



Nestlé (Malaysia) Berhad

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

Maintain NEUTRAL

Cautious Outlook Ahead

Revised Target Price: RM126.00
(Previously RM127.00)

KEY INVESTMENT HIGHLIGHTS

- **3MFY24 results meet expectations**
- **Weaker domestic sales dragged 1QFY24 topline lower**
- **Higher transportation and warehouse costs amidst the expanded and increased service tax effective 1 March 2024**
- **Price adjustments remain on the table to pass on higher input costs for certain products**
- **Cut FY24-26F core earnings**
- **Maintain NEUTRAL with a lower TP of RM126.00 (from RM127.00)**

3MFY24 results meet expectations. Nestle Malaysia reported a 3MFY24 core PATANCI of RM219.7m, after excluding a one-time item of RM24.2m. This came in within our and consensus' full-year FY24F projections at 27.6% and 28.6% respectively. As anticipated, no dividend was declared in 1QFY24, consistent with Nestle's typical practice of declaration in 2Q, 3Q, and 4Q.

Weaker domestic sales dragged 1QFY24 topline lower. On a yearly basis, 1QFY24 revenue slid by -3.2%yoy to RM1.78b, mainly due to decreased domestic sales (-3.9%yoy) and export sales (-0.4%yoy). The gross profit margin improved by +2.8 ppt yoy to 33.4% despite reduced revenue, mainly supported by lower input costs for certain key ingredients (CPO, wheat, milk, pet resin) during the quarter compared to previously. As such, the core PATANCI rose by 5.4%yoy to RM219.7m in 1QFY24. On a quarterly basis, higher core PATANCI (+10.2%qoq) was mainly due to increased revenue (+5.8%qoq) which was supported by CNY celebration and lower operating expenses.

We attended Nestle Malaysia 's virtual briefing and remain neutral on the FY24 outlook. Some of the salient highlights are as follows:

- **Higher transportation and warehouse costs amidst the expanded and increased service tax effective 1 March 2024.** This was mainly due to cost pass-through from suppliers and distributors. Management alludes that the cost is manageable and remains committed to optimizing costs moving forward.
- **Anticipate persistent weak consumer sentiment ahead.** We are aware that consumer sentiment will remain challenging amidst an inflationary outlook, weakening RM affecting consumer purchasing power, heightened competition, and a shift in preference towards cheaper and locally produced products. Hence, we remain cautious that the group's cost pass-through initiative will only partially offset the higher certain input costs to maintain competitiveness against competitors and sustain demand.

RETURN STATISTICS

Price @ 29 th April 2024 (RM)	126.90
Expected share price return (%)	-0.7
Expected dividend yield (%)	+2.5
Expected total return (%)	+1.8

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	7.4	4.4
3 months	7.4	2.0
12 months	-6.3	-16.1

INVESTMENT STATISTICS

FYE Dec (RM'm)	2024F	2025F	2026F
Revenue	7,255.7	7,556.9	7,970.6
EBITDA	1,228.2	1,319.3	1,404.7
Profit Before Tax	1,032.7	1,102.9	1,180.2
Core PATANCI	777.6	830.5	888.7
Core EPS (sen)	331.6	354.2	379.0
DPS (sen)	315.0	336.4	360.0
Dividend Yield (%)	2.5	2.7	2.8

KEY STATISTICS

FBM KLCI	1,582.66
Issue shares (m)	234.50
Estimated free float (%)	14.29
Market Capitalisation (RM'm)	29,781.50
52-wk price range	RM111– RM135
3-mth average daily volume (m)	0.13
3-mth average daily value (RM'm)	15.22
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	11.04
BlackRock Inc	1.61


Analyst(s)

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- **Price adjustments remain on the table to pass on higher input costs for certain products.** Management highlighted that price adjustments for specific products will occur in June-July 2024 to account for the escalation in cocoa, Arabica, Robusta, tomato, and sugar prices. This aligns with the previous 4QFY23 briefing and our recent report on Nestle on 23 April 2024. We view that this could allow the group to reduce profit margin erosion for certain product series, particularly "MILO," "Nescafe," and "Maggi tomato sauce." Recall that the group decided to postpone the price hike in November 2022 to support consumers but hinted at gradual increases in FY24. However, we do not foresee full pass-through in FY24, as we believe remaining competitive and retaining consumers is the key priority ahead.

Cut FY24-26F core earnings. Despite 1QFY24 core earnings came in within expectations, we revised our earnings lower for FY24-26F by -2.2%/-4%/-5.9% respectively. This was after factoring in (1) weaker consumer sentiment due to the inflationary outlook, preference for cheaper and locally produced products, and intense competition, as well as (2) slightly higher transportation and warehouse costs amidst cost pass-through from service providers.

