

# Cranswick

**Consumer**
**22 May 2019**

## Ready to capitalise on opportunities

Cranswick had a year of consolidation in FY19, showing resilience against an uncertain and intensely competitive market backdrop. Management has continued to invest in the business to strengthen its asset base. Revenues were broadly flat on an underlying, like-for-like basis, and adjusted PBT was slightly ahead on the same basis, despite the tough trading environment. Capital investment behind the business continues apace: the Continental meats facility was completed in FY19 and the construction of the new state-of-the-art poultry processing facility is well underway.

### Market remains challenging

The UK retail environment continues to be tough, with the big four food retailers losing share and the discounters outperforming the market. Management has skilfully navigated the UK environment and, over time, has developed exposure to multiple channels. This continues to serve it well, with customers spanning from the supermarkets to the faster-growing Quick Service Restaurants. The market remains tough, as consumers are concerned about the economy, and Brexit uncertainty is unhelpful. The Chinese pork market is being disrupted by African swine fever. This has started to drive up European pork pricing, and is likely to cause UK pork prices to rise. We expect the management team to continue to successfully navigate these conditions, which are likely to bring both challenges and opportunities.

### Convenience and premium continue to drive growth

Cranswick's product offering is skewed towards the premium end of the market, which continues to witness stronger growth. Convenience is important, with consumers looking for both ease of preparation and speed of clearing up. Health is an increasingly important trend, with 81% of UK consumers now saying they are trying to be more healthy. Part of Cranswick's strategy has been to invest in its facilities to remain relevant and to offer superior products at a lower cost.

### Valuation: In line with peers

Trading on a consensus FY20e P/E of 18.3x, Cranswick is valued broadly in line with its meat processing and food manufacturing peer group. Bolt-on acquisitions remain a possibility given the group's net cash position, but management has demonstrated a disciplined approach and a willingness to expand the business via capex projects in the absence of suitable acquisition targets. Volatility is likely to remain a feature due to the agricultural nature of Cranswick's raw materials, and – as per guidance – operating margins are likely to decline due to the challenging commercial landscape and commissioning costs for the new facility.

#### Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/18	1,465	92.4	145.0	53.7	19.7	1.9
03/19	1,437	92.0	144.3	55.9	19.8	1.9
03/20e	1,633	99.5	156.2	60.3	18.3	2.1
03/21e	1,706	106.2	166.5	66.0	17.2	2.3

Source: Refinitiv

**Price** 2,862p  
**Market cap** £1471m

#### Share price graph



#### Share details

Code	CWK
Listing	LSE
Shares in issue	51.4m

#### 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 £20.6m of net cash at end FY18, £6.3m of net cash at end FY19, and more capex projects announced for FY20.
- 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, leading to guidance for lower margins in FY20.

#### Analysts

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