

Cranswick

Consumer
1 December 2017

Strong growth continues in H1

Cranswick posted another strong set of results (adjusted H1 pre-tax profit up 17%), demonstrating that the company's innovation is keeping the products relevant and desirable to both consumers and retailers. As part of a material capex programme, management is embarking upon a significant expansion of its poultry business: a new state-of-the-art facility in Suffolk will double its existing capacity. Poultry currently represents just 11% of sales but continues to be an attractive target market for the company, given its growth.

Premium and convenience skew remains a winner

Cranswick's product offering is skewed towards the premium end of the market, and this is growing strongly. Cranswick continues to tap into these trends by launching new ranges in convenient formats. Its exposure to the café and quick-service restaurant (QSR) segment has also enabled it to gain deeper consumer insights around customer preferences and new recipes, and use this knowledge to aid innovation in the retail business. The company continues to invest in its facilities to remain relevant and agile. Speed of innovation remains an advantage in the space, and state-of-the-art facilities help to deliver both flexibility and cost savings.

UK retail environment remains tough

The UK retail environment remains tough: the big four supermarkets have returned to growth following a period of decline, but discounters are still gaining share. However, over time, management has demonstrated its ability to deal with a tough set of customers. While FX-related cost increases remain an issue across the industry, it is positive that pig prices have been falling since the end of July.

Valuation: Premium to competition

Trading at a consensus FY18e P/E of 23.6x, Cranswick continues to be valued at a premium to the meat processing and food manufacturing peer group, and appears to be supported by its near-term growth prospects. Bolt-on acquisitions remain a possibility and could prove to be a catalyst for the shares, although management has demonstrated its willingness to undertake capex projects in the absence of suitable acquisition targets in order to expand the business. Volatility is likely to remain a feature due to the agricultural nature of its raw materials. Given the tough consumer backdrop, management expects to offset some labour cost increases with cost savings from increased automation.

Consensus estimates

Year end	Revenue (£m)	PBT* (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/16	1,069.6	64.4	102.8	37.5	31.3	1.2
03/17	1,245.1	75.5	120.9	44.1	26.6	1.4
03/18e	1,429.3	87.2	136.5	49.9	23.6	1.6
03/19e	1,493.7	91.8	146.2	53.0	22.0	1.6

Source: Bloomberg. Note: *Adjusted to exclude amortisation of intangible assets, impairment of goodwill, profit on sale of businesses and net IAS41 valuation movement on biological assets.

Price **3,219p**
Market cap **£1.64bn**

Share price graph



Share details

Code	CWK
Listing	LSE
Shares in issue	50.9m

Business description

Cranswick is a leading British supplier of premium, fresh and added-value products. It supplies a range of fresh pork, gourmet sausages, premium poultry, charcuterie, traditional bacon and gourmet pastry products through retail, food service and manufacturing channels. The UK is its core market.

Bull

- Strong innovation pipeline helps fuel growth.
- Consumer trend for increased protein consumption is supportive.
- UK origin of produce resonates well with health-conscious consumers and minimises Brexit-related issues.

Bear

- Significant capex investment dents cash flow in the shorter term. The company had a net cash position (£17.8m) at end FY16, £11m of net debt at end FY17, £16.7m of net debt at H118, and more capex projects announced for FY18-20.
- There are execution risks associated with the poultry facility upgrade, as with all large projects.
- Competitive landscape remains tough and the UK retail environment is challenging.

Analysts

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