Corporate Update

Nestlé (Malaysia) Berhad

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

SHARIAH Compliant

FTSE4Good

2QFY26 Results Review
Strong Margins Drive Outperformance

Upgrade to BUY with a higher TP of RM116.10. We upgrade Nestlé Malaysia to **BUY** with a revised **TP of RM116.10**, after raising our FY26F/FY27F/FY28F earnings forecasts by +21%/+22%/+21%, respectively. The upgrade is underpinned by stronger-than-expected 1HFY26 earnings, improved margin delivery, resilient domestic demand and better cost discipline across the value chain. We base our TP on a DDM framework, assuming an unchanged 3.2% long-term growth rate and a 6.1% WACC.

Above expectations. Nestlé posted 2QFY26 revenue of RM1.81b (+8.7%yoy; -3.6%qoq) and core PATAMI of RM181.0m (+62.4%yoy; +0.4%qoq). For 1HFY26, revenue rose to RM3.69b (+7.5%yoy), while core PATAMI increased to RM361.3m (+25.1%yoy), accounting for 64% of our full-year forecast and 60% of consensus. The stronger-than-expected performance was driven by broad-based topline growth, effective cost management and operational efficiencies, with management also highlighting resilient domestic demand and stable export sales. Nestlé declared an interim dividend of 80.0 sen/share, higher than 70.0 sen/share declared in the corresponding period last year. This reinforces its defensive dividend profile and reflects management's confidence in earnings delivery for the year. The dividend will be paid on 1 Oct 2026.

Revenue growth supported by resilient domestic demand. Group revenue grew +8.7%yoy in 2QFY26 to RM1.81b, supported by continued strength in domestic demand and stable export sales. By segment, Food & Beverages revenue rose +9.1%yoy to RM1.45b, while Others increased +6.8%yoy to RM359.4m. Sequentially, group revenue declined -3.6%qoq, mainly due to a high 1QFY26 base during the festive period. For 1HFY26, Food & Beverages revenue grew +8.7%yoy to RM2.97b, while Others rose +2.8%yoy to RM719.6m, resulting in total revenue growth of +7.5%yoy.

Margins expanded on cost discipline and operating efficiencies. Gross profit rose +19.7%yoy to RM594.2m in 2QFY26, with GPM expanding +3.0ppts yoy to 32.8%, reflecting better cost management and efficiencies across the value chain. EBIT increased +31.3%yoy to RM216.2m, while operating margin improved +2.1ppts yoy to 11.9%. For 1HFY26, GPM expanded +1.9ppts yoy to 32.3%, operating margin rose +2.1ppts yoy to 13.6%, while core PATAMI margin improved +1.4ppts yoy to 9.8%. Segmentally, 1HFY26 Food & Beverages operating profit increased +29.7%yoy to RM392.9m, while Others rose +18.3%yoy to RM109.2m.

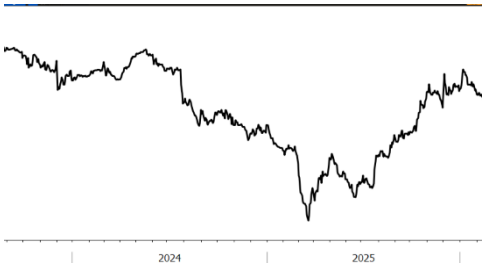
Outlook. We turn more positive on Nestlé's outlook following the strong 1HFY26 delivery. Management remains focused on strengthening core brands, accelerating innovation and expanding across channels, while continuing to invest in digitalisation, and automation. We also see improved earnings visibility from resilient staple demand, stronger brand equity, and operational efficiencies. While commodity volatility, FX movements and consumer downtrading remain key risks, Nestlé's ability to defend margins through scale, brand strength and portfolio depth supports our earnings upgrade. We upgrade the stock to **BUY** with a revised **TP of RM116.10**.

