



# Nestlé (Malaysia) Berhad

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

**Maintain NEUTRAL**

## Another Tough Quarter

**Revised Target Price: RM109.90**  
(Previously RM126.00)

### KEY INVESTMENT HIGHLIGHTS

- **9MFY24 results came in below expectations**
- **Weaker domestic sales impacted performance**
- **Challenging environment expected to persist in the near term**
- **Cut FY24-26F core earnings**
- **Maintain NEUTRAL with a lower TP of RM109.90 (from RM126.00)**

**9MFY24 results below expectations.** Nestle Malaysia chalked in 3QFY24 revenue of RM1,446.2m (-5.1%qoq; -18.4%yoy) and core PATANCI of RM98.3m (+3.6%qoq, -46.2%yoy) which brought 9MFY24's sum to RM374.5m (-28%yoy). This missed ours and consensus forecast, at 53% and 66% of full year expectations respectively. The variance against our forecast was largely due to lower domestic sales. The Group declared an interim dividend of 35 sen, half of last year's 70 sen.

**YoY,** its 9MFY24 top line decreased by -11.4% driven primarily by weaker domestic demand exacerbated by inflation, which has eroded purchasing power. We believe the decline is also partly linked to the changing customer preference stemming from the Israel-Gaza conflict. Gross profit contracted by -11.8%yoy, largely due to higher input costs, particularly for key commodities like cocoa and coffee. Consequently, net profit fell sharply by -28%yoy, as the Group continues to face ongoing cost pressures and impairment losses on certain assets.

**QoQ,** revenue dipped by -5.1%, reflecting a slowdown in consumer demand due to abovementioned reasons. Net profit declined by -8.7%qoq, driven by lower sales and increased cost pressures, although core PATACI managed a modest increase of +3.6% after adjusting for one-off items. This marks the second consecutive quarter in which Nestle's net profit has fallen below the RM100m threshold.

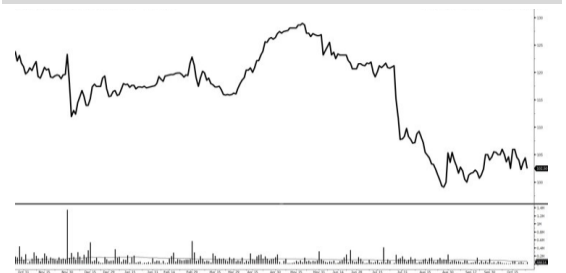
**Revising earnings estimate down.** Factoring in the weak set of results, our FY24-26F core earnings estimates are lowered by -26%/-14%/-13% respectively. This was after factoring in (1) weaker consumer sentiment due consumer shifting toward local brands, as well as (2) slightly higher transportation and warehouse costs amidst cost pass-through from service providers.

**Outlook.** Taking into account the challenging conditions, Nestle expects market challenges to persist for the remainder of FY24, driven by weak consumer sentiment and inflationary pressures. Domestic sales are anticipated to remain soft as consumers exercise caution in their spending, prioritizing essential items. Additionally, we assume the ongoing Israel-Gaza conflict to still persists, further influencing consumer preferences and dampening Nestle's sales performance.

### RETURN STATISTICS

Price @ 24 <sup>th</sup> Oct 2024 (RM)	102.5
Expected share price return (%)	+7.3
Expected dividend yield (%)	+2.3
<b>Expected total return (%)</b>	<b>+9.6</b>

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.2	3.5
3 months	-1.4	-16.4
12 months	-19.2	-28.9

### INVESTMENT STATISTICS

FYE Dec (RM'm)	2024F	2025F	2026F
Revenue	6,298.2	6,827.4	7,257.9
EBITDA	956.3	1,168.6	1,253.5
Profit Before Tax	760.4	952.0	1,028.7
Core PATANCI	572.6	716.8	774.6
Core EPS (sen)	244.2	305.7	330.3
DPS (sen)	232.0	290.4	313.8
Dividend Yield (%)	2.3	2.8	3.1


### KEY STATISTICS

FBM KLCI	1,632.23
Issue shares (m)	234.50
Estimated free float (%)	25.33
Market Capitalisation (RM'm)	24,036.25
52-wk price range	RM98.3 - RM130
3-mth average daily volume (m)	0.08
3-mth average daily value (RM'm)	8.05
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	12.10
BlackRock Inc	1.58

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**On a more positive note**, we foresee 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. This normalization could provide some relief to Nestlé’s margins moving forward. The company’s strong market presence, anchored by core brands like Milo, Nescafe, and Maggi, is expected to offer resilience amidst these challenges as these products are still preferred by some consumer segment. Coupled with ongoing cost management efforts and a focus on innovation, we believe Nestlé will be able to effectively navigate near-term headwinds. While FY24 is expected to remain challenging, we are optimistic that Nestlé’s sequential earnings in FY25 may benefit from increased spending momentum, spurred by recent cash handouts announced in Budget 2025, EPF Acc 3, civil servant salary hikes, and improved margins from a stronger ringgit. Consequently, we maintain a cautious stance while recognizing Nestlé’s resilience and long-term growth potential.

