

Nestlé (Malaysia) Bhd

Resilient in the Pandemic

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FY20 CNP of RM553m and declared dividend of 232.0 sen came in within our/market expectations. Moving ahead, earnings will be largely cushioned by solid in-home consumption, pipeline of new products and brand presence. With a strong F&B presence, it is positioned for a recovery ahead. Upgrade to MARKET PERFORM with a higher TP of RM138.60.

Within expectations. FY20 Core Net Profit (CNP) of RM553m is deemed in line at 104%/97% of our/market consensus. A final dividend of 92.0 sen brought full-year dividend to 232.0 sen (in line) implying a dividend payout of 98.4% - similar to FY19 of 97.6%.

Results' highlights. YoY, FY20 revenue of RM5.4b came in slightly weaker, contracting by 1.9 %, predominantly dragged by the pandemic and MCO 1.0 in 1H 2020. Sales and exports saw progressive recovery in 2H 2020 especially in 3QFY20 with the RMCO. That said Nestlé's core F&B business recorded sales growth of >2%, building on solid sales executions and engaging brand campaigns. This included the successful Nestlé Salary For Life Contest, the MILO 70 Years celebrations and the MAGGI Confirm Malaysia plus the innovative strategy of Nestlé Ice Cream to directly deliver Ice Cream to Malaysian households during the lockdown. CNP saw contraction of 15% with Net Profit margin weaker by 2ppt to 10% as the pandemic impacted the OOH channels with significant COVID-19 related expenses amounting to RM62m, which was invested into pandemic relief efforts and comprehensive measures to preserve employee safety and operational continuity.

QoQ, 4QFY20 revenue contracted slightly by 1% despite the CMCO came into effect with economic movements restricted. PBT saw a much higher contraction at 2% mainly due to higher COVID-19 related expenses especially for mass screening, testing and sanitization to ensure work safety and operational continuity.

New products and investments driving forward. We foresee prevailing challenges to continue especially in 1H 2021 with the prevailing lockdowns. Margins are expected to come slowly under pressure ahead with rebound in prices of many key commodities as the vaccine rollout globally will see progressive recovery ahead That said, we are not overly concerned as earnings should continue to be buoyed by: (i) resilient in-home consumption, (ii) the group's established brand presence as one of the market leaders, coupled with (iii) its exciting pipeline of new products. Notably, we are also long-term positive on its RM280m capex allocated for the expansion of its Maggi noodles production capacity, as well as foray into plant-based meal solutions by building a pioneering facility in its Shah Alam plant, as these would strengthen the group's product portfolio further down the road.

Post results, we tweaked down our FY21E earnings by 4% (coming from a lower base) and introduce our FY22E earnings.

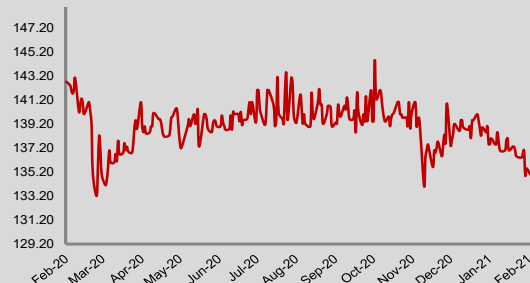
MARKET PERFORM with a revised TP of RM138.60 (from RM129.30) applying our FY21E PER of 51.4x at 0.5SD above the stock 5-year mean. The defensive quality of its business model, solid global franchise and positioning as one of the very few large cap F&B stocks, as well as being a FBKLCI index member warrants above-market valuations, while entering the start of a new recovery cycle warrants the application of above-mean valuation. Given its limited dividend yield and projected capital upside of 2% each, we upgrade it to **MARKET PERFORM** for now.

Risks to our call include: (i) stronger-than-expected sales, and (ii) lower-than-expected operating costs.

MARKET PERFORM ↑

Price : **RM135.30**
Target Price : **RM138.60** ↑

Share Price Performance



KLCI 1,565.05
YTD KLCI chg -3.8%
YTD stock price chg -2.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	NESZ MK Equity
Market Cap (RM m)	31,727.9
Shares Outstanding	234.5
52-week range (H)	147.40
52-week range (L)	120.00
3-mth avg daily vol	84,803
Free Float	18%
Beta	0.5

Major Shareholders

Nestlé SA	72.6%
Employees Provident Fund	8.4%
Blackrock	1.6%

Summary Earnings Table

FY Dec (RM m)	2020	2021E	2022E
Turnover	5,412.2	5,474.3	5,594.5
EBIT	756.0	879.8	896.7
PBT	724.8	842.9	862.7
Net Profit (NP)	552.7	632.2	647.1
Core NP	552.7	632.2	647.1
Consensus (NP)		645.0	692.0
Earnings Revision		-4.1%	New
Core EPS (sen)	235.7	269.6	275.9
Core EPS growth (%)	-15.2	14.4%	2.3%
NDPS (sen)	232.0	265.0	270.0
BVPS (RM)	2.4	2.4	2.5
Core PER (x)	57.4	50.2	49.0
Price/BV (x)	56.9	55.9	54.5
Net Gearing (x)	0.6	0.6	0.6
Net Div. Yield (%)	1.7	2.0%	2.0%



