



Nestlé (Malaysia) Berhad

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

Maintain NEUTRAL

Diminished Consumer Mood Ahead

Revised Target Price: RM127.00*(Previously RM129.70)*

KEY INVESTMENT HIGHLIGHTS

- **Expect Subdued Consumer Spending to Continue**
- **No fundamental supply chain disruptions, albeit with some lead time adjustments**
- **Margin compression in certain product categories amidst rising commodity prices**
- **Revised FY24-25F earnings lower and introduce FY26F**
- **Maintain NEUTRAL with a lower TP of RM127.00 (from RM129.70)**

Virtual Briefing. We attended the Nestle Malaysia virtual briefing and remain neutral on the outlook for the company. Some of the key highlights are as follows.

Expect subdued consumer spending to continue. Despite facing impact from boycott movements against Nestle products in 4QFY24, the group anticipates this impact to be temporary, with the prevailing concern being the erosion of consumer purchasing power amidst persistent inflationary pressures. Nestle observed that consumers turned cautious on spending by shifting preference from premium products towards mid-range priced products. Looking ahead into FY24, the group anticipates this subdued spending pattern to persist, with customers opting for cheaper options. Hence, Nestle remains committed to offering competitively priced products to remain relevant to consumers.

No fundamental supply chain disruptions, albeit with some lead time adjustments. The group emphasized that raw material deliveries are unaffected by the ongoing crisis in the Suez Canal. However, there is an anticipated slight increase in lead time for the delivery of raw materials from European countries due to container ships rerouting to avoid potential threats.

Margin compression in certain product categories amidst rising commodity prices. The continuously elevated global cocoa, Robusta, and Arabica prices have more than doubled production costs for certain products, which lowers the product margin significantly. Recall that in 3QFY23, the group postponed the price adjustment of certain products as part of a community initiative to sustain the cost of living. Looking ahead into FY24, the group intends to gradually transfer the increased costs through price adjustments, yet the exact timing will hinge on prevailing market conditions.

Manageable impact of sugary beverages excise duty. The imposition of increased excise duties on sugary beverages is manageable for Nestlé Malaysia. We gather that the company is prepared to introduce products with similar taste profiles but higher nutritional value and reduced sugar content once the excise duty is implemented, hence potentially exempting the group from the excise duty.

RETURN STATISTICS

Price @ 28 th Feb 2024 (RM)	123.80
Expected share price return (%)	2.60
Expected dividend yield (%)	2.60
Expected total return (%)	5.15

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.0	-0.9
3 months	3.4	-6.1
12 months	-10.1	-15.5

INVESTMENT STATISTICS

FYE Dec (RM'm)	2024F	2025F	2026F
Revenue	7,416.8	7,890.1	8,490.7
EBITDA	968.4	1,040.2	1,132.2
Profit Before Tax	1,046.4	1,138.1	1,243.3
Core PATAMI	795.2	865.0	944.9
Core EPS (sen)	339.1	368.9	402.9
DPS (sen)	322.2	350.4	382.8
Dividend Yield (%)	2.6	2.8	3.1

KEY STATISTICS

FBM KLCI	1,545.59
Issue shares (m)	234.50
Estimated free float (%)	14.97
Market Capitalisation (RM'm)	28,515.20
52-wk price range	RM111– RM138
3-mth average daily volume (m)	0.14
3-mth average daily value (RM'm)	17.30
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	10.36
BlackRock Inc	1.55

Analyst(s)**Genevieve Ng** Pei Fen
Genevieve.ng@midf.com.my

Revised FY24-25F earnings lower and introduce FY26F. We lowered our earnings forecast for FY24-25F by -5.6%/-13.9% respectively and introduced our forecast for FY26F. This was after factoring in (1) lower sales on the back of cautious consumer spending dampened by inflationary pressure, and (2) higher distribution costs given the implementation of service tax on logistics, which are likely to be passed on to Nestle.

Maintain NEUTRAL with a lower TP of RM127.00 (from RM129.70). Our revised TP is based on DDM valuation with a consistent 3.5% growth rate and a revised WACC of 6.7% (from 7.1%). Looking ahead, we are aware that Malaysian consumers are turning cautious on spending, potentially opting for alternatives with cheaper prices. We are also cautious about greater operating costs ahead due to the introduction of higher service tax and potential rollout of targeted fuel subsidies that could raise operating costs further. On a positive note, we anticipate Nestle's continued market leadership primarily due to its dominance in certain product categories, its well-known household name, and competitively priced products. We also anticipate that the normalization of major input ingredient prices (such as sugar, milk, and wheat) will help offset the continuously rising costs of cocoa, Arabica, and Robusta. Therefore, we maintain our **NEUTRAL call** on Nestle.


