

# Nestlé (Malaysia) Berhad

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

**Maintain NEUTRAL**

## Reaping the benefit of cost saving initiatives

**Revised Target Price: RM148.00**

(Previously RM149.50)

### KEY INVESTMENT HIGHLIGHTS

- Sales declined during the quarter to RM1,328.9m (-1.4%yoy) due to loss of sales resulting from disposal of Chilled Dairy business
- However, 4QFY19 normalised earnings rose by +6.5%yoy to RM131.8m, due to better operating efficiencies
- Full FY19 normalised earnings of RM 672.9m (+2.1%yoy) in-line with ours and consensus expectations
- Final dividend declared of 140.0sen per share
- Maintain NEUTRAL stance with a revised TP of RM148.00

**Earnings met our and consensus expectations.** Nestlé's 4QFY19 normalised earnings improved by +6.5%yoy to RM131.8m. Cumulatively, this brings its normalised FY19 earnings to RM672.9m which met our and consensus expectations, accounting for 96.4% and 97.5% of full year earnings forecast respectively.

**Lower revenue registered for 4QFY19.** Nestlé's 4QFY19 revenue declined by -1.4%yoy to RM1.3b mainly attributable to the: (i) exceptionally strong tax holiday period sales in Q4FY18; (ii) divestment of Chilled Dairy business and; (ii) lower export sales caused unfavourable trading conditions in export markets.

**Better operating efficiencies resulted in improved earnings** Despite the decline in revenue growth, higher commodity prices and unfavourable exchange rates, 4QFY19's earnings staged an encouraging growth of +6.5%yoy. This was mainly due to the group focus on driving sustainable efficiencies and cost savings. During the quarter-in-review, operating expenses dropped by -8.0%yoy. Coupled with a lower effective tax rate of 23.4% (vs 4QFY18: 31.2%), normalised net profit margin rose by +0.7ppts to 9.9%.

**Final dividend declared.** The company declared final dividend for FY19 of 140.0sen per share (vs FY18: 140.0sen). Cumulatively, this brings the total FY19 dividend declared to 280.0sen which is of the same quantum as in FY18.

**Impact to earnings.** We are revising our FY20F and FY21F downward by -4.9% and -6.5% to take into account the challenging domestic environment which may affect consumer demand as well as declining export contribution.

**Target price.** Our target price remains unchanged at **RM148.00** per share. This is based on dividend discount model with the assumption that required return on equity is of 4.7% and sustainable dividend growth rate of 2.4%.

### RETURN STATISTICS

Price @ 25 <sup>th</sup> February 2020 (RM)	142.0
Expected share price return (%)	+4.2
Expected dividend yield (%)	+2.1
<b>Expected total return (%)</b>	<b>+6.3</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.8	1.9
3 months	-3.4	3.6
12 months	-4.7	9.2

### KEY STATISTICS


FBM KLCI	1,500.88
Syariah compliant	Yes
Issue shares (m)	234.50
Estimated free float (%)	15.12
Market Capitalisation (RM'm)	33,299.00
52-wk price range	RM141.0 - RM149.0
Beta vs FBM KLCI (x)	0.57
Monthly velocity (%)	11.02
Monthly volatility (%)	4.23
3-mth average daily volume (m)	0.06
3-mth average daily value (RM'm)	8.82
Top Shareholders (%)	
Fraser and Neave Ltd	72.61
EPF	7.67
Skim Amanah Saham Bumiputera	2.04

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**Maintain NEUTRAL.** In FY19, earnings growth was mainly impacted by the loss of sales resulting from divestment of the Chilled Dairy business as well as subdued export demand due to the global economic uncertainties. However, we expect improvement in earnings in coming quarters driven by the: (i) Nestlé's strong product innovation and; (ii) the group continuous effort in improving its operating efficiency. We applaud the group recent initiatives to improve efficiency which includes establishment of global procurement hubs to centralise procurement activities, more efficient logistic handling and divestment of non-core Chilled Dairy business in order to focus on its Milo operations. Premised on the latter, we expect future contribution from MILO to pace up the earnings growth of Nestlé going forward. Therefore, we expect the group to record stable profit margins despite the volatility in input material and exchange rates. Nonetheless, we believe that there is limited upside to the share price as all positivity has been priced in at current valuation. All things considered, we are maintaining our **NEUTRAL** call on Nestlé. 

## INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2018	2019	2020E	2021F	2022F
Revenue	5,519.0	5,518.1	5,596.3	5,708.2	5,822.4
Cost of sales	(3,381.4)	(3,444.6)	(3,408.1)	(3,470.6)	(3,534.2)
Gross profit	2,137.7	2,073.5	2,188.1	2,237.6	2,288.2
PBT	875.9	875.7	929.0	959.0	984.0
<b>PAT</b>	<b>658.9</b>	<b>672.9</b>	<b>696.7</b>	<b>719.2</b>	<b>738.0</b>
<b>Normalised PAT</b>	<b>648.4</b>	<b>672.9</b>	<b>696.7</b>	<b>719.2</b>	<b>738.0</b>
EPS (sen)	274.0	287.0	297.1	306.7	314.7
Normalised EPS (sen)	276.5	287.0	297.1	306.7	314.7
Net Dividend (sen)	280.0	280.0	300.0	305.0	315.0
Gross profit margin (%)	<b>38.7</b>	<b>37.6</b>	<b>39.1</b>	<b>39.2</b>	<b>39.3</b>
PBT margin (%)	15.9	15.9	16.6	16.8	16.9
Normalised PAT margin (%)	<b>11.7</b>	<b>12.2</b>	<b>12.5</b>	<b>12.6</b>	<b>12.7</b>
<b>Normalised EPS growth (%)</b>	<b>2.1</b>	<b>3.8</b>	<b>3.5</b>	<b>3.2</b>	<b>2.6</b>
<b>Dividend yield (%)</b>	<b>2.0</b>	<b>2.0</b>	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>
<b>PER (x)</b>	<b>51.4</b>	<b>49.5</b>	<b>47.8</b>	<b>46.3</b>	<b>45.1</b>

Source: Company, MIDFR

**NESTLÉ (MALAYSIA) BERHAD: 4QFY19 Results Summary**

FYE 31 <sup>st</sup> ec (RMm)	Quarterly results			Cumulative results		
	4QFY19	YoY (%)	QoQ (%)	FY19	FY18	YoY (%)
Revenue	1,328.9	(1.4)	(5.1)	5,518.1	5,519.0	(0.0)
Cost of sales	(822.3)	0.2	(7.2)	(3,444.6)	(3,381.4)	1.9
<b>Gross profit</b>	<b>506.6</b>	<b>(3.9)</b>	<b>(1.6)</b>	<b>2,073.5</b>	<b>2,137.7</b>	<b>(3.0)</b>
Other income	1.2	(93.0)	nm	21.0	16.8	24.6
Operating expenses	(326.0)	(8.0)	3.8	(1,182.5)	(1,239.9)	(4.6)
<b>Operating profit</b>	<b>181.8</b>	<b>(4.3)</b>	<b>(9.5)</b>	<b>912.0</b>	<b>914.6</b>	<b>(0.3)</b>
Finance costs	(10.2)	(8.1)	(1.0)	(40.7)	(43.1)	(5.7)
Finance income	0.9	(44.6)	(5.0)	3.7	3.6	1.1
Share of results of associated company	(0.3)	(28.4)	(257.0)	0.7	0.8	(7.8)
<b>PBT</b>	<b>172.2</b>	<b>(4.3)</b>	<b>(10.1)</b>	<b>875.7</b>	<b>875.9</b>	<b>(0.0)</b>
Taxation	(40.4)	(28.1)	(5.4)	(202.8)	(217.0)	(6.5)
<b>PAT</b>	<b>131.8</b>	<b>6.5</b>	<b>(11.5)</b>	<b>672.9</b>	<b>658.9</b>	<b>2.1</b>
One-off items	-	nm	nm	0.0	(10.4)	nm
<b>Normalised PAT</b>	<b>131.8</b>	<b>6.5</b>	<b>(14.4)</b>	<b>672.9</b>	<b>648.4</b>	<b>2.1</b>
Basic EPS (sen)	56.2	6.5	(11.5)	287.0	281.0	2.1
Normalised EPS (sen)	56.2	6.5	(14.4)	280.0	280.0	0.0
		<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Gross profit margin (%)	38.1	(1.0)	1.4	37.6	38.7	(1.2)
Operating profit margin (%)	13.7	(0.4)	(0.7)	16.5	16.6	(0.0)
PBT margin (%)	13.0	(0.4)	(0.7)	15.9	15.9	(0.0)
Normalised PAT margin (%)	9.9	0.7	(1.1)	12.2	11.9	0.3
Effective Tax rate (%)	23.4	(7.7)	1.2	23.2	24.8	(1.6)

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.