

Cost Pressures Dent Profitability

Summary: CADBURY delivered a double-digit growth in topline by 39.17% YoY to NGN59.20bn from NGN42.54bn in 9M:2022. This growth was anchored by an increase in both domestic sales (36.58% to NGN56.07bn, typically the major driver of revenue— *contributing c. 95% to total revenue*) and export sales (110.73% to NGN3.13). Across its product lines, increased sales was recorded in refreshment beverage (35.88% YoY to NGN41.07bn), confectionery (22.70% YoY to NGN13.88bn), intermediate cocoa product (220.88% YoY to NGN3.20bn) due to upward price reviews of the company's products. Additionally, the topline was buoyed by the introduction of its biscuit business at NGN1.04bn (which contributed c. 2% to total revenue). As a result, gross profit also increased by 134.70% YoY to NGN19.66bn, thus the gross margin improved to 33.21% (vs. 19.69% in 9M:2022).

Production cost also recorded an uptick of 25.55% YoY to NGN42.89bn during the period due to inflation-induced spikes in input costs. However, the faster growth of revenue resulted in the improvement of the cost-to-sales ratio to 72.45% (vs. 80.31% in Q3:2022). Similarly, operating cost surged by 30.73% YoY to NGN6.72bn, fueled by the increase in both selling and distribution costs (+28.23% YoY to NGN5.19bn), and administrative expenses (+39.98% YoY to NGN1.53bn). Nonetheless, operating income (EBIT) tripled (+191.37% YoY) during the period to NGN9.65bn from NGN3.31bn in 9M:2022 on the back of the impressive revenue performance during the period. Notably, CADBURY incurred a NGN20.99bn foreign exchange loss from unrealized exchange difference on the company's debt. Consequently, net finance cost spiked greatly by +2893.15% YoY to NGN19.98bn from a positive of NGN712.16mn in 9M:2022. This in turn dragged the company's bottom line to a Loss after Tax of NGN10.24bn from a Profit after Tax of NGN2.82bn in 9M:2022.

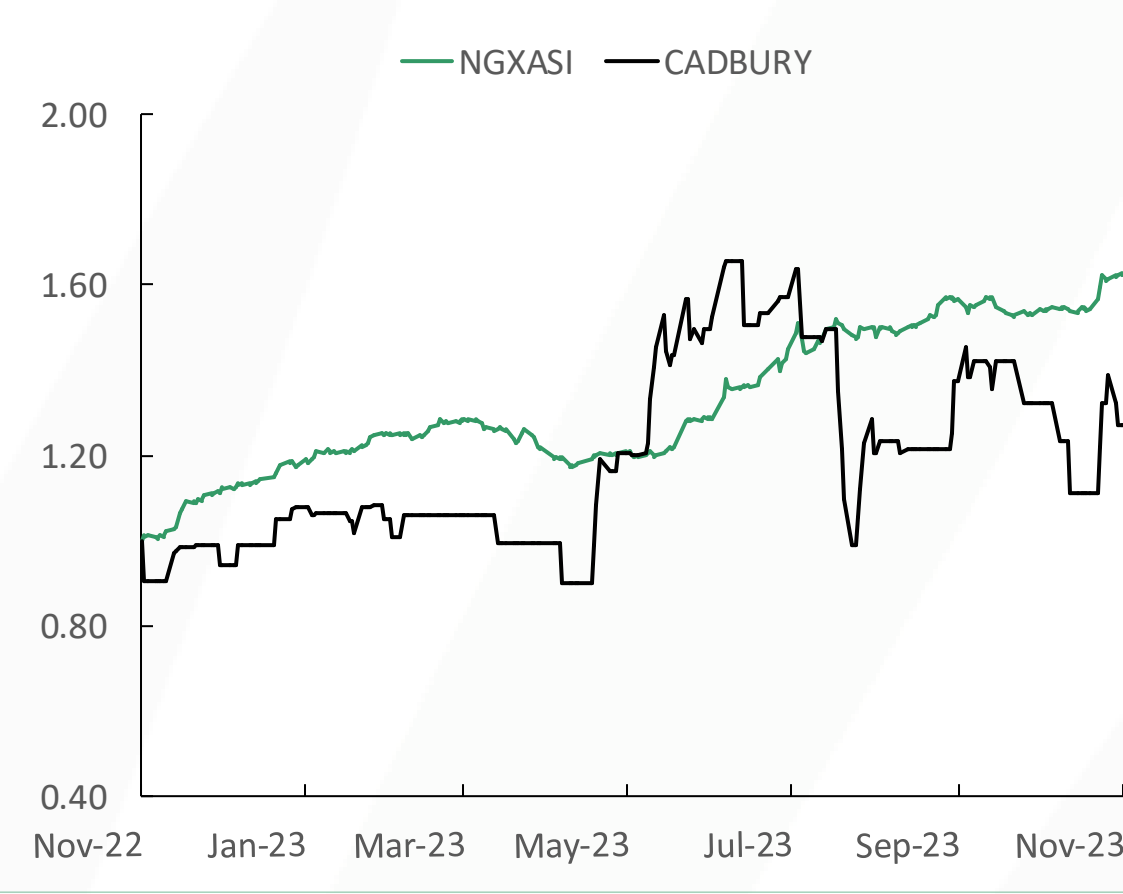
Positive: The company's quick and cash ratio improved to 0.95x and 0.80x from 0.91x and 0.74x in 2022, respectively. Q3:2023's Profit after Tax grew by 804.84% YoY to NGN4.30bn from NGN474.88mn in Q3:2022.

