

26 February 2020

# Nestlé (Malaysia) Bhd

## A Flattish FY19

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**FY19 CNP of RM652.0m (+0.4%) came in within our expectation at 97% but slight below consensus at 94%. While profitability may be dampened by volatile macroeconomic factors moving forward, the group's resilient sales base is likely to be supported by its strong brand presence as well as new product launches. As valuations remain rich at this juncture, UNDERPERFORM kept but with lower TP to RM124.50 (from RM128.00) on earnings revision.**

**Within our expectation.** FY19 Core Net Profit (CNP) of RM652.0m (arrived at after stripping off one-off chilled dairy business disposal gain of RM21.0m) came in within our expectation at 97% but slightly below consensus' forecast at 94%. We believe the deviation is largely owed to weaker-than-expected export sales growth. A declared final dividend of 140.0 sen which brought full-year dividend to 280.0 sen is deemed to be slightly below our forecast of 290.0 sen, implying a pay-out ratio of 97.6%.

**An uninspiring year.** YoY, FY19 reported revenue of RM5.52b came in flattish with an observed growth of 2% after adjusting for the divested chilled dairy business. This is attributed to sustained domestic sales growth of 5%, likely backed by the group's strong sales execution as well as successful product innovations. In spite of this, CNP was flattish at RM652.0m (+0.4%) as higher raw material costs were offset by greater cost efficiencies. For the individual quarter of 4QFY19, reported revenue came in lower (-1.4%) while the adjusted revenue net of Chilled Dairy divestment came in flattish, as sustained domestic sales were shadowed by weaker export demand. Nonetheless, CNP of RM130.6m grew 14%, mainly driven by of lower ETR of 23% versus 4QFY18's 31%.

**QoQ,** revenue of RM1.33b (-5%) was largely dampened by phasing of marketing activities. Consequently, CNP also closed lower (-12%) following a thinner core EBIT margin (-0.6ppt), dragged by higher commercial spends for an early CNY in 2020.

**Sailing through times of uncertainty.** Recent global developments have caused a great sense of uncertainty on macroeconomic factors, leading to volatile commodity prices and exchange rates. While this may dampen the group's profitability moving forward, we believe the group's resilient domestic sales will continue to be anchored by its established brand presence as one of the market-leaders, as well as new product launches. In the longer-run, its newly completed Milo plant in Chembong is also anticipated to aid in providing better economies of scale and greater production capabilities.

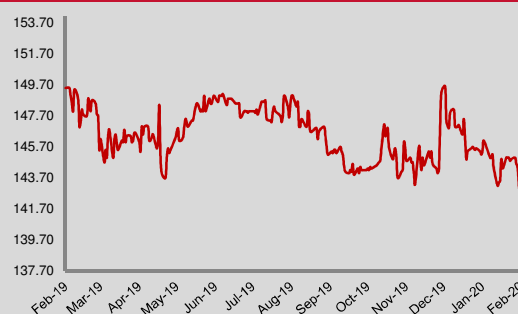
**Post-results,** we revised our FY20E CNP downwards by 2.8% to account for more conservative export sales growth while introducing new FY21E estimates.

**Maintain UNDERPERFORM with a lower TP of RM124.50 (from RM128.00)** following an earnings revision. Our call is premised on an unchanged 42.0x FY20E PER, being 0.5SD above the stock's 3-year mean. The persistently steep valuation is largely attributed to the defensive quality of its business model and positioning as one of the very few large cap F&B stocks, as well as being a FBMKLCI index member, warranting above-mean valuations for now. Nonetheless, we believe the aforementioned merits have been largely priced in, and with an uninspiring dividend yield of c.2.0%, we are keeping our UNDERPERFORM call for now. **Risks to our call include:** (i) stronger-than-expected sales, (ii) more favourable commodity prices, and (iii) lower-than-expected operating costs.

## UNDERPERFORM ↔

Price : **RM142.00**  
Target Price : **RM124.50** ↓

### Share Price Performance



KLCI 1,500.88  
YTD KLCI chg -5.5%  
YTD stock price chg -3.4%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	NESZ MK Equity
Market Cap (RM m)	33,299.0
Shares Outstanding	234.5
52-week range (H)	150.00
52-week range (L)	141.70
3-mth avg daily vol	59,797
Free Float	15%
Beta	0.6

### Major Shareholders

Nestlé SA	72.6%
Employees Provident Fund	7.7%
Skim Amanah Saham Bumiputera	2.0%

### Summary Earnings Table

FY Dec (RM'm)	2019A	2020E	2021E
Turnover	5,518.1	5,746.4	5,855.3
EBIT	912.0	947.7	982.5
PBT	875.7	926.6	961.1
<b>Net Profit (NP)</b>	<b>672.9</b>	<b>694.9</b>	<b>720.8</b>
<b>Core NP</b>	<b>652.0</b>	<b>694.9</b>	<b>720.8</b>
Consensus (NP)	-	734.9	785.4
Earnings Revision	-	-2.8%	New
Core EPS (sen)	278.0	296.4	307.4
Core EPS growth (%)	0.4	6.6	3.7
NDPS (sen)	280.0	290.0	300.0
BVPS (RM)	2.9	2.9	3.0
Core PER (x)	51.1	47.9	46.2
Price/Bv (x)	49.7	48.6	47.4
Net Gearing (x)	0.1	0.1	0.1
Net Div. Yield (%)	2.0	2.0	2.1