Maintain NEUTRAL with a lower TP of RM126.00 (from RM127.00). Our revised TP is based on DDM valuation with a consistent 3.2% growth (down from 3.5%) and an unchanged WACC of 6.7%. Moving ahead, we are cautious of the softening consumer sentiment on dry convenient F&B, which will remain lacklustre amidst the rising inflationary outlook, geopolitical issues, and volatile forex that could cause consumers to prefer cheaper and locally produced products. We also expect inflationary pressure on the bottom line due to expanded and higher service tax on transportation & warehouse, as well as the potential rationalization of fuel in 2HCY24, which could escalate operational expenses. On a positive note, we are optimistic that Nestle's strong market position with well-known household brand names and dominance in market share for dry food products, beverages, and coffee will contribute to a steady demand for its products. The stabilization of key input prices (like sugar, milk, and wheat) along with certain product price hikes may partially mitigate the impact of cocoa, Arabica, and Robusta cost escalations. Hence, we maintain our **NEUTRAL** call on Nestle.

Valuation. Nestle is currently trading at an FY25F P/E ratio of 35.8x, which is below its two-year average P/E ratio of 50.5x. Additionally, it offers a 2.5% dividend yield in FY24F. **Downside risks include** (i) a sharp increase in commodity prices; (ii) higher-than-expected energy costs; (iii) stronger USD against MYR exchange rates; and (iv) weaker-than-expected consumer demand due to macro headwinds as well as shifts in consumer preferences. 

Nestle Malaysia: 1QFY24 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue	1,782.6	1,685.3	1,842.4	(3.2)	5.8	1,782.6	1,842.4	(3.2)
Cost of Sales	(1,187.3)	(1,144.3)	(1,279.0)	(7.2)	3.8	(1,187.3)	(1,279.0)	(7.2)
Gross Profit	595.3	541.0	563.4	5.7	10.0	595.3	563.4	5.7
Operating expenses	(321.9)	(347.9)	(286.3)	12.4	(7.5)	(321.9)	(286.3)	12.4
Operating profit (EBIT)	273.4	193.0	277.1	(1.3)	41.6	273.4	277.1	(1.3)
Net finance income/(cost)	(13.9)	(16.2)	(14.8)	(6.2)	(14.2)	(13.9)	(14.8)	(6.2)
Profit before tax (PBT)	259.1	176.7	262.3	(1.2)	46.7	259.1	262.3	(1.2)
Profit After tax (PAT)	195.5	148.1	197.1	(0.8)	32.0	195.5	197.1	(0.8)
PATANCI	195.5	148.1	197.1	(0.8)	32.0	195.5	197.1	(0.8)
Core PATANCI	219.7	199.3	208.4	5.4	10.2	219.7	208.4	5.4
Core EPS (sen)	93.7	85.0	88.9	5.4	10.2	93.7	88.9	5.4
DPS (sen)	0.0	128.0	0.0	n.m.	(100.0)	0.0	0.0	n.m.
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	33.4	32.1	30.6	2.8	1.3	33.4	30.6	2.8
Operating Profit Margin	15.3	11.5	15.0	0.3	3.9	15.3	15.0	0.3
PBT Margin	14.5	10.5	14.2	0.3	4.1	14.5	14.2	0.3
Core PATANCI Margin	12.3	11.8	11.3	1.0	0.5	12.3	11.3	1.0
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net gearing (x)	1.1	1.1	1.1	0.0	0.1	1.1	1.1	0.0
Effective tax rate (%)	24.5	16.2	24.8	(0.3)	8.4	24.5	24.8	(0.3)

