Nestlé (Malaysia) Berhad

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

***Maintain* NEUTRAL**

***Revised* Target Price: RM139.50**
(previously RM137.80)

Better margin ahead

KEY INVESTMENT HIGHLIGHTS

- **Earnings within expectations**
- **Improved margin in 4QFY22 driven by multiple cost savings initiatives**
- **Stronger revenue and core PATAMI in 12MFY22**
- **Revised FY23F-24F earnings projections and introduce FY25F**
- **Maintain NEUTRAL with a higher TP of RM139.50 (from RM137.80)**

Earnings within expectations. Nestle Malaysia's FY22 core PATAMI of RM669.7m came in within ours and consensus' full-year FY22 projections. After excluding one-time off items of RM49.3m, it accounted for 96.4% of ours and 104% of streets' FY22 estimation. The group declared a 3rd interim dividend of 122sen/share, bringing total dividend for FY22 to 262sen/share in FY22. This was higher than the total dividend of 242sen/share declared in FY21.

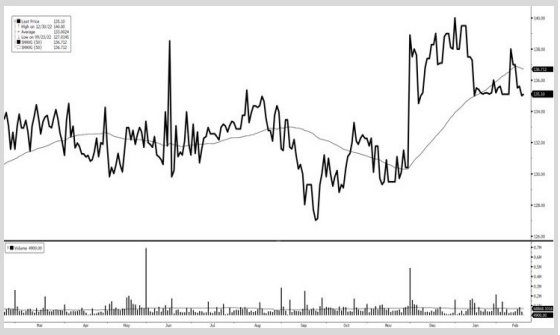
Improved margin in 4QFY22 driven by multiple cost savings initiatives. On a quarterly basis, 4QFY22 core PATAMI increased by +17.6%qoq to RM150.4m, despite a modestly lower revenue of RM1.65b in 4QFY22 as compared to RM1.68b in 3QFY22. This was largely due to cost-cutting initiatives, which more than offset the slightly lower turnover. As such, the core PATAMI margin improved to 9.1% in 4QFY22 from 7.6% in 3QFY22. On yearly basis, 4QFY22 core PATAMI rose +12.4%yoy to RM150.4m in line with increased revenue of RM1.65b in 4QFY22. This was primarily due to increased domestic and export sales, which more than compensated for higher commodity prices, unfavourable exchange rates and Cukai Makmur.

Stronger revenue and core PATAMI in FY22. Nestle's revenue increased by +16.2%yoy to RM6.7b. This was driven by the higher revenue from the F&B division and other division as a result of the normalization of out-of-home activities after the reopening of economy. The group's core PATAMI rose from RM579m in FY21 to RM669.7m in FY22. This was mainly due to robust sales, various cost-cutting initiatives, and lower COVID-19 expenses.

Revised FY23F-24F earnings projections and introduce FY25F. We tweak our earnings forecast for FY23F by +1.2% to RM746.1m and FY24F by +4.4% to RM842.1m. This is after accounting for lower raw material costs and better margins due to falling commodity prices.

RETURN STATISTICS	
Price @ 21st February 2023 (RM)	135.10
Expected share price return (%)	+3.2
Expected dividend yield (%)	+1.9
Expected total return (%)	**+5.17**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-0.1	1.6
3 months	-3.5	0.6
12 months	-0.7	6.5

KEY STATISTICS	
FBM KLCI	1,474.01
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	234.50
Estimated free float (%)	16.47
Market Capitalisation (RM'm)	31,680.95
52-wk price range	RM127. - RM140.
Beta vs FBM KLCI (x)	0.46
3-mth average daily volume (m)	0.07
3-mth average daily value (RM'm)	9.52
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	8.86
BlackRock Inc	1.94

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Maintain NEUTRAL with a higher TP of RM139.50 (from RM137.80). Our target price of RM139.50 is based on DDM valuation with a 3.5% growth rate and a WACC of 7.0% (up from 5.8%). Moving forward, we believe that top-line growth will remain stable in the future, thanks to its staple nature combined with continuous product innovation, particularly in plant-based food products that may be able to capture the growing demand for plant-based products. We also observed a downward trend in global commodities prices, which could result in lower production costs. On the flip side, we are wary that Nestle's 1.3x total debt-to-equity ratio could increase its finance cost in the environment of rising interest rates. Nestle is currently trading at a compelling FY23F PER of 42.4x, compared to its 3-year mean PER of 53x, with a dividend yield of 1.9% in FY23F.

Downside risks are: (i) a further increase in commodity prices which posted upward pressure on the margin; and (ii) higher-than-expected energy costs.

