



## Nestlé (Malaysia) Berhad

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

**Maintain NEUTRAL**

### Headwinds Remain Amid Efforts to Mitigate Risks

**Unchanged Target Price: RM126.00**

#### KEY INVESTMENT HIGHLIGHTS

- **1HFY24 results came in slightly below expectations**
- **Weaker domestic sales dragged 1HFY24 earnings**
- **Challenging environment to persist from geopolitical tensions, inflationary pressures**
- **Possibility of price adjustments remain in the decks**
- **No changes to core earnings**
- **Maintain NEUTRAL with TP of RM126.00**

**1HFY24 results below expectations.** Nestle Malaysia reported a 1HFY24 core PATANCI of RM314.6m, which came in slightly below our and consensus' full-year FY24F projections at 40% and 41% respectively. An interim dividend of 70 sen per share was announced for 1HFY24.

**Weaker sales continue to drag 1HFY24 earnings.** On a yearly basis, 1HFY24 revenue slid by -8%yoy to RM3.3b, mainly due to the subdued consumer sentiments and cautious spending observed during the CNY and Hari Raya festive seasons. Sales, however, reached a high record number, similar to those achieved in FY22, hence a very high baseline of reference was used in comparison to 2QFY23. The gross profit margin remained unchanged 31.4% despite reduced revenue. The core PATANCI fell by -19.5%yoy to RM314.6m in 1HFY24. This reflects the lower sales and some conscious choices amid price hikes. In comparison with 1QFY24, core PATANCI slid -56.8%qoq to RM94.9m, due to higher sales recorded in 1QFY24, sustained pressure on commodity prices and forex volatility.

**No changes to core earnings.** Despite 1HFY24 core earnings came in below our expectations, we make no changes to the earnings forecast at this juncture, pending further guidance from the results briefing.

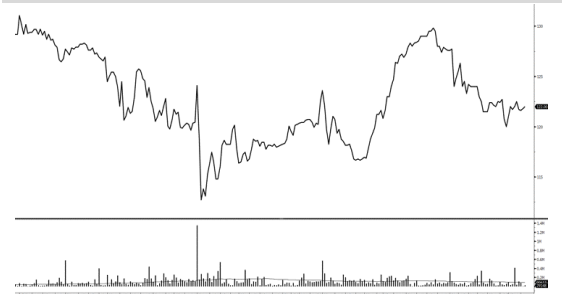
**Maintain NEUTRAL with TP of RM126.00.** All in all, we maintain our TP of **RM126.00** for Nestle. Our TP is based on DDM valuation with a 3.2% growth and an unchanged WACC of 6.7%.

**Turbulent waters remain.** In tandem with the uncertainties regarding geopolitics, raw material prices, colder weather and volatile foreign exchange, we anticipate that the challenging environment for Nestle to persist moving into 2HFY24. It is possible that the consequent subdued sentiment resulted in a shift of preference among consumers. Additionally, price adjustments for certain products attributable to the rationalisation of the Diesel subsidy remain in the decks, to reduce the impact of higher operational costs.

#### RETURN STATISTICS

Price @ 25 <sup>th</sup> July 2024 (RM)	122.00
Expected share price return (%)	+3.3
Expected dividend yield (%)	+2.5
<b>Expected total return (%)</b>	<b>+5.8</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.4	-1.1
3 months	0.4	-6.5
12 months	-7.6	-17.1


#### 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	1,615.18
Issue shares (m)	234.50
Estimated free float (%)	13.55
Market Capitalisation (RM'm)	28,609.00
52-wk price range	RM111. - RM134.
3-mth average daily volume (m)	0.09
3-mth average daily value (RM'm)	11.33
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	11.65
BlackRock Inc	1.58

On a more optimistic note, Nestlé's strong market position as a well-known household brand name will contribute to a steady demand for its products. Nestlé is also embarking on advocating for healthier product options, notably on its MILO brand, which was recently recognised by the Ministry of Health as one of the healthiest choice of beverages. The global supply constraints of cocoa – which caused a +38%yoy increase in prices - was also mitigated by engaging in local resources via its Borneo Cocoa Initiative, in partnership with Malaysian Cocoa Board, ultimately supporting the local farming community. Nestlé continues to moderate the external costs to final product prices by mitigating through internal process efficiencies and the adoption of digital-enabled technologies across the entire value chain. Hence, we maintain our **NEUTRAL** call on Nestlé.