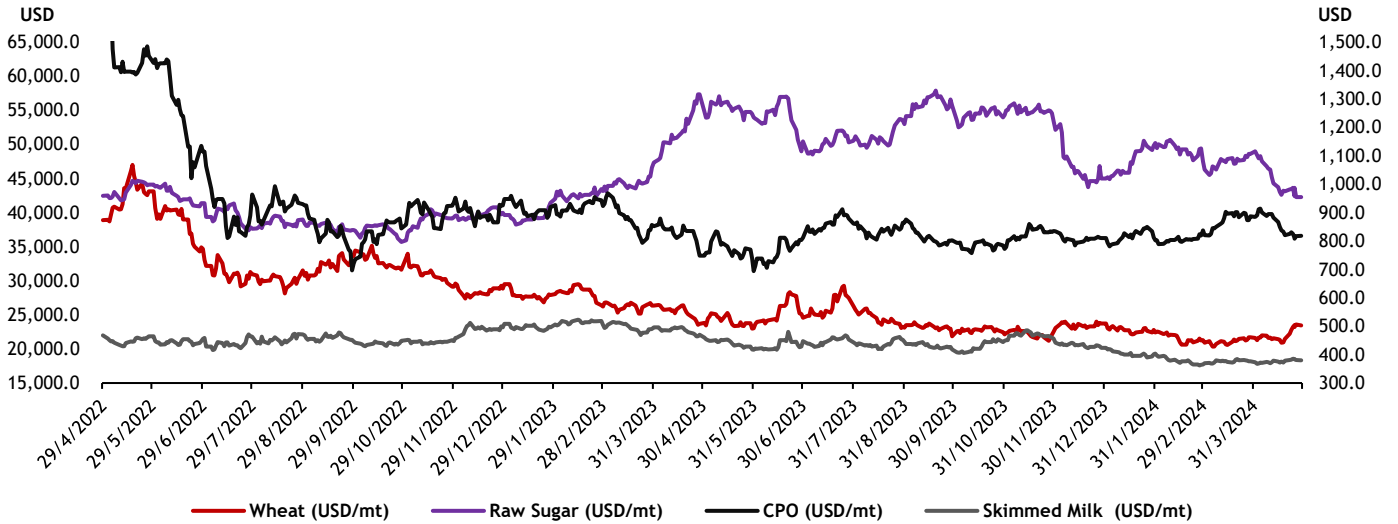
Source: Company, MIDFR

Nestle Malaysia: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue (External):								
Food & Beverages	1,445.5	1,327.5	1,531.1	(5.6)	8.9	1,445.5	1,531.1	(5.6)
Others	337.1	357.8	311.3	8.3	(5.8)	337.1	311.3	8.3
Total	1,782.6	1,685.3	1,842.4	(3.2)	5.8	1,782.6	1,842.4	(3.2)
Operating Profit:								
Food & Beverages	226.0	185.7	242.9	(6.9)	21.7	226.0	242.9	(6.9)
Others	47.9	7.4	34.5	38.7	544.4	47.9	34.5	38.7
Total	273.9	193.1	277.4	(1.3)	41.8	273.9	277.4	(1.3)
Operating profit margin:								
Food & Beverages	15.6	14.0	15.9	(0.2)	1.6	15.6	15.9	(0.2)
Others	14.2	2.1	11.1	3.1	12.1	14.2	11.1	3.1
Total	15.4	11.5	15.1	0.3	3.9	15.4	15.1	0.3

