

21 February 2018 | 4QFY17 Results Review

## Nestlé (Malaysia) Berhad

*FY17 performance within expectation*

### INVESTMENT HIGHLIGHTS

- **4QFY17 earnings grew by +99.5%yoy to RM133.5m mainly due to lower marketing and trade in expenses**
- **Full year FY17 earnings rose modestly at +1.4%yoy to RM645.8m, in-line with expectations**
- **Final dividend declared of RM1.35 per share**
- **Maintain NEUTRAL stance with revised TP of RM116.50**

**Met our and consensus expectations.** Nestlé (Malaysia) Bhd (Nestlé) reported 4QFY17 earnings of RM133.5m which doubled the amount reported in the previous year corresponding quarter. Cumulatively, full year FY17 earnings rose more modestly at +1.4%yoy to RM645.8m. The reported earnings met our and consensus expectations, accounting for 96.4% and 99.4% of the full year earnings forecast respectively.

**Earnings rose significantly due to lower operating expenses.** 4QFY17 operating expenses dropped -21.7%yoy to RM287.5m due to lower marketing and trading expenses incurred during the quarter in comparison to the corresponding quarter. Recall that the company incurred exceptionally high marketing expenses in 4QFY16 due to the early celebration of Chinese New Year (CNY) in 2017. In contrast, marketing expenses for FY17 were very well spread out over the four quarters and there is no significant reduction in these expenses. Full year FY17 operating expenses dropped at a lower rate of -9.7%yoy which we believe mainly driven by savings and cost optimisation efforts.

**Nevertheless, weaker quarterly revenue growth reported.** Nestlé's 4QFY17 revenue grew by a modest +2.5%yoy to RM1,281.7m. This is the weakest quarterly growth reported in two years. The lower growth is attributable to the: (i) lesser sales due to later celebration of CNY in 2018 and; (ii) dropped in export sales of -3.2%yoy. The dropped in export sales is attributable partly due to the late phasing of CNY celebration as well as a lower translation gain as a result of stronger Ringgit.

**Final dividend declared of RM1.35 per share.** A final dividend of RM1.35 per share was declared. This brings the cumulative dividend in respect of FY17 to RM2.75 per share (FY16: RM2.70 per share) which represents a 100% dividend payout ratio.

**Maintain NEUTRAL**

**Revised Target Price (TP): RM116.50**  
(Previously RM82.76)

RETURN STATS	
Price (20 February 2018)	RM121.50
Target Price	RM116.50
Expected Share Price Return	-4.1%
Expected Dividend Yield	+2.4%
<b>Expected Total Return</b>	<b>-1.7%</b>

STOCK INFO	
KLCI	1,855.99
Bursa / Bloomberg	4707/ NESZ MK
Board / Sector	Main/Consumer
Syariah Compliant	Yes
Issued shares (mil)	234.5
Market cap. (RM'm)	28,491.75
Price over NA	44.52x
52-wk price Range	RM75.4-RM121.0
Beta (against KLCI)	0.50
3-mth Avg Daily Vol	0.27m
3-mth Avg Daily Value	RM27.3m
Major Shareholders (%)	
NESTLE SA	72.61
EPF	6.98
PNB & Associated Funds	2.72

**Prospect.** For FY18, we expect an improvement in earnings contributed by the (i) stable top line growth in line with the improvement in consumer sentiment and spending as a result of government measures to increase household disposable income introduced in Budget 2018; (ii) the stronger Ringgit will stabilise cost of input materials; and (iii) reaping of the benefit of better efficiency. Nevertheless, these will be mitigated by; (i) the stronger ringgit which will taper export growth and; (ii) a higher effective tax rate of 20% given the increasing deferred tax liabilities.

**Impact to earnings.** We fine-tune our FY18 earnings estimates marginally lower by -2.4%yoy mainly to account for higher effective tax rate. However, we revise upwards FY18 dividend estimates slightly higher to RM2.95 (previously RM2.93).

**Maintain NEUTRAL stance with a revised TP of RM116.50.** Nestlé's price has risen approximately +21% since the public announcement of its inclusion into MSCI Malaysia and FBM KLCI Index in November 2017. Nevertheless, valuation is currently stretched with a forward PER of more than 40x in comparison to the average three-year PE of 28x before the inclusion. We believe that the improved earnings in the 4QFY17 and expectation of better earnings prospect in FY18 have been priced into the current valuation. We are maintaining our **NEUTRAL** call on Nestlé with a revised target price of **RM116.50** per share (previously RM82.76 per share). Our target price is based on dividend discount model with the assumption that required return on equity is of 5.00% (previously 5.70%) and sustainable dividend growth rate of 2.4%. We revised the required rate of return on equity downwards in light of the stock inclusion into MSCI Malaysia and FBM KLCI Index. We are of the view that the inclusion depicts the group's earnings resilient and hence, lower perceived risk.