**Valuation.** Nestlé is currently trading at an FY25F P/E ratio of 35.6x, which is below its two-year average P/E ratio of 43.1x. Additionally, it offers a 2.6% dividend yield in FY24F. **Downside risks include** (i) a sudden increase in commodity prices, notably cocoa, coffee and dairy; (ii) surging energy costs which would disrupt the value chain; (iii) stronger USD against MYR exchange rates; and (iv) weaker-than-expected consumer demand due to macro-economic headwinds and consumer sentiments in line with geopolitical tensions, regulatory changes and inflationary pressures. 

## Nestle Malaysia: 2QFY24 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue	1,523.3	1,782.6	1,750.9	(13.0)	(14.5)	3,305.8	3,593.3	(8.0)
Cost of Sales	(1,079.5)	(1,187.3)	(1,186.2)	(9.0)	(9.1)	(2,266.9)	(2,465.3)	(8.0)
<b>Gross Profit</b>	<b>443.7</b>	<b>595.3</b>	<b>564.7</b>	<b>(21.4)</b>	<b>(25.5)</b>	<b>1,039.0</b>	<b>1,128.0</b>	<b>(7.9)</b>
Operating expenses	(302.6)	(321.9)	(310.7)	(2.6)	(6.0)	(624.5)	(597.0)	4.6
<b>Operating profit (EBIT)</b>	<b>141.1</b>	<b>273.4</b>	<b>254.0</b>	<b>(44.4)</b>	<b>(48.4)</b>	<b>414.5</b>	<b>531.1</b>	<b>(21.9)</b>
Net finance income/(cost)	(14.9)	(13.9)	(14.4)	4.1	7.4	(28.9)	(29.2)	(1.1)
<b>Profit before tax (PBT)</b>	<b>126.0</b>	<b>259.1</b>	<b>239.8</b>	<b>(47.5)</b>	<b>(51.4)</b>	<b>385.1</b>	<b>502.2</b>	<b>(23.3)</b>
Profit After tax (PAT)	93.6	195.5	180.9	(48.3)	(52.1)	289.1	378.1	(23.5)
PATANCI	93.6	195.5	180.9	(48.3)	(52.1)	289.1	378.1	(23.5)
<b>Core PATANCI</b>	<b>94.9</b>	<b>219.7</b>	<b>182.4</b>	<b>(48.0)</b>	<b>(56.8)</b>	<b>314.6</b>	<b>390.8</b>	<b>(19.5)</b>
Core EPS (sen)	40.5	93.7	77.8	(48.0)	(56.8)	134.1	166.6	(19.5)
DPS (sen)	70.0	0.0	70.0	0.0	n.m.	70.0	70.0	0.0
<b>Growth &amp; Margin (%)</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Gross Profit Margin	29.1	33.4	32.3	(3.1)	(4.3)	31.4	31.4	0.0
Operating Profit Margin	9.3	15.3	14.5	(5.2)	(6.1)	12.5	14.8	(2.2)
PBT Margin	8.3	14.5	13.7	(5.4)	(6.3)	11.6	14.0	(2.3)
Core PATANCI Margin	6.2	12.3	10.4	(4.2)	(6.1)	9.5	10.9	(1.4)
<b>Ratios &amp; Valuation</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Net gearing (x)	1.5	1.1	1.0	0.5	0.4	1.5	1.0	0.5
Effective tax rate (%)	25.7	24.5	24.6	1.1	1.2	24.9	24.7	0.2

