

23 August 2016 | 2QFY16 Results Review

Nestlé (Malaysia) Berhad

Sustained earnings on domestic and export markets

Maintain NEUTRAL

Unchanged Target Price (TP): RM82.82

INVESTMENT HIGHLIGHTS

- Nestlé's 2QFY16 revenue increased by +8.2%yoy to RM1.2b
- The increase in revenue is mainly due to the better performance from the domestic and export segments
- 2QFY16 earnings surged by +52.4%yoy to RM188.8m
- The better performance in earnings is due to the lower effective tax rate during the quarter
- **Maintain NEUTRAL with an unchanged TP of RM82.82**

Normalised earnings within expectations. Nestlé's 2QFY16 reported earnings rose by +52.4%yoy to RM188.8m. However, excluding forex gain of +RM2.9m, the company's normalised quarterly profit is RM185.9m. Subsequently, Nestlé's 6MFY16 normalised cumulative net profit is RM372m after excluding total forex gain of +RM37.4m. The company's earnings kept pace with our expectations, accounting for 54.7% of our FY16 full year earnings estimates.

2QFY16 revenue increased by +8.2%yoy. Nestlé's 2QFY16 revenue increased by +8.2%yoy due to the better performance from both of its segments, namely, domestic and export. Its domestic and export sales increased by +6%yoy and +18%yoy respectively. The better performance of the domestic sales is attributable to the successful marketing and trade promotions coupled with the launch of new products. Among the new products launched in the first half were Nestlé Omega Plus with Oats, Nescafe Latte range and Nestlé Aiskrim Tradisi.

Surge in 2QFY16 earnings. The group's earnings in 2QFY16 surged by +52.4%yoy. This growth was mainly due to the lower effective tax rate which declined by -6.7ppts compared to the same period last year. For 1HFY16, the current effective tax rate is 18.1%.

Impact to earnings. No impact to earnings as we still believe that our forecasts on Nestlé's growth for the 2HFY16 is intact.

Declared first dividend for FY16 of 70sen per share. The group declared its first dividend for FY16 of 70sen per share. This is higher by +7.69% compared to the first dividend for FY15 of 65sen per share.

Maintain NEUTRAL with an unchanged TP of RM82.82. We are maintaining a **NEUTRAL** call on Nestlé with an unchanged target price of RM82.82 per share. Our target price is based on the dividend discount model, under assumption of 7.5% cost-of-equity and 3.8% long-term growth.

RETURN STATS	
Price (22 August 2016)	RM78.76
Target Price	RM82.82
Expected Share Price Return	+5.2%
Expected Dividend Yield	+3.6%
Expected Total Return	+8.8%

STOCK INFO	
KLCI	1,691.07
Bursa / Bloomberg	4707 / NESZ MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares (mil)	234.5
Par Value (RM)	1.00
Market cap. (RM'm)	18,469.2
Price over NA	27.97
52-wk price Range	RM70.81- RM81.80
Beta (against KLCI)	0.43
3-mth Avg Daily Vol	0.03m
3-mth Avg Daily Value	RM2.56m
Major Shareholders (%)	
Nestlé SA	72.61
EPF	9.13
Skim ASB	3.59
KWAP	2.20

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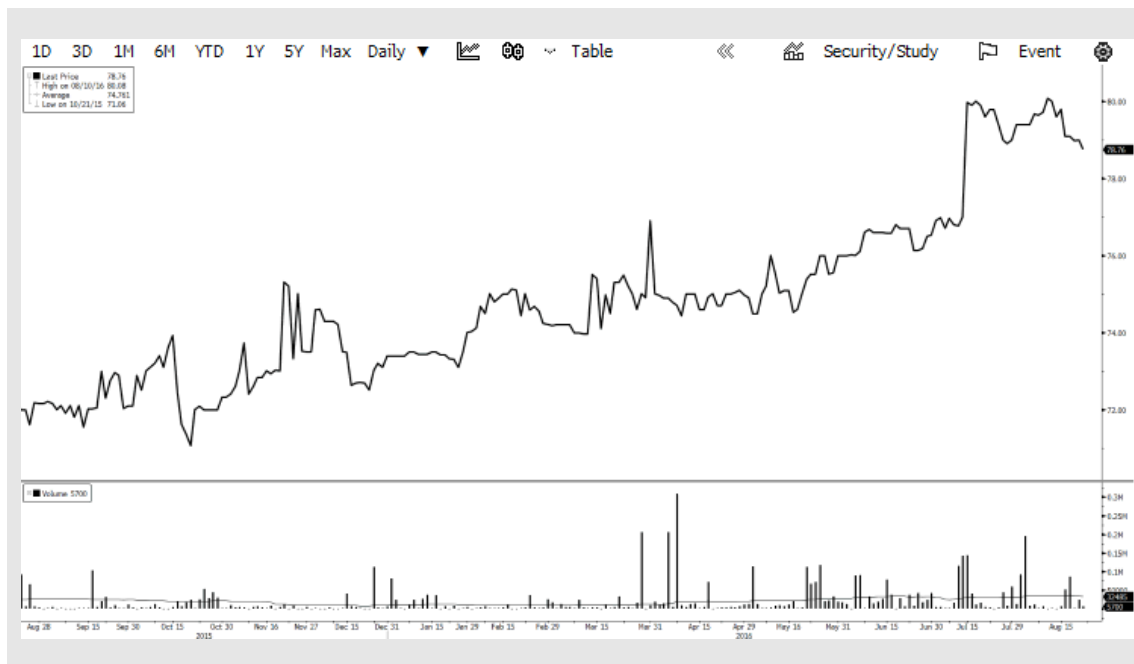
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INVESTMENT STATISTICS

