



Nestlé (Malaysia) Berhad

(4707 | NESZ MK) Main | Consumer Products & Services | Food & Beverages

Maintain NEUTRAL

Robust Domestic Sales; Higher Finance Cost

Unchanged Target Price: RM139.50

KEY INVESTMENT HIGHLIGHTS

- **Within estimations**
- **Robust domestic sales in 2QFY23**
- **Mixed 1HFY23 performance**
- **Maintain NEUTRAL with an unchanged TP of RM139.50**

Within estimations. Nestle Malaysia (Nestle) reported a 1HFY23 core PATAMI of RM390.8m, after excluding a one-time off item of RM12.7m. The earnings came in within our and consensus' full-year projections, accounting for 52.4% of ours and 55.1% of the street's. The group declared an interim dividend of 70sen/share in 2QFY23, consistent with 70sen/share dividend in 2QFY22.

Robust domestic sales in 2QFY23. On a yearly basis, the core PATAMI decreased by -1%yoy to RM182.4m in 2QFY23, despite higher revenue (+6.8%yoy). This was mainly due to higher raw material cost, marketing investment, as well as finance cost. As such, the core PATAMI margin decreased by -0.8ppt. On a quarterly basis, the decreased core PATAMI (-12.5%qoq) was in tandem with reduced revenue (-5%qoq). This was attributable to the higher base in the previous quarter for the CNY celebration, as well as higher marketing spend. Note that historically 2Q accounted for a lower contribution of around 23-24% in the past 4 years.

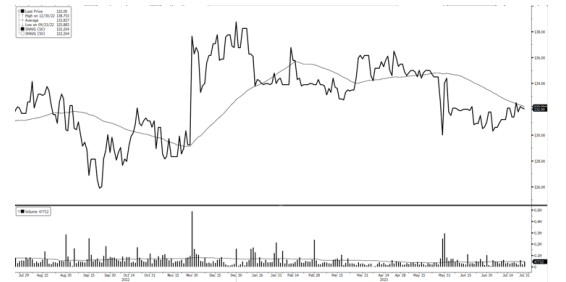
Mixed 1HFY23 performance. Cumulatively, Nestle reported a revenue increase of +7.8%yoy to RM3.59b in 1HFY23, mostly driven by strong domestic sales. However, the operating profit decreased from RM545.6m in 1HFY22 to RM531.1m in 1HFY23, primarily due to higher raw material costs resulting from increased commodity prices and weakening ringgit. Consequently, the operating margin for the F&B segment dropped by -1.8ppt to 15.7%. Nevertheless, core PATAMI decreased only marginally by -0.2%yoy to RM390.8m, thanks to the lower tax expenses that offset the impact of higher input and finance costs. Recall that FY22 included a one-off prosperity tax charge.

Maintain NEUTRAL with an unchanged TP of RM139.50. Given that earnings came in within our projection, we make no changes to our earnings forecast for FY23-25F. Our target price of RM139.50 is based on DDM valuation with a 3.5% growth rate and a WACC of 6.80%. Going forward, we expect topline to remain stable, supported by the solid domestic spending prospect, as well as the normalization in most commodities that could support earnings. However, we are cautious that the finance cost could increase due to the rising interest rate environment, given that Nestle has a net gearing of 1.3x in FY23F. Hence, we maintain our **NEUTRAL** rating on Nestle.

RETURN STATISTICS

Price @ 27 th July 2023 (RM)	132.00
Expected share price return (%)	+5.70
Expected dividend yield (%)	+2.40
Expected total return (%)	+8.09

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.1	-3.3
3 months	0.8	-4.7
12 months	-1.9	-0.5

INVESTMENT STATISTICS

FYE Dec (RM'm)	2023F	2024F	2025F
Revenue	7,085.6	7,681.4	8,545.9
EBITDA	971.6	1,097.4	1,310.4
Profit Before Tax	972.9	1,098.1	1,310.5
Core PATAMI	746.1	842.1	1,005.0
Core EPS (sen)	318.2	359.1	428.6
DPS (sen)	314.6	355.1	423.7
Dividend Yield (%)	2.4	2.7	3.2


KEY STATISTICS

FBM KLCI	1,451.27
Issue shares (m)	234.50
Estimated free float (%)	16.16
Market Capitalisation (RM'm)	30,954.00
52-wk price range	RM127– RM140
3-mth average daily volume (m)	0.05
3-mth average daily value (RM'm)	6.18
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	9.16
BlackRock Inc	1.98

Analyst(s)

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Valuation. Nestle is currently trading at a compelling FY24F PER of 36.8x, which is lower than its 3-year mean PER of 53x. Additionally, it offers a dividend yield of 2.4% in FY23F.