Source: Company, MIDFR

## Nestle Malaysia: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
<b>Revenue (External):</b>								
Food & Beverages	1,226.3	1,445.5	1,446.0	(15.2)	(15.2)	2,671.9	2,977.1	(10.3)
Others	296.9	337.1	304.9	(2.6)	(11.9)	634.0	616.2	2.9
<b>Total</b>	<b>1,523.3</b>	<b>1,782.6</b>	<b>1,750.9</b>	<b>(13.0)</b>	<b>(14.5)</b>	<b>3,305.8</b>	<b>3,593.3</b>	<b>(8.0)</b>
<b>Operating Profit:</b>								
Food & Beverages	114.5	226.0	224.7	(49.0)	(49.3)	340.5	467.6	(27.2)
Others	27.0	47.9	29.6	(8.7)	(43.6)	74.9	64.1	16.8
<b>Total</b>	<b>141.6</b>	<b>273.9</b>	<b>254.3</b>	<b>(44.3)</b>	<b>(48.3)</b>	<b>415.4</b>	<b>531.7</b>	<b>(21.9)</b>
<b>Operating profit margin:</b>								
Food & Beverages	9.3	15.6	15.5	(6.2)	(6.3)	12.7	15.7	(3.0)
Others	9.1	14.2	9.7	(0.6)	(5.1)	11.8	10.4	1.4
<b>Total</b>	<b>9.3</b>	<b>15.4</b>	<b>14.5</b>	<b>(5.2)</b>	<b>(6.1)</b>	<b>12.6</b>	<b>14.8</b>	<b>(2.2)</b>

Source: Company, MIDFR

## 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)
<b>Gross Profit</b>	<b>2,060.9</b>	<b>2,231.0</b>	<b>2,395.0</b>	<b>2,555.2</b>	<b>2,747.8</b>
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)
<b>EBITDA</b>	<b>1,110.4</b>	<b>1,149.4</b>	<b>1,228.2</b>	<b>1,319.3</b>	<b>1,404.7</b>
<b>EBIT</b>	<b>902.9</b>	<b>939.3</b>	<b>1,091.4</b>	<b>1,161.8</b>	<b>1,236.0</b>
<b>Profit before tax (PBT)</b>	<b>859.5</b>	<b>879.1</b>	<b>1,032.7</b>	<b>1,102.9</b>	<b>1,180.2</b>
Income tax expense	(239.1)	(219.2)	(255.1)	(272.4)	(291.5)
<b>PATANCI</b>	<b>620.3</b>	<b>659.9</b>	<b>778.6</b>	<b>830.5</b>	<b>888.7</b>
<b>Core PATANCI</b>	<b>632.3</b>	<b>756.0</b>	<b>777.6</b>	<b>830.5</b>	<b>888.7</b>
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
<b>Total Non-current assets</b>	<b>1,954.8</b>	<b>2,263.2</b>	<b>2,413.0</b>	<b>2,567.6</b>	<b>2,731.6</b>
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
<b>Total current assets</b>	<b>1,599.2</b>	<b>1,306.0</b>	<b>1,410.2</b>	<b>1,453.6</b>	<b>1,523.5</b>
<b>Total Assets</b>	<b>3,554.0</b>	<b>3,569.2</b>	<b>3,823.2</b>	<b>4,021.3</b>	<b>4,255.1</b>
<b>Total Equity</b>	<b>626.3</b>	<b>674.9</b>	<b>835.0</b>	<b>979.5</b>	<b>1,119.4</b>
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
<b>ST Trade and other payables</b>	<b>1,724.9</b>	<b>1,671.6</b>	<b>1,736.0</b>	<b>1,781.4</b>	<b>1,860.2</b>
ST Loans and borrowings	486.9	419.8	405.6	397.5	389.5
<b>Total Current Liabilities</b>	<b>2,259.0</b>	<b>2,137.9</b>	<b>2,199.0</b>	<b>2,238.9</b>	<b>2,312.7</b>
<b>Total Liabilities</b>	<b>2,927.7</b>	<b>2,894.3</b>	<b>2,988.1</b>	<b>3,041.8</b>	<b>3,135.7</b>

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)
<b>Net cash flow</b>	<b>(174.3)</b>	<b>170.4</b>	<b>83.5</b>	<b>3.6</b>	<b>4.8</b>
<b>Net cash/(debt) b/f</b>	<b>(3.5)</b>	<b>(177.7)</b>	<b>(7.3)</b>	<b>76.2</b>	<b>79.7</b>
<b>Net cash/(debt) c/f</b>	<b>(177.7)</b>	<b>(7.3)</b>	<b>76.2</b>	<b>79.7</b>	<b>84.5</b>

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