Negative: Debt-to-Equity ratio worsened to 17.27x from 1.79x in 9M:2022, due to higher debt balance from foreign exchange revaluation loss.

Outlook: For 2023FY, we project a growth in revenue of 43.77% YoY to NGN79.38bn, bolstered by cost reflective price reviews and expectations of increases in sales from the festive season. Although, due to the continuous battle with rising costs and the effect of foreign exchange losses which may not be adequate to shore up the company's bottom line, we foresee continued challenges impacting profitability in 2023FY, resulting in a Loss after Tax of NGN14.71bn, marking a substantial 2640.34% YoY decline.

Valuation	
Trailing EPS	-6.64
BVPS	1.53
P/E	-2.31x
P/BV	10.04x
Target PE	20.62X
Dec-2023 Exp. EPS	0.52
Dec 2023 Target price	NGN10.75
Current Price	NGN15.35

Stock Highlights	
Yr Hi	18.80
Yr Lo	10.20
YTD return	+28.99%
Beta	1.66
Adjusted Beta	1.44
Shares outstanding	1.88bn
Market cap [NGN]	28.83bn
Most recent period	9M:2023



Sensitivity Analysis of Dec-2023 Target Price to Key Model Inputs						Min	9.84
						Max	11.71
						EPS	
						0.50	0.51
						0.52	0.53
						0.54	
Target P/E	19.62x	9.84	10.03	10.23	10.43	10.62	
	20.12x	10.09	10.29	10.49	10.69	10.89	
	20.62x	10.34	10.55	10.75	10.96	11.16	
	21.12x	10.59	10.80	11.01	11.22	11.43	
	21.62x	10.84	11.06	11.27	11.49	11.71	

Recommendation: SELL TP: 10.75 CP: 15.35 DSP: 29.97%

Financial Highlight (NGN'bn)			
Profit and Loss Account	9M:2023	9M:2022	YoY Growth
Revenue	59.20	42.54	39.17%
Cost of Sales	39.54	34.16	15.74%
Gross Profit	19.66	8.38	134.70%
OPEX	6.72	5.14	30.73%
Operating Profit	9.65	3.31	191.37%
Net Finance Income/(Cost)	-19.89	0.00	
PBT	-10.24	4.02	-354.55%
PAT	-10.24	2.82	-463.64%
Balance Sheet			
	9M:2023	2022FY	YtD Change
Property, Plant and Equipment	15.54	14.07	10.44%
Total Asset	76.45	59.71	28.02%
Total Equity	2.87	13.30	-78.41%
Total Debt	49.61	23.87	107.78%
Total Liabilities	73.57	46.41	58.53%

Key Metrics	9M:2023T	2022FY	3-yr Hist. Avg
Profitability Ratio			
ROA	-16.33%	0.97%	1.59%
ROE	-434.55%	4.35%	4.81%
Net Margin	-17.30%	6.62%	1.57%
Efficiency Ratio			
Asset Turnover	0.94x	0.92x	0.99x
Liquidity Ratio			
Current Ratio	1.17x	1.23x	1.34x
Quick Ratio	0.95x	0.91x	0.99x
Cash Ratio	0.80x	0.74x	0.77x
Solvency Ratio			
Interest Coverage	-0.46x	0.00x	75.44x
Debt to Equity	17.27x	1.79x	0.94x
Debt to Asset	0.65x	0.40x	0.25x

