

UK: Analysts again urge Kraft to up Cadbury bid

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A rejection by Cadbury shareholders of a revised offer by Kraft could be "embarrassing" for the US firm, analysts say, maintaining that it will need to raise its offer for any hope of success.

The UK confectioner this morning stepped up its defence against Kraft, telling its own shareholders the company had enjoyed an "outstanding" year.

Cadbury chairman Roger Carr urged shareholders not to let Kraft "steal" the business and reiterated the board's unanimous rejection of the US group's GBP10.5bn (US\$17bn) hostile offer.



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However, independent analyst James Amoroso believes that while it is still a "one-horse race", the offer as it stands, is "far from exciting".

"I can certainly imagine Kraft shareholders not wanting Kraft to raise its offer as it would simply be more than they would like to risk," Amoroso told just-food. "Warren Buffett's recent reaction underlines this."

However, he added: "One thing is clear. On the basis of recent results and the (in my view credible) raised guidance, Cadbury is worth more today than the market thought when Kraft made its initial offer. Put another way, Cadbury was grossly undervalued a few months back. Whether this means that Kraft will raise its offer is unclear.

Amoroso said Cadbury shareholders may simply refuse the offer, preferring to let the Dairy Milk maker's management "get on with it".

"This would of course be somewhat embarrassing (to say the least) for Kraft having just unnecessarily sold some of its crown jewels to Nestle," he added.

In the second response document following the offer posted by Kraft on 4 December, Cadbury revealed some 2009 figures and said underlying revenues had grown 5% during the year, climbing 6% rise in the second half of 2009. The company's trading profit margin rose to 13.5% from 12%.

Cadbury also said it expects its full-year dividend to grow 10% on last year.

Sanford Bernstein analyst Andrew Wood said the results were "strong" and "ahead of earlier guidance", but "slightly below" his "more bullish, top-of-consensus estimates".

Wood said he perceives "increasing concern" that a deal may fall through, particularly given Buffett's rejection of Kraft's plan to issue up to 370m shares to fund a Cadbury acquisition and still no counter-bidder against Kraft.

However, he added: "Should a counter-bid not come, we still believe that Cadbury is worth much more than where the stock currently trades (GBP7.81) and certainly more than Kraft's current bid (GBP7.61).

"Should Kraft not significantly raise its bid, we would expect that Cadbury shareholders would not accept the offer. Our Cadbury target price remains GBP9.00 and we maintain our 'outperform' rating."

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