# Nestlé (Malaysia) Berhad

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

***Maintain* NEUTRAL**

***Revised* Target Price: RM137.80**
*(previously RM141.50)*

## Solid demand

### KEY INVESTMENT HIGHLIGHTS

- **Earnings within expectations**
- **3QFY22 core PAT slumped -30.6%qoq to RM127.9m**
- **Solid performance in 9MFY22**
- **Consistent dividend payout**
- **Maintain NEUTRAL with a revised TP of RM137.80 (previously RM141.50)**

**Earnings within expectations.** Nestle Malaysia's 9MFY22 core earnings of RM519.3m came in within ours and consensus FY22 estimation. The core PAT represented 74.7% of our estimate and 79.7% of the consensus after excluding a one-time off item of RM31.8m.

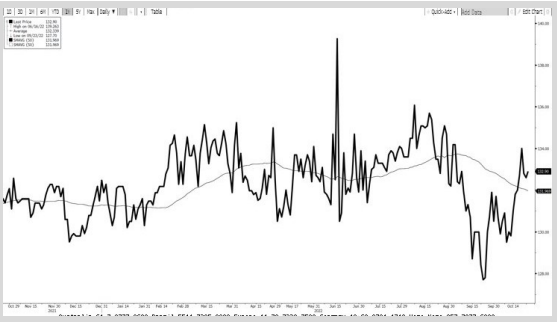
**3QFY22 core PAT slumped -30.6%qoq to RM127.9m** mainly attributed to higher commodity prices. As such, gross profit margin dropped to 27.3% from 31.6% in 2QFY22. The group's revenue rose +2.7%qoq to RM1.68b thanks to higher export sales. On yearly basis, the group reported a -12.5%yoy fall in core PAT to RM127.9m owing to greater commodity prices and the impact of prosperity tax (Cukai Makmur). The increased revenue was supported by normalizing economic activity both locally and worldwide, which improved both domestic and export sales (+13.5%yoy) and domestic sales (+30.2%yoy).

**Solid performance in 9MFY22.** Nestle reported RM5.0b in revenue for the 9MFY22 (vs. RM4.3b in 9MFY21). The positive momentum was contributed by the higher domestic and export sales on the back of stronger growth in both F&B and Out-of-home (OOH) segments. The impact of higher commodity prices and the prosperity tax was partially offset by higher sales and lower COVID-19 expenses. As a result, core PAT increased by +13.3%yoy to RM519.3m in 9MFY22.

**Consistent dividend payout.** Nestle declared an interim dividend of 70sen/share, bringing the total dividend to 140sen in 9MFY22 (ex-date: 18 November 2022). The declared dividend for 3Q is consistent with the dividend declared for 3Q over the previous five years.

| RETURN STATISTICS | |
|---|---|
| Price @ 26th October 2022 (RM) | 133.00 |
| Expected share price return (%) | +3.6 |
| Expected dividend yield (%) | +2.2 |
| **Expected total return (%)** | **+5.8** |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 4.0 | 1.1 |
| 3 months | 1.8 | -0.2 |
| 12 months | -0.8 | 8.1 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,454.98 |
| Syariah compliant | Yes |
| F4BGM Index | No |
| ESG Grading Band (Star rating) | ☆☆☆☆ |
| Issue shares (m) | 234.50 |
| Estimated free float (%) | 16.34 |
| Market Capitalisation (RM'm) | 31,165.05 |
| 52-wk price range | RM127 - RM140 |
| Beta vs FBM KLCI (x) | 0.45 |
| 3-mth average daily volume (m) | 0.07 |
| 3-mth average daily value (RM'm) | 9.08 |
| Top Shareholders (%) | |
| Nestle SA | 72.61 |
| Employees Provident Fund Board | 8.99 |
| BlackRock Inc | 2.06 |

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**Maintain NEUTRAL with a revised TP of RM137.80 (previously RM141.50).** We make no changes to our earnings forecast as earnings came in within our estimation. Our TP is based on a DDM-based valuation with a sustainable growth rate of 2.5% and a revised weighted average cost of capital (WACC) of 5.8% (previously 5.2%). The increased WACC reflects a higher projected risk-free rate of 4.5%, based on the 10-year MGS yield. We expect the group to continue experiencing cost pressure ahead, due to the high commodity prices and energy costs. Nevertheless, we think that the top-line growth would remain solid ahead, supported by its staple nature coupled with its continuous product innovation to meet different consumer preferences. **Downside risks** are: (i) a further increase in commodity prices which posted upward pressure on the margin; and (ii) higher-than-expected energy cost.