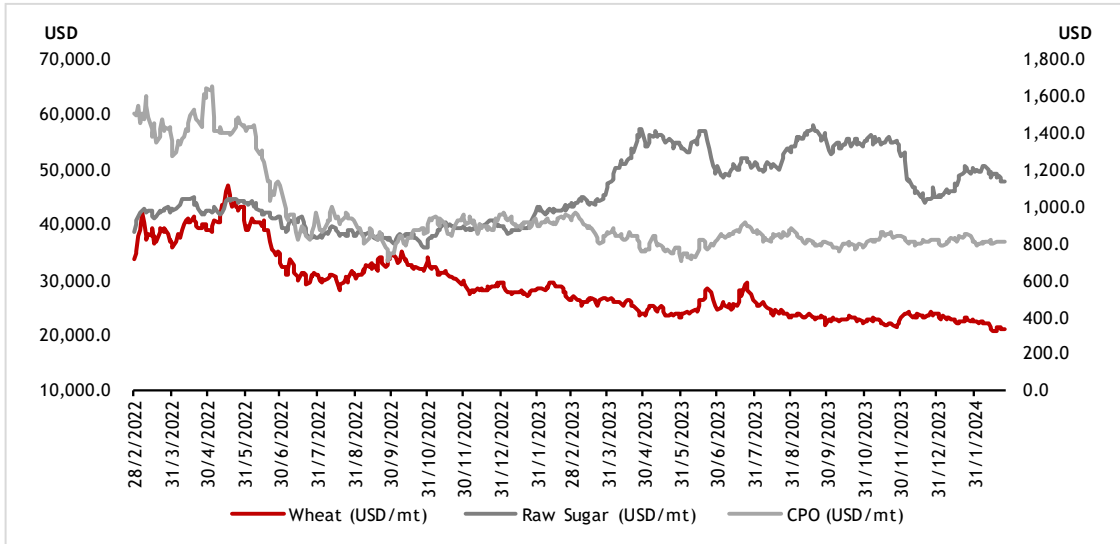
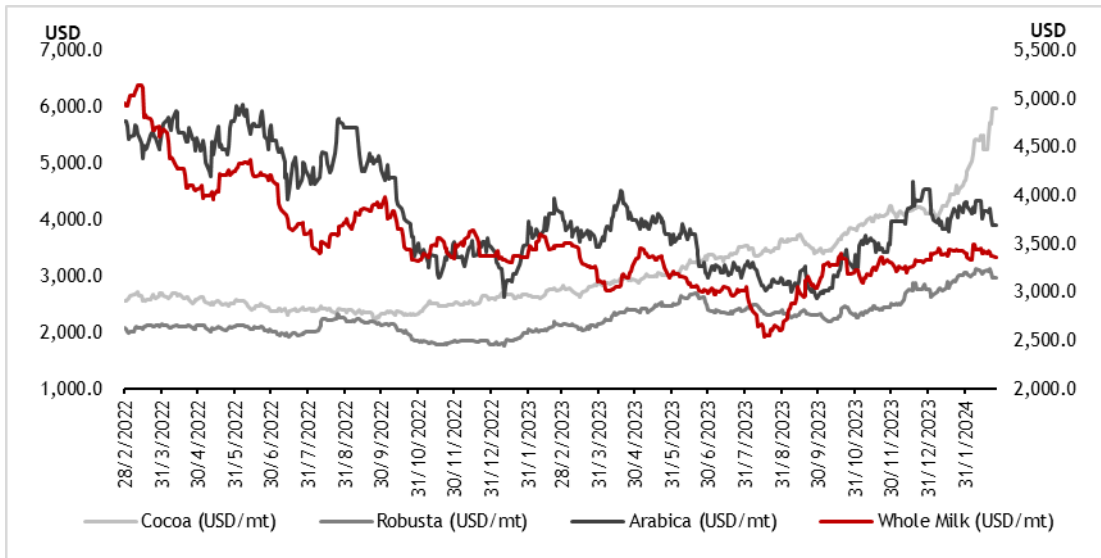
Valuation. Nestle is currently trading at an FY24F P/E ratio of 33.8x, which is below its two-year average P/E ratio of 50.5x. Additionally, it offers a 2.9% dividend yield in FY24F. **Downside risks include** (i) a sharp increase in commodity prices; (ii) higher-than-expected energy costs; (iii) unfavorable exchange rates; and (iv) weaker-than-expected consumer demand due to macro headwinds as well as shifts in consumer preferences. 