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Other Income Boosts Bottom Line Performance

Summary: For the period ended September, UACN delivered a marginal growth in its topline (+4.78% YoY to NGN81.53bn from NGN77.80bn in 9M:2022). The growth in revenue was supported by improved sales in the Packaged Foods & Beverages (+7.33% YoY) Paints (+16.88% YoY), and Quick Service Restaurants (+29.54% YoY) business segments. This was due to inflation-driven prices increases, volume growth in the Packaged Food & Beverages and Paints sub-segments, alongside increased production efficiencies. As a result, gross profit expanded by 14.76% YoY to NGN14.14bn, and gross margin improved to 17.34% (vs. 15.83% in 9M:2022). We also note that the company delivered its highest Q3:2023 revenue in history at NGN28.66bn.

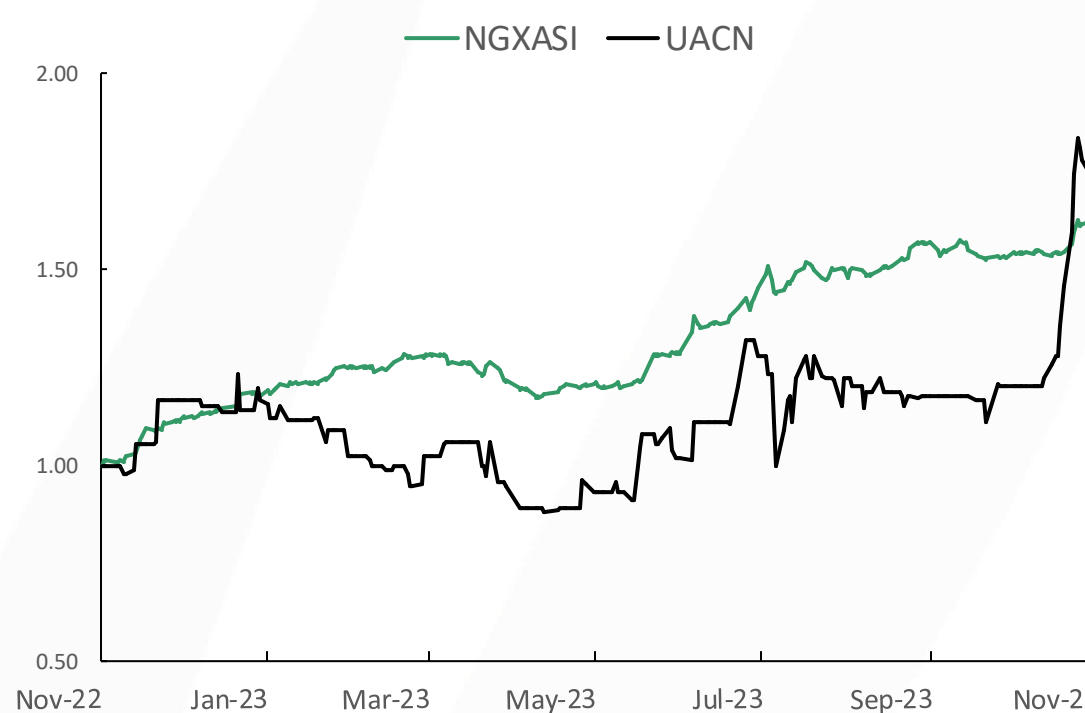
Production cost also increased marginally (+2.91% YoY) to NGN67.39bn from NGN65.49bn in the previous period, owing to higher input costs (+4.11% to NGN57.56bn). Likewise, operating expenses surged by 11.92% YoY to reach NGN14.19bn, notably affected by increases in distribution expenses (18.97% YoY to NGN3.45bn) reflecting higher fuel prices and the general inflationary environment. Operating profit increased significantly (835.98% YoY) to NGN7.10bn (vs. NGN758.46mn in 9M:2022), benefitting from a NGN7.63bn gain on the disposal of non-core items of property, plant and equipment (PPE). Additionally, net finance income substantially improved to NGN1.88bn, compared to -NGN1.82bn in the corresponding period, arising from foreign exchange revaluation gains of NGN3.22bn (+1888.13% YoY) on the group's foreign denominated assets. Cumulatively, both Profit before Tax and Profit after Tax settled higher at NGN9.60bn and NGN6.71bn (from NGN1.10bn and NGN1.98bn in 9M:2022), respectively.

