



Nestlé (Malaysia) Berhad

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

Maintain NEUTRAL

Additional Revenue from Wyeth Business

Revised Target Price: RM129.70*(previously RM139.50)*

KEY INVESTMENT HIGHLIGHTS

- **Within expectations**
- **Strong domestic sales and Wyeth business boost revenue**
- **Improved cumulative core PATAMI and revenue in 9MFY23**
- **Maintain NEUTRAL with a revised TP of RM129.70 (from RM139.50)**

Within expectations. Nestle Malaysia ("Nestle") reported a core PATAMI of RM573.4m in 9MFY23, after subtracting a one-time off item of RM61.7m. The core earnings came in within ours and consensus' full-year FY23F projections, representing 76.9% of ours and 79.5% of consensus. As expected, the group declared an interim dividend of 70sen per share in 3QFY23, bringing the total dividend to 140sen per share for 9MFY23.

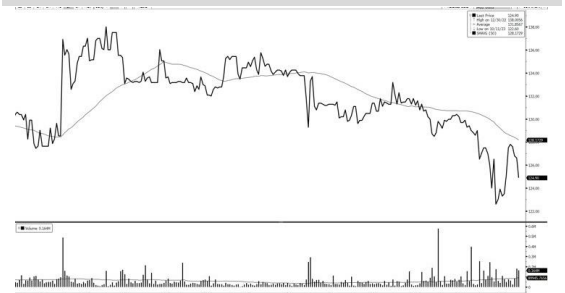
Strong domestic sales and Wyeth business boost revenue. On a quarterly basis, the group's core PATAMI remained relatively unchanged at RM182.7m in 3QFY23 compared to RM182.4m in 2QFY23. This was mainly due to solid domestic sales and lower commodity prices, which offset the higher operating expenses (due to increased energy prices and additional marketing expenses for brand events and activities). On a yearly basis, gross profit for 3QFY23 improved by +8.5%yoy, reaching RM562m, in line with the higher revenue growth of +8.1%yoy to RM1.77b. This was supported by stronger domestic sales (+11.7%yoy), additional revenue from the Wyeth business, lower commodity costs that more than offset weaker export sales and unfavorable exchange rates. However, higher operating expenses during the quarter led to a -0.9%yoy decrease in the core PATAMI to RM182.7m.

Improved cumulative core PATAMI and revenue in 9MFY23. Cumulatively, the topline improved by +7%yoy to RM5.37b, thanks to robust growth in domestic sales that more than offset the weaker export sales. Both F&B and other segments recorded positive revenue growth of +6%yoy and +11.8%yoy in 9MFY23. Core PATAMI rose by +10.4%yoy to RM573.4m, mainly supported by better sales and the absence of the prosperity tax.

RETURN STATISTICS

Price @ 26 th Oct 2023 (RM)	124.90
Expected share price return (%)	+3.80
Expected dividend yield (%)	+2.50
Expected total return (%)	+6.3

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.9	-2.5
3 months	-1.3	-4.9
12 months	-6.1	-5.2

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 (%)	2.5	2.8	3.4


KEY STATISTICS

FBM KLCI	1,440.60
Issue shares (m)	234.50
Estimated free float (%)	15.83
Market Capitalisation (RM'm)	29,289.05
52-wk price range	RM121– 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

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Maintain NEUTRAL with a revised TP of RM129.70 (from RM139.50). We make no changes to our earnings forecast for FY23-25F given that earnings met our expectation. However, we are lowering our **TP** to **RM129.70** (from RM139.50) as we update our valuation, which account for higher market return and the risk-free rate. Our revised TP is based on DDM valuation with an unchanged 3.5% growth rate and a revised WACC of 7.1% (from 6.80%). Looking ahead, we anticipate that Nestle's topline to remain stable, driven by solid domestic spending prospects along with the normalization of most commodity prices, which should support FY23's earnings. However, we are cautious about the volatility in energy prices as well as the unfavourable exchange rates, which could offset the positive impact of commodity price normalization and. Hence, we maintain our **NEUTRAL** call on Nestle.

Valuation. Nestle currently trading at FY24F P/E ratio of 34.8x, below its two-year average P/E ratio of 50.5x. Additionally, it offers a 2.5% dividend yield in FY23F. **Downside/(Upside) risks** are: (i) a further increase/(decrease) in commodity prices; (ii) higher/(lower)-than-expected energy costs, (iii) unfavorable/(favorable) exchange rates, and (iv) weaker/(stronger) than expected consumer demand. 

