Nestlé (Malaysia) Berhad

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

Solid Revenue for Household Brand Name

***Maintain* NEUTRAL**

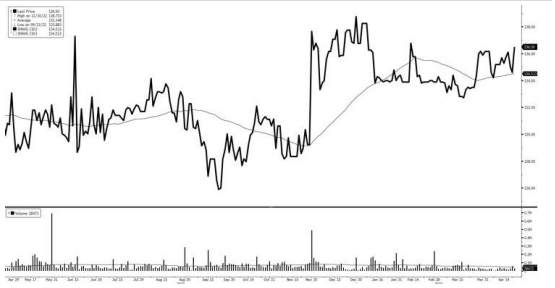
***Unchanged* Target Price: RM139.50**

KEY INVESTMENT HIGHLIGHTS

- **Results within estimations**
- **Solid revenue on yearly basis**
- **Improved core PATAMI on quarterly basis**
- **Solid F&B revenue**
- **Maintain NEUTRAL with an unchanged TP of RM139.50**

RETURN STATISTICS	
Price @ 25th April 2023 (RM)	136.50
Expected share price return (%)	+2.20
Expected dividend yield (%)	+1.90
Expected total return (%)	**+4.09**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.3	-0.5
3 months	-0.4	6.1
12 months	3.0	15.4

Results within estimations. Nestle Malaysia ("Nestle") reported a core PATAMI of RM208.4m for 3MFY23, after subtracting a one-off item of RM11.3m. The earnings were in line with our and the consensus full-year FY23 projection, which accounted for 27.9% of ours and 29.3% of streets'. As expected, no dividend was declared during the quarter as the group typically only proposes dividends during Q2, Q3, and Q4.

Solid revenue on yearly basis. The group's 1QFY23 top line increased by +8.8%yoy to RM1.84b due to the higher domestic (+10%yoy) and export (+4%yoy) sales. Operating profit declined by -7%yoy to RM277.1m during the quarter due to higher commodity prices and other operating expenses. Note that the price of commodities began to escalate in 2QFY22. The core PATAMI increased slightly by +0.6%yoy to RM208.4m thanks to the higher revenue that offset the higher costs.

Improved core PATAMI on quarterly basis. The group reported a stronger revenue of RM1.84b in 1QFY23 as compared to RM1.64b in 4QFY22 mainly supported by stronger Chinese New Year sales. The core PATAMI increased by +38.6%qoq to RM208.4m. This was mainly supported by the higher revenue and lower operating expenses (-8%qoq), which more than offset the increased cost of sales (+12.2qoq).

Solid F&B revenue. The group reported that the F&B division's revenue increased +9.4%yoy to RM1.53b in 1QFY23 due to a favourable post-pandemic trajectory. Likewise, the others division increased by +5.9%yoy to RM311.3m due to improving Out-of-Home business under Nestlé Professional, reflecting post-pandemic upswing. Despite greater revenue, operating profit for the F&B and other divisions fell by -6.7%yoy/-8.8%yoy to RM242.9m/RM34.5m during the quarter. This was mostly caused by rising operating costs and commodity prices.

Maintain NEUTRAL with an unchanged TP of RM139.50. Given that earnings came in within our estimation, we make no changes to our earnings projection for FY23-25F. Our target price of **RM139.50** is based on DDM valuation with a 3.5% growth rate and a WACC of 7.0%. Moving forward, we believe that top-line growth will remain steady, thanks to its staple nature and continuous product innovation. On the other side, we are concerned that Nestle's FY23F 1.3x total debt-to-equity ratio could increase its finance cost in the current rising interest rates environment. Hence, we maintain our **NEUTRAL** call on Nestle.

