



Nestlé (Malaysia) Berhad

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

Maintain NEUTRAL

Manageable Impact from the Higher Excise Duty for SBB

Unchanged Target Price: RM129.70

KEY INVESTMENT HIGHLIGHTS

- **Virtual Briefing**
- **Higher domestic sales**
- **Impairment loss**
- **Manageable impact from the increased excise duty for SBB**
- **Stable raw material costs and price stability in the near term**
- **Maintain NEUTRAL with an unchanged TP of RM129.70**

Virtual Briefing. We recently attended Nestle Malaysia ("Nestle")'s 9MFY23 result briefing and remained neutral on the company's outlook. Salient highlights from briefing are as follows:

Higher domestic sales. Domestic sales increased +11.1%yoy in 3QFY23, driven by a balanced increase in both (1) higher product prices and (2) a solid and resilient growth in sales volume.

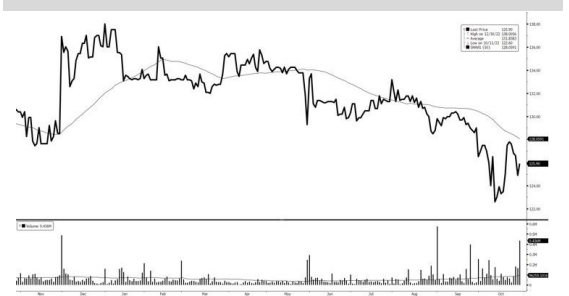
Impairment loss. Nestle recorded an impairment loss of RM44.3m in 3MFY23 for idle and obsolete assets no longer in use. This impairment aligns with Nestle's strategy of digitalization and automation in manufacturing facilities aimed at enhancing production efficiency. As such, the group recognized losses on old machinery after being replaced with new equipment. The group alludes the possibility of more impairment losses ahead, contingent on the replacement of old machinery with new equipment.

Manageable impact from the increased excise duty for SBB. Management highlighted that more than 90% of the ready-to-drink products meet the exempted requirement of total sugar content below 5g per 100ml, hence the introduction of higher excise duty on sugar-sweetened beverages ("SBB") to RM0.50 per litre (from RM0.40 per litre) is manageable. Besides, Nestle is also prepared to reformulate its other product recipes to reduce added sugar and saturated fat while preserving the flavours.

Stable raw material costs and price stability in the near term. Moving forward, Nestle will absorb certain ongoing increases in certain commodity prices (such as raw sugar, cocoa and robusta) given the recent moderation in most commodity prices which has moderate impact on raw material costs. As such, the group does not foresee any price increases in the next few months. Nestle has also decided to postpone the 5% increase in Nescafe selling prices scheduled for November 2023 to a yet-to-be-determined future date. Additionally, the group maintains a dedicated procurement team in place and will explore extending hedging on commodities when necessary.

RETURN STATISTICS	
Price @ 27 th Oct 2023 (RM)	125.90
Expected share price return (%)	+3.00
Expected dividend yield (%)	+2.50
Expected total return (%)	+5.50

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.4	-2.5
3 months	-0.5	-4.0
12 months	-5.5	-4.7

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	1,441.90
Issue shares (m)	234.50
Estimated free float (%)	15.83
Market Capitalisation (RM'm)	29,523.55
52-wk price range	RM121– RM140
3-mth average daily volume (m)	0.09
3-mth average daily value (RM'm)	11.03
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	9.50
BlackRock Inc	1.83

Analyst(s)

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

Maintain NEUTRAL with an unchanged TP of RM129.70. We make no changes to our earnings forecast for FY23-25F post analyst briefing. Our **TP** is unchanged at **RM129.70**, based on DDM valuation with an 3.5% growth rate and an WACC of 7.1%. Looking ahead, we anticipate that Nestle's topline will 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. Hence, we maintain our **NEUTRAL** call on Nestle.