Positive: Gross margin and EBIT margin advanced to 17.34% and 8.71% (from 15.83% and 0.97% in 9M:2022) as revenue growth outpaced the growth in costs, and due to the uptick in other income. Return on Equity (ROE) also improved to 13.14% (vs. -4.38% in 9M:2022).

Negative: Finance cost worsened to NGN837.83mn in Q3:2023 (vs. NGN275.26mn in Q3:2022) due to higher cost of debt, despite the decrease in debt level (evinced by lower debt ratio and debt-to-equity ratio to 0.20x and 0.42x from 0.22x and 0.45x in 9M:2022).

Outlook: For 2023FY, we project a sustained growth in UACN's topline of 10.15% YoY to NGN120.36bn. This projection is based on expected increases in sales across their business segments in view of corporate strategies (roll out of more corporate stores, increased exports revenue from the Paints segments, amongst others) as well as upward price reviews. Thus, we forecast a PAT growth of 234.37% YoY to NGN5.29bn in 2023FY.

Valuation		Stock Highlights	
Trailing EPS	1.62	Yr Hi	16.50
BVPS	17.45	Yr Lo	7.90
P/E	10.40x	YTD return	+74.63%
P/BV	0.97x	Beta	1.19
Target PE	1.09X	Adjusted Beta	1.13
Dec-2023 Exp. EPS	16.24	Shares outstanding	2.93bn
Dec 2023 Target price	NGN17.70	Market cap [NGN]	49.45bn
Current Price	NGN16.90	Most recent period	9M:2023



Recommendation: HOLD TP: 17.70 CP: 16.90 UPP: +4.73%

Financial Highlight (NGN'bn)

Profit and Loss Account	9M:2023	9M:2022	YoY Growth
Revenue	81.53	77.80	4.78%
Cost of Sales	67.39	65.49	2.91%
Gross Profit	14.14	12.32	14.76%
OPEX	14.19	12.68	11.92%
Operating Profit	7.10	0.76	835.98%
Net Finance Income/(Cost)	1.88	-1.82	-203.51%
PBT	9.60	-1.10	-976.89%
PAT	6.71	-1.98	-438.41%

Balance Sheet	9M:2023	2022FY	YtD Change
Property, Plant and Equipment	26.70	25.04	6.61%
Total Asset	105.19	93.83	12.11%
Total Equity	51.07	45.28	12.80%
Total Debt	21.50	20.59	4.43%
Total Liabilities	54.11	48.55	11.46%

Key Metrics	9M:2023T	2022FY	3-yr Hist. Avg
Profitability Ratio			
ROA	6.38%	-2.11%	0.74%
ROE	13.14%	-4.38%	0.71%
Net Margin	8.23%	-2.55%	1.07%
Efficiency Ratio			
Asset Turnover	0.78x	0.83x	1.03
Liquidity Ratio			
Current Ratio	1.20x	1.11x	1.50
Quick Ratio	0.62x	0.54x	0.75
Cash Ratio	0.47x	0.38x	0.55
Solvency Ratio			
Interest Coverage	2.91x	0.28x	3.11
Debt to Equity	0.42x	0.45x	0.31
Debt to Asset	0.20x	0.22x	0.16

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Sensitivity Analysis of Dec-2023 Target Price to Key Model Inputs

		EPS					Min	3.08
							Max	32.36
		16.22	16.23	16.24	16.25	16.26		
Target P/E	0.19x	3.08	3.08	3.09	3.09	3.09		
	0.64x	10.38	10.39	10.39	10.40	10.41		
	1.09x	17.68	17.69	17.70	17.71	17.72		
	1.54x	24.98	24.99	25.01	25.03	25.04		
	1.99x	32.28	32.30	32.32	32.34	32.36		

BUAFOODS Continues on a Path of Excellence

Summary: In BUAFOODS' most recent financial scorecard, topline showed an impressive growth of 80.95% YoY to NGN524.43bn from NGN289.82bn in 9M:2022. The growth in topline was buoyed by the significant upturn in sales volumes, upward prices reviews and the commissioning of some of their expansion projects. Across all business segments, increased sales was recorded – Flour (126.63% to NGN149.96bn), Sugar (74.16% to NGN315.15bn), Pasta (36.61% to NGN58.32bn), and the contribution from the Rice business (of which production began in Q3:2023) at NGN995mn. As a result, gross profit also increased by 94.19% YoY to NGN183.78bn, thus the gross margin improved to 35.04% (vs. 32.50% in 9M:2022).

