

15 August 2018 | 2QFY18 Results Review

Nestlé (Malaysia) Berhad

Maintain **NEUTRAL**

Slower sales growth due to warehouse relocation

Unchanged Target Price (TP): RM132.32

INVESTMENT HIGHLIGHTS

- 2QFY18 earnings grew by +2.9%yoy to RM166.2m, in-line with our expectation
- Sales interrupted by the move to a new warehouse
- Nevertheless, profit margins remain stable
- Maintain **NEUTRAL** stance with an unchanged target price of **RM132.32**

Met our and consensus expectations. Nestlé (Malaysia) Berhad's (Nestlé) 2QFY18 earnings rose by +2.9%yoy to RM166.2m, whilst the 1HFY18 earnings rose by +1.3yoy to RM397.4m. The cumulative earnings met our and consensus expectations, accounting for 57.2% and 55.4% of full year FY18 earnings forecasts respectively. Historically, the first half of the financial year contributed approximately 60.0% of full year earnings for the past three financial years.

Sales interrupted by the move to a new warehouse. Nestlé's 2QFY18 revenue grew by +2.0%yoy to RM1.3b. This is the slowest growth since 2QFY15 which recorded a reduction in revenue of -10.0%yoy when GST was implemented. The slowdown in revenue growth was mainly attributable to the move of its National Distribution Centre (NDC) from Bukit Raja, Klang to AXIS Mega Distribution Centre near Westport from 1st June 2018. This resulted in one month delay in sales completion from June 2018 (Q2) to July 2018 (Q3).


Nevertheless, profit margins remain stable. 2QFY18's net profit margin remains resilient at 12.7%. This was mainly attributable to the stabilising prices of agricultural commodities such as sugar and palm oil. In addition, Nestle also recorded slightly lower effective tax rate of 22.5% in 2QFY18 in comparison to 23.8% in the previous year corresponding quarter.

Interim dividend declared of RM0.70 per share. The first interim dividend of RM0.70 per share was declared in respect of FY18 which will be paid on 27th September 2018.

Impact to earnings. No change to our earnings estimates at this juncture.

RETURN STATS	
Price (14 th August 2018)	RM147.50
Target Price	RM132.32
Expected Share Price Return	-10.3%
Expected Dividend Yield	+2.1%
Expected Total Return	-8.2%

STOCK INFO	
KLCI	1,783.78
Bursa / Bloomberg	4707/ NESZ MK
Board / Sector	Main/Consumer
Syariah Compliant	Yes
Issued shares (mil)	234.5
Market cap. (RM'm)	34,518.40
Price over NA	53.50x
52-wk price Range	RM83.9-RM163.0
Beta (against KLCI)	0.53
3-mth Avg Daily Vol	0.14m
3-mth Avg Daily Value	RM20.6m
Major Shareholders (%)	
NESTLE SA	72.61
EPF	6.85
PNB & Associated Funds	2.04

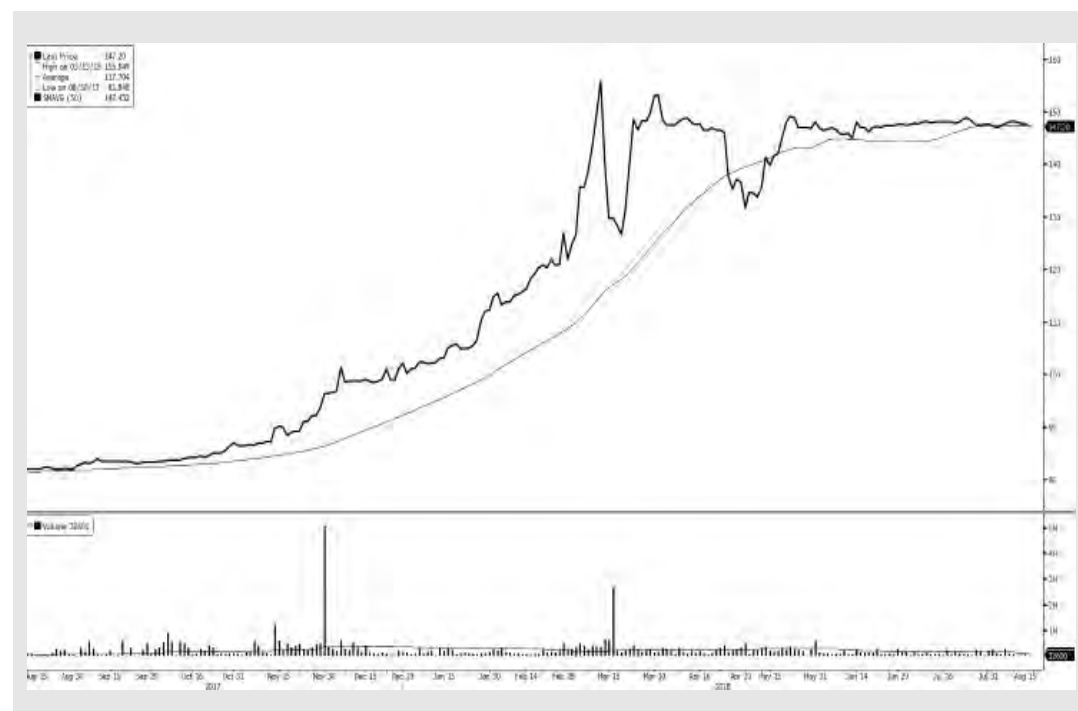
Maintain NEUTRAL stance with an unchanged TP of RM132.32. Nestlé's valuation is currently stretched with a forward PER of 45.5x in comparison to the average three-year PER of 28x before its inclusion into both KLCI and MSCI Malaysia indices. We believe that the expectation of better earnings prospect in FY18 has been priced into the current valuation. We are maintaining our **NEUTRAL** call on Nestlé with an unchanged target price of **RM132.32** per share. 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	2,738.7	5,534.7	5,811.4
Cost of sales	(2,972.5)	(3,066.1)	(1,683.6)	(3,376.1)	(3,559.5)
Gross profit	1,865.5	1,997.5	1,055.2	2,158.5	2,251.9
PBT	727.7	766.5	509.2	885.5	941.4
PAT	590.7	637.1	397.4	694.2	734.6
EPS (sen)	251.9	271.7	397.4	296.1	313.2
Net Dividend (sen)	260.0	270.0	275.0	295.0	315.0
Gross profit margin (%)	38.6	39.4	38.5	39.0	38.8
PBT margin (%)	15.0	15.1	18.6	16.0	16.2
PAT margin (%)	12.2	12.6	14.5	12.5	12.6
EPS Growth (%)	7.3	7.9	46.3	(25.5)	5.8
Dividend yield (%)	1.8	1.8	1.9	2.0	2.1
PER (x)	58.4	54.2	37.0	49.7	47.0

