Nestlé (Malaysia) Berhad

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

***Maintain* NEUTRAL**

Cost pressure persist

***Unchanged* Target Price: RM141.50**

KEY INVESTMENT HIGHLIGHTS

- **Earnings meet our expectation**
- **2QFY22 core net profit plummeted -20.4%qoq to RM164.8m**
- **Stronger year-on-year result in 1H22**
- **More plant-based products**
- **Maintain NEUTRAL with an unchanged TP of RM141.50**

Earnings meet our expectation. Nestle's 1HFY22 core net profit of RM374.8m was within our expectation but above consensus'. It amounted for 53.9% of ours and 62% of consensus full-year forecast. The group declared its first interim dividend of 70sen/share (ex-date: 8 September 2022), translating 1.8% of dividend yield.

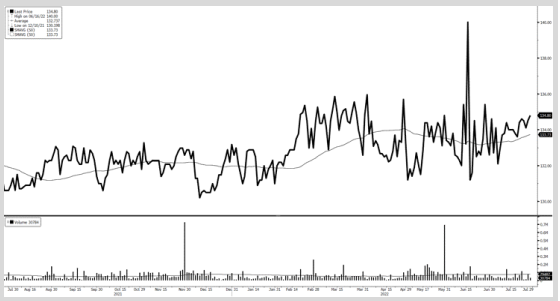
2QFY22 core net profit plummeted -20.4%qoq to RM164.8m in line with -3.2%qoq declined in revenue to RM1.6b. This was primarily caused by lower sales amid stronger CNY sales in the previous quarter along with elevated commodity prices which resulted in higher input costs. As a result, the gross profit margin has been under pressure and decreased by -2.4ppt. On yearly basis, the group's revenue increased +18.8yoy, driven by domestic (+12.5%qoq) and export sales (+48.1%qoq) thanks to the robust recovery in demand and consumer spending after the reopening of the economy and border. Core net profit was higher at RM164.8m (+22.5%yoy), mainly due to lower COVID-19-related costs, more than offsetting the effects of rising commodity prices, unfavorable currency rates, and prosperity tax.

Stronger year-on-year result in 1H22. Nestle's 1H22 revenue rose +17.8%yoy to RM3.3b and core net profit grew +20.1%yoy to RM309.7m. The better performance was lifted by a stronger growth in both core Food & Beverages (+16.7%yoy) and Out-of-home (+23.4%yoy) division, which demonstrates a continuous rise after the relaxation of mobility restriction.

More plant-based products. The group debuted two new plant-based products during the quarter, namely HARVEST GOURMET Plant-based Nuggets and NESCAFE FOLCE GUSTO Almond Flat White and Coconut Flat White in Malaysia. There has been a shift in consumption patterns and growing demand for plant-based products, yet we do not expect the segment to have a substantial contribution to the revenue in the mid-term as it is still in the beginning stage.

RETURN STATISTICS	
Price @ 28th July 2022 (RM)	134.80
Expected share price return (%)	+4.93
Expected dividend yield (%)	+2.18
Expected total return (%)	**+7.12**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.4	-2.9
3 months	1.7	6.4
12 months	1.4	3.0

KEY STATISTICS	
FBM KLCI	1,491.20
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	234.50
Estimated free float (%)	16.10
Market Capitalisation (RM'm)	31,610.60
52-wk price range	RM130 – RM140
Beta vs FBM KLCI (x)	0.45
Monthly velocity (%)	0.39
Monthly volatility (%)	2.86
3-mth average daily volume (m)	0.08
3-mth average daily value (RM'm)	10.62
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	9.23
BlackRock Inc	1.88

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Outlook. We expect the group to continue experiencing cost pressure moving forward, due to the rising commodity prices and depreciation of the RM against the US Dollar. This is due to raw materials are priced in US dollars. Although Nestle may raise the selling price of the goods, we believe that it will have limited room to fully pass on the costs to the consumer due to the inelastic demand for its product. Nevertheless, Nestle's long term prospect are favorable underpinned by its strong balance sheet, which could provide cushion towards potential economy downturn.

Maintain NEUTRAL with an unchanged TP of RM141.50. We make no changes to our earnings estimates pending analyst briefing. Our TP is based on DDM-based valuation with a sustainable growth rate of 2.5% and weighted average cost of capital (WACC) of 5.2%.

Downside risks are: (i) a significant depreciation of RM against the US Dollar; and (ii) a further increase in commodity prices which posted upward pressure on the margin. The stock is currently trading at 45.5x FY22F PE, above the 32.1x average FY22F PE of its peers.

