

31 October 2018 | 3QFY18 Results Review

Nestlé (Malaysia) Berhad

Maintain NEUTRAL

3QFY18 earnings lifted by tax holiday spending

Unchanged Target Price (TP): RM133.60

INVESTMENT HIGHLIGHTS

- 3QFY18 earnings grew by +15.7%yoy to RM137.7m
- The cumulative 9MFY18 earnings is in-line with our and consensus expectations
- Sales rose +8.3%yoy driven by tax holiday spending
- Despite the higher marketing and tax expense incurred, profit margins remain resilient due to favourable raw material prices
- Maintain NEUTRAL stance with an unchanged target price of RM133.60

Met our and consensus expectations. Nestlé (Malaysia) Berhad's (Nestlé) 3QFY18 earnings rose by +15.7%yoy to RM137.7m, whilst the 9MFY18 earnings rose by +4.7%yoy to RM535.1m. The cumulative earnings met our and consensus expectations, accounting for 77.1% and 74.5% of full year FY18 earnings forecast respectively.

Sales was mainly boosted by tax holiday spending. Nestlé's 3QFY18 revenue grew by +8.3%yoy to RM1.4b. This is the highest growth in more than five years. The spike in revenue growth was mainly attributable to the: (i) tax holiday spending where GST was zero-rated from June to August 2018 and; (ii) relocation of its National Distribution Centre (NDC) to AXIS Mega Distribution Centre in Sijangkang from 1st June 2018. Note that the relocation has resulted in one month delay in sales completion from June 2018 to July 2018.

Favourable raw material prices improved margins. 3QFY18's net profit margin remains resilient at 9.6%. This was mainly attributable to the lower prices of major raw materials such as sugar and palm oil in comparison to the previous corresponding quarter. Cost savings from these mitigated the higher marketing and promotional expenses and higher tax expense incurred during the quarter.

Interim dividend declared of RM0.70 per share. The second interim dividend of RM0.70 per share was declared in respect of FY18. This brings its cumulative dividend for the year to RM1.40 per share.

Impact to earnings. No change to our earnings estimates pending analysts' briefing this afternoon.


RETURN STATS

Price (30 th October 2018)	RM143.50
Target Price	RM133.60
Expected Share Price Return	-6.9%
Expected Dividend Yield	+2.2%
Expected Total Return	-4.7%

STOCK INFO

KLCI	1,685.94
Bursa / Bloomberg	4707/ NESZ MK
Board / Sector	Main/Consumer
Syariah Compliant	Yes
Issued shares (mil)	234.5
Market cap. (RM'm)	34,002.5
Price over NA	52.70x
52-wk price Range	RM87.0-RM163.0
Beta (against KLCI)	0.57
3-mth Avg Daily Vol	0.10m
3-mth Avg Daily Value	RM14.8m
Major Shareholders (%)	
NESTLE SA	72.61
EPF	7.56
PNB & Associated Funds	2.04

Target price. We are maintaining our target price remains unchanged at **RM133.60** 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%.

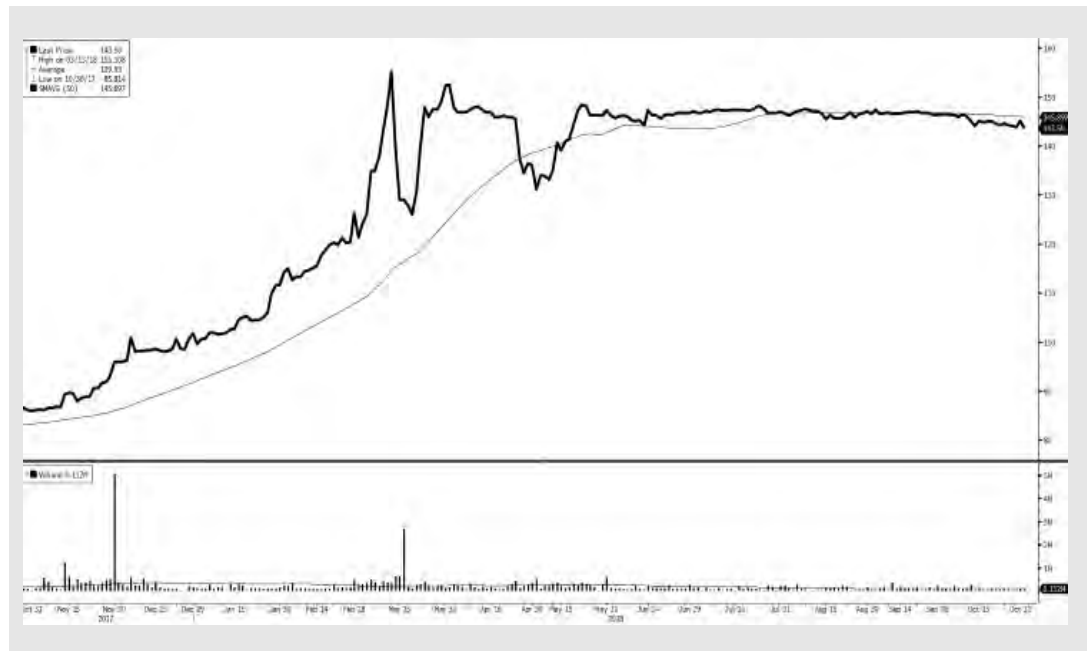
Maintain NEUTRAL stance. Despite the strong earnings in the 3QFY18, we anticipate subdued 4QFY18 sales growth due to the temporary transition in spending after the end of tax-holiday period. Nonetheless, over a longer-term horizon, we believe that the earnings growth to remain stable as: i) prices of its products will not be significantly different under the SST; ii) continuous improvement in its market share and; iii) stabilizing prices of agricultural commodities such as sugar, palm oil, cocoa and coffee beans. As such, we are maintaining our **NEUTRAL** call on Nestlé. 

