Corporate Update

Nestlé (Malaysia) Berhad

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

SHARIAH Compliant

FTSE4Good

Downgrade to **SELL**

Revised Target Price **RM77.90** (from RM101.90)

4QFY24 Results Review

Prolonged Weakness Weighs on Earnings

Downgrade to SELL with a lower TP of RM77.90. Nestlé's 4QFY24 results fell below expectations, impacted by weak domestic sales and rising input costs. This marks the third consecutive quarter in which Nestlé's net profit has fallen below the RM100m threshold, underscoring ongoing challenges in the domestic market. We cut our FY25-26F earnings estimates by -18%/-19% respectively, factoring in weaker domestic demand and sustained cost pressures. Our revised TP is based on DDM valuation with a consistent 3.2% growth and an unchanged WACC of 6.7%.

Below expectations. Nestle chalked in 4QFY24 revenue of RM1.5b (+1.8%qoq; -12.6%yoy) and core PATAMI of RM33.4M (-66.0%qoq, -83.2%yoy) which brought 12MFY24 core PATAMI to RM431.5M (-42.9%yoy). This missed ours and consensus forecast, at 75% and 83% of full year expectations respectively. The variance against our forecast was largely due to lower domestic sales and higher input costs.

15-year low dividend. The Group declared an interim dividend of 74sen per share, bringing the full-year dividend to 179sen per share. This marks a 15-year low, a significant reduction from the 268sen per share declared in the previous financial year.

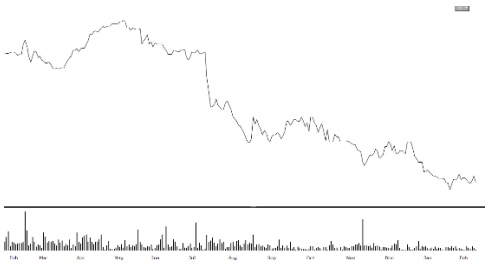
Weak Domestic Sales, Stable Exports. Nestlé posted a subdued 4QFY24 revenue of RM1.5b (+1.8%qoq; -12.6%yoy) mainly impacted by sluggish domestic sales. Consumer hesitancy and the ongoing geopolitical tension-related boycott led to a -13.6%yoy contraction in food & beverage sales. However, export sales offered some resilience, growing +6.9%yoy, reaffirming Nestlé strength as a global halal manufacturing hub. For the full year, revenue declined -11.7%yoy to RM6.2b, primarily due to weaker consumer sentiment and inflationary pressures. Domestic sales saw a steep decline of -15.7%yoy, whereas exports remained strong, growing by 4.9%yoy.

Profitability Declines Due to Cost Pressures. Nestlé profitability was significantly affected by rising input costs, particularly for key commodities such as cocoa and arabica coffee. Gross profit for FY24 fell -15.5% to RM1.9b, leading to a lower gross margin of 30.3% compared to 31.6% in FY23. Notably, the food & beverage segment's operating profit margin dropped by 5.2ppts to 9.2%. Core PATAMI for FY24 declined -42.9%yoy, with the core PATAMI margin contracting to 6.9% from 10.7% in FY23. The decline in profit margins was attributed to weaker sales, higher raw material costs, and increased marketing expenses.

Outlook. We turn more cautious on Nestlé outlook due to the prolonged impact of weak consumer sentiment and ongoing geopolitical conflict affecting domestic sales. While the company continues to leverage its brand strength and operational efficiencies, margin recovery is expected to remain slow due to commodity price volatility.

RETURN STATISTICS	
Price @ 25th Feb 2025 (RM)	90.00
Expected share price return (%)	-13.4
Expected dividend yield (%)	+2.4
Expected total return (%)	-11.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.1	-0.7
3months	-10.0	-3.5
12 months	-25.7	-26.6

INVESTMENT STATISTICS			
FYE DEC (RM'm)	2025F	2026F	2027F
Revenue	6,536.0	6,906.9	7,344.1
EBITDA	939.5	1,000.7	1,057.7
PBT	722.8	775.8	832.6
Core PATANCI	544.2	584.2	627.0
Core EPS (sen)	232.1	249.1	267.4
DPS (sen)	220.5	236.7	254.0
Dividend Yield (%)	2.4	2.6	2.8

KEY STATISTICS	
FBM KLCI	1,568.03
Issue shares (m)	234.50
Estimated free float (%)	25.33
Market Capitalisation (RM'm)	21,105.00
52-wk price range	RM88 - RM130
3-mth average daily volume (m)	0.05
3-mth average daily value (RM'm)	5.14
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	12.59
Blackrock Inc	1.54

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Nestle Malaysia: 4QFY24 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY24	3QFY24	4QFY23	YoY (%)	QoQ (%)	12MFY24	12MFY23	YoY (%)
Revenue	1,472.7	1,446.2	1,685.3	(12.6)	1.8	6,224.7	7,050.9	(11.7)
Cost of Sales	(1,079.2)	(993.9)	(1,144.3)	(5.7)	8.6	(4,339.9)	(4,819.9)	(10.0)
Gross Profit	**393.5**	**452.3**	**541.0**	**(27.3)**	**(13.0)**	**1,884.8**	**2,231.0**	**(15.5)**
Operating expenses	(320.9)	(330.5)	(347.9)	(7.8)	(2.9)	(1,275.8)	(1,291.7)	(1.2)
Operating profit (EBIT)	**72.6**	**121.8**	**193.0**	**(62.4)**	**(40.4)**	**609.0**	**939.3**	**(35.2)**
Net finance income/(cost)	(17.7)	(17.4)	(16.2)	9.0	1.5	(63.9)	(60.3)	5.9
Profit before tax (PBT)	**55.2**	**104.1**	**176.7**	**(68.7)**	**(47.0)**	**544.4**	**879.1**	**(38.1)**
Profit After tax (PAT)	41.1	85.4	148.1	(72.2)	(51.9)	415.6	659.9	(37.0)
PATANCI	41.1	85.4	148.1	(72.2)	(51.9)	415.6	659.9	(37.0)
Core PATANCI	**33.4**	**98.3**	**199.3**	**(83.2)**	**(66.0)**	**431.5**	**756.0**	**(42.9)**
Core EPS (sen)	14.2	41.9	85.0	(83.2)	(66.0)	184.0	322.4	(42.9)
DPS (sen)	74.0	35.0	128.0	(42.2)	111.4	179.0	268.0	(33.2)
Growth & Margin (%)				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Gross Profit Margin	26.7	31.3	32.1	(5.4)	(4.6)	30.3	31.6	(1.4)
Operating Profit Margin	4.9	8.4	11.5	(6.5)	(3.5)	9.8	13.3	(3.5)
PBT Margin	3.8	7.2	10.5	(6.7)	(3.4)	8.7	12.5	(3.7)
Core PATANCI Margin	2.3	6.8	11.8	(9.6)	(4.5)	6.9	10.7	(3.8)
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Effective tax rate (%)	25.6	18.0	16.2	9.4	7.6	23.7	24.9	(1.3)

Source: Company, MIDFR

Nestle Malaysia: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY24	3QFY24	4QFY23	YoY (%)	QoQ (%)	12MFY24	12MFY23	YoY (%)
Revenue (External):								
Food & Beverages	1,147.0	1,004.6	1,327.5	(13.6)	14.2	4,823.5	5,716.5	(15.6)
Others	325.7	441.5	357.8	(9.0)	(26.2)	1,401.2	1,334.3	5.0
Total	**1,472.7**	**1,446.2**	**1,685.3**	**(12.6)**	**1.8**	**6,224.7**	**7,050.9**	**(11.7)**
Operating Profit:								
Food & Beverages	47.0	55.4	185.7	(74.7)	(15.2)	442.9	824.2	(46.3)
Others	20.4	66.9	7.4	174.2	(69.5)	162.2	116.2	39.5
Total	**67.4**	**122.3**	**193.1**	**(65.1)**	**(44.9)**	**605.1**	**940.5**	**(35.7)**
Operating profit margin:				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Food & Beverages	4.1	5.5	14.0	(9.9)	(1.4)	9.2	14.4	(5.2)
Others	6.3	15.1	2.1	4.2	(8.9)	11.6	8.7	2.9
Total	**4.6**	**8.5**	**11.5**	**(6.9)**	**(3.9)**	**9.7**	**13.3**	**(3.6)**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024A	2025F	2026F	2027F
Revenue	7,050.9	6,224.7	6,536.0	6,906.9	7,344.1
Gross Profit	2,231.0	1,884.8	1,980.4	2,102.4	2,245.7
EBITDA	1,149.4	829.8	939.5	1,000.7	1,057.7
EBIT	939.3	609.0	782.0	832.0	887.5
PBT	879.1	544.4	722.8	775.8	832.6
Taxation	(219.2)	(128.8)	(178.5)	(191.6)	(205.7)
PAT	659.9	415.6	544.2	584.2	627.0
Core PATANCI	756.0	431.5	544.2	584.2	627.0
Core EPS (sen)	322.4	184.0	232.1	249.1	267.4
PER (x)	32.0	50.8	38.8	36.1	33.7
DPS (sen)	268.0	179.0	220.5	236.7	254.0
Dividend Yield (%)	3.0	2.0	2.4	2.6	2.8