INVESTMENT STATISTICS

Financial year ending 31st Dec (in RM'm, unless otherwise stated)	FY2020	FY2021	FY2022E	FY2023F	FY2024F
Revenue	5,421.2	5,733.8	5,792.9	6,024.6	6,265.6
Cost of sales	(3,446.7)	(3,775.6)	(3,823.3)	(3,988.3)	(4,166.6)
Gross profit	1,965.5	1,958.2	1,969.6	2,036.3	2,099.0
PBT	724.8	741.8	918.2	945.9	1,033.8
PAT	**552.7**	**569.8**	**695.3**	**737.8**	**806.4**
Normalised Net Profit	**544.9**	**569.4**	**695.3**	**737.8**	**806.4**
EPS (sen)	232.4	242.8	296.5	314.6	343.9
Normalised EPS (sen)	232.4	242.8	296.5	314.6	343.9
Net Dividend (sen)	232.0	242.0	294.0	312.0	341.0
Gross profit margin (%)	36.3	34.2	34.0	33.8	33.5
PBT margin (%)	13.4	12.9	15.9	15.7	16.5
Normalised PAT margin (%)	10.2	9.9	12.0	12.2	12.9
Normalised EPS growth (%)	(19.0)	4.5	22.1	6.1	9.3
Dividend yield (%)	1.7	1.8	2.2	2.3	2.5
PER (x)	58.0	55.5	45.5	42.8	39.2

Source: Company, MIDFR

NESTLÉ (MALAYSIA) BERHAD: 2QFY22 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY22	1QFY22	2QFY21	YoY (%)	QoQ (%)	1HFY22	1HFY21	YoY (%)
Revenue	**1,639.0**	**1,693.8**	**1,379.8**	**18.8**	**(3.2)**	**3,332.7**	**2,828.6**	**17.8**
Cost of sales	(1,121.2)	(1,118.0)	(899.3)	24.7	0.3	(2,239.2)	(1,829.3)	22.4
Gross profit	517.8	575.8	480.5	7.8	(10.1)	1,093.5	999.3	9.4
Other income	-	-	-	n.a.	n.a.	0.0	0.0	n.a.
Operating expenses	(269.9)	(278.0)	(295.2)	(8.6)	(2.9)	(547.9)	(586.1)	(6.5)
Operating profit	247.9	297.8	185.3	33.8	(16.8)	545.6	413.3	32.0
Finance costs	(10.3)	(10.0)	(8.5)	21.6	2.6	(20.4)	(17.2)	18.2
Finance income	0.1	0.6	0.1	56.7	(82.9)	0.6	0.7	(9.3)
Associates	0.3	0.4	0.1	113.8	(17.6)	0.7	0.6	8.0
PBT	**237.9**	**288.6**	**177.0**	**34.4**	**(17.6)**	**526.6**	**397.4**	**32.5**
Taxation	(68.3)	(83.5)	(42.5)	60.7	(18.2)	(151.8)	(87.7)	73.0
Profit after tax	**169.7**	**205.2**	**134.5**	**26.1**	**(17.3)**	**374.8**	**309.7**	**21.0**
One-off items	(4.8)	2.0	-	n.a.	(346.7)	(2.9)	0.0	n.a.
Core Net Profit	**164.8**	**207.1**	**134.5**	**22.5**	**(20.4)**	**372.0**	**309.7**	**20.1**
Basic EPS (sen)	72.3	87.5	57.4	26.1	(17.3)	159.8	132.1	21.0
Normalised EPS (sen)	70.3	88.3	57.4	22.5	(20.4)	158.6	132.1	20.1
DPS (sen)	70.0	-	70.0	0.0	n.a.	70.0	70.0	0.0
			+/(-) ppts			*+/(-) ppts*		
Gross profit margin (%)	31.6	34.0	34.8	(3.2)	(2.4)	32.8	35.3	(2.5)
Operating profit margin (%)	15.1	17.6	13.4	1.7	(2.5)	16.4	14.6	1.8
PBT margin (%)	14.5	17.0	12.8	1.7	(2.5)	15.8	14.0	1.8
Normalised Net Profit margin (%)	10.1	12.2	9.7	0.3	(2.2)	11.2	10.9	0.2
Effective Tax rate (%)	28.7	28.9	24.0	4.7	(0.2)	28.8	22.1	6.7

Source: Company, MIDFR

NESTLÉ (MALAYSIA) BERHAD: 2QFY22 SEGMENTAL BREAKDOWN

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY22	1QFY22	2QFY21	YoY (%)	QoQ (%)	1HFY22	1HFY21	YoY (%)
Revenue								
Food & Beverages	1,354.9	1,399.7	1,143.5	18.5	(3.2)	2,754.5	2,359.9	16.7
Others (Nutrition, Nestle Professional & Nespresso)	284.1	294.1	236.3	20.2	(3.4)	578.2	468.7	23.4
Operating Profit								
Food & Beverages	222.7	260.2	169.4	31.4	(14.4)	482.9	380.0	27.1
Others (Nutrition, Nestle Professional & Nespresso)	25.4	37.9	16.2	57.0	(32.8)	63.3	34.0	86.2
Operating profit margin(%)				*+/(-) ppts*				*+/(-) ppts*
Food & Beverages	16.4	18.6	14.8	1.6	(2.2)	17.5	16.1	1.4
Others (Nutrition, Nestle Professional & Nespresso)	9.0	12.9	6.9	2.1	(3.9)	11.0	7.3	3.7

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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 *rise* 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 *fall* 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