



PRIMARY STATISTICS

Stock Market Cap. (NGN)	N53.81billion (US\$420.38 million)
Earnings Yield (%)	4.62 %
Return On Equity (ROE)	24.94%
Operating Margin (%)	16.79%
Shares Outstanding	1,100,842,666
Share Float	49.98%
Forecasted EPS (NGN)	0.00
Price as at Date - 15/12/06 (NGN)	46.44
52-Week Price range (High-Low) (NGN)	66.48-25.00
Stock Volatility (β - 3years)	1.08

BUSINESS SUMMARY & RISK ANALYSIS:

- Cadbury Nigeria is a member company of Cadbury Schweppes Plc, a major player in global confectionery and beverages markets with 40,000 employees and business operations in 200 countries. Cadbury's initial objective in the 1950s to source cocoa and prospect for a market in Nigeria led to the establishment of a manufacturing facility in Ikeja, Lagos in 1965.
- Cadbury Schweppes overseas currently remains the largest single holder with 50.02% of the equity while Nigerian shareholders (institutions & individuals) own 49.98% of the total current shares outstanding of 1,100,842,666.
- The company has since grown organically to become one of the leading manufacturers in Nigeria, with a rising profile in the Europe, Middle East and Africa (EMEA) Region, one of the five operational regional groupings of Cadbury Schweppes. It was incorporated in January 1965 when the current 42-hectare factory site was also opened, it went public in 1976.

- Prior to the outcome of the investigation by PriceWaterhouseCoopers(Chartered Accountants) following the recent financial shenanigans, the stock was enjoying an average daily trading volume of over 500,000 units before it was placed on technical suspension. Consequently, trading volume declined to a low ebb average of 30,000 units while still expecting the outcome of the investigation panel.
- From the information made available by the company, the current year loss is forecasted to be about N5.0 billion and as at September 30 2006, the company's Net Asset Value (NAV) has come down to at least about N1.0 billion.
- In correcting the financials, the company's Net Asset Per Share (NAPS) has dropped from N10.86 as at December 2005 to about N0.99 as at September 30, 2006 resulting in about 91% drop.
- The parent company may salvage momentum drop in value given the number of floats outstanding (53.73%), we recommend a SELL before the support level.
- The company's price is expected to drop significantly on the floor of the Exchange with daily volume surge at a declining price trend. With a Net Asset of about N1.0billion the stock has been on a serious offer on the floor and will most likely in trade below N15.
- Price will drop significantly in the coming weeks. However, the price level will initially stabilize at a range of N10-N15. Price thereafter will depend on the actions of new management team and recovery performance of the company in 2007FY.
- **Bye and large, we are of the opinion that Cadbury's price may not get to the current level in the next 5 years.**
- **We STRONGLY RECOMMEND A SELL**

NIGERIA FOOD AND BEVERAGES SECTOR

The major contending companies in the industry are *7UP BOTTLING COMPANY PLC, NIGERIAN BOTTLING CO. PLC (NBC), CADBURY NIGERIA PLC, FLOUR MILLS NIGERIA & NESTLE NIGERIA PLC*. These companies produce products ranging from Food Drinks and Beverages, Breads and Snacks, Biscuits, Confectionaries, Flour, Fruit Juices, Pasta, Soft drinks and Table Water. The sector was beset by underlying problems such as competition from foreign exports, high cost of imported raw materials and reduced supply of local raw materials. However, investment outlook in the sector has been quite encouraging, as the sector has grown with manifest increases in turnover and products. Growth in this sector is attributable to key socio-economic factors

such as favourable government policies, exchange rates, interest rates, population size, Foreign Direct Investment (FDI), consumers' purchasing power, and a host of others.

Stock Market Indices: The sector has an average EPS of N4.09 and an average P/E ratio of 19.93. The average earnings yield for the sector is 5.11% which is above the market average. The food and beverage sector by all indications is an emergent industry, yet to attain its full potential and as thus a good investment prospect

Table I: Industrial Peer Group Review					
Stock Symbol	7UP	CADBURY	FLOUR MILLS	NESTLE	NBC
Recent Stock Price(Dec. 13, 2006)	44.00	48.88	62.70	229.00	37.00
P/E Ratio	18.8	21.63	15.64	22.81	20.79
12-Month Trailing EPS (NGN)	2.34	2.26	4.01	10.04	1.78
30-Day Price Change (%)	-3.50	-12.62	-3.80	-1.00	-8.70
1- Year Price Change (%)	17.20	-11.62	39.10	43.99	-24.20
Stock Volatility (β)	0.47	1.08	0.54	0.71	1.05
Earnings Yield (%)	5.32	4.62	6.40	4.38	4.81
Stock Market Cap. (NGN'bn)	22.55	48.92	97.38	121.01	48.07
Return on Equity (ROE) (%)	21.64	24.94	30.68	302.55	12.45
Pre-tax Profit Margin (%)	8.76	13.08	7.29	23.03	6.45
Long-term Debt to Cap. (%)	15.74	63.78	72.36	208.87	16.00

