

28 April 2021

# Nestlé (Malaysia) Bhd

## Robust Top-line, Challenging Margins

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While top-line remained robust, margins continued to be challenging under the pandemic amidst volatile commodity prices. Moving ahead, top-line will largely be cushioned by solid in-home consumption, pipeline of new products and brand presence. It is positioned for a recovery in 2HFY21 but with headwinds from challenging margins. TP is raised to RM142.90 as we roll over our valuation base to FY22E. Reiterate MARKET PERFORM as capital upside appears limited, with poor dividend yields.

**In line.** At RM175m, 1QFY21 CNP is deemed inline, accounting for 28% of both our/market estimates. No dividend declared as expected.

**YoY, 1QFY21** top-line of RM1.45b (+1%) continued to be resilient given the prevailing restricted movements during the period. Its core F&B business continued to show robustness recording a 5% growth driven by in-home consumption and good momentum across most brands. Out-of-Home (OOH) activities moderated given the MCOs – impacting the hospitality and restaurant sectors. As expected, profitability was dampened as gross margin fell slightly by 1ppt which we believe was due higher commodity prices. EBITDA fell 8% with margin contracting by 2ppt due to higher Covid-19 related expenses of RM22m. ETR was lower by 4ppt to 20% given the Reinvestment Allowance tax incentive for the Group's new PBMS (plant-based meal solutions) manufacturing facility which also cushioned the additional Covid-19 expenses. As such CNP of RM175.2m fell 6% on Covid-19 related expenses.

**QoQ**, the festive season was a boon for Nestle as top-line improved by 6% (but still below pre-pandemic level) mainly due to better sales during the Chinese New Year period. Despite the still challenging environment, EBITDA margin improved by 3ppt to 19% given the absence of large-scale investments and with no change in tax rate, CNP surged 32%.

**Top-line to be robust but margins challenging.** We expect revenue to continue to be buoyant riding on the efficacy of the vaccine roll-outs. Top-line should be driven 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 due to the expansion of its Maggi noodles production capacity, as well as foray into plant-based meal solutions with distribution into restaurants, retail stores and via on-line which is advancing well at present. However, margins will still be challenged by: (i) prevailing Covid-19 related expenses likely to continue into 1H 2021, (ii) commodity prices looking to be volatile in 2021 but mitigated by a stronger Ringgit, and (iii) higher capex for ESG initiatives and new projects currently being finalized to sustain growth which are likely to be funded by borrowings.

**Post results**, as results are in line, we made no changes to our FY21E/FY22E earnings.

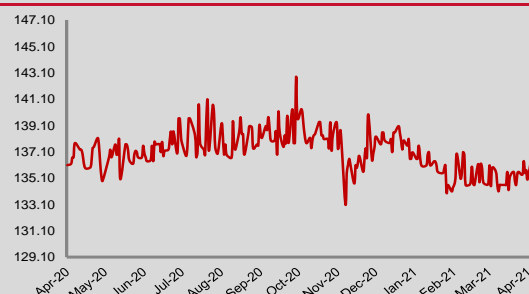
**MARKET PERFORM with a revised TP of RM142.90** (from RM138.60) as we roll over our valuation base to FY22E on PER of 51.8x at 0.5SD above the stock's 5-year mean. The defensive quality of its business model, solid global franchise and positioning as one of the very few large cap F&B stocks, clear ESG targets as well as being a FBMKLCI index member warrant above-market valuations. Entering the start of a new recovery cycle also warrants the application of above-mean valuation. However, given its limited dividend yield and projected capital upside of +7%, we reiterate **MARKET PERFORM**.

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

## MARKET PERFORM ↔

Price : RM136.00  
Target Price : RM142.90 ↑

### Share Price Performance



KLCI 1,606.68  
YTD KLCI chg -1.3%  
YTD stock price chg -2.1%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker NESZ MK Equity  
Market Cap (RM m) 31,892.0  
Shares Outstanding 234.5  
52-week range (H) 147.00  
52-week range (L) 134.00  
3-mth avg daily vol 86,753  
Free Float 18%  
Beta 0.5

