EDISON

QuickView

Cranswick

Making gains in a competitive space

Cranswick has posted yet another year of strong growth. The business is witnessing growth in all its categories and strong innovation is keeping its offering relevant and desirable. Management has guided towards significant capex investment in 2017 to continue increasing capacity to match its growth prospects.

Premium and convenience-oriented positioning in the sweet spot

The current consumer health trend of increased protein consumption has boosted the market, particularly in poultry. Cranswick's product offering is skewed towards the premium end of the market, and this is witnessing disproportionate growth. The company has seized on the opportunity and launched new ranges in convenient formats that tap into these trends, for example premium sausages are growing at the expense of standard lines, and pre-cooked and pre-seasoned poultry is seeing very strong growth. Innovation remains a key part of Cranswick's growth engine and the company has won several new contracts across various channels.

Space remains competitive

The UK retail environment remains tough, with the discounters and the big four supermarkets fighting for market share. While this is not an easy environment in which to operate, management is well-versed in dealing with a tough set of customers. Equally, the competitive landscape remains challenging, with strong competition from both domestic and international players. Indeed, group operating margin was down 30bp during FY17 to 6.1%. Cranswick is committed to innovation and also strong customer relationships, hence it has earmarked £70m of capex investment for FY18 to upgrade and expand several sites such that it can continue to operate smoothly in periods of peak demand.

Valuation: Premium to competition

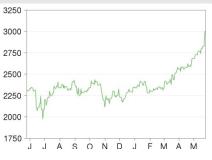
Trading at consensus FY18e P/E of 22.7x, Cranswick continues to be valued at a premium to the meat processing and food manufacturing peer group, which appears to be supported by its near-term growth prospects. Bolt-on acquisitions remain a possibility and, in the right circumstances, could prove to be a catalyst for the shares. Volatility is likely to remain a feature due to the agricultural nature of its raw materials, and we expect inflation to continue to come through in FY18. Given the tough consumer backdrop, management expects to offset some raw material inflation with cost savings and self-help measures throughout the supply chain, as it believes its customers will be unwilling to raise prices significantly.

Consensus estimates

Year	Revenue	PBT	EPS	DPS	P/E	Yield
end	(£m)	(£m)	(p)	(p)	(x)	(%)
03/16	1069.6	64.4	1.028	0.375	29.1	1.3
03/17	1245.1	75.5	1.209	0.441	24.7	1.5
03/18e	1335	82.5	1.32	0.47	22.7	1.6
03/19e	1407	87.3	1.39	0.5	21.5	1.7
Source: Bloomberg						

	Consumer
	26 May 2017
Price	2,990p
Market cap	£1.50bn

Share price graph



Share details

Code	CWK
Listing	LSE
Shares in issue	50.2m

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 healthconscious consumers and minimises Brexitrelated issues

Bear

- Significant capex investment dents cash flow short term. The company had a net cash position (17.8m) at end FY16, but £11m of net debt at end FY17, which is not expected to improve in FY18.
- Competitive landscape remains tough and the UK retail environment is challenging.
- Cost inflation expected to continue into Q118.

Analysts

Sara Welford	+44 (0)20 3077 5700
Paul Hickman	+44 (0)20 3681 2501

consumer@edisongroup.com

EDISON QUICKVIEWS ARE NORMALLY ONE OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.



Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the <u>Financial Conduct Authority</u>. Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison Editors and Evanage Commission. Edison Investment Research (NZ) Limited (Edison NZ) is the Securities and Evanage Commission. Edison Investment Research Initied (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Subsidiary of Edison and is not regulated by the Australian Securities and Investment Research Limited [4794244]. <u>www.edisongroup.com</u>

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdicitons or to cratin categories of investors. This research is subtributional investors only. Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities and subcit. Even on order porvide personalised advice. We publish information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed as an offer or provide personalised advise. So solicitation of investment any securities mentioned or in the topic of this document. This document is provided for finomation provided by us should not be construed as an offer or solicitation for investment negative. The securities and provided by the publication as an offer or provide personal dealing. Edison US westers and solicitation or investment any securities mentioned or in the topic of this document. This document is provided for information publicate as onfer or solicitation for investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. All singles and or the uppo

Frankfurt +49 (0)69 78 8076 960 Schumannstrasse 34b 60325 Frankfurt Germany London +44 (0)20 3077 5700 280 High Holborn London, WC1V 7EE United Kingdom

New York +1 646 653 7026 245 Park Avenue, 39th Floor 10167, New York US Sydney +61 (0)2 8249 8342 Level 12, Office 1205 95 Pitt Street, Sydney NSW 2000, Australia