

# Equity Beat

01 March 2010

## 4Q09 Results Review

## Nestle (M) Bhd

*Still as dividend play in 2010*

**Maintain NEUTRAL**

**Increased Target Price (TP): RM35.30 (from RM32.00)**

- Nestle's FY09 net profit grew +3.2%yoy to RM351.8m, accounting for 100.9% of our full year estimates. Commendable results in 4QFY09 (+11.6%yoy or 8.1%qoq) are the key factor.
- Halal tax incentives and better sales mitigated lower EBIT margin on intensified marketing and additional office relocation expenses in 4QFY09.
- We revised upward our Target Price for Nestle to RM35.30 (from RM32.00), derived from perpetual DDM valuation with an estimated risk free rate of 4.5%. However, as upside for Nestle's share price is only 4.1%, we maintain our NEUTRAL call.

### STOCK INFO

Price (25 Feb 10)	RM33.90	KLCI	1,270.78
Issued shares (mil)	234.50	Bursa / Bloomberg	4707 / NESZ MK
Par Value (RM)	1.00	Board / Sector	Main / Consumer
Market cap. (RM'm)	7,949.55	Syariah Compliant	Yes
Price over NA	14x		
52-wk price Range	RM27.50 – 35.68	Major Shareholders	
Beta (against KLCI)	0.36	Nestle SA	72.61%
3-mth Avg Daily Vol	0.01m	EPF	7.66%
3-mth Avg Daily Value	RM0.46m		

**Domestic and export sales improved as expected in 4QFY09** to RM950.6m (+5.3%qoq and +14.3%qoq respectively), in tandem with the economy recovery. For the full year, revenue declined -3.4%yoy to RM3.74b. Other than demand slowdown, this was also partly due to price reduction of Milo and milk products, shift in demand from milk powders to lower per kilo value products such as coffee creamers and RTD beverages for the export segment.

**Tax incentives lifted earnings growth.** Management indicated that as favourable commodities cost trend, the company further intensify its promotional and marketing activities in order to stimulate consumer spending. The company also relocated its Head Office to Surian Tower, Mutiara Damansara during 4Q09 and incurred some moving expenses. This translated into -7%yoy or -6.1%qoq decline in 4QFY09 EBIT to RM104.5m. However, Halal tax incentive, which was realised during the same quarter on new production lines capex, helped to boost net profit by 11.6%yoy.


**Expect better performance ahead.** The management believe that the strong performance in 4QFY09 is an encouraging sign for 2010. Nestle will be able to fully leverage on the positive economic outlook and grow the domestic and exports business. We anticipate 7.2%yoy revenue growth in FY10. To be conservative, we maintain our EBIT margin assumption of 12% (FY09's 12.3%), after taking into account mixed bag of operational efficiency improvement on better capacity utilisation rate and higher raw materials costs.



FYE 31 Dec	FY07	FY08	FY09	FY10F
Revenue (RM'm)	3,416.0	3,877.1	3,744.2	4,014.3
EBIT (RM'm)	409.4	464.5	461.0	481.7
Pretax Profit (RM'm)	395.3	441.4	440.3	465.7
Net Profit (RM'm)	292.0	340.9	351.8	372.5
EPS (sen)	124.5	145.4	150.0	158.9
EPS growth (%)	10.5%	16.7%	3.2%	5.9%
PER(x)	27.2	23.3	22.6	21.3
Net Dividend (sen)	113.8	191.2	150.0	158.9
Net Dividend Yield (%)	3.4%	5.6%	4.4%	4.7%

Source: Company, Forecasts by MIDFR

**Final dividend of RM1 has been proposed**, bring total to RM1.50 for the full year. This is equivalent to 4.4% net dividend yield. We reckon higher dividend return of 4.7% net in FY10, of which we believe that is achievable on better sales and earnings.

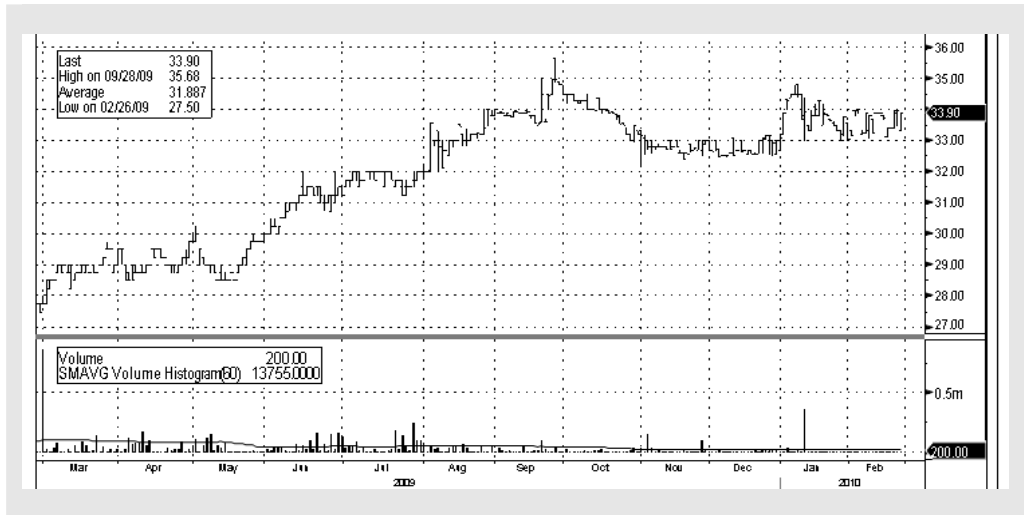
**Maintain NEUTRAL.** We revised upwards our Target Price for Nestle to RM35.30 (from RM32.00), derived from perpetual DDM valuation with an estimated risk free rate of 4.5%. We also raised our FY10 dividend estimates to RM1.59 due to a higher payout ratio assumption of 100% instead of 80%, at par with that in FY09. Our TP, which implies a 22.2x EPS10 of RM1.59, is within its 3-year PER range of 18.3-28.3x. We continue to like Nestle as a defensive dividend play for its consistent payout and notable international brand name. However, as upside for Nestle's share price is only 4.1%, we maintain our NEUTRAL call. 

## Nestle: 4QFY09 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results			Cumulative		Comments
	4Q09	%YoY	%QoQ	FY09	%YoY	
Revenue	950.6	-2.3%	7.2%	3,744.2	-3.4%	Sales improved quarter-on-quarter. Price reduction of MILO products. Export business affected more significant as compared to domestic.
Cost of sales	-605.4	-9.8%	3.8%	-2,462.7	-7.9%	Lower raw materials costs.
Gross profit	345.3	14.4%	13.8%	1,281.5	6.5%	
Operating exp.	-240.7	27.1%	25.3%	-820.5	11.0%	Higher marketing expenses to encourage consumer spending.
EBIT	104.5	-7.0%	-6.1%	461.0	-0.8%	
Pre-tax profit	99.2	-5.4%	-6.8%	440.3	-0.2%	
Tax	-13.0	-52.9%	-51.4%	-88.5	-11.9%	Due to Halal tax incentives.
Net Profit	86.2	11.6%	8.1%	351.8	3.2%	Due to Halal tax incentives.
EPS (sen)	36.8	11.6%	8.1%	150.0	3.2%	
		+/- ppts	+/- ppts			
EBIT margin (%)	11.0%	-0.6	-1.6	12.3%	0.3	Mixed bag of lower commodities cost and higher operational expenses.
Tax rate (%)	13.1%	-13.2	-12.0	20.1%	-2.7	Due to Halal tax incentives.

Source: Company, MIDFR

## DAILY PRICE CHART



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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

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.