## INVESTMENT STATISTICS

| FYE Dec (RM'm) | 2020A | 2021A | 2022E | 2023E | 2024E |
|---|---|---|---|---|---|
| Revenue | 5,412.2 | 5,733.8 | 6,641.1 | 6,860.5 | 7,087.4 |
| Cost of Sales | (3,446.7) | (3,775.6) | (4,550.1) | (4,606.4) | (4,616.0) |
| Gross Profit | 1,965.5 | 1,958.2 | 2,091.0 | 2,254.1 | 2,471.4 |
| EBIT | 752.1 | 785.9 | 906.3 | 1,026.1 | 1,130.8 |
| Net finance (expenses)/income: | (31.9) | (35.0) | (43.4) | (55.8) | (69.8) |
| Profit before Associates & JV | **720.2** | **750.9** | **862.9** | **970.3** | **1,061.0** |
| Profit before tax (PBT) | 720.9 | 751.6 | 862.9 | 970.3 | 1,061.0 |
| Income tax expense | (172.1) | (182.0) | (239.9) | (232.9) | (254.6) |
| Profit After tax (PAT) | **548.8** | **569.6** | **623.0** | **737.4** | **806.4** |
| PATANCI | 548.8 | 569.6 | 623.0 | 737.4 | 806.4 |
| Core PATANCI | **546.9** | **575.3** | **695.0** | **737.4** | **806.4** |
| Basic EPS (sen) | 234.0 | 242.9 | 265.7 | 314.5 | 343.9 |
| Core EPS (sen) | 233.2 | 245.3 | 296.4 | 314.5 | 343.9 |
| DPS (sen) | 232.0 | 242.0 | 293.4 | 311.3 | 340.4 |
| **Growth & Margin** | | | | | |
| Revenue Growth (%) | (1.9) | 5.9 | 15.8 | 3.3 | 3.3 |
| Gross Profit Growth (%) | (5.2) | (0.4) | 6.8 | 7.8 | 9.6 |
| Core PATANCI Growth (%) | (17.7) | 5.2 | 20.8 | 6.1 | 9.3 |
| Gross Profit Margin (%) | 36.3 | 34.2 | 31.5 | 32.9 | 34.9 |
| PBT Margin (%) | 13.3 | 13.1 | 13.0 | 14.1 | 15.0 |
| Core PATANCI Margin (%) | 10.1 | 10.0 | 10.5 | 10.7 | 11.4 |
| **Ratios & Valuation** | | | | | |
| Effective tax rate (%) | 23.9 | 24.2 | 27.8 | 24.0 | 24.0 |
| Dividend Yield (%) | 1.7 | 1.8 | 2.2 | 2.3 | 2.6 |
| PER (x) | 56.8 | 54.8 | 50.1 | 42.3 | 38.7 |
| Cash/share (sen) | 4.0 | 2.9 | 4.8 | 5.0 | 5.1 |
| Net Debt to Equity | 62.5 | 58.1 | 69.5 | 84.1 | 101.6 |
| Price to Book Value (P/B) | 56.0 | 53.5 | 52.8 | 52.2 | 51.5 |
| EV/EBIT (x) | 41.9 | 40.1 | 34.9 | 30.9 | 28.1 |

