

24 November 2017 | Briefing Note

Nestlé (Malaysia) Berhad

Expecting better performance in the 4QFY17

INVESTMENT HIGHLIGHTS

- **Management reassured performance will improve in 4QFY17**
- **Improvement in logistic**
- **Reaffirm NEUTRAL stance with an unchanged TP of RM82.76**

Management reassured performance will improve in 4QFY17.

To recall, Nestlé's 3QFY17 earnings declined by -25.5% yoy to RM119.7m, whilst the 9MFY17 earnings slipped by -10.2% yoy to RM512.3m. Management reassured that the earnings in 4QFY17 will improve in comparison to the corresponding quarter due to the relatively lower marketing and trade expenses. Due to the earlier Chinese New Year (CNY) celebration in 2017, significantly higher expenses were incurred in the 4QFY16 in preparation for this festivity. Management guided that the same expenses will be relatively lower in the 4QFY17. Therefore, we believe that the group can deliver better earnings and dividend than prior year.

Improvement in logistic. Management updated further on its savings and cost optimisation efforts particularly on logistic handling. One of the projects mentioned are 'Project Double' which basically aims to; (i) reduce the size of pallet in order to increase storage of products within the same space; (ii) make unloading process quicker and; (iii) reduce the number of trucks used. The savings on distribution cost in total from this effort is estimated at 21%. In addition, Nestlé has also built a new distribution centre which will commence operation in 2QFY18 as well as upgraded its 30 years old central warehouse with new cranes, control system, shuttle system for incoming and outgoing pallets, amongst others.

Impact to earnings. We maintain our FY17 earnings estimates as the 3QFY17 result was within our expectation and we believe that the profitability will pick up in the 4QFY17.

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%. The stock price has ran up more than 5% since the announcement of stock inclusion to MSCI Malaysia Index with effect from Nov 30. As of now, we believe that the valuation is stretched as the current PE is at 36.5x which is significantly higher than the two-year average PE of 29.3.



Maintain NEUTRAL
Unchanged Target Price (TP): RM82.76

RETURN STATS

Price (23 November 2017)	RM91.98
Target Price	RM82.76
Expected Share Price Return	-10.0%
Expected Dividend Yield	+3.3%
Expected Total Return	-6.7%

STOCK INFO

KLCI	1,721.27
Bursa / Bloomberg	4707/ NESZ MK
Board / Sector	Main/Consumer
Syariah Compliant	Yes
Issued shares (mil)	234.5
Market cap. (RM'm)	21,569.31
Price over NA	32.04x
52-wk price Range	RM74.10-RM94.8
Beta (against KLCI)	0.40
3-mth Avg Daily Vol	0.25m
3-mth Avg Daily Value	RM22m
Major Shareholders (%)	
NESTLE SA	72.61
EPF	8.06
PNB & Associated Funds	2.72

Nestlé (Malaysia) Bhd: 3QFY17 Results Review

FYE Dec (RMm)	Quarterly results					Cumulative results		
	3QFY17	2QFY17	3QFY16	YoY (%)	QoQ (%)	9MFY17	9MFY16	YoY (%)
Revenue	1,323.3	1,283.6	1,263.0	4.8	3.1	3,978.8	3,813.6	4.3
Cost of sales	(872.4)	(813.7)	(771.7)	13.0	7.2	(2,510.8)	(2,273.7)	10.4
Gross profit	450.8	469.9	491.3	(8.2)	(4.1)	1,467.9	1,539.9	(4.7)
Operating expenses	(297.1)	(249.2)	(298.4)	(0.4)	19.2	(795.0)	(831.5)	(4.4)
Operating profit	153.7	220.7	192.8	(20.3)	(30.4)	672.9	708.4	(5.0)
Finance costs	(9.3)	(8.8)	(8.1)	15.0	5.4	(26.5)	(25.0)	5.9
Finance income	0.4	0.4	0.3	14.9	(9.3)	1.0	0.8	22.6
Share of results of associated company	0.3	0.3	0.2	n.a.	(6.3)	0.9	0.8	n.a.
PBT	145.1	212.6	185.2	(21.7)	(31.8)	648.4	685.0	(5.3)
Taxation	(25.3)	(50.5)	(24.5)	3.2	(49.8)	(136.1)	(114.8)	18.5
PAT	119.7	162.1	160.7	(25.5)	(26.1)	512.3	570.2	(10.2)
Basic EPS (sen)	51.1	69.1	68.5	(25.5)	(26.1)	218.4	243.2	(10.2)
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit (%)	34.1	36.6	38.9	(4.8)	(2.5)	36.9	40.4	(3.5)
Operating profit margin (%)	11.6	17.2	15.3	(3.7)	(5.6)	16.9	18.6	(1.7)
PBT margin (%)	11.0	16.6	14.7	(3.7)	(5.6)	16.3	18.0	(1.7)
PAT margin (%)	9.0	12.6	12.7	(3.7)	(3.6)	12.9	15.0	(2.1)
Effective Tax rate (%)	17.5	23.8	13.2	4.2	(6.3)	21.0	16.8	4.2
Segmental Results:								
Revenue								
Food & Beverages	1,068.5	1,029.2	998.0	7.1	3.8	3,190.4	3038.1	5.0
Others (Nutrition, Nestle Professional & Nespresso)	254.7	254.4	265.0	(3.9)	0.1	788.4	775.5	1.7
Operating Profit								
Food & Beverages	119.8	184.4	140.4	(14.7)	(35.0)	549.0	563.6	(2.6)
Others (Nutrition, Nestle Professional & Nespresso)	34.9	36.7	52.0	(32.9)	(4.9)	125.2	145.6	(14.0)
Operating profit margin (%)								
Food & Beverages	11.2	17.9	14.1	(2.9)	(6.7)	17.2	18.6	(1.3)
Others (Nutrition, Nestle Professional & Nespresso)	13.7	14.4	19.6	(5.9)	(0.7)	15.9	18.8	(2.9)

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.