CADBURY (NIGERIA) PLC: RECENT DEVELOPMENTS

- The Board of Cadbury Nigeria recently discovered overstatement of the company's financials and consequently requested that the financials be screened by an independent firm - PriceWaterhouseCoopers (Chartered Accountants). The outcome, as stated in the Chairman's letter to the Exchange, was an overstatement of bottom-lines by about N1.5 billion resulting from different financial shenanigans employed by the company's management since 2003. **The company's independent auditor is Akintola Williams Deloitte(Chartered Accountants)**
- According to the company's chairman, Cadbury's underlying operating loss, resulting from the overstatement, is expected to be approximately N5 billion by the end of 2006FY and that the Net Asset as at September 30, 2006 has diminished to around N1-2billion following adjustment of N12 billion to N15 billion to correct the accounting errors.
- The company's Managing Director & CEO, Bunmi Oni, and the Finance Director, Ayo Akadiri, have been recently relieved of their appointments effective December 11, 2006 and appointed Mr. Wallace Garland as the Acting Managing Director for Cadbury Nigeria Plc
- Cadbury in August 2006, embarked on upgrades of its Candy factory that will introduce substantial automation in its manufacturing and associated processes. The current work follows the commissioning of two new Candy lines in recent months and has required the old wing of the Candy plant to be shut for 4 months from August 4, 2006.

▪ PRODUCTS PORTFOLIO

- Cadbury Nigeria Plc has a broad portfolio as well as established brands –many developed locally which include **Bournvita,, Richoco, Tom-Tom, Eclairs, Trebor Peppermints** just to mention a few. A major investment was also made to establish a cocoa processing plant to process local cocoa beans into derivatives mostly for the export markets
- Its products' brands are offered in four(4) distinct categories viz: **Stanmark, Confectionery, Food Drinks, and Foods businesses** with Food Drinks accounting for the lion share of the company's annual sales revenues followed by Confectionery ,Foods & Stanmark in that order.

Table II: Key Indices**CADBURY (NIGERIA) PLC**

(Year end December 31)	2001	2002	2003	2004	2005
Operating Cash flow to Net Income(times)	2.53	1.12	0.37	0.50	(0.37)
Cash Operating Cycle	139	171	84	133	132
Return On Assets (ROA)(%)	27.31	25.16	28.70	28.73	21.71
Return on Equity (ROE) (%)	49.81	32.63	32.57	29.73	24.94
Times Interest Earned (times)	10	10	10	7	5
Earnings Yield (%)	6.58	9.27	5.50	4.76	4.13
Dividend Yield (%)	3.83	4.66	2.69	3.59	1.99
P/E Ratio	15.2	10.8	18.2	21.0	24.2
Operating Margin (%)	20.32	22.67	20.57	20.46	16.79
EBITDA margin (%)	22.56	24.75	22.46	21.91	18.23
Z-Score	2.87	3.03	3.26	2.46	2.14

ANALYSIS OF FINANCIALS:

Given the recent discovery of overstatement of financials of Cadbury Nigeria via a series of financial chicanery since 2003FY, further analysis of the company's key financials would depend critically on the outcome of the revised figures and other details. Such a restatement of account would reflect the true picture and also show how investors have been under duplicity by trading a stock at a price far more than the intrinsic value.

In the interim however, there has been some prognosis of financial weakness of the company from basic analysis of the current financials.

From the accounts, **the liquidity position** viewed from **current ratio** has been relatively below the industry and the extent to which net income was supported by operating cash flow has moved from 2.53 times in 2001 to a negative figure of 0.37 times in 2005. A Figure above one (1) is still acceptable and a below par figure raises a number of questions about the company's quality of earnings. The decline below par level for Cadbury actually started in 2003 with 0.37 times, with a little increase in 2004 to 0.50 times before falling to negative zone of 0.37 times in 2005. This seriously calls for questioning as regards Cadbury's quality of earnings. To salvage its deteriorating position, the company in 2005, did a rights issue of N5billion unsecured zero coupon irredeemable convertible loan stock at par to its existing shareholders.

Further prognosis is in the area of financial weakness of the company measured with a **Z-Score**. Our analysis revealed that the company financial condition remains in an indecisive zone for the past two years having managed it up till 2003.

Cadbury performance in terms of turnover growth has been declining since 2002 until reversed based on the financials in 2005. Since revenue figure remains another key variable for financial creativity, we have can not say much on this other than the fact the figure has not been moving in line with the industry trend.

