

Cranswick

Consumer
26 May 2017

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 end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
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

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 health-conscious consumers and minimises Brexit-related 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

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