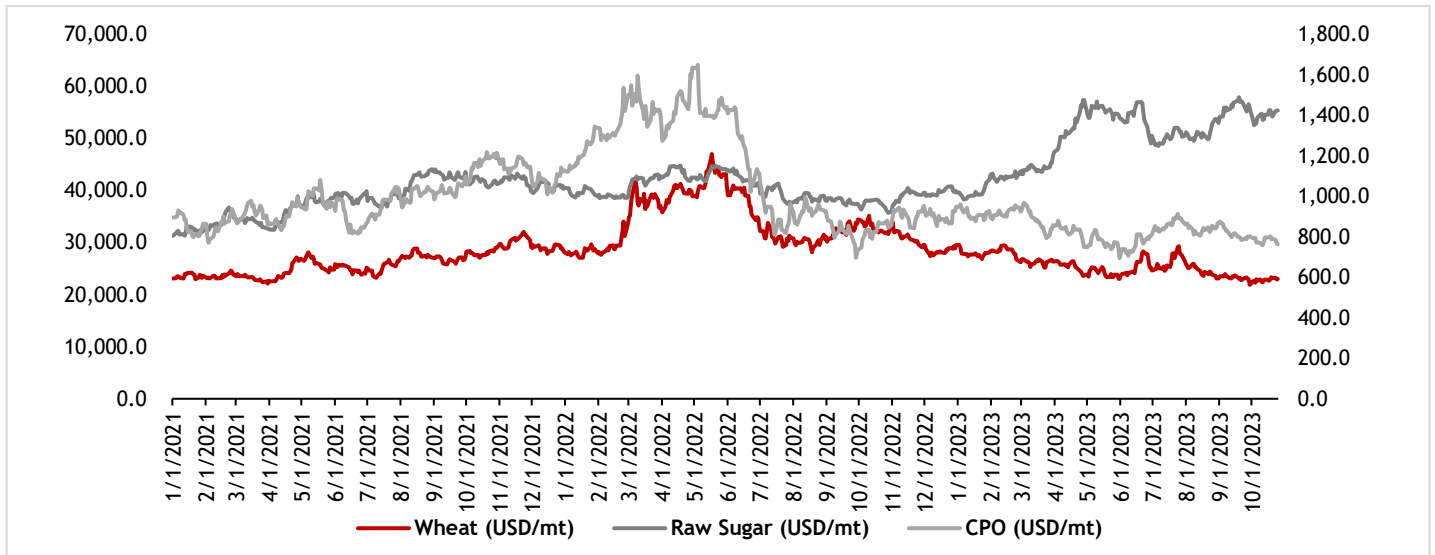
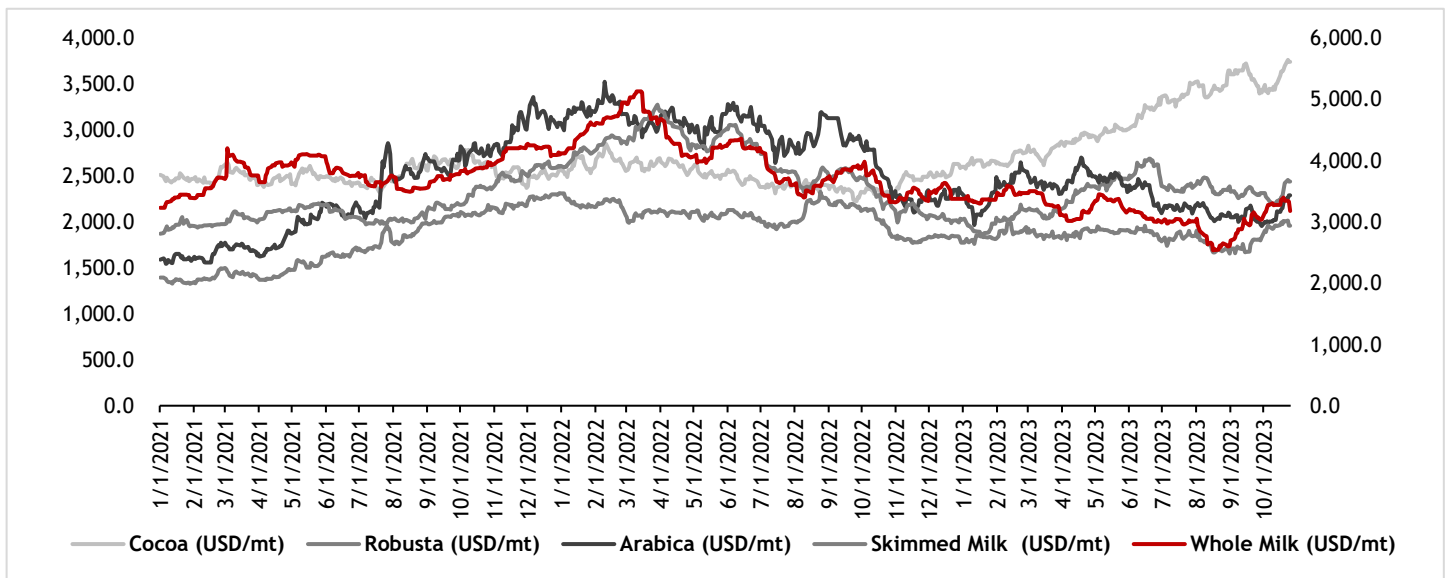
Valuation. Nestle currently trading at FY24F P/E ratio of 34.8x, below its two-year average P/E ratio of 50.5x. Additionally, it offers a 2.5% dividend yield in FY23F. **Downside/(Upside) risks** are: (i) a further increase/(decrease) in commodity prices; (ii) higher/(lower)-than-expected energy costs,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

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

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