Source: Company, MIDFR

DAILY PRICE CHART



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

Nestlé (Malaysia) Bhd: 2QFY18 Results Review

FYE Dec (RMm)	Quarterly results					Cumulative results		
	2QFY18	1QFY18	2QFY17	YoY (%)	QoQ (%)	1HFY18	1HFY17	YoY (%)
Revenue	1,309.1	1,429.7	1,283.6	2.0	(8.4)	2,738.7	2,655.5	3.1
Cost of sales	(813.2)	(870.4)	(797.9)	1.9	(6.6)	(1,683.6)	(1,627.9)	3.4
Gross profit	495.8	559.3	485.7	2.1	(11.3)	1,055.2	1,027.6	2.7
Operating expenses	(272.3)	(255.9)	(265.2)	2.7	6.4	(528.1)	(508.0)	4.0
Operating profit	223.6	303.4	220.5	1.4	(26.3)	527.0	519.7	1.4
Finance costs	(10.4)	(9.7)	(9.2)	13.0	7.5	(20.1)	(18.0)	11.6
Finance income	0.8	0.5	0.4	122.3	63.4	1.3	0.7	95.2
Share of results of associated company	0.5	0.6	0.3	50.0	(19.7)	1.0	0.6	76.8
PBT	214.4	294.8	211.9	1.2	(27.3)	509.2	502.9	1.3
Taxation	(48.2)	(63.6)	(50.5)	(4.4)	(24.2)	(111.9)	(110.8)	1.0
PAT	166.2	231.2	161.4	2.9	(28.1)	397.4	392.1	1.3
Basic EPS (sen)	70.9	98.6	68.8	2.9	(28.1)	169.46	167.22	1.3
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit margin (%)	37.9	39.1	37.8	0.0	(1.2)	38.5	38.7	(0.2)
Operating profit margin (%)	17.1	21.2	17.2	(0.1)	(4.1)	19.2	19.6	(0.3)
PBT margin (%)	16.4	20.6	16.5	(0.1)	(4.2)	18.6	18.9	(0.3)
PAT margin (%)	12.7	16.2	12.6	0.1	(3.5)	14.5	14.8	(0.3)
Effective Tax rate (%)	22.5	21.6	23.8	(1.3)	0.9	22.0	22.0	(0.1)
Segmental Results								
Revenue								
Food & Beverages	1,051.4	1,144.3	1,029.2	2.2	(8.1)	2,195.7	2,121.0	3.5
Others (Nutrition, Nestle Professional & Nespresso)	257.7	285.4	254.4	1.3	(9.7)	543.1	429.2	26.5
Operating Profit								
Food & Beverages	183.2	248.7	184.4	(0.7)	(26.3)	431.8	429.2	0.6
Others (Nutrition, Nestle Professional & Nespresso)	40.6	54.5	36.7	10.6	(25.5)	95.1	90.3	5.4
Operating profit margin (%)								
Food & Beverages	17.4	21.7	17.9	(0.5)	(4.3)	19.7	20.2	(0.6)
Others (Nutrition, Nestle Professional & Nespresso)	15.8	19.1	14.4	1.3	(3.4)	17.5	21.0	(3.5)

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.