INVESTMENT STATISTICS

FYE Dec (RM'm)	2023F	2024F	2025F
Revenue	7,085.6	7,681.4	8,545.9
EBITDA	961.7	1,087.4	1,300.3
Profit Before Tax	973.0	1,098.1	1,310.5
Core PATAMI	746.1	842.1	1,005.0
Core EPS (sen)	318.2	359.1	428.6
DPS (sen)	314.6	355.0	423.7
Dividend Yield (%)	2.3	2.6	3.1

KEY STATISTICS	
FBM KLCI	1,425.2
Issue shares (m)	234.5
Estimated free float (%)	16.5
Market Capitalisation (RM'm)	32,009.3
52-wk price range	RM127– RM140
3-mth average daily volume (m)	0.1
3-mth average daily value (RM'm)	6.5
Top Shareholders (%)	
Nestle SA	72.6
Employees Provident Fund Board	9.0
BlackRock Inc	1.9

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Valuation. Nestle is currently trading at a compelling FY23F PER of 42.9x, compared to its 3-year mean PER of 53x, with a dividend yield of 1.9% in FY23F.

Downside/(Upside) risks are: (i) a further increase/(decrease) in commodity prices that affect/(improve) the margin; and (ii) higher/(lower)-than-expected energy costs.

Nestle Malaysia: 1QFY23 Results Summary

FYE Dec (Rum's)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	Qosqo (%)	3MFY23	3MFY22	YoY (%)
Revenue	1,842.4	1,648.0	1,693.8	8.8	11.8	1,842.4	1,693.8	8.8
Cost of Sales	(1,279.0)	(1,139.5)	(1,118.0)	14.4	12.2	(1,279.0)	(1,118.0)	14.4
Gross Profit	**563.4**	**508.5**	**575.8**	**(2.2)**	**10.8**	**563.4**	**575.8**	**(2.2)**
Operating expenses	(286.3)	(311.3)	(278.0)	3.0	(8.0)	(286.3)	(278.0)	3.0
Operating profit (EBIT)	**277.1**	**197.2**	**297.8**	**(7.0)**	**40.5**	**277.1**	**297.8**	**(7.0)**
Net finance income/(cost)	(14.8)	(13.6)	(9.5)	56.2	9.5	(14.8)	(9.5)	56.2
Profit before tax (PBT)	**262.3**	**183.3**	**288.6**	**(9.1)**	**43.1**	**262.3**	**288.6**	**(9.1)**
Profit After Tax (PAT)	197.1	132.9	205.2	(3.9)	48.4	197.1	205.2	(3.9)
PATAMI	197.1	132.9	205.2	(3.9)	48.4	197.1	205.2	(3.9)
Core PATAMI	**208.4**	**150.4**	**207.2**	**0.6**	**38.6**	**208.4**	**207.2**	**0.6**
Basic EPS (sen)	84.1	56.7	87.5	(3.9)	48.4	84.1	87.5	(3.9)
Core EPS (sen)	88.9	64.1	88.3	0.6	38.6	88.9	88.3	0.6
DPS (sen)	0.0	122.0	0.0	n.m.	(100.0)	0.0	0.0	n.m.
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/ (-) ppts*
Revenue Growth	11.8	(2.1)	15.5	(3.7)	13.9	(72.4)	(70.5)	(1.9)
Core PATAMI Growth	38.6	17.6	72.4	(33.8)	20.9	(68.9)	(64.2)	(4.7)
Gross Profit Margin	30.6	30.9	34.0	(3.4)	(0.3)	30.6	34.0	(3.4)
Core PATAMI Margin	11.3	9.1	12.2	(0.9)	2.2	11.3	12.2	(0.9)
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
Inventories (Days)	290.0	357.2	302.1	(4.0)	(18.8)	290.0	302.1	(4.0)