*Source: Company, MIDFR*

# NESTLÉ (MALAYSIA) BERHAD: 3QFY22 Results Summary

| FYE Dec (RM'm) | Quarterly results | | | | | Cumulative results | | |
|---|---|---|---|---|---|---|---|---|
| | 3QFY22 | 2QFY22 | 3QFY21 | YoY (%) | QoQ (%) | 9MFY22 | 9MFY21 | YoY (%) |
| Revenue | 1,683.4 | 1,639.0 | 1,438.7 | 17.0 | 2.7 | 5,016.2 | 4,267.3 | 17.5 |
| Cost of sales | (1,224.6) | (1,121.2) | (942.4) | 29.9 | 9.2 | (3,463.8) | (2,771.7) | 25.0 |
| **Gross profit** | **458.9** | **517.8** | **496.3** | **(7.5)** | **(11.4)** | **1,552.4** | **1,495.6** | **3.8** |
| Other income | 0.0 | 0.0 | 0.0 | n.m. | n.m. | 0.0 | 0.0 | n.m. |
| Operating expenses | (298.8) | (269.9) | (280.8) | 6.4 | 10.7 | (846.7) | (866.9) | (2.3) |
| Operating profit (EBIT) | 160.1 | 247.9 | 215.5 | (25.7) | (35.4) | 705.7 | 628.8 | 12.2 |
| Net finance income/(cost) | (11.0) | (10.2) | (8.4) | 30.4 | 7.8 | (30.7) | (25.0) | 23.1 |
| Share of results of associate | 0.5 | 0.3 | 0.5 | (8.2) | 56.1 | 1.2 | 1.2 | 0.7 |
| Profit before tax (PBT) | 149.6 | 237.9 | 207.6 | (28.0) | (37.1) | 676.1 | 605.0 | 11.8 |
| Income tax expense | (36.9) | (68.3) | (59.6) | (38.1) | (46.0) | (188.7) | (147.3) | 28.1 |
| **Profit After tax (PAT)** | **112.6** | **169.7** | **148.0** | **(23.9)** | **(33.6)** | **487.5** | **457.7** | **6.5** |
| One-off items | 15.2 | 14.6 | (1.8) | (949.8) | 4.2 | 31.8 | 0.8 | 3,717.4 |
| **Core PAT** | **127.9** | **184.2** | **146.2** | **(12.5)** | **(30.6)** | **519.3** | **458.5** | **13.3** |
| Basic EPS (sen) | 48.0 | 72.3 | 63.1 | (23.9) | (33.6) | 207.9 | 195.2 | 6.5 |
| Core EPS (sen) | 54.5 | 70.3 | 63.1 | (13.6) | (22.4) | 213.1 | 195.2 | 9.2 |
| DPS (sen) | 70.0 | 70.0 | 70.0 | 0.0 | 0.0 | 140.0 | 140.0 | 0.0 |
| **Growth & Margin (%)** | | | | *+/(-) ppts* | *+/(-) ppts* | | | |
| Revenue Growth | 2.7 | (3.2) | 4.3 | (1.6) | 5.9 | 50.5 | 50.9 | (0.4) |
| Gross Profit Growth | (11.4) | (10.1) | 3.3 | (14.7) | (1.3) | 42.0 | 49.7 | (7.7) |
| Operating Profit Growth | (35.4) | (16.8) | 16.3 | (51.7) | (18.6) | 29.3 | 52.1 | (22.8) |
| Core PAT Growth | (30.6) | (11.1) | 6.8 | (37.4) | (19.5) | 32.7 | 46.8 | (14.1) |
| Gross Profit Margin | 27.3 | 31.6 | 34.5 | (7.2) | (4.3) | 30.9 | 35.0 | (4.1) |
| Operating Profit Margin | 9.5 | 15.1 | 15.0 | (5.5) | (5.6) | 14.1 | 14.7 | (0.7) |
| PBT Margin | 8.9 | 14.5 | 14.4 | (5.5) | (5.6) | 13.5 | 14.2 | (0.7) |
| Core PAT Margin | 7.6 | 11.2 | 10.2 | (2.6) | (3.6) | 10.4 | 10.7 | (0.4) |
| **Ratios & Valuation** | | | | *+/(-) ppts* | *+/(-) ppts* | | | *+/(-) ppts* |
| Net cash/market cap (%) | NET DEBT | NET DEBT | NET DEBT | n.m. | n.m. | NET DEBT | NET DEBT | n.m. |
| Effective tax rate (%) | 24.7 | 28.7 | 28.7 | (4.0) | (4.0) | 27.9 | 24.3 | 3.6 |