Upgrade to BUY
(from NEUTRAL)

Revised Target Price **RM116.10**
(from RM95.70)

RETURN STATISTICS	
Price @ 28th July 2026 (RM)	93.66
Expected share price return (%)	+23.9
Expected dividend yield (%)	+3.0
Expected total return (%)	+26.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.3	-4.8
3 months	0.2	-7.5
12 months	6.4	-4.9

INVESTMENT STATISTICS

FYE DEC (RM'm)	2026F	2027F	2028F
Revenue	7,390.9	7,843.9	8,328.5
EBITDA	1,180.3	1,273.9	1,386.8
PBT	945.6	1,038.9	1,144.0
Core PATANCI	682.2	782.3	861.4
Core EPS (sen)	290.9	333.6	367.3
DPS (sen)	282.8	310.7	342.2
Dividend Yield (%)	2.8	3.0	3.3

KEY STATISTICS

FBM KLCI	1,712.48
Issued shares (m)	234.50
Estimated free float (%)	26.60
Market Capitalisation (RM'm)	21,963.27
52-wk price range	RM85.5 - RM122.
3-mth average daily volume (m)	0.34
3-mth average daily value (RM'm)	32.47
Top Shareholders (%)	
Nestle SA	72.61
Employees Provident Fund Board	14.91
Vanguard Group Inc/The	1.11

Analyst

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Nestle Malaysia: 2QFY26 Results Summary

FYE DEC (RM'm)	Quarterly results							
	2QFY26	1QFY26	2QFY25	YoY (%)	QoQ (%)	1HFY26	1HFY25	YoY (%)
Revenue	1,813.1	1,880.4	1,668.4	8.7	(3.6)	3,693.5	3,436.7	7.5
Cost of Sales	(1,218.9)	(1,281.2)	(1,172.1)	4.0	(4.9)	(2,500.1)	(2,393.0)	4.5
Gross Profit	**594.2**	**599.2**	**496.3**	**19.7**	**(0.8)**	**1,193.4**	**1,043.6**	**14.3**
Operating expenses	(377.9)	(314.7)	(331.7)	13.9	20.1	(692.6)	(649.4)	6.6
Operating profit (EBIT)	**216.2**	**284.5**	**164.7**	**31.3**	**(24.0)**	**500.8**	**394.2**	**27.0**
Net finance income/(cost)	(10.8)	(12.6)	(15.9)	(32.4)	(14.3)	(23.4)	(32.3)	(27.7)
Profit before tax (PBT)	**205.7**	**271.9**	**148.6**	**38.4**	**(24.4)**	**477.6**	**361.6**	**32.1**
Profit After tax (PAT)	155.0	205.1	112.1	38.3	(24.4)	360.1	273.5	31.7
PATANCI	155.0	205.1	112.1	38.3	(24.4)	360.1	273.5	31.7
Core PATANCI	**181.0**	**180.3**	**111.4**	**62.4**	**0.4**	**361.3**	**288.8**	**25.1**
Core EPS (sen)	77.2	76.9	47.5	62.4	0.4	154.1	123.2	25.1
DPS (sen)	80.0	0.0	70.0	14.3	n.m.	80.0	70.0	14.3
Growth & Margin (%)				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Gross Profit Margin	32.8	31.9	29.7	3.0	0.9	32.3	30.4	1.9
Operating Profit Margin	11.9	15.1	9.9	2.1	(3.2)	13.6	11.5	2.1
PBT Margin	11.3	14.5	8.9	2.4	(3.1)	12.9	10.5	2.4
Core PATANCI Margin	10.0	9.6	6.7	3.3	0.4	9.8	8.4	1.4
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Effective tax rate (%)	24.6	24.6	24.5	0.1	0.1	24.6	24.4	0.2

Source: Company, MBSBR

Nestle Malaysia: Breakdown by operating segment

FYE DEC (RM'm)	Quarterly results							
	2QFY26	1QFY26	2QFY25	YoY (%)	QoQ (%)	1HFY26	1HFY25	YoY (%)
Revenue (External):								
Food & Beverages	1,453.7	1,520.1	1,332.0	9.1	(4.4)	2,973.9	2,736.3	8.7
Others	359.4	360.3	336.4	6.8	(0.3)	719.6	700.3	2.8
Total	**1,813.1**	**1,880.4**	**1,668.4**	**8.7**	**(3.6)**	**3,693.5**	**3,436.7**	**7.5**
Operating Profit:								
Food & Beverages	170.6	222.3	131.8	29.5	(23.2)	392.9	302.9	29.7
Others	46.3	62.9	33.4	38.5	(26.5)	109.2	92.3	18.3
Total	**216.9**	**285.2**	**165.2**	**31.3**	**(23.9)**	**502.1**	**395.2**	**27.0**
Operating profit margin:				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Food & Beverages	11.7	14.6	9.9	1.8	(2.9)	13.2	11.1	2.1
Others	12.9	17.5	9.9	2.9	(4.6)	15.2	13.2	2.0
Total	**12.0**	**15.2**	**9.9**	**2.1**	**(3.2)**	**13.6**	**11.5**	**2.1**