26 February 2020

## Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	1,328.9	1,400.8	-5.1%	1,347.9	-1.4%	5,518.1	5,519.0	0.0%
Gross Profit	506.6	514.8	-1.6%	527.3	-3.9%	2,073.5	2,137.7	-3.0%
Core EBIT*	180.6	200.9	-10.1%	180.5	0.1%	891.0	905.2	-1.6%
EBIT	181.8	200.9	-9.5%	189.9	-4.3%	912.0	914.6	-0.3%
PBT/(LBT)	172.2	191.6	-10.2%	179.9	-4.3%	875.7	875.9	0.0%
Taxation	(40.4)	(42.7)	5.4%	(56.1)	28.1%	(202.8)	(217.0)	6.5%
Net Profit	131.8	149.0	-11.5%	123.8	6.5%	672.9	658.9	2.1%
Core Net Profit*	130.6	149.0	-12.3%	114.4	14.2%	652.0	649.5	0.4%
EPS (sen)	55.7	63.5	-12.3%	48.8	14.2%	278.0	277.0	0.4%
DPS (sen)	140.0	70.0	100.0%	140.0	0.0%	280.0	280.0	0.0%
Gross Margin	38.1%	36.8%		39.1%		37.6%	38.7%	
Core EBIT margin	13.7%	14.3%		14.1%		16.5%	16.6%	
PBT margin	13.0%	13.7%		13.3%		15.9%	15.9%	
NP margin	9.9%	10.6%		9.2%		12.2%	11.9%	
Effective tax rate	23.4%	22.3%		31.2%		23.2%	24.8%	

Note:

\* Core net profits are adjusted for gain from the disposal of the group's Chilled Dairy business

Source: Company, Kenanga Research

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26 February 2020

## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
F&B AND RETAIL																		
7-ELEVEN MALAYSIA HOLDINGS BHD	1.40	1,610.3	N	12/2019	12.4%	4.9%	13.6%	5.5%	33.6	29.6	28.1	23.3	22.6	77.5%	2.9%	1.35	MP	
AEON CO. (M) BHD	1.30	1,825.2	Y	12/2020	1.3%	1.3%	1.5%	2.3%	16.7	16.5	16.1	1.1	1.0	6.4%	3.1%	1.65	OP	
AMWAY (MALAYSIA) HOLDINGS BHD	5.54	910.7	Y	12/2019	2.2%	2.0%	5.5%	6.3%	16.7	15.8	14.9	3.9	3.7	23.8%	5.0%	5.90	MP	
DUTCH LADY MILK INDUSTRIES BHD	44.50	2,848.0	Y	12/2020	1.7%	1.7%	2.5%	2.3%	27.0	26.4	25.8	19.7	15.6	66.2%	2.5%	43.85	MP	
FRASER & NEAVE HOLDINGS BHD	31.36	11,502.2	Y	09/2020	2.4%	3.0%	2.5%	6.0%	27.4	26.7	25.2	4.5	4.2	16.4%	2.1%	35.20	OP	
HAI-O ENTERPRISE BHD	1.98	574.9	N	04/2020	1.7%	2.3%	-24.9%	8.7%	12.1	16.2	14.9	1.9	1.8	11.4%	5.1%	1.50	UP	
MYNEWS HOLDINGS BHD	0.870	593.5	N	10/2020	24.3%	17.0%	11.2%	20.8%	22.1	19.9	16.5	2.0	1.8	9.5%	1.1%	1.10	MP	
NESTLE (MALAYSIA) BHD	142.00	33,299.0	Y	12/2020	4.1%	1.9%	6.6%	3.7%	51.1	47.9	46.2	49.7	48.6	102.5%	2.0%	124.50	UP	
PADINI HOLDINGS BHD	3.23	2,125.0	Y	06/2020	0.5%	4.8%	12.8%	5.3%	13.6	12.0	11.4	3.2	2.8	24.5%	3.6%	4.00	OP	
PARKSON HOLDINGS BHD	0.185	197.4	Y	06/2020	0.4%	0.5%	749.4%	16.5%	N.A.	23.8	20.4	0.1	0.1	0.3%	0.0%	0.220	MP	
POWER ROOT BHD	2.32	949.5	Y	03/2020	13.3%	10.5%	53.9%	12.3%	27.4	18.4	16.9	4.2	3.7	21.8%	3.9%	2.75	OP	
QL RESOURCES BHD	8.35	13,547.4	Y	03/2020	10.9%	11.6%	13.1%	9.6%	62.5	55.3	50.4	6.7	6.2	12.1%	0.7%	8.30	MP	
SPRITZER BHD	2.17	455.6	Y	12/2019	8.0%	1.2%	27.7%	6.5%	18.8	14.7	13.9	1.2	1.1	7.7%	1.8%	2.50	OP	
Simple Average					6.4%	4.8%	67.3%	8.1%	27.4	24.9	23.1	9.3	8.7	29.2%	2.6%			
SIN																		
BRITISH AMERICAN TOBACCO (M) BHD	14.64	4,180.2	N	12/2020	-11.0%	-3.0%	-5.6%	-4.3%	11.6	12.3	12.8	9.7	9.5	78.2%	7.9%	16.70	OP	
CARLSBERG BREWERY MALAYSIA BHD	37.20	11,373.8	N	12/2020	13.8%	9.2%	12.0%	9.5%	39.4	35.2	32.1	68.9	67.0	200.4%	2.8%	29.00	UP	
HEINEKEN MALAYSIA BHD	29.00	8,760.8	N	12/2020	13.0%	4.0%	16.1%	5.6%	28.0	24.1	22.8	24.5	22.5	97.3%	3.8%	28.90	MP	
Simple Average					5.3%	3.4%	7.5%	3.6%	26.3	23.8	22.6	34.4	33.0	125.3%	4.8%			

Source: Bloomberg, Kenanga Research

26 February 2020

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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