

25 April 2018 | 1QFY18 Results Review

Nestlé (Malaysia) Berhad

1QFY18 results within expectation

Under Review

Unchanged Target Price (TP): RM116.50

INVESTMENT HIGHLIGHTS

- **1QFY18 earnings grew by +0.2%yoy to RM231.2m, in-line with expectation**
- **Growth in earnings supported by higher sales achieved during the CNY celebration**
- **Expect stable future earnings momentum**
- **We are putting our recommendation under review pending analyst briefing**

Met our and consensus expectations. Nestlé's 1QFY18 earnings met our and consensus expectations, accounting for 33.3% and 33.5% of full year earnings forecast respectively. The first quarter is seasonally the strongest quarter for Nestlé with average contribution of 34% in the last five financial years.

1QFY18 revenue driven by CNY celebration. Nestlé's 1QFY18 revenue grew by +4.2%yoy to RM1.43b attributed by the growth in both domestic and exports which grew by +4.4%yoy and +3.4%yoy respectively. The overall revenue grew mainly due to the higher sales achieved from the Chinese New Year (CNY) celebration as a result of targeted marketing and promotional activities and product innovations.

Earnings for 1QFY18 grew by +0.2%yoy to RM231.2m. The 1QFY18's earnings increased modestly by +0.2%yoy to RM231.2m mainly despite a commendable growth in revenue, as its gross profit (GP) margin for 1QFY18 contracted marginally by -0.8ppts to 39.1%. Also, a higher effective tax rate of 21.6% which is an increase of +0.9ppts year-on-year.

Prospect. For the FY18, we expect a continual improvement in earnings contributed by the (i) stable top line growth in line with the improvement in consumer sentiment and spending; (ii) the stronger Ringgit will keep cost of input materials at bay; and (iii) optimisation of operating activities. Nevertheless, these will be partially mitigated by; (i) the stronger ringgit which will taper export growth and; (ii) a higher overall effective tax rate of 20%.

Impact to earnings. No changes made to our earnings forecast.

RETURN STATS	
Price (24 April 2018)	RM147.50
Target Price	RM116.50
Expected Share Price Return	-21.0%
Expected Dividend Yield	+2.0%
Expected Total Return	-19.0%

STOCK INFO	
KLCI	1,865.34
Bursa / Bloomberg	4707/ NESZ MK
Board / Sector	Main/Consumer
Syariah Compliant	Yes
Issued shares (mil)	234.5
Market cap. (RM'm)	34,588.75
Price over NA	45.75x
52-wk price Range	RM81.0-RM163.0
Beta (against KLCI)	0.58
3-mth Avg Daily Vol	0.25m
3-mth Avg Daily Value	RM34.0m
Major Shareholders (%)	
NESTLE SA	72.61
EPF	6.92
PNB & Associated Funds	2.72

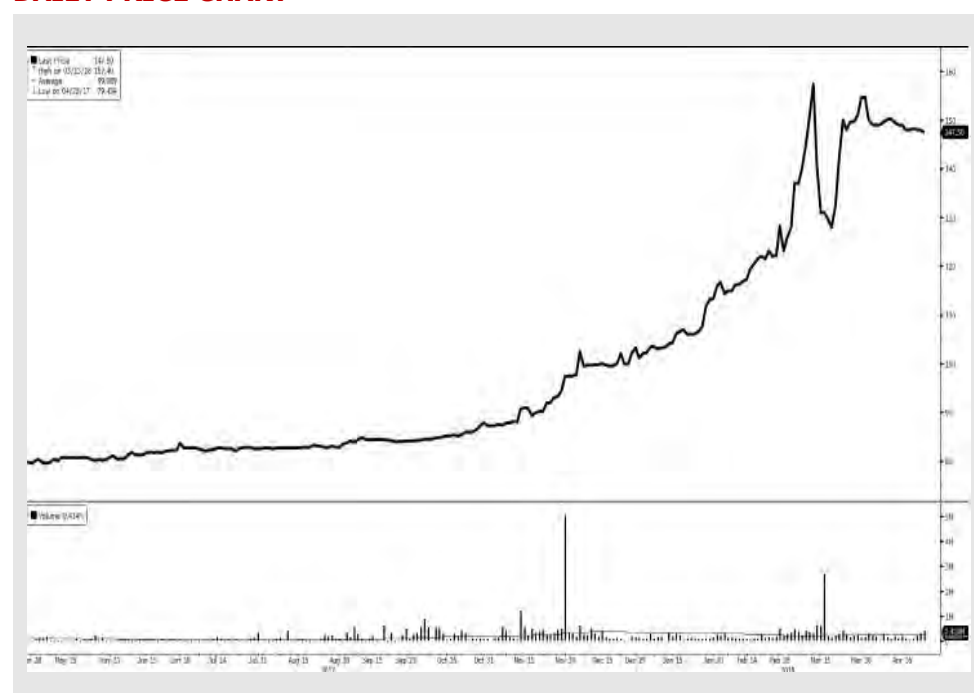
Under Review. Nestlé's valuation is currently stretched with a forward PER close to 50x in comparison to the average three-year PE of 28x before the inclusion to KLCI and MSCI Malaysia Indices. We believe that the expectation of better earnings prospect in FY18 have been priced into the current valuation. We are putting our call under review pending analyst briefing. Our target price is based on dividend discount model with the assumption that required return on equity is of 5.00% and sustainable dividend growth rate of 2.4%. 

