



Nestlé (Malaysia) Berhad

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

Maintain NEUTRAL

Towards Recovery

Revised Target Price: RM101.90
(Previously RM109.90)

KEY INVESTMENT HIGHLIGHTS

- **Expect subdued consumer spending to continue in FY24**
- **Minimal impact from sugary beverage excise duty**
- **Innovation and product development driving competitive advantage**
- **Macroeconomic recovery to support demand**
- **Cut FY25-26f core earnings**
- **Maintain NEUTRAL with a lower TP of RM101.90 (from RM109.90)**

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 in remainder of FY24. For the remainder of FY24, subdued consumer spending is anticipated to persist, with 3QFY24 seeing a -18%yoy decline in revenue driven by weak consumer sentiment and inflationary pressures. Domestic sales are expected to stay soft as consumers prioritize essential purchases, reflecting a broader cautious spending environment that will likely weigh on the company's growth.

Minimal impact from sugary beverage excise duty. Regarding the impact of excise duty on sugary beverages, Nestlé anticipates minimal disruption, as most of its products meet regulatory thresholds. Specifically, all powder products contain less than 33.3g of sugar per 100g, and 97% of ready-to-drink (RTD) offerings fall under the required sugar limits. This compliance reflects Nestlé's proactive approach to aligning with regulatory health initiatives, reducing the potential cost or pricing pressures that might affect its portfolio.

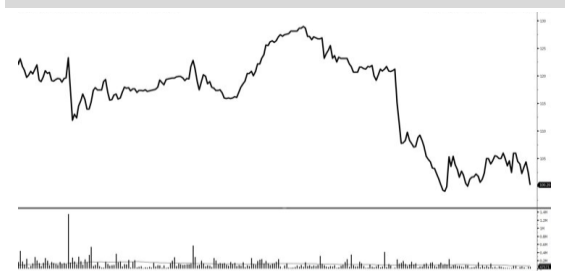
Wage hike not expected to affect profitability. Nestlé is also well-positioned to manage Malaysia's revised minimum wage increase, which will rise to RM1,700 in Feb 2025. Since all employees currently earn above the threshold, this adjustment is not expected to impact earnings or profit margins, allowing Nestlé to maintain its commitment to fair compensation without incurring additional costs.

Innovation and product development driving competitive advantage. Nestle focus remains on product innovation and development as a means to secure its competitive advantage and drive demand. In the past year, Nestlé has introduced NESCAFÉ Gold in the ready-to-drink category, a premium product that has received positive market reception. Additionally, its new MAGGI Syiok range of premium noodles and KIT KAT Beverage Mix represent a broadening of core brands to cater to diverse consumer preferences. Recent launches also include innovative ice cream flavours and limited-edition offerings like KIT KAT Candy Crush, underscoring Nestlé's strategy of expanding its portfolio through high-demand product extensions.

RETURN STATISTICS

Price @ 25 th Oct 2024 (RM)	100.20
Expected share price return (%)	+1.7
Expected dividend yield (%)	+2.3
Expected total return (%)	+4.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.1	1.2
3 months	-3.7	-18.0
12 months	-20.9	-29.5

INVESTMENT STATISTICS

FYE Dec (RM'm)	2024F	2025F	2026F
Revenue	6,298.2	6,701.4	7,290.9
EBITDA	956.3	1,094.2	1,178.8
Profit Before Tax	760.4	877.5	954.1
Core PATANCI	572.6	660.7	718.4
Core EPS (sen)	244.2	281.8	306.4
DPS (sen)	232.0	267.7	291.0
Dividend Yield (%)	2.3	2.7	2.9

KEY STATISTICS

FBM KLCI	1,618.30
Issue shares (m)	234.50
Estimated free float (%)	25.33
Market Capitalisation (RM'm)	23,496.90
52-wk price range	RM98.3 - RM130
3-mth average daily volume (m)	0.08
3-mth average daily value (RM'm)	7.98
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	12.10
BlackRock Inc	1.57


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Macroeconomic recovery to support demand. Looking ahead, Nestlé expects a progressive improvement in market conditions into 2025, aided by macroeconomic factors such as the government's civil servant salary hike (effective 1 December 2024), an increase in minimum wage from RM1,500 to RM1,700 (effective February 1, 2025), and upcoming cash handouts. These measures could raise disposable income across multiple consumer segments, supporting an eventual recovery in Nestlé's demand and potentially a healthier revenue trajectory by 1HFY25.

Boycott's gradual impact and anticipated recovery. Despite these positive signs, a prolonged change in consumer preference caused by the Israel-Gaza conflict has significantly impacted the company's financial performance, with quarterly profits falling below RM100m for two consecutive quarters. However, we believe that Nestlé's brand equity, particularly with staples like Milo and Maggi, offers a resilient appeal that alternative products may not fully replicate. While some consumers have shifted to other brands, we expect a gradual recovery as consumers return to trusted Nestlé products. This recovery will likely be gradual rather than rapid, with the potential for rebuilding market share over time, although high growth may remain elusive in the near term.