Cash Flow (RM'm)	2023A	2024A	2025F	2026F	2027F
PBT	879.1	544.4	722.8	775.8	832.6
Operating cash flow	1,276.2	557.6	1,572.7	934.4	994.9
Investing cash flow	(501.5)	(295.2)	(275.3)	(291.1)	(309.5)
Financing cash flow	(604.7)	(497.1)	(985.0)	(639.1)	(680.4)
Net cash flow	170.0	(234.7)	312.4	4.3	5.0
Beginning cash flow	(178.7)	(8.8)	(243.5)	69.0	73.2
Ending cash flow	(8.8)	(243.5)	69.0	73.2	78.3

Growth (%)	2023A	2024A	2025F	2026F	2027F
Revenue Growth	5.8	(11.7)	5.0	5.7	6.3
Gross Profit Growth	8.3	(15.5)	5.1	6.2	6.8
EBITDA Growth	3.5	(27.8)	13.2	6.5	5.7
Core PATANCI Growth	19.6	(42.9)	26.1	7.3	7.3

Profitability Ratios (%)	2023A	2024A	2025F	2026F	2027F
Gross Profit Margin	31.6	30.3	30.3	30.4	30.6
EBITDA Margin	16.3	13.3	14.4	14.5	14.4
EBIT Margin	13.3	9.8	12.0	12.0	12.1
Core PATANCI Margin	10.7	6.9	8.3	8.5	8.5

Balance Sheet (RM'm)	2023A	2024A	2025F	2026F	2027F
PPE	1,749.5	1,809.5	1,950.9	2,056.3	2,177.6
Intangible assets	234.4	234.4	212.9	222.8	234.5
Non-current assets	2,263.2	2,328.9	2,442.0	2,560.0	2,696.0
Inventories	831.4	831.3	873.7	921.4	977.8
ST - Trade receivables	463.0	433.6	358.1	378.5	402.4
Cash and cash equivalents	11.0	11.2	69.0	73.2	78.3
Current assets	1,306.0	1,320.8	1,301.3	1,373.6	1,459.0
Total Assets	3,569.2	3,649.7	3,743.3	3,933.6	4,155.0
Total Equity	674.9	547.5	924.7	1,013.8	1,113.4
LT Loans	300.0	300.0	293.8	287.9	282.2
Non-current liabilities	756.4	684.6	746.7	764.5	786.2
ST Trade payables	1,671.6	1,570.1	1,622.5	1,711.2	1,815.9
ST Loans	419.8	804.7	397.5	389.5	381.8
Current Liabilities	2,137.9	2,417.6	2,071.9	2,155.3	2,255.5
Total Liabilities	2,894.3	3,102.2	2,818.6	2,919.9	3,041.7

Liquidity Ratios (x)	2023A	2024A	2025F	2026F	2027F
Current ratio	0.6	0.5	0.6	0.6	0.6
Quick ratio	0.2	0.2	0.2	0.2	0.2

Leverage Ratios (x)	2023A	2024A	2025F	2026F	2027F
Total Debt to Equity	1.1	1.3	0.7	0.7	0.6
Total Debt to Assets	0.2	0.2	0.2	0.2	0.2
Net debt/total equity	1.1	1.2	0.7	0.6	0.5

Efficiency Ratios (days)	2023A	2024A	2025F	2026F	2027F
Inventories Turnover	73.9	69.9	68.3	68.2	68.0
Receivable Turnover	24.3	27.4	23.2	20.5	20.4
Payable Turnover	130.7	139.3	131.1	130.1	130.1
Cash Conversion Cycle	(32.5)	(42.0)	(39.6)	(41.5)	(41.6)

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	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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