### Major Shareholders

Nestlé SA 72.6%  
Employees Provident Fund 8.7%  
Blackrock 1.7%

### Summary Earnings Table

| FY Dec (RM m)          | 2020A        | 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        |
| <b>Net Profit (NP)</b> | <b>552.7</b> | <b>632.2</b> | <b>647.1</b> |
| <b>Core NP</b>         | <b>552.7</b> | <b>632.2</b> | <b>647.1</b> |
| Consensus (NP)         |              | <b>629.8</b> | <b>678.1</b> |
| Earnings Revision      |              | 0.0%         | 0.0%         |
| 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)           | 57.7         | 50.4         | 49.3         |
| Price/BV (x)           | 57.2         | 56.2         | 54.8         |
| Net Gearing (x)        | 0.6          | 0.6          | 0.6          |
| Net Div. Yield (%)     | 1.7%         | 1.9%         | 2.0%         |

28 April 2021

## Results Highlights

| FYE Dec (RM m)         | 1Q21           | 4Q20           | QoQ Chg     | 1Q20           | YoY Chg      | 1Q21           | 1Q20           | YoY Chg      |
|------------------------|----------------|----------------|-------------|----------------|--------------|----------------|----------------|--------------|
| <b>Turnover</b>        | <b>1,448.8</b> | <b>1,369.9</b> | 5.8%        | <b>1,434.5</b> | 1.0%         | <b>1,448.8</b> | <b>1,434.5</b> | 1.0%         |
| Gross Profit           | <b>518.9</b>   | <b>497.4</b>   | <b>4.3%</b> | <b>527.2</b>   | <b>-1.6%</b> | <b>518.9</b>   | <b>527.2</b>   | <b>-1.6%</b> |
| EBITDA                 | 275.5          | 220.5          | 24.9%       | 298.1          | -7.6%        | 275.5          | 298.1          | -7.6%        |
| EBIT                   | 228.0          | 174.7          | 30.5%       | 254.0          | -10.3%       | 228.0          | 254.0          | -10.3%       |
| PBT/(LBT)              | <b>220.4</b>   | <b>167.4</b>   | 31.7%       | <b>246.3</b>   | -10.5%       | <b>220.4</b>   | <b>246.3</b>   | -10.5%       |
| Taxation               | (45.2)         | (34.9)         | 29.5%       | (60.0)         | -24.6%       | (45.2)         | (60.0)         | -24.6%       |
| <b>Net Profit</b>      | <b>175.2</b>   | <b>132.5</b>   | 32.2%       | <b>186.3</b>   | -6.0%        | <b>175.2</b>   | <b>186.3</b>   | -6.0%        |
| <b>Core Net Profit</b> | <b>175.2</b>   | <b>132.5</b>   | 32.2%       | <b>186.3</b>   | -6.0%        | <b>175.2</b>   | <b>186.3</b>   | -6.0%        |
| Core EPS (sen)         | 74.7           | 56.5           | 32.2%       | 79.4           | -6.0%        | 74.7           | 79.4           | -6.0%        |
| DPS (sen)              | 0.0            | 92.0           | <i>N.a</i>  | 0.0            | <i>N.a</i>   | 0.0            | 0.0            | <i>N.a</i>   |
| Gross Margin           | 35.8%          | 36.3%          |             | 36.8%          |              | 35.8%          | 36.8%          |              |
| EBITDA                 | 19.0%          | 16.1%          |             | 20.8%          |              | 19.0%          | 20.8%          |              |
| Pre-Tax                | 15.2%          | 12.2%          |             | 17.2%          |              | 15.2%          | 17.2%          |              |
| Net Profit             | 12.1%          | 9.7%           |             | 13.0%          |              | 12.1%          | 13.0%          |              |
| CNP margin             | 12.1%          | 9.7%           |             | 13.0%          |              | 12.1%          | 13.0%          |              |
| Tax Rate               | 20.5%          | 20.9%          |             | 24.3%          |              | 20.5%          | 24.3%          |              |