Source: Company, MIDFR

Nestle Malaysia: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue (External):								
Food & Beverages	1,531.1	1,353.3	1,399.7	9.4	13.1	1,531.1	1,399.7	9.4
Others	311.3	294.7	294.1	5.9	5.7	311.3	294.1	5.9
Total	**1,842.4**	**1,648.0**	**1,693.8**	**8.8**	**11.8**	**1,842.4**	**1,693.8**	**8.8**
Operating Profit:								
Food & Beverages	242.9	186.6	260.2	(6.7)	30.1	242.9	260.2	(6.7)
Others	34.5	10.9	37.9	(8.8)	217.4	34.5	37.9	(8.8)
Total	**277.4**	**197.5**	**298.1**	**(6.9)**	**40.5**	**277.4**	**298.1**	**(6.9)**
Operating profit margin:								
Food & Beverages	15.9	13.8	18.6	(2.7)	2.1	15.9	18.6	(14.7)
Others	11.1	3.7	12.9	(1.8)	7.4	11.1	12.9	(13.9)
Total	**15.1**	**12.0**	**17.6**	**(2.5)**	**3.1**	**15.1**	**17.6**	**(14.5)**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
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**
Selling and Distribution expenses	(906.2)	(936.0)	(1,020.3)	(1,197.2)	(1,427.5)
General & Administrative	(186.0)	(194.0)	(226.9)	(270.6)	(313.1)
Other operating expenses	(83.8)	(27.9)	(29.4)	(31.5)	(36.1)
EBITDA	**981.4**	**1,110.4**	**961.7**	**1,087.4**	**1,300.3**
EBIT	**785.9**	**902.9**	**1,019.6**	**1,147.1**	**1,361.9**
Profit before tax (PBT)	**751.6**	**859.5**	**973.0**	**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**	**632.3**	**746.1**	**842.1**	**1,005.0**
Basic EPS (sen)	242.9	265.0	318.2	359.1	428.6
Core EPS (sen)	245.3	269.6	318.2	359.1	428.6
DPS (sen)	242.0	262.0	314.6	355.0	423.7

Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property, plant and equipment	1,534.3	1,669.3	1,679.3	1,693.3	1,714.2
Intangible assets	63.3	62.2	65.5	70.2	77.4
Total Non-current assets	**1,844.9**	**1,954.8**	**2,047.9**	**2,068.4**	**2,081.9**
Inventories	745.0	1,115.1	968.1	1,018.0	1,092.9
ST - Trade and other receivables	377.1	445.2	437.1	473.9	527.2
Cash and cash equivalents	6.9	8.2	8.7	9.5	10.6
Total current assets	**1,139.9**	**1,599.2**	**1,446.2**	**1,535.8**	**1,668.5**
Total Assets	**2,984.8**	**3,554.0**	**3,494.0**	**3,604.2**	**3,750.4**
Total Equity	**582.7**	**626.3**	**615.9**	**604.5**	**592.1**
LT Lease Liabilities	141.4	120.0	121.2	124.9	132.0
LT Loans and borrowings	100.0	300.0	303.0	306.0	309.1
Total Non-current liabilities	473.7	668.7	670.1	678.2	695.1
ST Trade and other payables	**1,626.1**	**1,724.9**	**1,744.0**	**1,834.0**	**1,969.0**
Lease liabilities	27.0	27.5	28.7	30.4	33.2
ST Loans and borrowings	245.7	486.9	491.8	496.7	501.6
Total Current Liabilities	**1,928.4**	**2,259.0**	**2,208.0**	**2,321.5**	**2,463.2**
Total Liabilities	**2,402.1**	**2,927.7**	**2,878.1**	**2,999.6**	**3,158.3**

Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	751.6	859.5	1,098.1	1,310.5	1,573.3
Cash flow from operations	887.5	511.5	1,123.8	1,110.8	1,323.8
Cash flow from investing	(266.3)	(309.7)	(55.6)	(61.8)	(70.2)
Cash flow from financing	(596.6)	(376.8)	(879.9)	(1,047.9)	(1,252.1)
Net cash flow	**24.5**	**(174.9)**	**188.2**	**1.1**	**1.5**
Net cash/(debt) b/f	**(28.3)**	**(3.8)**	**(178.7)**	**9.5**	**10.6**
Net cash/(debt) c/f	**(3.8)**	**(178.7)**	**9.5**	**10.6**	**12.2**

Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	24.2	27.8	23.3	23.3	23.3
PER (x)	56.2	51.5	42.9	38.0	31.9
Inventories (Days)	64.9	73.7	73.7	73.7	73.7
Total-Debt-to-Equity ratio (x)	0.6	1.3	1.3	1.3	1.4

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	34.2	30.9	32.4	34.4	36.7
EBITDA Margin (%)	17.1	16.7	13.6	14.2	15.2
Core PATAMI Margin (%)	10.0	9.5	10.5	11.0	11.8

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