



## UPDATE 4-Cadbury's slow start in Q1 pushes shares lower

Thu Apr 30, 2009 5:26am EDT

- \* Q1 underlying sales up 2 percent
- \* 2009 targets unchanged from February
- \* Strong growth in chocolate, falls in gum and candy
- \* Shares down 2.6 percent

(Adds further analyst comment, updates shares)

By David Jones

LONDON, April 30 (Reuters) - British confectionery group Cadbury (CBRY.L) reported a slow start to 2009 with sales up 2 percent in the first-quarter as a bumper Easter chocolate season failed to offset weak gum and candy sales, hitting its shares.

The London-based maker of Dairy Milk chocolate, Trident gum and Halls cough drops said its chocolate sales were boosted by a 20 percent rise in British Easter egg sales but destocking and weak markets elsewhere saw gum and candy revenues fall.

Analyst forecasts had ranged widely between flat and 5.5 percent growth for first-quarter sales, so the 2 percent rise at constant currency rates came in at the lower part of the range, pushing its shares down 2.6 percent at 495.5 pence by 0910 GMT to be the FTSE 100 index's .FTSE second biggest loser.

"While we believe that the market was anticipating a slow start to the year we still view this update as somewhat disappointing," said analyst Jeff Stent at broker Citi.

Cadbury Chief Executive Todd Stitzer blamed weak markets in continental Europe and destocking in North America for the declines in gum and candy, but was confident enough for the rest of the year to stick to his 2009 sales and margin targets.

"We sell affordable treats, and in difficult times with a growing stay-at-home culture, it is making us be in the sweet spot of what the consumer wants," he told a conference call.

He added that the bulk of destocking was now behind the group, and stripping out this effect, sales would have been up 4 percent. Within the group, chocolate sales rose 7 percent, while gum and candy sales were both down 2 percent.

As a result, the group held its 2009 targets, which were set in February, to see sales growth around the lower end of its medium-term 4 percent to 6 percent range and to make good progress towards its goal of mid-teen percentage margins by 2011, after posting 11.9 percent for 2008.

Cadbury was happy with analysts' consensus forecasts for a 70 to 80 basis point rise in constant currency 2009 margins.

Analyst Andrew Wood at Bernstein said first-quarter sales volumes were very weak, down 3 percent, and so the group had to rely on price rises of 5 percent to give its 2 percent sales rise. He noted management blamed de-stocking but rivals Hershey (HSY.N) and Nestle (NESN.VX) had not mentioned this factor.

"We had expected a much more robust performance," he said.

*Independent analyst James Amoroso said Cadbury's core chocolate had a solid performance with growth of 7 percent compared with Nestle's (NESN.VX) 4 percent growth.*

Cadbury shares, which traded around 640 pence in May 2008, after its soft drinks demerger, have underperformed the FTSE 100 Index by 11 percent so far this year, and the DJ European food and beverage index .SX3P by 4 percent.

"Trading remains tough, but the shares' valuation is now much more in line with operating reality," said Charles Stanley analyst Jeremy Batstone-Carr.

(Reporting by David Jones; Editing by Simon Jessop and Dan Lalor)

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