



Nestlé (Malaysia) Berhad

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

Maintain NEUTRAL

Upcoming Revenue Boost from Wyeth Nutrition

Unchanged Target Price: RM139.50

KEY INVESTMENT HIGHLIGHTS

- **Virtual briefing**
- **Resilient domestic demand**
- **Potential selling price hike amid continuously rising prices**
- **Expect additional contribution from recently acquired Wyeth Nutrition Malaysia next quarter ahead**
- **Maintain NEUTRAL with an unchanged TP of RM139.50**

Virtual briefing. We attended Nestlé’s virtual briefing last Friday and remained neutral about the group’s outlook. Some salient highlights from briefing are as follows: -

Resilient domestic demand. Nestle recorded a domestic sales growth of +10.8%yoy in 1HFY23, reaching RM2.91b, thanks to robust domestic consumer spending. However, the export sales for 1HFY23 dropped by -3.2%yoy, amounting to RM686m, partly due to the high base in 1HFY22 following the reopening of economies and borders across most countries. Going forward, the group anticipates domestic sales to remain resilient as domestic consumption continues to be robust, including the out-of-home segment.

Potential selling price hike amid continuously rising prices. Despite the overall improvement in raw material costs for FY23F compared to FY22, as most global commodities have dropped from their peak prices, management remains cautious about the potential of continued upward pressure on raw material costs next year. This caution arises due to rising concerns about the lower supply of certain commodities resulting from the terminated Black Sea grain deal and extreme weather conditions, which could introduce uncertainty to commodity prices in the future. Hence, the management does not rule out the possibility of raising selling prices for certain product categories.

Expect additional contribution from recently acquired Wyeth Nutrition Malaysia next quarter ahead. Nestle highlighted that it did not include the revenue and earnings contribution from Wyeth Nutrition Malaysia in the 2QFY23 results as the acquisition was completed on 30 June 2023. However, moving forward, we expect the inclusion of the additional revenue contribution in the upcoming quarter. Recall that, in FY22, Wyeth Nutrition reported a revenue of RM203.5m (equivalent to 3.1% of Nestle's FY22 revenue) and a net profit of RM16.9m (approximately 2.72% of Nestle's FY22 net income).

RETURN STATISTICS

Price @ 28 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	0.8	-4.4
3 months	0.8	-4.9
12 months	-2.0	0.8

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	1,450.35
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)	6.11
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	9.16
BlackRock Inc	1.89

Analyst(s)

Genevieve Ng Pei Fen
Genevieve.ng@midf.com.my

Maintain NEUTRAL with an unchanged TP of RM139.50. We make no changes to our earnings forecast for FY23-25F post analyst briefing. Our TP 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 FY23's 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.

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 commodities prices that reduce/(improve) the margin; and (ii) higher/(lower)-than-expected energy costs. 

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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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