

25 August 2017 | Briefing Note

Nestlé (Malaysia) Berhad

Expecting improvement in the 2HFY17

INVESTMENT HIGHLIGHTS

- **Management reassured performance will improve in 2HFY17**
- **Fighting for market share is the main priority**
- **Reaffirm NEUTRAL stance with an unchanged TP of RM82.76**

Management reassured performance will improve in 2HFY17.

Recall that Nestlé's 2QFY17 earnings dropped -14.2%yoy to RM162.1m impacted by high input costs, whilst the 1HFY17 earnings dropped -4.1%yoy to RM392.5m. Nevertheless, management explained that the dropped in earnings yoy for the quarter is expected as Q2 of the last FY is an exceptional quarter as the gross profit (GP) margin was at its highest point of 42.6% resulted from lower commodities prices and the group's effective hedging strategy. From Q2FY16 however, GP margin steadily dropped in line with the rising commodities prices. Management further informed that recent prices of commodities such as sugar and milk powder have started to increase again coupled with a more stable Ringgit, they are confident that the group can deliver better profit and dividend than prior year.

Fighting for market share is the main priority. Management commented on the disconnect between the improved GDP numbers and the lower consumer sentiment index registered for the 2Q and they believe this is due to the multiplier effect that has yet to kick in into the society translating into higher wages and disposable income. Due to this, pricing during the 1HFY17 was not favourable to the group and it also incurred higher promotional and marketing expenses. Hence, pricing was done on a very selective basis and among the product category that has experienced price increase is the seasoning and noodle category with average price increase of 2% and 4% respectively. Nevertheless, better consumer spending is expected to be seen in the Q2 or Q3 next year. As such management is quite optimistic on FY18. They added that the priority in current market condition is to fight for market share. For the record, average market share has improved 15.77% in the 2QFY17 from 15.27% recorded towards the end of the last FY.

Impact to earnings. We maintain our FY17 earnings estimates as the 1HFY17 result was within our expectation and we believe that the profitability will further pick up in the 2HFY17.

Maintain NEUTRAL


Unchanged Target Price (TP): RM82.76

RETURN STATS

Price (24 August 2017)	RM84.58
Target Price	RM82.76
Expected Share Price Return	-2.16%
Expected Dividend Yield	+3.34%
Expected Total Return	+1.19%

STOCK INFO

KLCI	1,775.50
Bursa / Bloomberg	4707/ NESZ MK
Board / Sector	Main/Consumer
Syariah Compliant	Yes
Issued shares (mil)	234.5
Market cap. (RM'm)	19,744.90
Price over NA	31.63x
52-wk price Range	RM74.10- RM85.20
Beta (against KLCI)	0.37
3-mth Avg Daily Vol	0.06m
3-mth Avg Daily Value	RM5.17m
Major Shareholders (%)	
NESTLE SA	72.61
EPF	8.14
PNB & Associated Funds	2.72

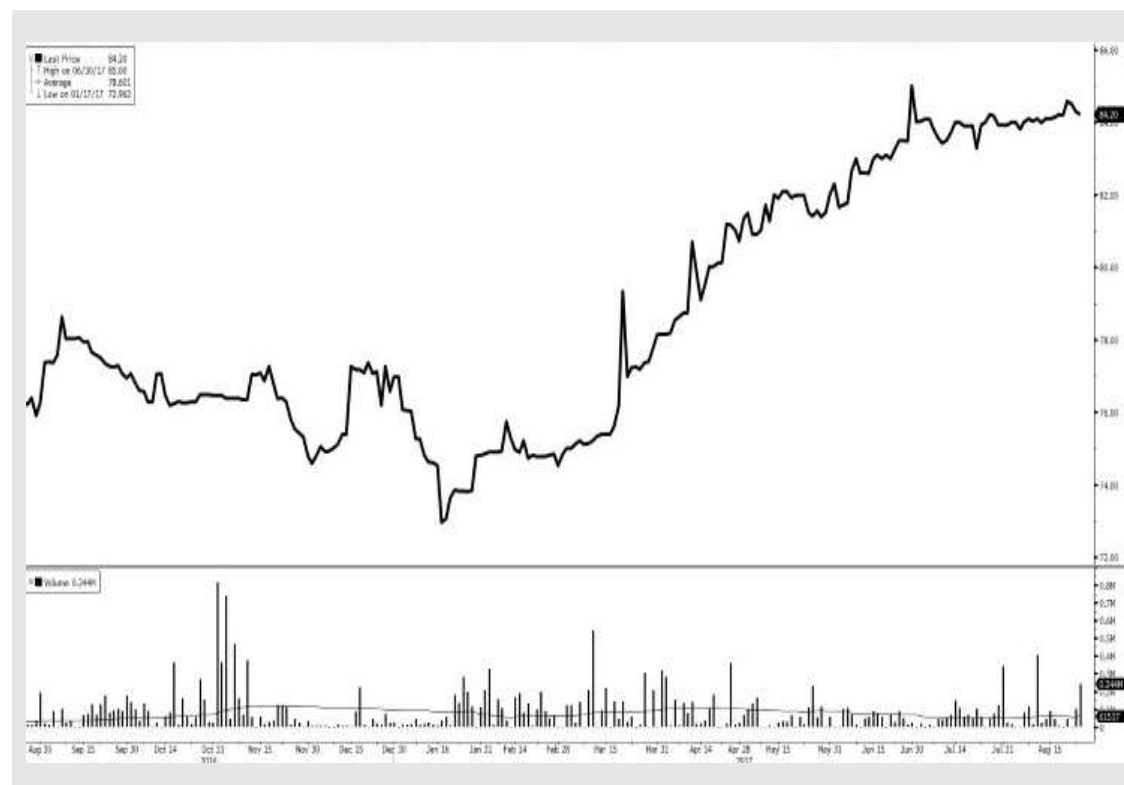
Reaffirm NEUTRAL stance with an unchanged TP of RM82.76. We are maintaining our **NEUTRAL** call on Nestlé with an unchanged target price of RM82.76 per share. Our target price is based on dividend discount model using the assumption that required return on equity of 5.70% and sustainable dividend growth rate of 2.11%. 