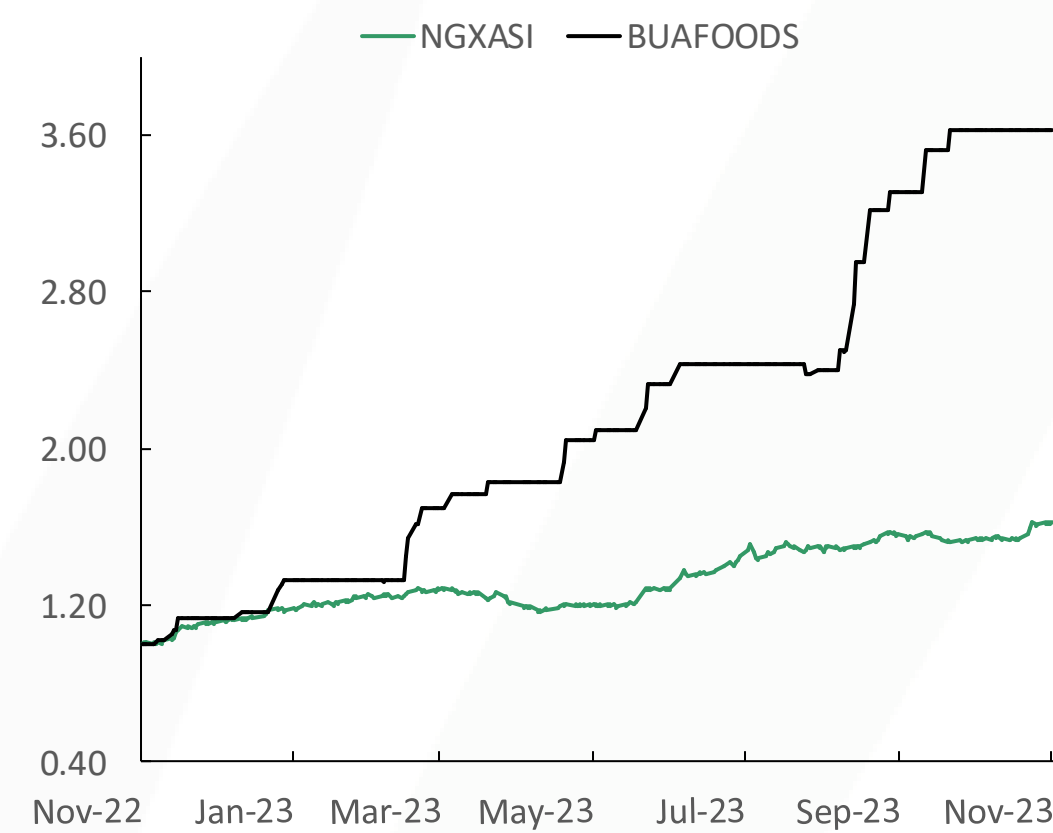
Production cost also surged by 74.12% YoY to NGN340.65bn (vs. NGN195.64bn in 9M:2022) stemming from the higher cost environment and continued depreciation of the Naira against the green back, which significantly impacted raw material prices and subsequently escalated production costs. Likewise, operating expenses saw an uptick of 89.90% YoY to NGN28.19bn owing to an increase in selling & distribution expenses (95.81% YoY to NGN20.27bn) and administrative expenses (76.27% YoY to NGN7.91bn). Notably, the increase in operating costs is attributable to increases in diesel costs (85.15% YoY), salaries & wages (47.36% YoY), general expenses (41.13% YoY), as well as the impact of the company's strategies to drive promotions and sales volumes (which contributed to the increase in distribution expenses). Furthermore, net finance cost came in higher (90.75% YoY to NGN12.20bn) due to significant increase in the company's debt balance (75.45% YoY to NGN379.77bn). Also, the company incurred NGN33.28bn in foreign exchange loss on the group's foreign denominated balances. Despite these cost increases, BUAFOODS delivered a solid growth in a PAT of 53.60% YoY to NGN105.62bn in 9M:2023.

Positive: Interest coverage ratio, earnings quality and return on equity improved to 12.86x, 2.12x and 41.32% (from 12.61x, 1.53x and 29.77% in 9M:2022).