INVESTMENT STATISTICS

FYE Dec (RMm)	2015	2016	2017	2018F	2019F
Revenue	4,838.0	5,063.5	5,260.5	5,534.7	5,811.4
Cost of sales	(2,972.5)	(3,066.1)	(3,330.1)	(3,392.7)	(3,559.5)
Gross profit	1,865.5	1,997.5	1,930.3	2,141.9	2,251.9
PBT	727.7	766.5	814.1	867.8	918.2
PAT	590.7	637.1	645.8	694.2	734.6
EPS (sen)	251.9	271.7	275.4	296.1	313.2
Net Dividend (sen)	260.0	270.0	275.0	295.0	315.0
Gross profit margin (%)	38.6	39.4	36.7	38.7	38.8
PBT margin (%)	15.0	15.1	15.5	15.7	15.8
PAT margin (%)	12.2	12.6	12.3	12.5	12.6
EPS Growth (%)	7.3	7.9	1.4	7.5	5.8
Dividend yield (%)	1.8	1.8	1.9	2.0	2.1
PER (x)	58.6	54.3	53.6	49.8	47.1

Source: Company, MIDFR

DAILY PRICE CHART



Nabil Zainoodin, CA
nabil.zainoodin@midf.com.my
03-2772 1663

Nestlé (Malaysia) Bhd: 1QFY18 Results Review

FYE Dec (RMm)	Quarterly results				
	1QFY18	4QFY17	1QFY17	YoY (%)	QoQ (%)
Revenue	1,429.7	1,281.7	1,371.9	4.2	11.5
Cost of sales	(870.4)	(819.3)	(824.7)	5.5	6.2
Gross profit	559.3	462.4	547.2	2.2	21.0
Operating expenses	(255.9)	(287.5)	(248.0)	3.2	(11.0)
Operating profit	303.4	175.0	299.2	1.4	73.4
Finance costs	(9.7)	(9.5)	(8.8)	10.2	1.9
Finance income	0.5	0.4	0.3	62.8	20.1
Share of results of associated company	0.6	(0.1)	0.3	106.8	(773.3)
PBT	294.8	165.8	291.0	1.3	77.9
Taxation	(63.6)	(32.2)	(60.3)	5.5	97.4
PAT	231.2	133.5	230.7	0.2	73.1
Basic EPS (sen)	98.6	57.0	98.4	0.2	73.1
				<i>+ / (-) pts</i>	
Gross profit margin (%)	39.1	36.1	39.9	(0.8)	3.0
Operating profit margin (%)	21.2	13.6	21.8	(0.6)	7.6
PBT margin (%)	20.6	12.9	21.2	(0.6)	7.7
PAT margin (%)	16.2	10.4	16.8	(0.6)	5.8
Effective Tax rate (%)	21.6	19.4	20.7	0.9	2.1
Segmental Results					
Revenue					
Food & Beverages	1,144.3	1,035.3	1,092.7	4.7	10.5
Others (Nutrition, Nestle Professional & Nespresso)	285.4	246.5	279.2	2.2	15.8
Operating Profit					
Food & Beverages	248.7	149.6	244.8	1.6	66.3
Others (Nutrition, Nestle Professional & Nespresso)	54.5	24.2	53.6	1.8	125.0
Operating profit margin (%)					
Food & Beverages	21.7	14.4	22.4	(0.7)	7.3
Others (Nutrition, Nestle Professional & Nespresso)	19.1	9.8	19.2	(0.1)	9.3

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.