INVESTMENT STATISTICS

FYE Dec (RM'm)	2021A	2022A	2023E	2024E	2025E
Revenue	5,733.8	6,664.1	7,085.6	7,681.4	8,545.9
Cost of Sales	(3,775.6)	(4,603.3)	(4,791.6)	(5,038.7)	(5,409.6)
Gross Profit	**1,958.2**	**2,060.9**	**2,294.0**	**2,642.7**	**3,136.3**
Other Income	3.7	0.0	0.0	0.0	0.0
Selling and Distribution expenses	(906.2)	(908.3)	(985.0)	(1,153.3)	(1,385.7)
General & Administrative	(186.0)	(227.1)	(265.6)	(316.7)	(359.4)
Other operating expenses	(83.8)	(22.6)	(23.8)	(25.6)	(29.3)
EBIT	**785.9**	**902.9**	**1,019.6**	**1,147.2**	**1,361.9**
Profit before tax (PBT)	**751.6**	**859.5**	**972.9**	**1,098.1**	**1,310.5**
Income tax expense	(182.0)	(239.1)	(226.8)	(256.0)	(305.5)
PATAMI	**569.6**	**620.3**	**746.1**	**842.1**	**1,005.0**
Core PATAMI	**575.3**	**669.7**	**746.1**	**842.1**	**1,005.0**
Basic EPS (sen)	242.9	264.5	318.2	359.1	428.6
DPS (sen)	242.0	262.0	315.1	355.7	424.5
Growth & Margin (%)					
Revenue Growth (%)	5.9	16.2	6.3	8.4	11.3
Gross Profit Growth (%)	(0.4)	5.2	11.3	15.2	18.7
Core PATAMI Growth (%)	5.2	16.4	11.4	12.9	19.3
Gross Profit Margin (%)	34.2	30.9	32.4	34.4	36.7
Core PATAMI Margin (%)	10.0	10.0	10.5	11.0	11.8
Ratios & Valuation					
Effective tax rate (%)	24.2	27.8	23.3	23.3	23.3
Dividend Yield (%)	1.8	1.9	2.3	2.6	3.1
PER (x)	55.6	51.1	42.5	37.6	31.5
Total-Debt-to-Equity ratio (x)	0.6	1.3	1.3	1.4	1.5
EV/EBITDA (x)	32.6	29.3	33.8	29.9	25.0

Source: Company, MIDFR

NESTLÉ (MALAYSIA) BERHAD: 4QFY22 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	12MFY22	12MFY21	YoY (%)
Revenue	1,648.0	1,683.4	1,466.5	12.4	(2.1)	6,664.1	5,733.8	16.2
Cost of Sales	(1,139.5)	(1,224.6)	(1,003.9)	13.5	(6.9)	(4,603.3)	(3,775.6)	21.9
Gross Profit	**508.5**	**458.9**	**462.6**	**9.9**	**10.8**	**2,060.9**	**1,958.2**	**5.2**
Other income	0.0	0.0	3.7	(100.0)	n.m.	0.0	3.7	(100.0)
Operating expenses	(311.3)	(298.8)	(309.0)	0.7	4.2	(1,158.0)	(1,175.8)	(1.5)
Operating profit (EBIT)	**197.2**	**160.1**	**157.3**	**25.4**	**23.2**	**902.9**	**786.1**	**14.9**
Net finance income/(cost)	(13.6)	(11.0)	(10.1)	34.6	23.1	(44.3)	(35.0)	26.4
Profit before tax (PBT)	**183.3**	**149.6**	**146.8**	**24.9**	**22.6**	**859.5**	**751.8**	**14.3**
Profit After tax (PAT)	132.9	112.6	112.1	18.5	17.9	620.3	569.8	8.9
PATAMI	132.9	112.6	112.1	18.5	17.9	620.3	569.8	8.9
Core PATAMI	**150.4**	**127.9**	**120.2**	**25.2**	**17.6**	**669.7**	**578.7**	**15.7**
Basic EPS (sen)	56.7	48.0	47.8	18.5	17.9	264.5	243.0	8.9
DPS (sen)	122.0	70.0	102.0	19.6	74.3	262.0	242.0	8.3
Growth & Margin (%)				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Revenue Growth	(2.1)	2.7	1.9	(4.0)	(4.8)	32.9	34.4	(1.5)
Gross Profit Growth	10.8	(11.4)	(6.8)	17.6	22.2	32.8	30.9	1.8
Core PATAMI Growth	17.6	(30.6)	(17.8)	35.4	48.2		29.0	
Gross Profit Margin	30.9	27.3	31.5	(0.7)	3.6	30.9	34.2	(3.2)
PBT Margin	11.1	8.9	10.0	1.1	2.2	12.9	13.1	(0.2)
Core PATAMI Margin	9.1	7.6	8.2	0.9	1.5	10.0	10.1	(0.0)
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net debt/total equity (%)	1.3	0.6	0.6	0.7	0.6	1.3	0.6	0.7
Effective tax rate (%)	27.5	24.7	23.6	3.9	2.9	27.8	24.2	3.6

Source: Company, MIDFR

NESTLÉ (MALAYSIA) BERHAD: 4QFY22 SEGMENTAL BREAKDOWN

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY22	3QFY22	4QFY21	YoY (%)	QoQ (%)	12MFY22	12MFY21	YoY (%)
Revenue (External):								
Food & Beverages	1,353.3	1,387.8	1,201.7	12.6	(2.5)	5,495.7	4,773.5	15.1
Others	294.7	295.6	264.8	11.3	(0.3)	1,168.5	960.4	21.7
Total	**1,648.0**	**1,683.4**	**1,466.5**	**12.4**	**(2.1)**	**6,664.1**	**5,733.8**	**16.2**
Operating Profit:								
Food & Beverages	186.6	143.0	138.2	35.1	30.5	812.6	717.3	13.3
Others	10.9	17.4	19.5	(44.3)	(37.4)	91.6	70.3	30.3
Total	**197.5**	**160.4**	**157.7**	**25.2**	**23.1**	**904.1**	**787.6**	**14.8**
Operating profit margin:								
Food & Beverages	13.8	10.3	11.5	2.3	3.5	14.8	15.0	(1.6)
Others	3.7	5.9	7.4	(3.7)	(2.2)	7.8	7.3	7.1
Total	**12.0**	**9.5**	**10.8**	**1.2**	**2.5**	**13.6**	**13.7**	**(1.2)**

Source: Company, 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