FYE Dec (RMm)	FY2013	FY2014	FY2015	FY2016F	FY2017F
Revenue	4,787.9	4,808.9	4,838.0	5,587.8	5,923.1
PBT	719.1	701.2	727.7	850.1	928.7
PAT	561.7	550.4	590.7	680.1	743.0
EPS (sen)	239.5	234.7	251.9	290.0	316.8
Net Dividend (sen)	235.0	235.0	260.0	265.0	285.0
PBT margin (%)	15.0	14.6	15.0	15.2	15.7
PAT margin (%)	11.7	11.4	12.2	12.2	12.5
EPS Growth (%)	10.9	(2.0)	7.3	15.1	9.2
Dividend yield (%)	3.0	3.0	3.3	3.4	3.6
PER (x)	32.9	33.6	31.3	27.2	24.9

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



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Nestle (Malaysia) Berhad: 2QFY16 Results Review

FYE Dec (RMm)	Quarterly results			Cumulative results		
	2QFY16	YoY (%)	QoQ (%)	1HFY16	1HFY15	YoY (%)
Revenue	1,237.2	8.2	(5.8)	2,550.6	2,420.6	5.4
Cost of sales	(710.0)	1.8	(10.3)	(1,502.0)	(1,476.5)	1.7
Gross profit	527.1	18.3	1.1	1,048.6	944.1	11.1
Operating expenses	(296.4)	6.3	25.3	(533.1)	(526.5)	1.2
Operating profit	230.7	38.4	(19.0)	515.6	417.6	23.5
Finance costs	(7.5)	0.6	(20.2)	(17.0)	(14.7)	15.4
Finance income	0.3	(12.5)	11.3	0.5	0.5	15.4
Share of results of associated company	0.4	n.a.	132.3	0.6	0.4	n.a.
PBT	223.9	40.3	(18.8)	499.8	403.8	23.8
Taxation	(35.1)	(1.6)	(36.4)	(90.3)	(92.0)	(1.9)
PAT	188.8	52.4	(14.5)	409.5	311.8	31.3
Minority interests	-	n.a.	n.a.	-	-	n.a.
PATAMI	188.8	52.4	(14.5)	409.5	311.8	31.3
Basic EPS (sen)	80.5	52.4	(14.5)	174.6	133.0	31.3
		<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit (%)	42.6	3.6	2.9	41.1	39.0	2.1
Operating profit margin (%)	18.6	4.1	(3.0)	20.2	17.3	3.0
PBT margin (%)	18.1	4.1	(2.9)	19.6	16.7	2.9
PAT margin (%)	15.3	4.4	(1.5)	16.1	12.9	3.2
PATANCI margin (%)	15.3	4.4	(1.5)	16.1	12.9	3.2
Tax rate (%)	15.7	(6.7)	(4.3)	18.1	22.8	(4.7)
Segmental Results						
Revenue						
Food & Beverages	994.5	7.9	(4.9)	2040.2	1938.7	5.2
Others (Nutrition and Nestle Professional)	242.7	9.8	(9.4)	510.5	482.0	5.9
Operating Profit						
Food & Beverages	193.2	35.7	(16.0)	423.2	343.6	23.2
Others (Nutrition and Nestle Professional)	38.6	59.2	(29.7)	93.6	73.8	26.8
		<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Operating profit margin (%)						
Food & Beverages	19.4	4.0	(2.6)	20.7	17.7	3.0
Others (Nutrition and Nestle Professional)	15.9	4.9	(4.6)	18.3	15.3	3.0

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.