Nestle Malaysia: 3QFY23 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	2QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	1,772.3	1,750.9	1,639.0	8.1	1.2	5,365.6	5,016.2	7.0
Cost of Sales	(1,210.3)	(1,186.2)	(1,121.2)	7.9	2.0	(3,675.5)	(3,463.8)	6.1
Gross Profit	562.0	564.7	517.8	8.5	(0.5)	1,690.0	1,552.4	8.9
Operating expenses	(346.8)	(310.7)	(269.9)	28.5	11.6	(943.7)	(846.7)	11.5
Operating profit (EBIT)	215.3	254.0	247.9	(13.2)	(15.3)	746.3	705.7	5.8
Net finance income/(cost)	(14.9)	(14.4)	(10.2)	46.3	4.2	(44.1)	(30.7)	43.7
Profit before tax (PBT)	200.3	239.8	237.9	(15.8)	(16.5)	702.4	676.1	3.9
Profit After tax (PAT)	133.7	180.9	169.7	(21.2)	(26.1)	511.8	487.5	5.0
PATAMI	133.7	180.9	169.7	(21.2)	(26.1)	511.8	487.5	5.0
Core PATAMI	182.7	182.4	184.2	(0.9)	0.2	573.4	519.3	10.4
Core EPS (sen)	77.9	77.8	78.6	(0.9)	0.2	244.5	221.4	10.4
DPS (sen)	70.0	70.0	70.0	0.0	0.0	140.0	140.0	0.0
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	31.7	32.3	31.6	0.1	(0.5)	31.5	30.9	0.5
Operating Profit Margin	12.1	14.5	15.1	(3.0)	(2.4)	13.9	14.1	(0.2)
PBT Margin	11.3	13.7	14.5	(3.2)	(2.4)	13.1	13.5	(0.4)
Core PATAMI Margin	10.3	10.4	11.2	(0.9)	(0.1)	10.7	10.4	0.3
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net gearing (x)	0.8	1.0	0.6	0.2	(0.2)	0.8	0.6	0.2
Effective tax rate (%)	33.2	24.6	28.7	4.5	8.7	27.1	27.9	(0.8)