INVESTMENT STATISTICS

FYE Dec (RMm)	2015	2016	2017	2018F	2019F
Revenue	4,838.0	5,063.5	5,260.5	5,534.7	5,761.4
Cost of sales	(2,972.5)	(3,066.1)	(3,330.1)	(3,376.1)	(3,528.9)
Gross profit	1,865.5	1,997.5	1,930.3	2,158.5	2,232.5
PBT	727.7	766.5	814.1	885.5	933.3
PAT	590.7	637.1	645.8	694.2	728.2
EPS (sen)	251.9	271.7	275.0	296.1	310.6
Net Dividend (sen)	260.0	270.0	275.0	295.0	312.3
Gross profit margin (%)	38.6	39.4	36.7	39.0	38.8
PBT margin (%)	15.0	15.1	15.5	16.0	16.2
PAT margin (%)	12.2	12.6	12.3	12.5	12.6
EPS Growth (%)	7.3	7.9	1.2	7.7	4.9
Dividend yield (%)	1.8	1.9	1.9	2.1	2.2
PER (x)	57.0	52.8	52.2	48.5	46.2

Source: Company, MIDFR

DAILY PRICE CHART



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Nestlé (Malaysia) Bhd: 3QFY18 Results Review

FYE Dec (RMm)	Quarterly results					Cumulative results		
	3QFY18	2QFY18	3QFY17	YoY (%)	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	1,432.5	1,309.1	1,323.3	8.3	9.4	4,171.2	3,978.8	4.8
Cost of sales	(877.2)	(813.2)	(867.4)	1.1	7.9	(2,560.8)	(2,495.3)	2.6
Gross profit	555.2	495.8	455.9	21.8	12.0	1,610.4	1,483.5	8.6
Operating expenses	(357.6)	(272.3)	(302.5)	18.2	31.3	(885.7)	(810.5)	9.3
Operating profit	197.7	223.6	153.3	28.9	(11.6)	724.7	673.0	7.7
Finance costs	(11.9)	(10.4)	(9.6)	23.5	14.1	(32.0)	(27.7)	15.7
Finance income	0.8	0.8	0.4	114.6	(3.7)	2.1	1.0	102.0
Share of results of associated company	0.2	0.5	0.3	(42.3)	(65.2)	1.2	0.9	38.2
PBT	186.7	214.4	144.3	29.4	(12.9)	696.0	647.3	7.5
Taxation	(49.0)	(48.2)	(25.3)	93.6	1.6	(160.9)	(136.1)	18.2
PAT	137.7	166.2	119.0	15.7	(17.1)	535.1	511.1	4.7
Basic EPS (sen)	58.7	70.9	50.8	15.7	(17.1)	228.2	218.0	4.7
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit margin (%)	38.8	37.9	34.5	4.3	0.9	38.6	37.3	1.3
Operating profit margin (%)	13.8	17.1	11.6	2.2	(3.3)	17.4	16.9	0.5
PBT margin (%)	13.0	16.4	10.9	2.1	(3.3)	16.7	16.3	0.4
PAT margin (%)	9.6	12.7	9.0	0.6	(3.1)	12.8	12.8	(0.0)
Effective Tax rate (%)	26.3	22.5	17.5	8.7	3.8	23.1	21.0	2.1

Segmental Results								
Revenue								
Food & Beverages	1,150.1	1,051.4	1,068.5	7.6	9.4	3,345.8	3,190.4	4.9
Others (Nutrition, Nestle Professional & Nespresso)	282.2	257.7	254.7	10.8	9.5	825.3	788.4	4.7
Operating Profit								
Food & Beverages	153.3	183.2	119.8	28.0	(16.3)	585.1	554.1	5.6
Others (Nutrition, Nestle Professional & Nespresso)	98.6	40.6	34.9	182.7	143.0	139.2	118.6	17.4
Operating profit margin (%)								
Food & Beverages	13.3	17.4	11.2	2.1	(4.1)	17.5	17.4	0.1
Others (Nutrition, Nestle Professional & Nespresso)	35.0	15.8	13.7	21.2	19.2	16.9	15.0	1.8

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.