

Cadbury defence document – what the analysts say

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Cadbury yesterday (14 December) outlined its case for independence in the disclosure of its formal "defence document". The Dairy Milk maker sought to convince investors of the group's future as a stand-alone company, urging shareholders to reject the advances of Kraft Foods and to stick with a business that has "exceptional growth opportunities". Cadbury also targeted revenue growth of 5-7% a year - compared to its earlier forecast of 4-6% - and improved underlying operating margins of 16-18% by 2013. Here is a flavour of what the analysts had to say after Cadbury released the defence document yesterday.



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"At first impression, the defence document and new guidance make a strong argument as to why Cadbury shareholders should reject Kraft's offer where it stands. We believe that Cadbury's defence arguments against that bid are strong, with medium term guidance most likely beyond what most investors would have thought. We have long-been very bullish on Cadbury, and we now believe that management guidance finally gives an appropriately aggressive view on potential for the business. We stand by our current price target of GBP9.00 for Cadbury. Although we accept that Cadbury is fundamentally worth much more, we believe investors are likely to accept a bid in this range." - Andrew Wood, Sanford Bernstein Research

"Were we to take all these targets at face value then Cadbury might be worth something close to 675p range in the absence of a bid from Kraft, though given these targets are a part of a defence document they may be viewed with an element of caution by the market. Certainly it seems to us that, with these organic opportunities, Cadbury is making a robust case for its continued independence. Kraft, we continue to believe, will have to pay a 30% premium to the underlying value of the business, so something like 850p+." - Alex Molloy, Credit Suisse

"Key to us is the improved margin guidance of 16-18% which confirms our view that current margins are too low. A competitive bid (driven by Hershey in our core scenario) will have to consider normalised margins (16% seems a good base to us). Using 16% margin and 12x EV/Ebitda puts the stock above 900p, leaving upside to our target price. Cadbury guidance is now above all peers, even Danone. We remain sceptical." - Nicolas Ceron, Nomura

"Cadbury's defence document contains few surprises and, in our view, sets out credible objectives through to 2013. 2009E guidance has not been changed, although we are nudging up our EPS forecast by 1.3% from 37.3p to 37.8p for 2009 and by 2.8% for 2010 by 2.8% from 42.2p to 43.6p. As such, Cadbury should be able to deliver 12% growth in EPS and DPS consistently going forwards, and our DCF model sees fair value of 1064p. The question now is what discount to this will Cadbury shareholders be willing to except for certainty now." - Graham Jones, Panmure

"Frankly, it is all Cadbury could have done. And the communication this morning was a work of art: tough, balanced and confident. It is a bold step to increase targets but management has a strong track-record on delivery of guidance. It may well be enough to fend off Kraft which has probably already made its best offer. Given that no-one else is really in the running, it may be enough for Cadbury to stay independent." - James Amoroso, independent analyst.

"I am not sure there are many surprises in what they have said: the top-line target makes sense with maybe question marks about the margin - basically Kraft has to pay more, that is obvious. A deal will only get done above GBP8/share in my view. Kraft is in the driving seat." - Jon Cox, Kepler Capital Markets

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