Downside/(Upside) risks are: (i) a further increase/(decrease) in commodity prices that reduce/(improve) the margin; and (ii) higher/(lower)-than-expected energy costs. 

Nestle Malaysia: 2QFY23 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue	1,750.9	1,842.4	1,639.0	6.8	(5.0)	3,593.3	3,332.7	7.8
Cost of Sales	(1,186.2)	(1,279.0)	(1,121.2)	5.8	(7.3)	(2,465.3)	(2,239.2)	10.1
Gross Profit	564.7	563.4	517.8	9.1	0.2	1,128.0	1,093.5	3.2
Operating expenses	(310.7)	(286.3)	(269.9)	15.1	8.5	(597.0)	(547.9)	9.0
Operating profit (EBIT)	254.0	277.1	247.9	2.5	(8.3)	531.1	545.6	(2.7)
Net finance income/(cost)	(14.4)	(14.8)	(10.2)	40.5	(3.3)	(29.2)	(19.7)	48.1
Profit before tax (PBT)	239.8	262.3	237.9	0.8	(8.6)	502.2	526.6	(4.6)
Profit After tax (PAT)	180.9	197.1	169.7	6.6	(8.2)	378.1	374.8	0.9
PATAMI	180.9	197.1	169.7	6.6	(8.2)	378.1	374.8	0.9
Core PATAMI	182.4	208.4	184.2	(1.0)	(12.5)	390.8	391.4	(0.2)
Core EPS (sen)	77.8	88.9	78.6	(1.0)	(12.5)	166.6	166.9	(0.2)
DPS (sen)	70.0	0.0	70.0	0.0	n.m.	70.0	70.0	0.0
Growth & Margin (%)				+/- ppts	+/- ppts			+/- ppts
Gross Profit Margin	32.3	30.6	31.6	0.7	1.7	31.4	32.8	(1.4)
Operating Profit Margin	14.5	15.0	15.1	(0.6)	(0.5)	14.8	16.4	(1.6)
PBT Margin	13.7	14.2	14.5	(0.8)	(0.5)	14.0	15.8	(1.8)
Core PATAMI Margin	10.4	11.3	11.2	(0.8)	(0.9)	10.9	11.7	(0.9)
Ratios & Valuation				+/- ppts	+/- ppts			+/- ppts
Net gearing (x)	1.0	1.1	0.6	0.4	(0.1)	1.0	0.6	0.4
Effective tax rate (%)	24.6	24.8	28.7	(4.1)	(0.3)	24.7	28.8	(4.1)