In terms of efficiency performance measurement, the company has under-performed given a fast declining **Return on Assets (ROA)**. However, apart from declining operating income, another reason for decline in the ROA figure is overstatement of asset figures as blown up assets reduce asset performance measurement. In the same vein, **Return on Total Assets(ROTA)** decline from 30% in 2001 to 10% in 2005 while **Return on Equity (ROE)** also declined from 49.81% to 24.94% within the same period.

Even with whatever chicanery employed, **cash operating cycle (COC)** has been prolonged from 84 days in 2003 to 132 days in 2005, Earnings Yield declined from 7% in 2001 to 4% in 2005 and **Time Interest Earned (TIE)** also fell from 10 days in 2001 to 5days in 2005.

Based on the brief information supplied by the company's Chairman, the **Net Asset Per Share (NAPS)** which was stated at N10.86 as at the end of 2005FY would have trimmed down to about N1.00 following the adjustment of N12 billion to N15 billion accounting errors as at September 2006.

Similarly, all accumulated **earnings** of about N7.8 billion as at 2005 has sublimed to loss position and a share premium balance has to be tampered with before arriving at a Net Asset Value(NAV) of between N1billion to N2 billion as mentioned in the Chairman's statement.

CADBURY (NIGERIA) PLC: POST ADJUSTMENT.

After the restatement of the company's financial, the company would still be faced with higher interest expenses and declining core operating margin. As mentioned earlier, the company's core earning, profit margin and other profitability ratios have been under pressure from stiff competition, this is expected to continue. The company's workforce may be restructured leading to exceptional cost in the accounts and also the remaining cost of pension and gratuities deferred for 4 years amortization period may have to be provided for in the current or next year. All these would further eat deeply into the bottom-line.

A challenge of rebuilding reserves remains another assiduous task on the part of the company. Shareholders would have to wait for not less than five years before getting any tangible return on their investments.

The ability of the new Managing Director is under test as there will be high expectation for early recovery into sound financial footing. We are of the opinion that with the support of the parent company, Cadbury Schweppes, path to recovery may be sooner than expected.

FINANCIAL SHENANIGANS:

Financial shenanigans are actions that intentionally meant to distort a company's reported financial performance and conditions. We briefly list below some financial shenanigans employed by companies to alter their true financial positions.

- **Recording revenue too soon or of questionable quality-** This includes recording revenue when future services remain to be provided, recording revenue before shipment or before the customer's unconditional acceptance, selling to an affiliated company, recording revenue even though the customer is not obligated to pay, giving a customer something of value as a quid pro quo.
- **Recording Bogus Revenue-** This also involves recording sales that lack economic substance, recording cash received in lending transaction as sale, recording investment income as revenue, recording as revenue suppliers rebate

tied to future required purchase and finally releasing revenue that was improperly held back before a merger.

- **Boosting Income with one time gain-** This is when a company boost income by selling undervalued assets, recording investment income as or gain as a reduction in operating expenses, creating income by reclassification of balance sheet accounts.
- **Shifting current expenses to later or earlier period –** This involves capitalizing normal operating cost particularly if recently changed from expensing, changing accounting policies and shifting current expenses to earlier period. Amortizing cost too slowly, failing to write off or down impaired assets and reducing asset reserves.
- **Failing to record or improperly reducing liabilities-** This includes failing to record expenses and related liabilities when future obligations remain, reducing liabilities by changing accounting assumptions, releasing questionable reserves into income, creating sham rebates and recording revenue when cash is received even though future obligations remain.
- **Shifting current revenue to later period-** This involves creating reserves and releasing them into income in a later period, improperly holding back revenue just before an acquisition closes.
- **Shifting future expenses to a current period as a special charge –** This is done when improperly inflating amount included in a special charge, improperly writing off in-process R&D costs from acquisition and accelerating discretionary expenses into current period.

Some of these practices could be found in Cadbury most especially the recent creation of pension and gratuities expenses in 2005 to be amortized for 5 years. Failing to write off impaired assets could also be deduced from the chairman's statement which is against the provision of International Financial Reporting Standards as covered by (IAS 36).

VALUATION

Various analysts have maintained that Cadbury hitherto trading at the range of N60 was overvalued. We agree with this position considering the company's value before the confirmation of the overstatement of the company's accounts. However, with the recent information from the company, we have tried to restate some of the figures using a **Generally Accepted Accounting Principle (GAAP)**.

With respect to the previous earnings, we have calculated **normalized earnings** using appropriate weights to each of the past figures. We have also forecasted the company's performance post adjustment of its financials and in our opinion; Cadbury should be trading in the region of **N12.00**.

A review of this valuation would be made available by the time the current year financials are made available by the company.

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