INVESTMENT STATISTICS

FYE Dec (RMm)	FY2014	FY2015	FY2016	FY2017F	FY2018F
Revenue	4,808.9	4,838.0	5,063.5	5,271.1	5,534.7
Cost of sales	(3,109.0)	(2,972.5)	(3,066.1)	(3,241.7)	(3,392.7)
Gross profit	1,700.0	1,865.5	1,997.5	2,029.4	2,141.9
PBT	701.2	727.7	766.5	817.0	867.8
PAT	550.4	590.7	637.1	670.0	711.6
EPS (sen)	234.7	251.9	271.7	285.7	303.5
Net Dividend (sen)	235.0	260.0	270.0	282.8	300.4
Gross profit margin (%)	35.3	38.6	39.4	38.5	38.7
PBT margin (%)	14.6	15.0	15.1	15.5	15.7
PAT margin (%)	11.4	12.2	12.6	12.7	12.9
EPS Growth (%)	(2.0)	7.3	7.9	5.2	6.2
Dividend yield (%)	2.8	3.1	3.2	3.4	3.6
PER (x)	35.9	33.4	31.0	29.5	27.7

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



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Nestlé (Malaysia) Bhd: 2QFY17 Results Review

FYE Dec (RMm)	Quarterly results					Cumulative results		
	2QFY17	1QFY17	2QFY16	YoY (%)	QoQ (%)	1H FY17	1H FY16	YoY (%)
Revenue	1,283.6	1,371.9	1,237.2	3.8	(6.4)	2,655.5	2,550.6	4.1
Cost of sales	(813.7)	(824.7)	(710.0)	14.6	(1.3)	(1,638.4)	(1,502.0)	9.1
Gross profit	469.9	547.2	527.1	(10.9)	(14.1)	1,017.1	1,048.6	(3.0)
Operating expenses	(249.2)	(248.7)	(296.4)	(15.9)	0.2	(497.9)	(533.1)	(6.6)
Operating profit	220.7	298.5	230.7	(4.3)	(26.1)	519.2	515.6	0.7
Finance costs	(8.8)	(8.4)	(7.5)	17.4	5.4	(17.2)	(17.0)	1.5
Finance income	0.4	0.3	0.3	27.3	19.7	0.7	0.5	27.2
Share of results of associated company	0.3	0.3	0.4	n.a.	10.7	0.6	0.6	n.a.
PBT	212.5	290.7	223.9	(5.1)	(26.9)	503.3	499.8	0.7
Taxation	(50.5)	(60.3)	(35.1)	43.8	(16.3)	(110.8)	(90.3)	22.7
PAT	162.1	230.4	188.8	(14.2)	(29.7)	392.5	409.5	(4.1)
Basic EPS (sen)	69.1	98.3	80.5	(14.2)	(29.7)	167.4	174.6	(4.1)
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit (%)	36.6	39.9	42.6	(6.0)	(3.3)	38.3	41.1	(2.8)
Operating profit margin (%)	17.2	21.8	18.6	(1.5)	(4.6)	19.6	20.2	(0.7)
PBT margin (%)	16.6	21.2	18.1	(1.5)	(4.6)	19.0	19.6	(0.6)
PAT margin (%)	12.6	16.8	15.3	(2.6)	(4.2)	14.8	16.1	(1.3)
Effective Tax rate (%)	23.7	20.7	15.7	8.1	3.0	22.0	18.1	3.9
Segmental Results								
Revenue								
Food & Beverages	1,029.2	1,092.7	994.5	3.5	(5.8)	2,121.9	2040.2	4.0
Others (Nutrition, Nestle Professional & Nespresso)	254.4	279.2	242.7	4.8	(8.9)	533.6	510.5	4.5
Operating Profit								
Food & Beverages	184.4	244.8	193.2	(4.6)	(24.7)	429.2	423.2	1.4
Others (Nutrition, Nestle Professional & Nespresso)	36.7	53.6	38.6	(5.0)	(31.5)	90.3	93.5	(3.5)
Operating profit margin (%)								
Food & Beverages	17.9	22.4	19.4	(1.5)	(4.5)	20.2	20.7	(0.5)
Others (Nutrition, Nestle Professional & Nespresso)	14.4	19.2	15.9	(1.5)	(4.8)	16.9	18.3	(1.4)

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.