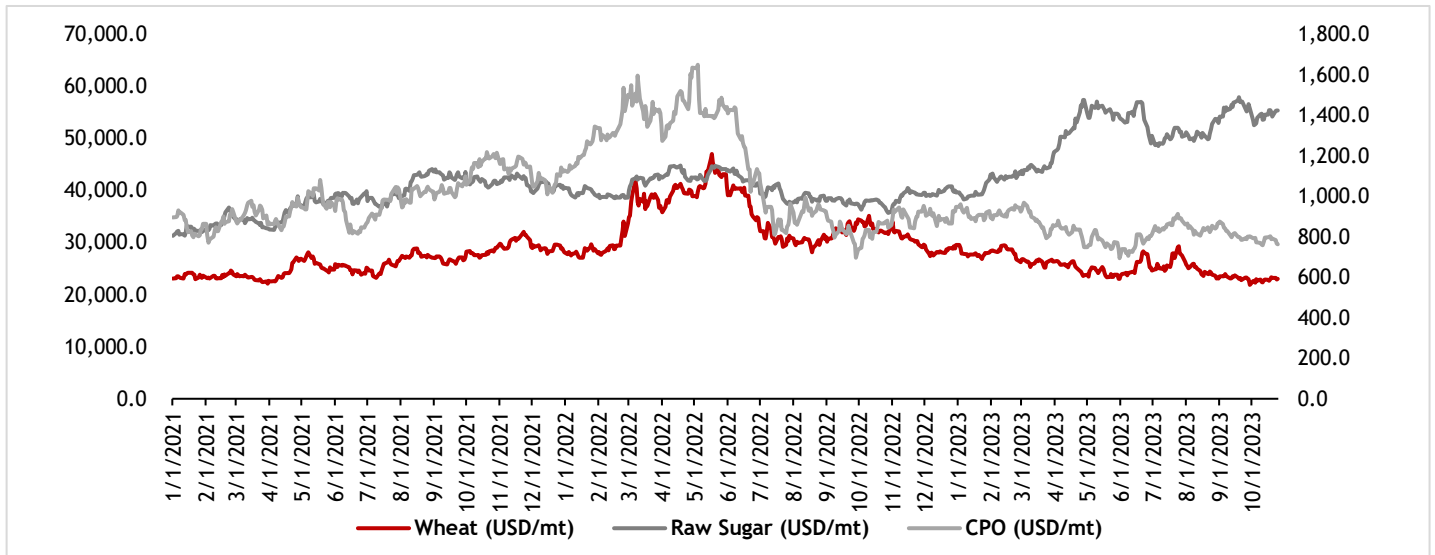
Source: Company, MIDFR

Nestle Malaysia: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	2QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue (External):								
Food & Beverages	1,412.0	1,446.0	1,354.9	4.2	(2.4)	4,389.1	4,142.4	6.0
Others	360.3	304.9	284.1	26.8	18.2	976.5	873.8	11.8
Total	1,772.3	1,750.9	1,639.0	8.1	1.2	5,365.6	5,016.2	7.0
Operating Profit:								
Food & Beverages	170.9	224.7	222.7	(23.2)	(23.9)	638.5	625.9	2.0
Others	44.7	29.6	25.4	75.6	50.8	108.8	80.7	34.8
Total	215.6	254.3	248.1	(13.1)	(15.2)	747.3	706.6	5.8
Operating profit margin:								
Food & Beverages	12.1	15.5	16.4	(4.3)	(3.4)	14.5	15.1	(0.6)
Others	12.4	9.7	9.0	3.4	2.7	11.1	9.2	1.9
Total	12.2	14.5	15.1	(3.0)	(2.4)	13.9	14.1	(0.2)

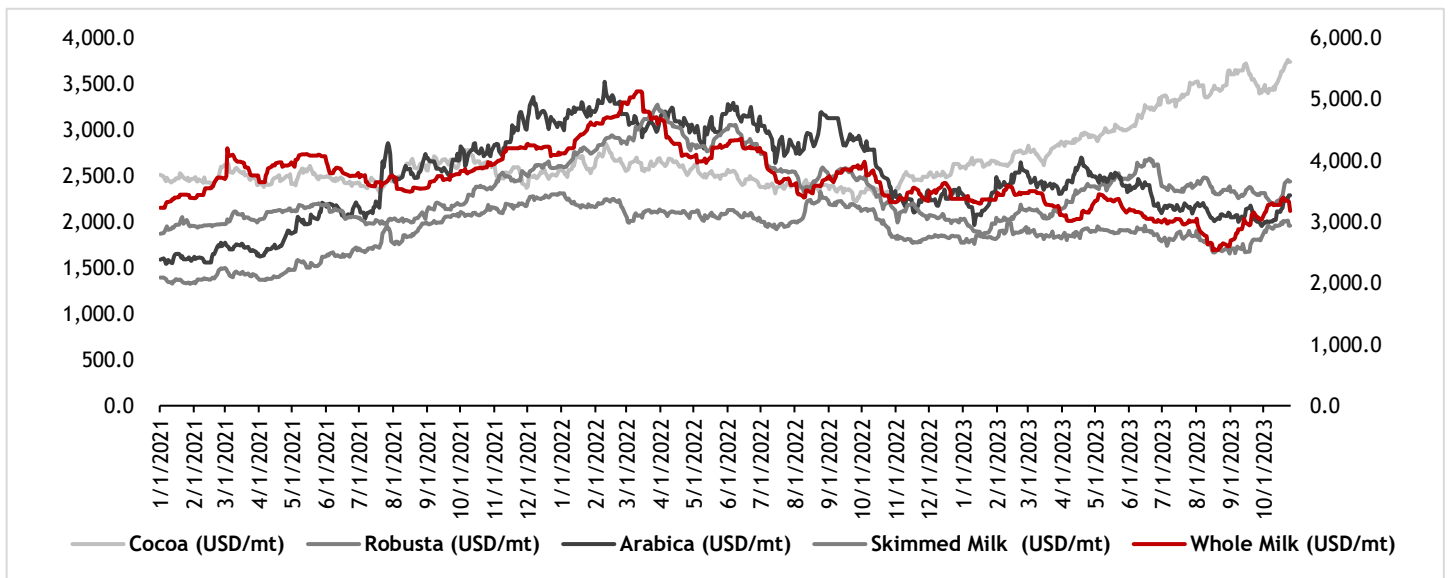
Source: Company, MIDFR

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)



Source: MIDFR, Bloomberg

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 (%)	1.9	2.1	2.5	2.8	3.4
PER (x)	51.4	47.1	39.3	34.8	29.1
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