**Maintain NEUTRAL with a lower TP of RM109.90 (from RM126.00).** Our revised TP is based on DDM valuation with a consistent 3.2% growth and an unchanged WACC of 6.7%.

**Valuation.** Nestlé is currently trading at an FY25F P/E ratio of 33.5x, which is below its two-year average P/E ratio of 46.3x. Additionally, it offers a 2.3% 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: 3QFY24 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY24	2QFY24	3QFY23	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	1,446.2	1,523.3	1,772.3	(18.4)	(5.1)	4,752.0	5,365.6	(11.4)
Cost of Sales	(993.9)	(1,079.5)	(1,210.3)	(17.9)	(7.9)	(3,260.8)	(3,675.5)	(11.3)
<b>Gross Profit</b>	<b>452.3</b>	<b>443.7</b>	<b>562.0</b>	<b>(19.5)</b>	<b>1.9</b>	<b>1,491.3</b>	<b>1,690.0</b>	<b>(11.8)</b>
Operating expenses	(330.5)	(302.6)	(346.8)	(4.7)	9.2	(954.9)	(943.7)	1.2
<b>Operating profit (EBIT)</b>	<b>121.8</b>	<b>141.1</b>	<b>215.3</b>	<b>(43.4)</b>	<b>(13.7)</b>	<b>536.4</b>	<b>746.3</b>	<b>(28.1)</b>
Net finance income/(cost)	(17.4)	(14.9)	(14.9)	16.5	16.5	(46.3)	(44.1)	4.8
<b>Profit before tax (PBT)</b>	<b>104.1</b>	<b>126.0</b>	<b>200.3</b>	<b>(48.0)</b>	<b>(17.4)</b>	<b>489.2</b>	<b>702.4</b>	<b>(30.4)</b>
Profit After tax (PAT)	85.4	93.6	133.7	(36.1)	(8.7)	374.5	511.8	(26.8)
PATANCI	85.4	93.6	133.7	(36.1)	(8.7)	374.5	511.8	(26.8)
<b>Core PATANCI</b>	<b>98.3</b>	<b>94.9</b>	<b>182.7</b>	<b>(46.2)</b>	<b>3.6</b>	<b>412.8</b>	<b>573.4</b>	<b>(28.0)</b>
Core EPS (sen)	41.9	40.5	77.9	(46.2)	3.6	176.0	244.5	(28.0)
DPS (sen)	35.0	70.0	70.0	(50.0)	(50.0)	105.0	140.0	(25.0)
<b>Growth &amp; Margin (%)</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Gross Profit Margin	31.3	29.1	31.7	(0.4)	2.1	31.4	31.5	(0.1)
Operating Profit Margin	8.4	9.3	12.1	(3.7)	(0.8)	11.3	13.9	(2.6)
PBT Margin	7.2	8.3	11.3	(4.1)	(1.1)	10.3	13.1	(2.8)
Core PATANCI Margin	6.8	6.2	10.3	(3.5)	0.6	8.7	10.7	(2.0)
<b>Ratios &amp; Valuation</b>				<b>+ / (-) ppts</b>	<b>+ / (-) ppts</b>			<b>+ / (-) ppts</b>
Net gearing (x)	1.6	1.5	0.8	0.8	0.1	1.6	0.8	0.8
Effective tax rate (%)	18.0	25.7	33.2	(15.3)	(7.7)	23.4	27.1	(3.7)

Source: Company, MIDFR

## Nestle Malaysia: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	3QFY24	2QFY24	3QFY23	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
<b>Revenue (External):</b>								
Food & Beverages	1,004.6	1,226.3	1,412.0	(28.8)	(18.1)	3,676.5	4,389.1	(16.2)
Others	441.5	296.9	360.3	22.5	48.7	1,075.5	976.5	10.1
<b>Total</b>	<b>1,446.2</b>	<b>1,523.3</b>	<b>1,772.3</b>	<b>(18.4)</b>	<b>(5.1)</b>	<b>4,752.0</b>	<b>5,365.6</b>	<b>(11.4)</b>
<b>Operating Profit:</b>								
Food & Beverages	55.4	114.5	170.9	(67.6)	(51.6)	395.9	638.5	(38.0)
Others	66.9	27.0	44.7	49.7	147.4	141.8	108.8	30.3
<b>Total</b>	<b>122.3</b>	<b>141.6</b>	<b>215.6</b>	<b>(43.3)</b>	<b>(13.6)</b>	<b>537.7</b>	<b>747.3</b>	<b>(28.0)</b>
<b>Operating profit margin:</b>								
Food & Beverages	5.5	9.3	12.1	(6.6)	(3.8)	10.8	14.5	(3.8)
Others	15.1	9.1	12.4	2.7	6.0	13.2	11.1	2.0
<b>Total</b>	<b>8.5</b>	<b>9.3</b>	<b>12.2</b>	<b>(3.7)</b>	<b>(0.8)</b>	<b>11.3</b>	<b>13.9</b>	<b>(2.6)</b>

