Nestlé (Malaysia) Berhad

Maintain NEUTRAL

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

Relaunched NESCAFÉ Grown Respectfully Programme

Unchanged Target Price: RM139.50

KEY INVESTMENT HIGHLIGHTS

- **Virtual analyst briefing**
- **Relaunched NESCAFÉ Grown Respectfully programme**
- **Completed price adjustments plan**
- **Solid demand for Nestle products**
- **Maintain NEUTRAL with an unchanged TP of RM139.50**

Virtual analyst briefing. We attended Nestle's analyst briefing yesterday and came away remained neutral about the company's near-term prospects. The salient highlights from briefing are as follows: -

Relaunched NESCAFÉ Grown Respectfully programme. Management highlighted the reintroduction of the NESCAFÉ Grown Respectfully campaign in Gua Musang, Kelantan. Nestle obtained 200 acres of land in Gua Musang, which was demarcated for coffee cultivation by the Lembaga Kemajuan Kelantan Selatan ("KESEDAR"). In exchange, the group will contribute 200 seedlings for the demo farm and 800 seedlings as mother plants for the nursery. The objective of this programme is to introduce three editions of NESCAFÉ classic goods, employing coffee sourced mostly from Malaysia. In addition, the group trained 270 farmers, provided 270k seedlings, and planted 150 acres of coffee. Nevertheless, we do not factor the programme into our earnings projections given that it typically takes 3 to 5 years for a coffee plant to yield fruit.

Chart 1: 3 editions of Malaysia's homegrown coffee



Source: Company

Completed price adjustments plan. Management stated that the group had implemented another round of price increase in March 2023 and had already completed with price hikes for the year. Note that the group began raising product prices in FY22 as part of an endeavour to pass on increased input costs (particularly raw material, energy, and labour expenses) to consumers.

RETURN STATISTICS	
Price @ 27th April 2023 (RM)	135.30
Expected share price return (%)	+3.10
Expected dividend yield (%)	+1.90
Expected total return (%)	**+5.02**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.4	-1.1
3 months	-1.3	5.7
12 months	1.5	13.5

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	1,418.1
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

Analyst(s)
Genevieve Ng Pei Fen
Genevieve.ng@midf.com.my

Solid demand for Nestle products. In 1QFY23, the group reported a stronger revenue of RM1.84b as compared to RM1.64b in 4QFY22 due to the CNY festive sales. Management noted that the demand for Nestle's product remains robust despite multiple headwinds. The management highlighted that sales are influenced by seasonality impact, with the group typically posting greater sales during Chinese New Year celebrations. Going forward, the company anticipates higher revenues in 2QFY23, primarily due to the Hari Raya festival.

Maintain NEUTRAL with an unchanged TP of RM139.50. We make no changes to our earnings projection for FY23-25F post analyst briefing. 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. Nestle is currently trading at a compelling FY24F PER of 38x, 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.

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)	55.7	51.1	42.5	37.7	31.6
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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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