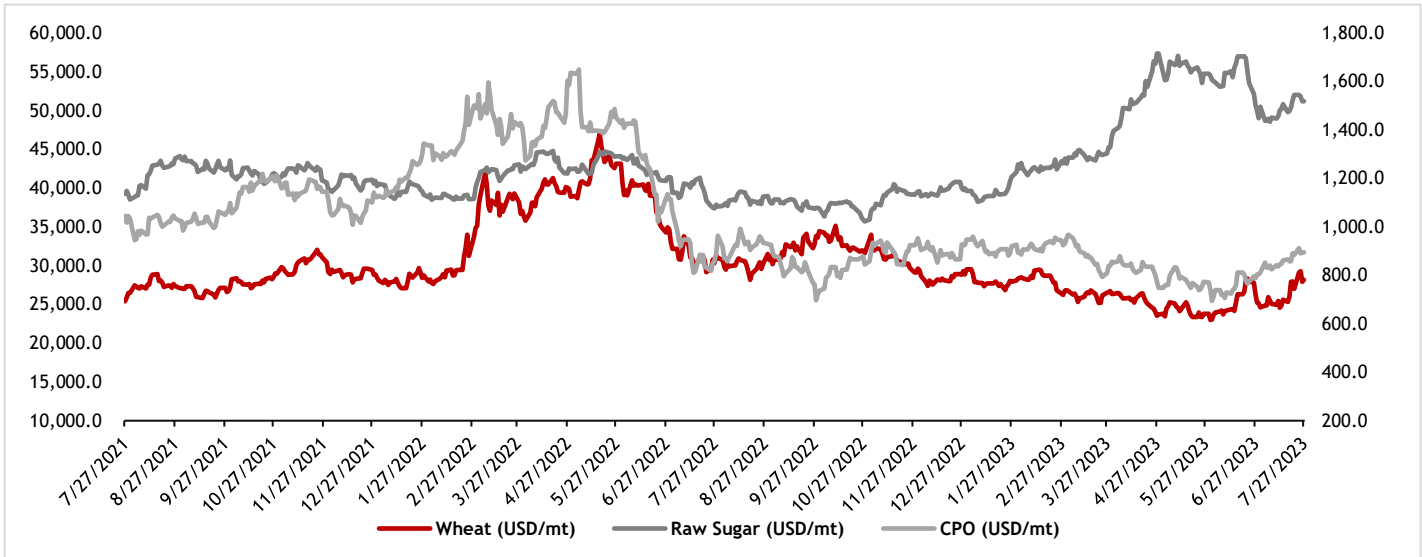
Source: Company, MIDFR

Nestle Malaysia: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue (External):								
Food & Beverages	1,446.0	1,531.1	1,354.9	6.7	(5.6)	2,977.1	2,754.5	8.1
Others	304.9	311.3	284.1	7.3	(2.1)	616.2	578.2	6.6
Total	1,750.9	1,842.4	1,639.0	6.8	(5.0)	3,593.3	3,332.7	7.8
Operating Profit:								
Food & Beverages	224.7	242.9	222.7	0.9	(7.5)	467.6	482.9	(3.2)
Others	29.6	34.5	25.4	16.4	(14.2)	64.1	63.3	1.3
Total	254.3	277.4	248.1	2.5	(8.3)	531.7	546.2	(2.7)
Operating profit margin:								
Food & Beverages	15.5	15.9	16.4	(0.9)	(0.3)	15.7	17.5	(1.8)
Others	9.7	11.1	9.0	0.8	(1.4)	10.4	11.0	(0.5)
Total	14.5	15.1	15.1	(0.6)	(0.5)	14.8	16.4	(1.6)

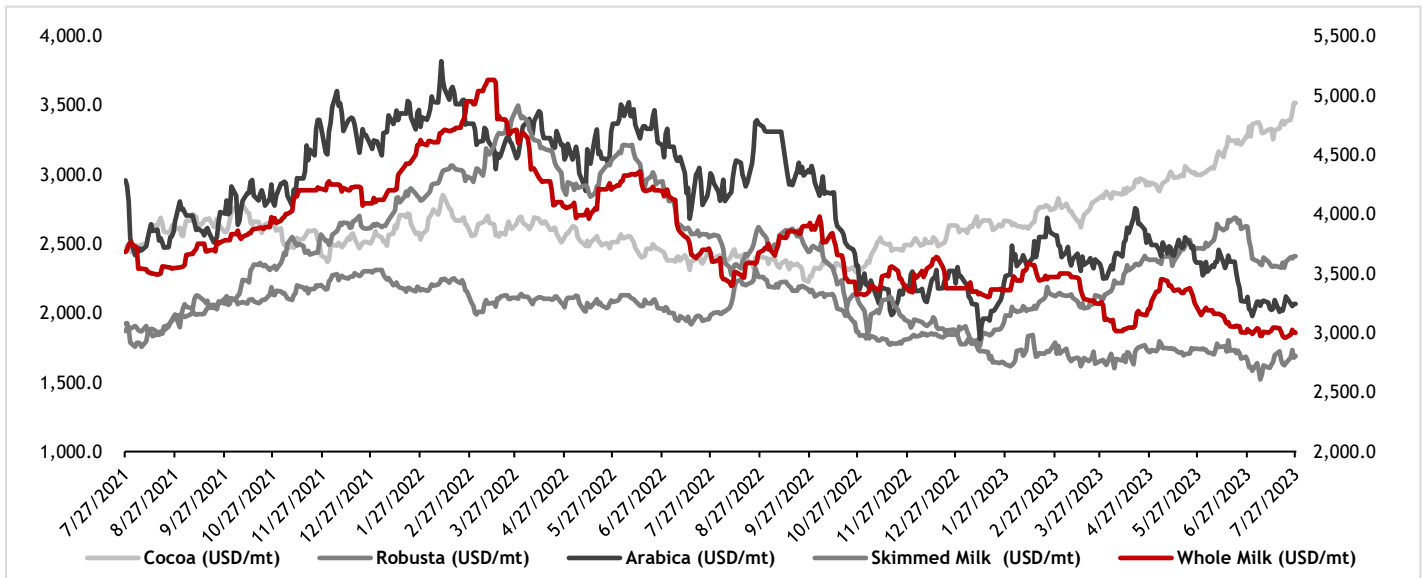
Source: Company, MIDFR

TABLE 1: Wheat, Raw Sugar, CPO Futures Price Trend (USD/MT)



