

Cadbury Earnings Review 9M 2019

Sub-Optimal Q3 Weighs on Mid-Year Recovery

Disappointing Q3'2019 Revenue; but 9M'2019 remains sturdy

In its recently announced 9M'2019 financials, Cadbury reported a 7.2% y/y growth in Revenue to N28.9bn from N27.0bn recorded in 9M 2018. Nevertheless, Revenue growth within the quarter showed some weakness due to the seasonality impact of the July to September financial period. On a q/q basis, Revenue fell by 7.0% to N9.5bn in Q3 2019 from N10.2bn in Q2'2019 (Q3 2018 – N9.4bn). 9M growth continues to be driven by broad based recovery in Refreshment Beverages (+11.6% y/y) and Confectioneries (+16.1% y/y) while Intermediate Cocoa Products (-23.5% y/y) continues to lag. However, all business segments disappointed within the quarter.

Margin remains weak...trails historical level

Cost of Sales grew slower than Revenue, up 6.5% y/y to N23.1bn in 9M 2019 from N21.7bn in 9M 2018. The slower growth in Cost of Sales was on the back of lower average price for Cocoa and Sugar in the first 6 months of the year which led to stronger margins for the Refreshment beverage segment. Against this backdrop, Cadbury recorded a 10.4% y/y growth in Gross Profit to N5.9bn from N5.3bn in 9M 2018 while gross margin improved 0.6ppts y/y to 20.3%. We like to note the modest recovery in gross margin in Q3 (up 0.8ppts q/q to 18.1%) after we expressed concerns on the jump in production cost in Q2. Despite the mild recovery, we remain concerned as gross margin remains below historical average of 25.0%.

Sub-optimal Q3 OPEX raises fresh concerns

Operating Expenses recorded a sub-inflationary growth of 9.4% y/y to N5.1bn in 9M 2019 from N4.7bn in 9M 2018. The increase in Operating Expenses was driven by a 12.1% y/y increase in Selling & Distribution expenses to N3.8bn in 9M 2019 from N3.4bn in 9M 2018. Administrative expenses edged higher by 2.3% y/y to N1.3bn. Against this backdrop, EBITDA improved by 8.8% y/y to N2.0bn in 9M 2019 from N1.8bn in 9M 2018. We like to note the company recorded EBITDA growth of 84.8% in Q1 and 154.1% as at H1. The dramatic slowdown to 8.8% was down to sub-optimal performance in Q3 where EBITDA fell 46.9% q/q on the back of an 80.0% q/q spike in Administrative expenses.

No debt...no worries

Cadbury maintained its all-equity financed capital structure and as a result incurred no interest expense. Against this backdrop, Cadbury recorded Net Interest income of N113.8m for 9M 2019 as against Net Finance Expense of N426.4m in 9M 2018. Consequently, Profit before Tax jumped 266.2% y/y to N925.8m in 9M 2019 from N252.8m recorded in 9M 2018 while Net profit printed higher, rising by 276.9% y/y to N648.0m in 9M 2019 from N172.0m in 9M 2018. Earnings per Share printed at N0.35/s in 9M 2019 compared to N0.09/s in 9M 2018.

Poor Q3 raises fresh long-term concerns

In H1, we expressed concerns on the sudden rise in Cost of Sales which caused significant deterioration in margins as Operating Expenses management doused the impact of poorer Gross margin. Though Cost of Sales remained relatively stable in line with Q2, the recovery in Gross Margin was dampened by a sudden rise in OPEX. This combined with lower Revenue caused a loss of N21.9m in Q3 2019 (Q3 2018 – N595.7m profit). Going forward we are cautious on long term cost outlook but expect the solid Q1 2019 performance to sustain the company for the rest of this year.

Cadbury Earnings Highlight 9M 2019

N'm	9M 2019	9M 2018	y/y	Q3 2019	Q2 2019	q/q
Revenue	28,912	26,960	7.2%	9,458	10,171	-7.0%
Cost of Sales	(23,055)	(21,654)	6.5%	(7,742)	(8,405)	-7.9%
Gross Profit	5,857	5,306	10.4%	1,716	1,766	-2.9%
Selling & Distribution Expenses	(3,788)	(3,380)	12.1%	(1,261)	(1,268)	-0.6%
Administrative Expenses	(1,316)	(1,286)	2.3%	(540)	(300)	80.0%
Other Income/(Expenses)	58	40	46.5%	9	4	132.2%
Result from Operating Activities	812	679	19.5%	(77)	201	-138.1%
Finance Income	114	99	14.6%	46	32	43.8%
Finance Costs	-	(526)	-100.0%	-	-	n/a
Net Finance Income/(Cost)	114	(426)	-126.7%	46	32	43.8%
Profit before Tax	926	253	266.2%	(31)	233	-113.4%
Income Tax (Expense)/Credit	(278)	(81)	243.5%	9	(70)	-113.4%
Profit for the Period	648	172	276.9%	(22)	163	-113.4%

Profit for the period attributable to:

Owners of the Company	648	172	276.9%	(22)	163	-113.4%
Non-Controlling Interests	-	-	n/a	-	-	n/a
	648	172	276.9%	(22)	163	-113.4%

Other Key Inputs	9M 2019	9M 2018	y/y	Q3 2019	Q2 2019	q/q
Earnings Per Share	0.35	0.09	276.9%	(0.01)	0.09	-113.4%
EBITDA	1,987	1,827	8.8%	315	594	-46.9%

Margins	9M 2019	9M 2018	y/y	Q3 2019	Q2 2019	q/q
Gross Margin	20.3%	19.7%	0.6ppts	18.1%	17.4%	0.8ppts
EBITDA Margin	6.9%	6.8%	0.1ppts	3.3%	5.8%	-2.5ppts
Operating Margin	2.8%	2.5%	0.3ppts	-0.8%	2.0%	-2.8ppts
Net Margin	2.2%	0.6%	1.6ppts	-0.2%	1.6%	-1.8ppts
No of Outstanding Shares	1,878	1,878		1,878	1,878	
Depreciation & Amortisation	1,175	1,148	2.4%	392	392	-0.1%

Source: Company Financials, FSDH Research

Email: research@fsdhgroup.com • www.fsdhgroup.com

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