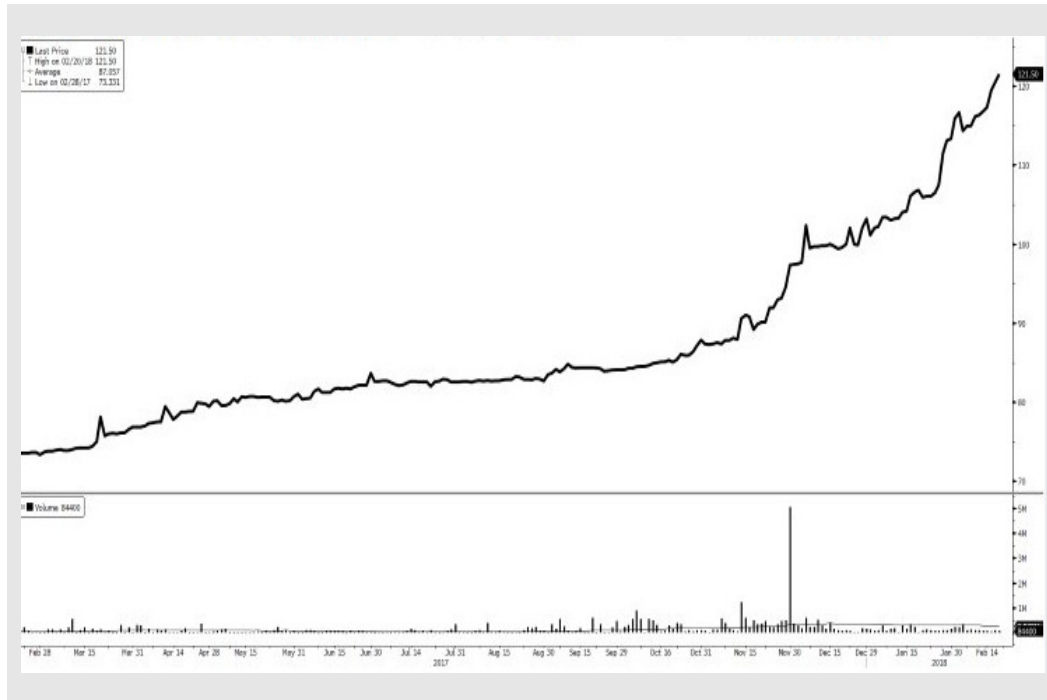


## INVESTMENT STATISTICS

FYE Dec (RMm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
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
<b>PAT</b>	<b>590.7</b>	<b>637.1</b>	<b>645.8</b>	<b>694.2</b>	<b>734.6</b>
EPS (sen)	251.9	271.7	275.4	296.1	313.2
Net Dividend (sen)	260.0	270.0	275.0	295.0	320.0
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 (%)	2.1	2.2	2.3	2.4	2.7
PER (x)	48.2	44.7	44.1	41.0	38.8

Source: Company, MIDFR

## DAILY PRICE CHART



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## Nestlé (Malaysia) Bhd: 4QFY17 Results Review

FYE Dec (RMm)	Quarterly results					Cumulative results		
	4QFY17	3QFY17	4QFY16	YoY (%)	QoQ (%)	FY17	FY16	YoY (%)
Revenue	1,281.7	1,323.3	1,249.9	2.5	(3.1)	5,260.5	5,063.5	3.9
Cost of sales	(819.3)	(872.4)	(792.3)	3.4	(6.1)	(3,330.1)	(3,066.1)	8.6
Gross profit	462.4	450.8	457.6	1.1	2.6	1,930.3	1,997.5	(3.4)
Operating expenses	(287.5)	(297.1)	(367.2)	(21.7)	(3.3)	(1,082.4)	(1,198.7)	(9.7)
Operating profit	175.0	153.7	90.4	93.6	13.8	847.9	798.8	6.1
Finance costs	(9.5)	(9.3)	(8.8)	7.9	2.5	(36.0)	(33.8)	6.4
Finance income	0.4	0.4	0.3	37.8	13.5	1.4	1.1	26.6
Share of results of associated company	(0.1)	0.3	(0.4)	(77.3)	(130.6)	0.8	0.4	91.5
PBT	165.8	145.1	81.5	103.4	14.3	814.1	766.5	6.2
Taxation	(32.2)	(25.3)	(14.6)	121.4	27.2	(168.3)	(129.4)	30.1
<b>PAT</b>	<b>133.5</b>	<b>119.7</b>	<b>66.9</b>	<b>99.5</b>	<b>11.5</b>	<b>645.8</b>	<b>637.1</b>	<b>1.4</b>
Basic EPS (sen)	57.0	51.1	28.6	99.5	11.5	275.4	271.7	1.4
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit (%)	36.1	34.1	36.6	(0.5)	2.0	36.7	39.4	(2.8)
Operating profit margin (%)	13.6	11.6	7.2	6.4	2.0	16.1	15.8	0.3
PBT margin (%)	12.9	11.0	6.5	6.4	2.0	15.5	15.1	0.3
PAT margin (%)	10.4	9.0	5.4	5.1	1.4	12.3	12.6	(0.3)
Effective Tax rate (%)	19.4	17.5	17.9	1.6	2.0	20.7	16.9	3.8
<b>Segmental Results</b>								
<b>Revenue</b>								
Food & Beverages	1,035.3	1,068.5	1,001.0	3.4	(3.1)	4,225.7	4,039.1	4.6
Others (Nutrition, Nestle Professional & Nespresso)	246.5	254.7	248.9	(1.0)	(3.2)	1,034.8	1,024.4	1.0
<b>Operating Profit</b>								
Food & Beverages	149.6	119.8	81.0	84.8	24.8	698.5	644.6	8.4
Others (Nutrition, Nestle Professional & Nespresso)	24.2	34.9	8.3	191.1	(30.6)	149.4	153.9	(2.9)
<b>Operating profit margin (%)</b>								
Food & Beverages	14.4	11.2	8.1	6.4	3.2	16.5	16.0	0.6
Others (Nutrition, Nestle Professional & Nespresso)	9.8	13.7	3.3	6.5	(3.9)	14.4	15.0	(0.6)

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.