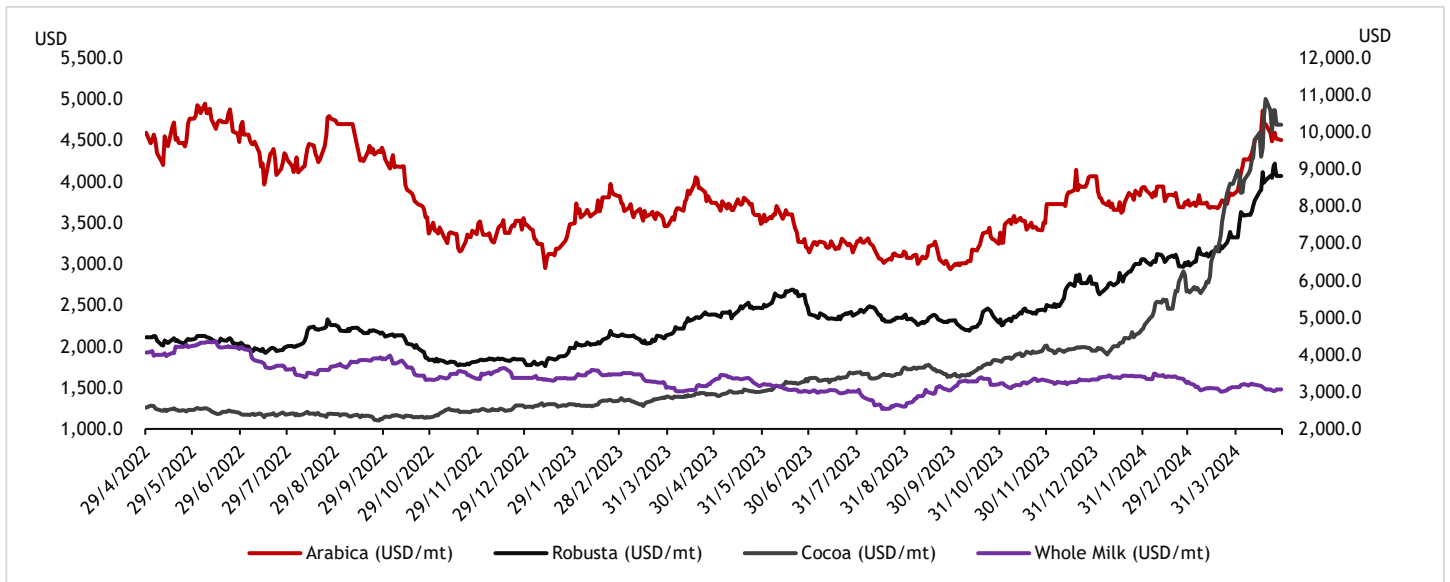
Source: Company, MIDFR

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



Source: MIDFR, Bloomberg

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



Source: MIDFR, Bloomberg

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	6,664.1	7,050.9	7,255.7	7,556.9	7,970.6
Cost of Sales	(4,603.3)	(4,819.9)	(4,860.7)	(5,001.7)	(5,222.8)
Gross Profit	2,060.9	2,231.0	2,395.0	2,555.2	2,747.8
Other Income	0.0	0.0	0.0	4.9	0.0
Selling and Distribution expenses	(936.0)	(978.6)	(1,042.3)	(1,123.5)	(1,220.6)
General & Administrative	(194.0)	(200.0)	(209.9)	(221.9)	(236.4)
Other operating expenses	(27.9)	(113.1)	(51.5)	(52.8)	(54.9)
EBITDA	1,110.4	1,149.4	1,228.2	1,319.3	1,404.7
EBIT	902.9	939.3	1,091.4	1,161.8	1,236.0
Profit before tax (PBT)	859.5	879.1	1,032.7	1,102.9	1,180.2
Income tax expense	(239.1)	(219.2)	(255.1)	(272.4)	(291.5)
PATANCI	620.3	659.9	778.6	830.5	888.7
Core PATANCI	632.3	756.0	777.6	830.5	888.7
Core EPS (sen)	269.6	322.4	331.6	354.2	379.0
DPS (sen)	262.0	268.0	315.0	336.4	360.0

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	1,669.3	1,749.5	1,890.6	2,033.2	2,181.2
Intangible assets	62.2	234.4	238.8	246.2	257.1
Total Non-current assets	1,954.8	2,263.2	2,413.0	2,567.6	2,731.6
Inventories	1,115.1	831.4	934.8	959.2	1,001.6
ST - Trade and other receivables	445.2	463.0	398.7	414.1	436.7
Cash and cash equivalents	8.2	11.0	76.2	79.7	84.5
Total current assets	1,599.2	1,306.0	1,410.2	1,453.6	1,523.5
Total Assets	3,554.0	3,569.2	3,823.2	4,021.3	4,255.1
Total Equity	626.3	674.9	835.0	979.5	1,119.4
LT Lease Liabilities	120.0	170.2	181.4	188.9	199.3
LT Loans and borrowings	300.0	300.0	299.8	293.8	287.9
Total Non-current liabilities	668.7	756.4	789.1	802.9	823.0
ST Trade and other payables	1,724.9	1,671.6	1,736.0	1,781.4	1,860.2
ST Loans and borrowings	486.9	419.8	405.6	397.5	389.5
Total Current Liabilities	2,259.0	2,137.9	2,199.0	2,238.9	2,312.7
Total Liabilities	2,927.7	2,894.3	2,988.1	3,041.8	3,135.7

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	859.5	879.1	1,032.7	1,102.9	1,180.2
Cash flow from operations	511.5	1,275.6	1,225.2	1,196.7	1,271.5
Cash flow from investing	(309.0)	(500.5)	(305.8)	(319.0)	(337.0)
Cash flow from financing	(376.8)	(604.7)	(835.9)	(874.2)	(929.7)
Net cash flow	(174.3)	170.4	83.5	3.6	4.8
Net cash/(debt) b/f	(3.5)	(177.7)	(7.3)	76.2	79.7
Net cash/(debt) c/f	(177.7)	(7.3)	76.2	79.7	84.5

Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	27.8	24.9	24.7	24.7	24.7
Dividend Yield (%)	2.1	2.1	2.5	2.7	2.8
PER (x)	47.9	45.1	38.3	35.8	33.5
Inventories (Days)	73.7	73.7	70.0	70.0	70.0
Net debt/total equity (x)	1.2	1.1	0.8	0.6	0.5

Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	30.9	31.6	33.0	33.8	34.5
EBITDA Margin (%)	16.7	16.3	16.9	17.5	17.6
Core PATANCI Margin (%)	9.5	10.7	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