

23 February 2022

Nestlé (Malaysia) Bhd

Margin Squeeze

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Nestlé's FY21 fell short of expectations dragged by crimped 4QFY21 earnings on account of higher commodity costs. While we expect top-line to be robust on account of the reopening of the economy, we remain cautious on earnings as commodity prices continue to be on uptrend. Slashed our FY22E earning by 21% on account of lower GP margins and Cukai Makmur; hence, TP is reduced to RM133.90. Maintained at MARKET PERFORM due to the defensive quality of its business model, economic recovery, clear ESG targets, solid global franchise and positioning as one of the very few large cap F&B stocks.

Below expectations. 4QFY21 PATAMI of RM110m pushed FY21 PATAMI to RM570m accounting for 87%/93% of both our/market estimates. The negative variance to our/consensus estimates was due to higher commodity prices and opex in 4QFY21 which crimped earnings. A DPS of 102 sen was declared for the quarter pushing DPS for the year to 242 sen (in line).

Margins pressured in the 4Q. YoY, FY21 revenue of RM5.73b remained robust surpassing even its pre-pandemic performance driven by higher domestic (+6.2%) and export sales (+5.0%). The Group's core F&B business recorded a growth of 6.3% to RM4.77b contributing 91% of top-line. GP margin took a dip by 2ppt predominantly due to downside pressure especially in 4Q. Higher sales coupled with prudent management saw EBITDA remaining stable at 17%. PBT, however, saw a slight uptick (+3.1) on account of higher D&A translating to a similar rise in PATAMI to RM596.60m.

QoQ, top-line continued to be resilient at RM1.46b (+1.9%). However, the quarter saw further downside pressure as GP margin shed 3ppt to 31.5%. EBITDA margin took a further dent shedding 4ppt on account of higher marketing expenses post EMCO and the December floods. PATAMI fell 23.2% to RM110.40m despite ETR shedding 5ppt.

Looking positive but cautious on commodity costs. We are positive of a continued robust top-line ahead as the economy reopens and the nation moves towards an endemic phase. However, global supply chains remained highly disruptive with commodity prices remaining highly volatile with global milk prices expected to stay on an uptrend into 2023. Rising food commodity costs necessitate a corresponding product price increase. However, with its nourishing products representing a large chunk of the consumer staple diet, we believe Nestlé would be prudent with any price hikes, of which could be insufficient to offset the elevated commodity costs.

Post results, we revised down our FY22E earnings by 20% to RM472m (RM588m previously on account of Cukai Makmur) as we impute a lower GP margin (-3ppt to 34%). We also introduce our FY23E earnings.

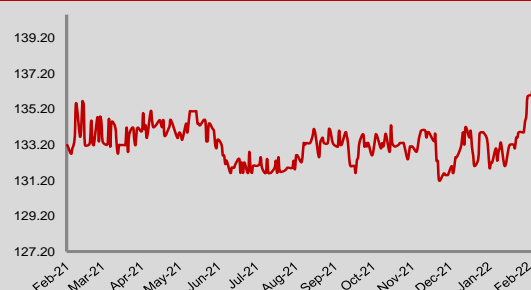
MARKET PERFORM with a revised TP of RM133.90 (from RM138.90) on FY22E PER of 66.4x (previously 55.4x or 0.5SD above mean) with a 1SD attached to the stock's 5-year mean. We feel this is justified given that the stock has been trading above mean levels (c.1.0SD) due to the defensive quality of its business model, economic recovery, clear ESG targets, solid global franchise, and positioning as one of the very few large cap F&B stocks, as well as being a FBMKLCI index member. However, given the risks of volatile commodity prices and uninspiring dividend yields we retained it at MARKET PERFORM.

Risks to our call include: (i) favourable commodity prices, (ii) favourable Ringgit.

MARKET PERFORM ↔

Price : RM136.40
Target Price : RM133.90 ↓

Share Price Performance



KLCI	1,576.96
YTD KLCI chg	0.6%
YTD stock price chg	1.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	NESZ MK Equity
Market Cap (RM m)	31,985.8
Shares Outstanding	234.5
52-week range (H)	138.70
52-week range (L)	130.60
3-mth avg daily vol	65,090
Free Float	16%
Beta	0.5

Major Shareholders

Nestlé SA	72.6%
Employees Provident Fund	9.5%
Blackrock	1.8%

Summary Earnings Table

FY Dec (RM m)	2021A	2022E	2023E
Turnover	5,734	5,913	6,096
EBIT	786	740	821
PBT	752	711	802
Net Profit (NP)	570	472	608
PATAMI	570	472	608
Consensus (NP)	610	623	715
Earnings Revision	-12.7%	-19.7%	New
Core EPS (sen)	243.0	201.5	259.1
Core EPS growth (%)	3.1%	-17.1%	28.6%
NDPS (sen)	242.0	200.0	255.0
BVPS (RM)	2.5	2.5	2.5
Core PER (x)	56.1	67.7	52.6
Price/BV (x)	54.9	54.6	53.7
Net Gearing (x)	0.6	0.4	0.3
Net Div. Yield (%)	1.8%	1.5%	1.9%