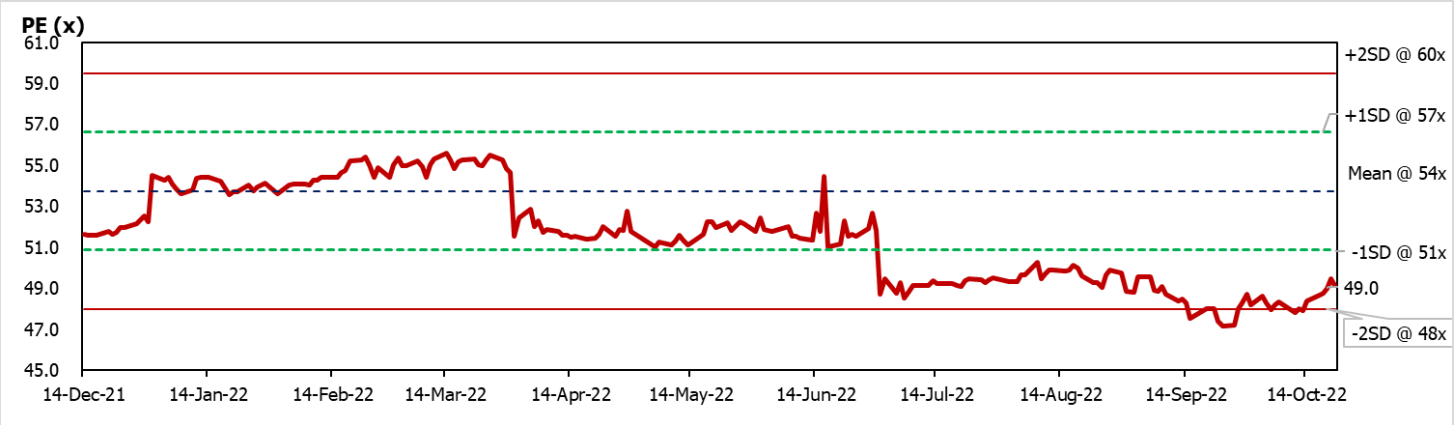
*Source: Company, MIDFR*

## NESTLÉ (MALAYSIA) BERHAD: 3QFY22 SEGMENTAL BREAKDOWN

| FYE Dec (RM'm) | Quarterly results | | | | | Cumulative results | | |
|---|---|---|---|---|---|---|---|---|
| | 3QFY22 | 2QFY22 | 3QFY21 | YoY (%) | QoQ (%) | 9MFY22 | 9MFY21 | YoY (%) |
| **Revenue (External):** | | | | | | | | |
| Food & Beverages | 1,387.8 | 1,354.9 | 1,211.9 | 14.5 | 2.4 | 4,142.4 | 3,571.7 | 16.0 |
| Others (OOH) | 295.6 | 284.1 | 226.8 | 30.3 | 4.0 | 873.8 | 695.6 | 25.6 |
| **Total** | **1,683.4** | **1,639.0** | **1,438.7** | **17.0** | **2.7** | **5,016.2** | **4,267.3** | **17.5** |
| **Operating Profit:** | | | | | | | | |
| Food & Beverages | 143.0 | 222.7 | 199.1 | (28.2) | (35.8) | 625.9 | 579.1 | 8.1 |
| Others (OOH) | 17.4 | 25.4 | 16.7 | 3.7 | (31.7) | 80.7 | 50.7 | 59.0 |
| **Total** | **160.4** | **248.1** | **215.9** | **(25.7)** | **(35.4)** | **706.6** | **629.9** | **12.2** |
| **Operating profit margin:** | | | | *+/(-) ppts* | *+/(-) ppts* | | | *+/(-) ppts* |
| Food & Beverages | 10.3 | 16.4 | 16.4 | (6.1) | (6.1) | 15.1 | 16.2 | (1.1) |
| Others (OOH) | 5.9 | 9.0 | 7.4 | (1.5) | (3.1) | 9.2 | 7.3 | 1.9 |
| **Total** | **9.5** | **15.1** | **15.0** | **(5.5)** | **(5.6)** | **14.1** | **14.8** | **(0.7)** |

*Source: Company, MIDFR*

## NESTLÉ (MALAYSIA) BERHAD: 2-Year Forward PE




*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 *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