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Revenue	6,664.1	7,050.9	6,298.2	6,827.4	7,257.9
Cost of Sales	(4,603.3)	(4,819.9)	(4,326.9)	(4,549.7)	(4,788.3)
<b>Gross Profit</b>	<b>2,060.9</b>	<b>2,231.0</b>	<b>1,971.3</b>	<b>2,277.7</b>	<b>2,469.7</b>
Other Income	0.0	0.0	0.0	4.4	0.0
Selling and Distribution expenses	(936.0)	(978.6)	(917.8)	(1,014.9)	(1,111.2)
General & Administrative	(194.0)	(200.0)	(189.3)	(208.3)	(223.7)
Other operating expenses	(27.9)	(113.1)	(44.7)	(47.7)	(50.0)
<b>EBITDA</b>	<b>1,110.4</b>	<b>1,149.4</b>	<b>956.3</b>	<b>1,168.6</b>	<b>1,253.5</b>
<b>EBIT</b>	<b>902.9</b>	<b>939.3</b>	<b>819.4</b>	<b>1,011.2</b>	<b>1,084.8</b>
<b>Profit before tax (PBT)</b>	<b>859.5</b>	<b>879.1</b>	<b>760.4</b>	<b>952.0</b>	<b>1,028.7</b>
Income tax expense	(239.1)	(219.2)	(187.8)	(235.1)	(254.1)
<b>PATANCI</b>	<b>620.3</b>	<b>659.9</b>	<b>573.6</b>	<b>716.8</b>	<b>774.6</b>
<b>Core PATANCI</b>	<b>632.3</b>	<b>756.0</b>	<b>572.6</b>	<b>716.8</b>	<b>774.6</b>
Core EPS (sen)	269.6	322.4	244.2	305.7	330.3
DPS (sen)	262.0	268.0	232.0	290.4	313.8

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Property, plant and equipment	1,669.3	1,749.5	1,852.2	1,965.6	2,085.0
Intangible assets	62.2	234.4	207.2	222.4	234.1
<b>Total Non-current assets</b>	<b>1,954.8</b>	<b>2,263.2</b>	<b>2,335.6</b>	<b>2,468.6</b>	<b>2,603.5</b>
Inventories	1,115.1	831.4	832.1	872.5	918.3
ST - Trade and other receivables	445.2	463.0	346.1	374.1	397.7
Cash and cash equivalents	8.2	11.0	66.1	72.0	77.0
<b>Total current assets</b>	<b>1,599.2</b>	<b>1,306.0</b>	<b>1,244.8</b>	<b>1,319.2</b>	<b>1,393.5</b>
<b>Total Assets</b>	<b>3,554.0</b>	<b>3,569.2</b>	<b>3,580.3</b>	<b>3,787.8</b>	<b>3,997.0</b>
<b>Total Equity</b>	<b>626.3</b>	<b>674.9</b>	<b>843.1</b>	<b>952.9</b>	<b>1,060.8</b>
LT Lease Liabilities	120.0	170.2	157.5	170.7	181.4
LT Loans and borrowings	300.0	300.0	299.8	293.8	287.9
Total Non-current liabilities	668.7	756.4	736.5	762.7	783.8
<b>ST Trade and other payables</b>	<b>1,724.9</b>	<b>1,671.6</b>	<b>1,545.3</b>	<b>1,620.4</b>	<b>1,705.4</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>2,000.8</b>	<b>2,072.1</b>	<b>2,152.3</b>
<b>Total Liabilities</b>	<b>2,927.7</b>	<b>2,894.3</b>	<b>2,737.2</b>	<b>2,834.9</b>	<b>2,936.2</b>

<b>Cash Flow (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Pretax profit	859.5	879.1	760.4	952.0	1,028.7
Cash flow from operations	511.5	1,240.2	981.7	1,067.5	1,133.7
Cash flow from investing	(307.5)	(499.1)	(266.2)	(288.3)	(306.9)
Cash flow from financing	(376.8)	(604.7)	(611.5)	(773.3)	(821.9)
<b>Net cash flow</b>	<b>(172.8)</b>	<b>136.5</b>	<b>104.0</b>	<b>5.9</b>	<b>4.9</b>
<b>Net cash/(debt) b/f</b>	<b>(1.6)</b>	<b>(174.4)</b>	<b>(37.9)</b>	<b>66.1</b>	<b>72.0</b>
<b>Net cash/(debt) c/f</b>	<b>(174.4)</b>	<b>(37.9)</b>	<b>66.1</b>	<b>72.0</b>	<b>77.0</b>

<b>Key Metrics</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Effective tax rate (%)	27.8	24.9	24.7	24.7	24.7
Dividend Yield (%)	2.6	2.6	2.3	2.8	3.1
PER (x)	38.7	36.4	42.0	33.5	31.0
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	0.6

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Gross Profit Margin (%)	30.9	31.6	31.3	33.4	34.0
EBITDA Margin (%)	16.7	16.3	15.2	17.1	17.3
Core PATANCI Margin (%)	9.5	10.7	9.1	10.5	10.7

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