

01 November 2018 | Briefing Note

## Nestlé (Malaysia) Berhad

*4QFY18 earnings growth to trend lower*

### INVESTMENT HIGHLIGHTS

- **3QFY18 earnings (+15.7%yoy) was primarily lifted by relocation of its distribution centre and tax holiday spending**
- **Subdued 4QFY18 earnings expected post tax holiday season**
- **Continuous focus on product innovation and enhancing operating efficiency to support future earnings growth**
- **Maintain NEUTRAL stance with a revised target price of RM131.70**

**One-off events boosted 3QFY18 earnings.** To recall, Nestlé (Malaysia) Berhad's (Nestlé) 3QFY18 revenue rose by +8.3%yoy while earnings rose by +15.7%yoy. The management attributed the strong quarterly earnings to one-off effects from the move to the new distribution centre in Sijangkang resulted in one month delay in sales of RM25.0m from June 2018 (Q2) to July 2018 (Q3); and improved consumer spending resulting from tax holiday. In addition, earnings grew as a result of successful innovation particularly for the Maggi Noodles range where strong growth was recorded following the introduction of 'Pedas Giler' variety and external factor of the lower raw materials price.

**Continuous focus on enhancing operating efficiency.** In the immediate term, we believe that 4QFY18 earnings will moderate due to: (i) the temporary transition in spending after the end of tax-holiday period; (ii) expected recovery of raw material prices specifically corns, grains and milk powder; (iii) loss of revenue contribution from chilled dairy business; and (iv) higher effective tax rate as a result of full utilisation of Halal tax incentive. Nonetheless, we believe that Nestlé's recent disposal of its chilled dairy business and channelling the proceeds on upgrading its Milo plant in Chembong will further improve its operating efficiency. Given that Milo is Nestlé's biggest product category, upgrading Chembong plant's production facilities and capacity will help it achieve economies of scale.

**Impact to earnings.** Post analysts' briefing, we are revising our FY18F and FY19F marginally downwards by -2.9%.and -2.0% respectively. This is mainly premised on higher raw material prices such as corns, grains and milk powder.


**Maintain NEUTRAL**

**Revised Target Price (TP): RM131.70**  
**(Previously RM133.60)**

RETURN STATS	
Price (31 <sup>st</sup> October 2018)	RM143.50
Target Price	RM131.70
Expected Share Price Return	-8.2%
Expected Dividend Yield	+2.1%
<b>Expected Total Return</b>	<b>-6.1%</b>

STOCK INFO	
KLCI	1,709.27
Bursa / Bloomberg	4707/ NESZ MK
Board / Sector	Main/Consumer
Syariah Compliant	Yes
Issued shares (mil)	234.5
Market cap. (RM'm)	33,721.10
Price over NA	47.58x
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	RM15.5m
Major Shareholders (%)	
NESTLE SA	72.61
EPF	7.58
PNB & Associated Funds	2.04

**Target price.** We revised our target price to **RM131.70** per share (previously RM133.60). 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%.

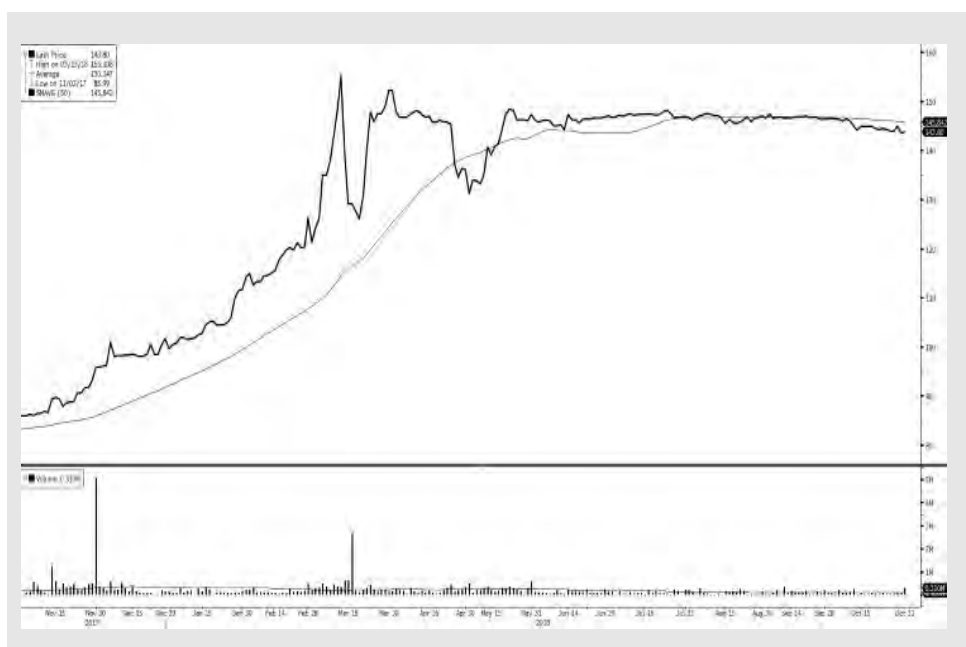
**Maintain NEUTRAL stance.** In the near term, we anticipate subdued 4QFY18 sales growth due to the temporary transition in spending after the end of tax-holiday period. Nevertheless, over a longer-term horizon, we believe that the earnings growth to remain stable as: i) prices of its products will not be significantly different under the SST; ii) continuous effort to expand its market share and; iii) economies of scale achieved from focusing on core brands namely Milo, Maggi and Nescafe. 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	5,508.3	5,756.2
Cost of sales	(2,972.5)	(3,066.1)	(3,330.1)	(3,426.2)	(3,525.7)
Gross profit	1,865.5	1,997.5	1,930.3	2,082.1	2,230.5
PBT	727.7	766.5	814.1	875.8	926.7
<b>PAT</b>	<b>590.7</b>	<b>637.1</b>	<b>645.8</b>	<b>674.4</b>	<b>713.6</b>
EPS (sen)	251.9	271.7	275.0	287.6	304.3
Net Dividend (sen)	260.0	270.0	275.0	286.6	306.0
<b>Gross profit margin (%)</b>	<b>38.6</b>	<b>39.4</b>	<b>36.7</b>	<b>37.8</b>	<b>38.8</b>
PBT margin (%)	15.0	15.1	15.5	15.9	16.1
<b>PAT margin (%)</b>	<b>12.2</b>	<b>12.6</b>	<b>12.3</b>	<b>12.2</b>	<b>12.4</b>
<b>EPS Growth (%)</b>	<b>7.3</b>	<b>7.9</b>	<b>1.2</b>	<b>4.6</b>	<b>5.8</b>
<b>Dividend yield (%)</b>	<b>1.8</b>	<b>1.9</b>	<b>1.9</b>	<b>2.0</b>	<b>2.1</b>
<b>PER (x)</b>	<b>57.1</b>	<b>52.9</b>	<b>52.3</b>	<b>50.0</b>	<b>47.3</b>

Source: Company, MIDFR

## DAILY PRICE CHART



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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.