Negative: In Q3:2023, PAT declined to NGN1.92bn (vs. NGN30.05bn in Q3:2023), due to impact of FX losses on the company's foreign denominated balances. Debt ratios- debt ratio and debt-to-equity ratio, rose to 0.20x and 0.42x from 0.22x and 0.45x in 9M:2022), net finance cost worsened to -NGN837.83mn in Q3:2023 (vs. -NGN275.26mn in Q3:2022).

Outlook: For 2023FY, we project a growth in revenue of 58.13% YoY to NGN661.52bn based on expectations of price of an upward review of prices of their products, the company's strategy to drive aggressive growth across all its business segments, and increased sales from the festive season. Despite the expected increases to cost, we project a PAT growth of 55.48%YoY to NGN142.02bn in 2023FY.

Valuation		Stock Highlights	
Trailing EPS	7.12	Yr Hi	202.80
BVPS	14.20	Yr Lo	71.50
P/E	28.47x	YTD return	+212.00%
P/BV	14.28x	Beta	0.54
Target PE	16.95x	Adjusted Beta	0.70
Dec-2023 Exp. EPS	5.66	Shares outstanding	18.00bn
Dec 2023 Target price	NGN95.94	Market cap [NGN]	3.58trn
Current Price	NGN202.80	Most recent period	9M:2023



Recommendation: SELL TP: 95.94 CP: 198.90 DSP: 51.76%

Financial Highlight (NGN'bn)			
Profit and Loss Account	9M:2023	9M:2022	YoY Growth
Revenue	524.43	289.82	80.95%
Cost of Sales	340.65	195.64	74.12%
Gross Profit	183.78	94.18	95.14%
OPEX	28.19	14.84	89.90%
Operating Profit	156.88	80.66	94.49%
Net Finance Income/(Cost)	(12.20)	(6.40)	90.75%
PBT	111.40	74.27	50.00%
PAT	105.62	68.76	53.60%
Balance Sheet			
	9M:2023	2022FY	YtD Change
Property, Plant and Equipment	345.78	330.52	4.62%
Total Asset	757.85	607.22	24.80%
Total Equity	255.58	230.96	10.66%
Total Debt	248.53	216.45	14.82%
Total Liabilities	502.27	376.26	33.49%

Key Metrics			
	9M:2023T	2022FY	3-yr Hist. Avg
Profitability Ratio			
ROA	16.92%	15.04%	12.94%
ROE	50.16%	39.55%	33.78%
Net Margin	19.63%	21.83%	20.38%
Efficiency Ratio			
Asset Turnover	0.86x	0.48x	58.86%
Liquidity Ratio			
Current Ratio	0.95x	0.90x	0.83x
Quick Ratio	0.89x	0.81x	0.74x
Cash Ratio	0.19x	0.10x	0.11x
Solvency Ratio			
Interest Coverage	12.86x	12.61x	14.49x
Debt to Equity	0.97x	0.94x	1.09x
Debt to Asset	0.33x	0.36x	0.39x

Sensitivity Analysis of Dec-2023 Target Price to Key Model Inputs						Min	83.90
						Max	108.78
						EPS	
						5.26	5.46
						5.66	5.86
						6.06	
Target P/E	15.95x	83.90	87.09	90.28	93.47	96.66	
	16.45x	86.53	89.82	93.11	96.40	99.69	
	16.95x	89.16	92.55	95.94	99.33	102.72	
	17.45x	91.79	95.28	98.77	102.26	105.75	
	17.95x	94.42	98.01	101.60	105.19	108.78	

*TP=Target Price, CP= Current Price, UPP=Upside Potential, EPS= Earnings Per Share, BVPS= Book Value Per Share, P/E=Price to Earnings, P/BV= Price to Book Value, T= Trailing, A= Actuals

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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.

Movements in Price Target

Company Name: Nestle Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
10-Aug-2023	1,150.00	1,493.49	1,324.95	BUY	BUY

Company Name: Cadbury Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
23-Nov-2023	15.35	-	10.75	HOLD	SELL

Company Name: UAC of Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
15-May-2023	16.90	10.85	17.70	BUY	HOLD

Company Name: BUA Foods Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
15-May-2023	198.90	67.23	95.94	BUY	SELL

Company disclosures

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Company	Disclosure
Nestle Nigeria Plc	
Cadbury Nigeria Plc	
UAC of Nigeria Plc	
BUA Foods Plc	

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