Revised earnings forecast for FY25-26F. We revised our earnings forecasts for FY25-26F downward by -8% and -7%, respectively. With gradual recovery expected, strong growth is unlikely over the immediate horizon, reflecting the continued challenges Nestlé faces within the broader consumer sector and a cautious approach to growth.

Maintain NEUTRAL with a lower TP of RM101.90 (from RM109.90). Our revised TP is based on DDM valuation with a consistent 3.2% growth and an unchanged WACC of 6.7%. Looking ahead, we anticipate gradual improvement, aiming for a return to growth by 1HCY25, driven by government initiatives to raise disposable income and the recent appreciation of the MYR, which should benefit margins as higher-cost inventory is depleted. Nestlé's strong market presence, anchored by core brands like Milo, Nescafe, and Maggi, coupled with effective cost management and innovation, positions the company to navigate near-term challenges. While FY24 may remain difficult, we expect sequential earnings growth in FY25 from increased consumer spending momentum due to measures announced in Budget 2025. Thus, we adopt a cautious stance while recognizing Nestlé's resilience and long-term growth potential.

Valuation. Nestle is currently trading at an FY25F P/E ratio of 35.6x, 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. 

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	6,664.1	7,050.9	6,298.2	6,701.4	7,290.9
Cost of Sales	(4,603.3)	(4,819.9)	(4,326.9)	(4,511.8)	(4,884.1)
Gross Profit	2,060.9	2,231.0	1,971.3	2,189.6	2,406.7
Other Income	0.0	0.0	0.0	4.3	0.0
Selling and Distribution expenses	(936.0)	(978.6)	(917.8)	(1,005.9)	(1,121.7)
General & Administrative	(194.0)	(200.0)	(189.3)	(204.5)	(224.7)
Other operating expenses	(27.9)	(113.1)	(44.7)	(46.9)	(50.2)
EBITDA	1,110.4	1,149.4	956.3	1,094.2	1,178.8
EBIT	902.9	939.3	819.4	936.7	1,010.1
Profit before tax (PBT)	859.5	879.1	760.4	877.5	954.1
Income tax expense	(239.1)	(219.2)	(187.8)	(216.7)	(235.7)
PATANCI	620.3	659.9	573.6	660.7	718.4
Core PATANCI	632.3	756.0	572.6	660.7	718.4
Core EPS (sen)	269.6	322.4	244.2	281.8	306.4
DPS (sen)	262.0	268.0	232.0	267.7	291.0

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	1,669.3	1,749.5	1,852.2	1,960.5	2,081.2
Intangible assets	62.2	234.4	207.2	218.3	235.1
Total Non-current assets	1,954.8	2,263.2	2,335.6	2,458.4	2,600.8
Inventories	1,115.1	831.4	832.1	865.3	936.7
ST - Trade and other receivables	445.2	463.0	346.1	367.2	399.5
Cash and cash equivalents	8.2	11.0	66.1	70.7	77.3
Total current assets	1,599.2	1,306.0	1,244.8	1,303.7	1,414.1
Total Assets	3,554.0	3,569.2	3,580.3	3,762.2	4,014.8
Total Equity	626.3	674.9	843.1	948.7	1,042.5
LT Lease Liabilities	120.0	170.2	157.5	167.5	182.3
LT Loans and borrowings	300.0	300.0	299.8	293.8	287.9
Total Non-current liabilities	668.7	756.4	736.5	755.8	785.6
ST Trade and other payables	1,724.9	1,671.6	1,545.3	1,606.9	1,739.5
ST Loans and borrowings	486.9	419.8	405.6	397.5	389.5
Total Current Liabilities	2,259.0	2,137.9	2,000.8	2,057.6	2,186.7
Total Liabilities	2,927.7	2,894.3	2,737.2	2,813.4	2,972.4

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	859.5	879.1	760.4	877.5	954.1
Cash flow from operations	511.5	1,240.2	981.5	1,004.1	1,088.3
Cash flow from investing	(307.3)	(499.1)	(266.2)	(283.4)	(308.3)
Cash flow from financing	(376.8)	(604.7)	(611.5)	(716.1)	(773.4)
Net cash flow	(172.5)	136.4	103.8	4.6	6.6
Net cash/(debt) b/f	(1.6)	(174.1)	(37.7)	66.1	70.7
Net cash/(debt) c/f	(174.1)	(37.7)	66.1	70.7	77.3

Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	27.8	24.9	24.7	24.7	24.7
Dividend Yield (%)	2.6	2.7	2.3	2.7	2.9
PER (x)	37.8	35.6	41.0	35.6	32.7
Inventories (Days)	73.7	73.7	70.0	70.0	70.0
Net debt/total equity (x)	1.2	1.1	0.8	0.7	0.6

Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	30.9	31.6	31.3	32.7	33.0
EBITDA Margin (%)	16.7	16.3	15.2	16.3	16.2
Core PATANCI Margin (%)	9.5	10.7	9.1	9.9	9.9

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