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)	2022A	2023E	2024F	2025F	2026F
Revenue	6,664.1	7,050.9	7,416.8	7,890.1	8,490.7
Cost of Sales	(4,603.3)	(4,819.9)	(4,917.9)	(5,179.4)	(5,518.0)
Gross Profit	2,060.9	2,231.0	2,498.9	2,710.7	2,972.8
Other Income	0.0	0.0	0.0	5.1	0.0
Selling and Distribution expenses	(936.0)	(1,005.2)	(1,083.8)	(1,181.8)	(1,303.5)
General & Administrative	(194.0)	(225.8)	(243.5)	(265.5)	(292.8)
Other operating expenses	(27.9)	(60.7)	(62.9)	(65.9)	(70.2)
EBITDA	1,110.4	1,148.0	968.4	1,040.2	1,132.2
EBIT	902.9	939.3	1,108.8	1,202.6	1,306.2
Profit before tax (PBT)	859.5	879.1	1,046.4	1,138.1	1,243.3
Income tax expense	(239.1)	(219.2)	(251.1)	(273.2)	(298.4)
PATAMI	620.3	659.9	796.2	865.0	944.9
Core PATAMI	632.3	772.8	795.2	865.0	944.9
Core EPS (sen)	269.6	329.5	339.1	368.9	402.9
DPS (sen)	262.0	268.0	322.2	350.4	382.8

Balance Sheet (RM'm)	2022A	2023E	2024F	2025F	2026F
Property, plant and equipment	1,669.3	1,749.5	1,866.2	1,989.3	2,122.8
Intangible assets	62.2	234.4	244.1	257.0	273.8
Total non-current assets	1,954.8	2,263.2	2,394.1	2,535.2	2,691.5
Inventories	1,115.1	831.4	945.7	993.3	1,058.2
ST - Trade and other receivables	445.2	463.0	407.5	432.3	465.2
Cash and cash equivalents	8.2	11.0	11.7	12.5	13.5
Total current assets	1,599.2	1,306.0	1,365.5	1,438.7	1,537.6
Total Assets	3,554.0	3,569.2	3,759.6	3,974.0	4,229.1
Total Equity	626.3	674.9	722.9	812.2	902.3
LT Lease Liabilities	120.0	170.2	185.4	197.3	212.3
LT Loans and borrowings	300.0	300.0	301.5	303.0	304.5
Total non-current liabilities	668.7	756.4	799.7	830.4	868.2
ST Trade and other payables	1,724.9	1,671.6	1,756.4	1,844.7	1,965.3
ST Loans and borrowings	486.9	419.8	421.9	424.0	426.1
Total Current Liabilities	2,259.0	2,137.9	2,237.0	2,331.3	2,458.6
Total Liabilities	2,927.7	2,894.3	3,036.7	3,161.7	3,326.8

Cash Flow (RM'm)	2022A	2023E	2024F	2025F	2026F
Pretax profit	859.5	879.1	1,138.1	1,243.3	1,378.2
Cash flow from operations	511.5	1,267.8	1,231.2	1,304.1	1,438.9
Cash flow from investing	(309.7)	(501.5)	(303.9)	(327.0)	(357.7)
Cash flow from financing	(376.8)	(604.7)	(897.7)	(976.1)	(1,079.9)
Net cash flow	(174.9)	161.6	29.6	1.0	1.3
Net cash/(debt) b/f	(3.8)	(178.7)	(17.1)	12.5	13.5
Net cash/(debt) c/f	(178.7)	(17.1)	12.5	13.5	14.8

Key Metrics	2022A	2023E	2024F	2025F	2026F
Effective tax rate (%)	27.8	24.9	24.0	24.0	24.0
Dividend Yield (%)	2.1	2.2	2.6	2.8	3.1
PER (x)	46.7	44.0	36.5	33.6	30.7
Inventories (Days)	73.7	73.9	70.0	70.0	70.0
Net debt/total equity (x)	1.2	1.1	1.0	0.9	0.8

Profitability Margins	2022A	2023E	2024F	2025F	2026F
Gross Profit Margin (%)	30.9	31.6	33.7	34.4	35.0
EBITDA Margin (%)	16.7	16.3	13.1	13.2	13.3
Core PATAMI Margin (%)	9.5	11.0	10.7	11.0	11.1

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