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Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	1,369.9	1388.4	-1.3%	1,328.9	3.1%	5,412.2	5,518.08	-1.9%
Gross Profit	497.4	500.3	-0.6%	506.6	-1.8%	1,965.5	2,073.5	-5.2%
Core EBIT*	174.7	179.527	-2.7%	180.6	-3.9%	594.9	891.0	-33.2%
EBIT	174.7	179.527	-2.7%	181.8	1.5%	756.0	912.0	-17.1%
PBT/(LBT)	167.4	170.976	-2.1%	172.2	514.8%	724.8	875.7	-17.2%
Taxation	(34.9)	(42.6)	18.0%	(40.4)	-126.5%	(172.1)	(202.8)	15.2%
Net Profit	132.5	128.4	3.2%	131.8	1.4%	552.7	672.91	-17.9%
Core Net Profit*	132.5	128.4	3.2%	130.6	1.4%	552.7	651.95	-15.2%
EPS (sen)	56.5	54.7	3.2%	55.7	1.4%	56.6	278	-79.6%
DPS (sen)	92	70	N.A.	140.0	N.A.	232	280	-17.1%
Gross Margin	36.3%	36.0%		38.1%		36.3%	37.6%	
Core EBIT margin	12.8%	12.9%		13.7%		14.0%	16.5%	
PBT margin	12.2%	12.3%		13.0%		13.4%	15.9%	
Net margin	9.7%	9.2%		9.9%		10.2%	12.2%	
Core Net margin	9.7%	9.2%		9.8%		10.2%	11.8%	
Effective tax rate	20.9%	24.9%		23.4%		23.7%	23.2%	

Note:

* Core net profits are adjusted for gain from the disposal of the group's Chilled Dairy business in 2QFY19

Source: Company, Kenanga Research

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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	1.30	1,468.0	N	12/2020	7.7%	3.4%	15.9%	0.5%	29.6	25.6	25.4	15.7	11.4	33.9%	2.3%	1.40	MP	
AEON CO. (M) BHD	1.23	1,726.9	Y	12/2020	-8.8%	1.5%	-48.6%	42.0%	15.8	30.7	21.6	1.0	1.0	4.5%	3.3%	1.00	MP	
AMWAY (MALAYSIA) HOLDINGS BHD	5.70	937.0	Y	12/2020	1.0%	0.7%	-3.1%	7.7%	18.3	18.9	17.5	4.2	4.1	23.7%	4.8%	5.20	UP	
DUTCH LADY MILK INDUSTRIES BHD	34.84	2,229.8	Y	12/2020	-3.0%	5.0%	-33.8%	37.1%	21.6	32.7	23.8	15.4	13.8	44.6%	2.3%	35.05	MP	
FRASER & NEAVE HOLDINGS BHD	29.94	10,981.3	Y	09/2021	5.0%	2.1%	3.9%	1.5%	27.2	26.2	25.8	4.1	3.8	15.0%	2.1%	32.55	MP	
MYNEWS HOLDINGS BHD	0.690	470.7	N	10/2021	10.2%	24.5%	97.8%	15.9%	N.A.	25.9	22.3	1.6	1.5	6.1%	1.4%	0.480	UP	
NESTLE (MALAYSIA) BHD	135.30	31,727.9	Y	12/2021	1.1%	2.2%	14.4%	2.4%	57.4	50.2	49.0	57.0	55.9	112.4%	2.0%	138.60	MP	
PADINI HOLDINGS BHD	3.04	2,000.0	Y	06/2021	8.9%	11.0%	58.1%	17.0%	26.6	16.8	14.4	2.6	2.4	14.9%	2.5%	2.90	MP	
POWER ROOT BHD	1.77	748.0	Y	03/2021	-11.5%	15.2%	-18.1%	15.5%	13.5	16.5	14.3	2.9	2.6	16.8%	5.6%	2.25	OP	
QL RESOURCES BHD	6.07	14,772.3	Y	03/2021	13.2%	7.4%	13.6%	9.1%	61.7	54.4	49.8	7.1	6.6	12.6%	0.9%	6.60	MP	
Simple Average					2.4%	7.3%	10.0%	14.9%	30.2	29.8	26.4	11.2	10.3	28.4%	2.7%			
SIN																		
BRITISH AMERICAN TOBACCO (M) BHD	13.64	3,894.6	N	12/2021	-8.0%	-2.4%	-3.5%	4.9%	14.9	15.5	14.8	8.9	8.8	57.4%	6.3%	11.45	UP	
CARLSBERG BREWERY MALAYSIA BHD	24.00	7,338.0	N	12/2021	19.9%	5.3%	52.8%	9.1%	41.8	27.3	25.1	37.6	27.5	120.1%	2.7%	25.65	OP	
HEINEKEN MALAYSIA BHD	24.94	7,534.3	N	12/2021	16.1%	6.1%	54.1%	14.0%	43.0	27.9	24.4	19.1	19.2	68.7%	3.6%	22.35	MP	
Simple Average					9.4%	3.0%	34.5%	9.3%	33.2	23.6	21.4	21.9	18.5	82.1%	4.2%			

Source: Bloomberg, Kenanga Research

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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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Published and printed by:

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