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Results Highlights								
FYE Dec (RM m)	4Q21	3Q21	QoQ Chg	4Q20	YoY Chg	12M21	12M20	YoY Chg
Turnover	1,466.5	1,438.7	1.9%	1,369.9	7.1%	5,733.8	5,412.2	5.9%
Gross Profit	462.6	496.3	-6.8%	497.4	-7.0%	1,958.2	1,965.5	-0.4%
EBITDA	206.5	266.2	-22.4%	220.5	-6.3%	980.3	932.8	5.1%
EBIT	157.3	215.5	-27.0%	174.7	-9.9%	786.1	756.4	3.9%
PBT/(LBT)	146.8	207.6	-29.3%	167.4	-12.3%	751.8	725.1	3.7%
Taxation	(34.7)	(59.6)	-41.8%	(34.9)	-0.6%	(182.0)	(172.1)	5.8%
Net Profit	112.1	148.0	-24.3%	132.5	-15.4%	569.8	552.7	3.1%
PATAMI	110.4	143.7	-23.2%	132.5	-16.7%	569.6	552.7	3.1%
Core EPS (sen)	47.1	61.3	-23.2%	56.5	-16.7%	242.9	235.7	3.1%
DPS (sen)	102.0	70.0	45.7%	92.0	10.9%	242.0	232.0	4.3%
Gross Margin	31.5%	34.5%		36.3%		34.2%	36.3%	
Opex Margin	-17.7%	-16.0%		-20.2%		-17.1%	-19.1%	
EBITDA Margins	14.1%	18.5%		16.1%		1.9%	17.2%	
EBIT Margin	10.7%	15.0%		12.7%		13.7%	14.0%	
Pre-Tax Margin	10.0%	14.4%		12.2%		13.1%	13.4%	
Net Profit Margin	7.6%	10.3%		9.7%		9.9%	10.2%	
PATAMI Margin	7.5%	10.0%		9.7%		9.9%	10.2%	
Tax Rate	23.6%	28.7%		20.9%		24.2%	23.7%	

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 (%) 1-Yr. Fwd.	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.					
F&B AND RETAIL																			
7-ELEVEN MALAYSIA HOLDINGS BHD	1.46	1,644.4	N	12/2021	7.2%	34.2%	-43.8%	98.5%	24.2	43.1	21.7	10.4	13.6	27.3%	3.4%	1.60	MP		
AEON CO. (M) BHD	1.30	1,825.2	Y	12/2021	-5.2%	13.7%	17.9%	109.4%	44.1	37.4	17.9	1.1	1.1	2.9%	2.2%	1.60	OP		
AMWAY (MALAYSIA) HOLDINGS BHD	5.42	891.0	Y	12/2021	28.1%	-10%	19.0%	0.9%	19.0	16.0	15.8	4.0	4.0	25.0%	6.5%	6.05	OP		
DUTCH LADY MILK INDUSTRIES BHD	32.20	2,060.8	Y	12/2021	5.0%	1.0%	9.0%	0.5%	28.1	25.8	25.6	12.4	9.9	42.7%	1.9%	40.20	OP		
FRASER & NEAVE HOLDINGS BHD	24.00	8,802.7	Y	09/2022	4.8%	6.4%	-24.3%	47.1%	22.3	29.4	20.0	3.1	3.0	10.5%	2.6%	34.25	OP		
MR D.I.Y.	3.68	23,118.5	Y	12/2022	32.6%	16.1%	57.0%	16.6%	53.5	34.1	29.3	20.1	14.9	50.1%	1.3%	4.00	MP		
MYNEWS HOLDINGS BHD	0.805	549.1	N	10/2022	61.2%	13.1%	-146.2%	-11.1%	N.A.	27.6	31.0	2.2	2.1	7.8%	1.2%	1.00	OP		
NESTLE (MALAYSIA) BHD	136.40	31,985.8	Y	12/2022	3.1%	3.1%	-17.1%	28.6%	56.1	67.7	52.6	54.9	54.6	80.8%	1.5%	133.90	MP		
PADINI HOLDINGS BHD	3.10	2,039.5	Y	06/2022	23.3%	32.2%	75.4%	48.3%	37.8	21.5	14.5	2.5	2.4	11.6%	2.9%	3.20	OP		
POWER ROOT BHD	1.33	557.7	Y	03/2022	8.9%	7.4%	-36.2%	74.0%	20.0	31.4	18.0	2.1	1.9	6.4%	2.9%	1.35	MP		
QL RESOURCES BHD	4.99	12,144.0	Y	03/2022	12.2%	11.8%	-18.2%	31.0%	39.0	47.7	36.4	4.8	4.6	10.2%	1.2%	6.00	OP		
Simple Average					16.5%	11.7%	-9.8%	40.4%	34.4	34.7	25.7	10.7	10.2	25.0%	2.5%				
SIN																			
BRITISH AMERICAN TOBACCO (M) BHD	12.02	3,432.1	N	12/2022	0.4%	1.8%	-7.4%	8.8%	12.0	13.0	12.0	9.0	8.8	68.3%	7.5%	13.10	OP		
CARLSBERG BREWERY MALAYSIA BHD	21.16	6,469.6	N	12/2022	18.9%	4.6%	27.7%	11.7%	32.2	25.2	22.6	34.8	38.6	143.9%	4.3%	23.10	MP		
HEINEKEN MALAYSIA BHD	21.72	6,561.6	N	12/2022	13.5%	11.1%	16.4%	29.1%	26.7	22.9	17.8	16.6	16.6	72.5%	4.4%	20.50	MP		
Simple Average					10.9%	5.8%	12.2%	16.5%	23.7	20.4	17.4	20.1	21.3	94.9%	5.4%				

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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