Source: Company, MBSBR

FINANCIAL SUMMARY

Income statement (RM'm)	2024A	2025A	2026F	2027F	2028F
Revenue	6,224.7	6,880.8	7,390.9	7,843.9	8,328.5
Gross Profit	1,884.8	2,088.6	2,387.3	2,544.2	2,757.6
EBITDA	935.8	987.7	1,180.3	1,273.9	1,386.8
EBIT	609.0	760.8	1,001.6	1,093.5	1,197.3
PBT	544.4	700.4	945.6	1,038.9	1,144.0
Taxation	(128.8)	(187.4)	(233.6)	(256.6)	(282.6)
PAT	415.6	513.0	712.0	782.3	861.4
Core PATANCI	454.8	525.0	682.2	782.3	861.4
Core EPS (sen)	193.9	223.9	290.9	333.6	367.3
PER (x)	57.7	46.8	33.7	30.7	27.8
DPS (sen)	179.0	203.8	282.8	310.7	342.2
Dividend Yield (%)	1.7	2.0	2.8	3.0	3.3

Cash Flow (RM'm)	2024A	2025A	2026F	2027F	2028F
PBT	544.4	700.4	945.6	1,038.9	1,144.0
Operating cash flow	557.6	1,033.9	1,296.7	1,135.2	1,228.5
Investing cash flow	(295.2)	(144.6)	(297.8)	(316.1)	(335.7)
Financing cash flow	(497.1)	(678.2)	(888.1)	(813.9)	(887.2)
Net cash flow	(234.7)	211.1	110.8	5.2	5.6
Beginning cash flow	(8.8)	(243.5)	(32.4)	78.4	83.6
Ending cash flow	(243.5)	(32.4)	78.4	83.6	89.2

Growth (%)	2024A	2025A	2026F	2027F	2028F
Revenue Growth	(11.7)	10.5	7.4	6.1	6.2
Gross Profit Growth	(15.5)	10.8	14.3	6.6	8.4
EBITDA Growth	(18.6)	5.6	19.5	7.9	8.9
Core PATANCI Growth	(39.8)	15.4	29.9	14.7	10.1

Profitability Ratios (%)	2024A	2025A	2026F	2027F	2028F
Gross Profit Margin	30.3	30.4	32.3	32.4	33.1
EBITDA Margin	15.0	14.4	16.0	16.2	16.7
EBIT Margin	9.8	11.1	13.6	13.9	14.4
Core PATANCI Margin	7.3	7.6	9.2	10.0	10.3

Balance Sheet (RM'm)	2023A	2024A	2025F	2026F	2027F
PPE	1,809.5	1,745.6	2,004.2	2,121.1	2,247.5
Intangible assets	234.4	234.4	238.4	250.4	263.3
Non-current assets	2,328.9	2,226.4	2,544.6	2,676.2	2,817.8
Inventories	831.3	901.8	959.6	1,016.4	1,068.4
ST - Trade receivables	433.6	492.0	405.0	429.8	456.4
Cash	11.2	6.1	78.4	83.6	89.2
Current assets	1,320.8	1,420.3	1,443.5	1,530.4	1,614.6
Total Assets	3,649.7	3,646.7	3,988.1	4,206.5	4,432.4
Total Equity	547.5	576.6	1,039.6	1,137.0	1,248.5
LT Loans	300.0	0.0	287.9	282.2	276.5
Non-current liabilities	684.6	340.0	718.4	738.4	760.3
ST Trade payables	1,570.1	1,867.6	1,782.1	1,887.6	1,984.1
ST Loans	804.7	788.5	389.5	381.8	374.1
Current Liabilities	2,417.6	2,730.1	2,230.1	2,331.1	2,423.6
Total Liabilities	3,102.2	3,070.1	2,948.5	3,069.5	3,183.9

Source: Bloomberg, MBSBR

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MBSB 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