Source: MIDFR, Bloomberg

TABLE 2: Cocoa, Arabica, Robusta, Skimmed Milk Powder, Whole Milk Powder Futures Price Trend (USD/MT)



FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	5,733.8	6,664.1	7,085.6	7,681.4	8,545.9
Cost of Sales	(3,775.6)	(4,603.3)	(4,791.6)	(5,124.4)	(5,587.1)
Gross Profit	1,958.2	2,060.9	2,294.0	2,557.0	2,958.8
Other Income	3.7	0.0	2.0	3.5	4.1
Selling and Distribution expenses	(906.2)	(936.0)	(1,010.1)	(1,106.0)	(1,228.7)
General & Administrative	(186.0)	(194.0)	(226.9)	(265.7)	(325.1)
Other operating expenses	(83.8)	(27.9)	(29.4)	(31.5)	(37.0)
EBITDA	981.4	1,110.4	971.6	1,097.4	1,310.4
EBIT	785.9	902.9	1,029.5	1,157.2	1,372.1
Profit before tax (PBT)	751.6	859.5	972.9	1,098.1	1,310.5
Income tax expense	(182.0)	(239.1)	(226.8)	(256.0)	(305.5)
PATAMI	569.6	620.3	746.1	842.1	1,005.0
Core PATAMI	575.3	632.3	746.1	842.1	1,005.0
Core EPS (sen)	245.3	269.6	318.2	359.1	428.6
DPS (sen)	242.0	262.0	314.6	355.1	423.7

Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property, plant and equipment	1,534.3	1,669.3	1,679.3	1,693.3	1,714.2
Intangible assets	63.3	62.2	65.5	70.2	77.4
Total Non-current assets	1,844.9	1,954.8	2,047.9	2,068.4	2,081.9
Inventories	745.0	1,115.1	968.1	1,035.3	1,128.8
ST - Trade and other receivables	377.1	445.2	437.1	473.9	527.2
Cash and cash equivalents	6.9	8.2	8.7	9.5	10.6
Total current assets	1,139.9	1,599.2	1,446.2	1,553.1	1,704.4
Total Assets	2,984.8	3,554.0	3,494.0	3,621.5	3,786.3
Total Equity	582.7	626.3	615.9	604.5	592.1
LT Lease Liabilities	141.4	120.0	121.2	124.9	132.0
LT Loans and borrowings	100.0	300.0	303.0	306.0	309.1
Total Non-current liabilities	473.7	668.7	670.1	678.2	695.1
ST Trade and other payables	1,626.1	1,724.9	1,744.0	1,865.2	2,033.6
ST Loans and borrowings	245.7	486.9	491.8	496.7	501.6
Total Current Liabilities	1,928.4	2,259.0	2,208.0	2,338.8	2,499.0
Total Liabilities	2,402.1	2,927.7	2,878.1	3,016.9	3,194.2

Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	751.6	859.5	1,098.1	1,310.5	1,573.3
Cash flow from operations	887.5	511.5	1,133.8	1,120.9	1,332.0
Cash flow from investing	(266.3)	(309.7)	(55.6)	(61.8)	(70.2)
Cash flow from financing	(596.6)	(376.8)	(890.0)	(1,058.0)	(1,260.3)
Net cash flow	24.5	(174.9)	188.2	1.1	1.5
Net cash/(debt) b/f	(28.3)	(3.8)	(178.7)	9.5	10.6
Net cash/(debt) c/f	(3.8)	(178.7)	9.5	10.6	12.2

Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	24.2	27.8	23.3	23.3	23.3
Dividend Yield (%)	1.8	2.0	2.4	2.7	3.2
PER (x)	54.3	49.8	41.5	36.8	30.8
Inventories (Days)	64.9	73.7	73.7	73.7	73.7
Net debt/total equity (x)	0.6	1.2	1.3	1.3	1.4

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	34.2	30.9	32.4	33.3	34.6
EBITDA Margin (%)	17.1	16.7	13.7	14.3	15.3
Core PATAMI Margin (%)	10.0	9.5	10.5	11.0	11.8

Source: Bloomberg, 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology