Corporate Update

Nestlé (Malaysia) Berhad

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

SHARIAH Compliant

FTSE4Good

NEUTRAL

Unchanged Target Price **RM77.90**

1QFY25 Results Review

Festive Boost, but Margin Headwinds Persist

Maintain NEUTRAL with an unchanged TP of RM77.90. Nestlé's 1QFY25 performance was in line with expectations, supported by festive-driven domestic sales recovery. However, margin pressure from elevated input costs and higher marketing expenses continued to weigh on earnings. We make no changes to our earnings forecasts as the results align with expectations. Our TP remains unchanged at RM77.90, based on DDM valuation with a consistent 3.2% growth and an unchanged WACC of 6.7%.

Within expectations. Nestlé chalked in 1QFY25 revenue of RM1.77b (-0.8%yoy; +20.1%qoq) and core PATAMI of RM177.4m (-19.3%yoy; +430.9%qoq). The results accounted for 33% of our full-year estimate and 37% of consensus forecast. We deem the results in line, largely due to the seasonality boost from festive periods such as Chinese New Year and Ramadan. As anticipated, no dividend was declared in 1QFY25, consistent with Nestle's typical practice of declaration in 2Q, 3Q, and 4Q.

Festive-Driven Domestic Recovery, Resilient Exports. Nestlé posted a marginally lower 1QFY25 revenue of RM1.77b (-0.8%yoy; +20.1%qoq), with the slight year-on-year decline primarily attributed to softer domestic demand. However, on a quarter-on-quarter basis, revenue rebounded strongly by +20.1%qoq, driven by stronger festive-related domestic consumption during Chinese New Year and Ramadan. Export sales also remained resilient, expanding by +2.6%qoq. Despite the still challenging cost environment, Nestlé's strong brand equity and effective festive campaigns helped sustain topline momentum across core categories.

Margin Pressure Weighs on Bottomline, Sequential Recovery Evident. Gross profit margin contracted by 2.4ppts yoy to 31.0%, impacted by higher input costs, particularly in key commodities, coupled with a cautious pricing strategy. Consequently, operating profit margin also declined by 2.4ppts yoy to 13.0%. Operating profit from the Food & Beverages segment fell -24.3%yoy, though sequential earnings improved strongly on festive-driven sales. Reflecting the lower margins and higher marketing investments during the quarter, core PATAMI declined -19.3%yoy to RM177.4m. Nevertheless, sequential bottomline recovery was notable (+430.9%qoq), underpinned by operating leverage during festive demand peaks.

Outlook. We remained cautious on Nestlé's outlook, given the prolonged impact of weak consumer sentiment and ongoing geopolitical uncertainties, which could continue to weigh on domestic sales. A full cost pass-through remains challenging in the near term, considering Nestlé's strategic focus on offering better value to consumers to defend market share. While management expects sequential improvement from 2QFY25 onwards, we believe that profit margins will likely remain under pressure as raw material prices remain elevated.

RETURN STATISTICS	
Price @ 28TH April 2025 (RM)	80.38
Expected share price return (%)	-3.1
Expected dividend yield (%)	+2.7
Expected total return (%)	-0.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	8.2	7.6
3months	8.2	-9.7
12 months	-36.8	-34.6

INVESTMENT STATISTICS FYE DEC (RM'm)	2025F	2026F	2027F
Revenue	6,536.0	6,906.9	7,344.1
EBITDA	948.9	1,010.8	1,067.9
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 (%)	2.7	2.9	3.2

KEY STATISTICS	
FBM KLCI	1,521.59
Issue shares (m)	234.50
Estimated free float (%)	25.33
Market Capitalisation (RM'm)	29,849.11
52-wk price range	RM61.80- RM130
3-mth average daily volume (m)	0.14
3-mth average daily value (RM'm)	10.30
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	12.85
Blackrock Inc	1.53

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Nestle Malaysia: 1QFY25 Results Summary