Source: Company, Kenanga Research

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28 April 2021

## 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.      |                   |        |
| <b>F&amp;B AND RETAIL</b>        |                 |                   |                   |             |                |            |                      |            |                         |            |            |         |            |            |                 |                   |        |
| 7-ELEVEN MALAYSIA HOLDINGS BHD   | 1.50            | 1,689.5           | N                 | 12/2021     | 29.5%          | 5.2%       | -15.1%               | 16.4%      | 24.8                    | 29.2       | 25.1       | 10.6    | 13.5       | 40.8%      | 3.3%            | 1.55              | OP     |
| AEON CO. (M) BHD                 | 1.28            | 1,797.1           | Y                 | 12/2021     | 3.7%           | 4.8%       | 88.6%                | 15.0%      | 43.4                    | 23.0       | 20.0       | 1.1     | 1.0        | 4.6%       | 1.2%            | 1.30              | OP     |
| AMWAY (MALAYSIA) HOLDINGS BHD    | 5.45            | 895.9             | Y                 | 12/2021     | 0.7%           | 0.7%       | 16.4%                | 7.9%       | 19.1                    | 16.4       | 15.2       | 4.0     | 3.8        | 23.8%      | 5.0%            | 5.45              | MP     |
| DUTCH LADY MILK INDUSTRIES BHD   | 34.80           | 2,227.2           | Y                 | 12/2021     | 5.0%           | 1.0%       | 8.9%                 | 0.4%       | 30.3                    | 27.9       | 27.8       | 13.4    | 11.8       | 45.0%      | 2.6%            | 34.55             | MP     |
| FRASER & NEAVE HOLDINGS BHD      | 30.18           | 11,069.4          | Y                 | 09/2021     | 5.0%           | 2.1%       | 3.9%                 | 1.5%       | 27.4                    | 26.4       | 26.0       | 4.1     | 3.8        | 15.0%      | 2.0%            | 32.55             | MP     |
| MYNEWS HOLDINGS BHD              | 0.925           | 631.0             | N                 | 10/2021     | 10.2%          | 24.5%      | -33.1%               | 200.5%     | N.A.                    | 102.4      | 34.1       | 2.2     | 2.1        | 2.1%       | 0.0%            | 1.00              | OP     |
| NESTLE (MALAYSIA) BHD            | 136.00          | 31,892.0          | Y                 | 12/2021     | 1.1%           | 2.2%       | 14.4%                | 2.4%       | 57.7                    | 50.4       | 49.3       | 57.2    | 56.2       | 112.4%     | 1.9%            | 142.90            | MP     |
| PADINI HOLDINGS BHD              | 2.91            | 1,914.5           | Y                 | 06/2021     | -3.2%          | 13.0%      | 3.0%                 | 41.7%      | 25.5                    | 24.7       | 17.4       | 2.5     | 2.4        | 10.0%      | 2.6%            | 3.50              | OP     |
| POWER ROOT BHD                   | 1.73            | 731.2             | Y                 | 03/2021     | -18.8%         | 13.5%      | -26.1%               | 14.9%      | 13.2                    | 17.8       | 15.5       | 2.8     | 2.6        | 15.3%      | 5.8%            | 1.80              | MP     |
| QL RESOURCES BHD                 | 6.11            | 14,869.6          | Y                 | 03/2021     | 13.2%          | 7.4%       | 13.6%                | 9.1%       | 62.1                    | 54.7       | 50.2       | 7.1     | 6.7        | 12.6%      | 0.9%            | 6.60              | MP     |
| Simple Average                   |                 |                   |                   |             | 4.6%           | 7.4%       | 7.5%                 | 31.0%      | 33.7                    | 37.3       | 28.1       | 10.5    | 10.4       | 28.1%      | 2.5%            |                   |        |
| <b>SIN</b>                       |                 |                   |                   |             |                |            |                      |            |                         |            |            |         |            |            |                 |                   |        |
| BRITISH AMERICAN TOBACCO (M) BHD | 14.04           | 4,008.8           | N                 | 12/2021     | -8.0%          | -2.4%      | -3.5%                | 4.9%       | 15.4                    | 15.9       | 15.2       | 9.2     | 9.1        | 57.4%      | 6.1%            | 11.45             | UP     |
| CARLSBERG BREWERY MALAYSIA BHD   | 22.86           | 6,989.4           | N                 | 12/2021     | 19.9%          | 5.3%       | 52.8%                | 9.1%       | 39.8                    | 26.0       | 23.9       | 35.8    | 26.2       | 120.1%     | 2.8%            | 25.65             | OP     |
| HEINEKEN MALAYSIA BHD            | 25.24           | 7,625.0           | N                 | 12/2021     | 16.1%          | 6.1%       | 54.1%                | 14.0%      | 43.5                    | 28.2       | 24.7       | 19.3    | 19.4       | 68.7%      | 3.6%            | 22.35             | MP     |
| Simple Average                   |                 |                   |                   |             | 9.4%           | 3.0%       | 34.5%                | 9.3%       | 32.9                    | 23.4       | 21.3       | 21.5    | 18.2       | 82.1%      | 4.2%            |                   |        |

Source: Bloomberg, Kenanga Research

28 April 2021

**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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