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY25	4QFY24	1QFY24	YoY (%)	QoQ (%)	3MFY25	3MFY24	YoY (%)
Revenue	1,768.2	1,472.7	1,782.6	(0.8)	20.1	1,768.2	1,782.6	(0.8)
Cost of Sales	(1,220.9)	(1,079.2)	(1,187.3)	2.8	13.1	(1,220.9)	(1,187.3)	2.8
Gross Profit	**547.3**	**393.5**	**595.3**	**(8.1)**	**39.1**	**547.3**	**595.3**	**(8.1)**
Operating expenses	(317.8)	(320.9)	(321.9)	(1.3)	(1.0)	(317.8)	(321.9)	(1.3)
Operating profit (EBIT)	**229.5**	**72.6**	**273.4**	**(16.1)**	**215.9**	**229.5**	**273.4**	**(16.1)**
Net finance income/(cost)	(16.4)	(17.7)	(13.9)	17.9	(7.2)	(16.4)	(13.9)	17.9
Profit before tax (PBT)	**213.0**	**55.2**	**259.1**	**(17.8)**	**285.8**	**213.0**	**259.1**	**(17.8)**
Profit After tax (PAT)	161.3	41.1	195.5	(17.5)	292.5	161.3	195.5	(17.5)
PATANCI	161.3	41.1	195.5	(17.5)	292.5	161.3	195.5	(17.5)
Core PATANCI	**177.4**	**33.4**	**219.7**	**(19.3)**	**430.9**	**177.4**	**219.7**	**(19.3)**
Core EPS (sen)	75.6	14.2	93.7	(19.3)	430.9	75.6	93.7	(19.3)
DPS (sen)	0.0	74.0	0.0	n.m.	(100.0)	0.0	0.0	n.m.
Growth & Margin (%)				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Gross Profit Margin	31.0	26.7	33.4	(2.4)	4.2	31.0	33.4	(2.4)
Operating Profit Margin	13.0	4.9	15.3	(2.4)	8.0	13.0	15.3	(2.4)
PBT Margin	12.0	3.8	14.5	(2.5)	8.3	12.0	14.5	(2.5)
Core PATANCI Margin	10.0	2.3	12.3	(2.3)	7.8	10.0	12.3	(2.3)
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Effective tax rate (%)	24.3	25.6	24.5	(0.3)	(1.3)	24.3	24.5	(0.3)

Source: Company, MIDFR

Nestle Malaysia: Breakdown by operating segment

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	1QFY25	4QFY24	1QFY24	YoY (%)	QoQ (%)	3MFY25	3MFY24	YoY (%)
Revenue (External):								
Food & Beverages	1,404.3	1,147.0	1,445.5	(2.9)	22.4	1,404.3	1,445.5	(2.9)
Others	363.9	325.7	337.1	8.0	11.7	363.9	337.1	8.0
Total	**1,768.2**	**1,472.7**	**1,782.6**	**(0.8)**	**20.1**	**1,768.2**	**1,782.6**	**(0.8)**
Operating Profit:								
Food & Beverages	171.1	47.0	226.0	(24.3)	264.1	171.1	226.0	(24.3)
Others	58.9	20.4	47.9	22.9	188.9	58.9	47.9	22.9
Total	**230.0**	**67.4**	**273.9**	**(16.0)**	**241.4**	**230.0**	**273.9**	**(16.0)**
Operating profit margin:				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Food & Beverages	12.2	4.1	15.6	(3.4)	8.1	12.2	15.6	(3.4)
Others	16.2	6.3	14.2	2.0	9.9	16.2	14.2	2.0
Total	**13.0**	**4.6**	**15.4**	**(2.4)**	**8.4**	**13.0**	**15.4**	**(2.4)**

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	935.8	948.9	1,010.8	1,067.9
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	454.8	544.2	584.2	627.0
Core EPS (sen)	322.4	193.9	232.1	249.1	267.4
PER (x)	28.6	45.4	34.6	32.3	30.1
DPS (sen)	268.0	179.0	220.5	236.7	254.0
Dividend Yield (%)	3.3	2.2	2.7	2.9	3.2

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	1,560.8	921.8	981.5
Investing cash flow	(501.5)	(295.2)	(263.4)	(278.4)	(296.1)
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	(18.6)	1.4	6.5	5.6
Core PATANCI Growth	19.6	(39.8)	19.7	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	15.0	14.5	14.6	14.5
EBIT Margin	13.3	9.8	12.0	12.0	12.1
Core PATANCI Margin	10.7	7.3	8.3	8.5	8.5

Balance Sheet (RM'm)	2023A	2024A	2025F	2026F	2027F
PPE	1,749.5	1,809.5	1,889.9	1,972.5	2,070.3
Intangible assets	234.4	234.4	212.9	222.8	234.5
Non-current assets	2,263.2	2,328.9	2,398.8	2,492.8	2,603.8
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	3,700.1	3,866.4	4,062.9
Total Equity	674.9	547.5	951.8	1,019.3	1,096.5
LT Loans	300.0	300.0	293.8	287.9	282.2
Non-current liabilities	756.4	684.6	676.5	691.8	710.9
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	2,748.4	2,847.1	2,966.4

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