

30 April 2024

Nestlé (Malaysia)

Price Hikes Could Hurt Sales Further

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NESTLE's 1QFY24 results met our forecast but disappointed the market. Its 1QFY24 net profit eased 1% as lower input cost was negated by lower domestic sales and higher marketing expenses. Its price hikes from 1 Jul 2024 could exacerbate downtrading by consumers. We keep our forecasts relatively unchanged and maintain our TP of RM115.00 and UNDERPERFORM call.

NESTLE's 1QFY24 net profit of RM196m came in at 29% and 25% of our full-year forecast and the full-year consensus estimate, respectively. We consider the results within our expectation but they disappointed the market as historically, its 1Q accounted for about 30% to 33% of its annual earnings. No dividend was declared as NESTLE does not normally pay dividend in 1Q.

YoY, its 1QFY24 top line decreased by 3.2% due mainly to the decline in the domestic sales (-3.9% to RM1.42b) which could be attributable to downtrading (i.e. switching to more affordable alternatives) by consumers amidst sustained elevated inflation and the boycott of Western products due to Israel's war on Gaza. However, its gross profit rose 5.7% driven by lower prices for certain commodities like milk and palm oil, along with more effective cost management, i.e. via forward purchases of commodities such as cocoa and coffee. Nonetheless, its net profit eased 1%, weighed down by higher marketing expenses.

QoQ, its top line improved by 6% due to higher sales recorded during the Chinese New Year period. Its net profit surged by a sharper 32% due to improved cost absorption on a significantly expanded top line.

Plan to raise prices of selected products from 1 July. NESTLE has confirmed that it will be adjusting the prices of selected products, including popular items such as Milo, Nescafe, and Maggi tomato ketchup, starting 1 July 2024. Although the group has not disclosed the exact extent of the price increases, recent reports in the media suggest an average hike of between 5% and 6%. This price adjustment is in response to the substantial global increase in cocoa and coffee prices, which have surged by over 150% and 20% YTD, respectively. Despite these significant hikes in key commodity costs, the company's decision to moderate the price increases indicates that its forward margins may be under pressure, as it will not be able to fully offset the rising costs of raw materials.

Challenging quarters ahead. Looking ahead, NESTLE anticipates challenging quarters due to persistent inflationary pressures affecting domestic spending. The group has hinted that forward gross profit margins are likely to be pressured as prices of key commodities like cocoa and coffee are expected to remain elevated due to supply shortages. While it has benefited from effective raw material cost management, thanks to earlier forward purchases which contributed to a recovery in gross profit margins in 1QFY24, there is concern that these benefits may not be sustainable in future quarters once the low-priced raw material inventories diminish. Besides, the group remains hesitant in sharing details of its forward purchasing strategy.

Forecasts. We fine-tune our FY24-25F net profit by +0.5% and +0.3%, respectively.

Valuations. We maintain our DCF-derived TP of RM115.00 based on an unchanged WACC of 5.2% and TG of 2%. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

UNDERPERFORM ↔

Price : RM126.90
Target Price : RM115.00 ↔

Share Price Performance



KLCI 1,582.66
YTD KLCI chg 8.8%
YTD stock price chg 7.9%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker NESZ MK EQUITY
Market Cap (RM m) 29,758.1
Shares Outstanding 234.5
52-week range (H) 135.90
52-week range (L) 111.60
3-mth avg. daily vol. 126,800
Free Float 14%
Beta 0.5

Major Shareholders

Nestlé SA 72.6%
Employees Provident Fund 10.4%
Blackrock 1.6%

Summary Earnings Table

| FY Dec (RM m) | 2023A | 2024F | 2025F |
|------------------------|-------|-------|-------|
| Turnover | 7,051 | 7,208 | 7,587 |
| EBIT | 939 | 970 | 1,015 |
| PBT | 879 | 912 | 957 |
| Net Profit (NP) | 660 | 685 | 717 |
| Consensus (NP) | - | 774 | 817 |
| Earnings Revision | - | +0.5% | +0.3% |
| Core EPS (sen) | 281 | 292 | 306 |
| Core EPS Growth (%) | 6.4 | 3.8 | 4.7 |
| NDPS (sen) | 268 | 300 | 310 |
| BVPS (RM) | 2.9 | 2.8 | 2.8 |
| Core PER (x) | 45.1 | 43.4 | 41.5 |
| Price/BV (x) | 44.1 | 45.3 | 46.0 |
| Net Gearing (x) | -1.1 | -1.0 | -1.0 |
| Net Div. Yield (%) | 2.1 | 2.4 | 2.4 |

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Outlook. While helping to defend its margins, its recently announced hikes in prices for certain products from 1 Jul 2024 could exacerbate downtrading by consumers amidst persistent high inflation, which may worsen further with subsidy rationalisation. Certain products, like cereal, milk and evaporated milk, could be more vulnerable than the others given their low brand equity. Nonetheless, we take comfort in NESTLE's wide range and variety of staple food products, which could cushion the impact. Maintain **UNDERPERFORM**.

Risks to our call include: (i) a significant fall in commodities prices, (ii) a stronger MYR resulting in lower cost of imported raw materials, and (iii) consumers switching to food products of higher quality as purchasing power rises or inflation eases.

Results Highlights

| FYE Dec (RM m) | 1Q24 | 4Q23 | QoQ Chg | 1Q23 | YoY Chg | 3MFY24 | 3MFY23 | YoY Chg |
|-------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Turnover | 1,782.6 | 1,685.3 | 5.8% | 1,842.4 | -3.2% | 1,782.6 | 1,842.4 | -3.2% |
| Gross Profit | 595.3 | 541.0 | 10.0% | 563.4 | 5.7% | 595.3 | 563.4 | 5.7% |
| EBITDA | 326.2 | 260.4 | 25.2% | 327.3 | -0.4% | 326.2 | 327.3 | -0.4% |
| EBIT | 273.4 | 193.0 | 41.6% | 277.1 | -1.3% | 273.4 | 277.1 | -1.3% |
| PBT/(LBT) | 259.1 | 176.8 | 46.5% | 262.3 | -1.2% | 259.1 | 262.3 | -1.2% |
| Taxation | (63.6) | (28.6) | 122.6% | (65.2) | -2.4% | (63.6) | (65.2) | -2.4% |
| MI | 0.0 | 0.0 | NA | 0.0 | NA | 0.0 | 0.0 | NA |
| Net Profit | 195.5 | 148.3 | 31.9% | 197.1 | -0.8% | 195.5 | 197.1 | -0.8% |
| Core EPS (sen) | 83.4 | 63.2 | 31.9% | 84.1 | -0.8% | 83.4 | 84.1 | -0.8% |
| DPS (sen) | 0.0 | 128.0 | -100.0% | 0.0 | NA | 0.0 | 0.0 | NA |
| Gross Margin | 33.4% | 32.1% | | 30.6% | | 33.4% | 30.6% | |
| EBITDA Margins | 18.3% | 15.5% | | 17.8% | | 18.3% | 17.8% | |
| EBIT Margin | 15.3% | 11.5% | | 15.0% | | 15.3% | 15.0% | |
| PBT Margin | 14.5% | 10.5% | | 14.2% | | 14.5% | 14.2% | |
| Net Profit Margin | 11.0% | 8.8% | | 10.7% | | 11.0% | 10.7% | |
| Taxation Rate | -24.5% | -16.1% | | -24.8% | | -24.5% | -24.8% | |

Source: Company, Kenanga Research

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Peer Comparison

| Name | Rating | Last Price @ 29 Apr (RM) | Target Price (RM) | Upside | Market Cap (RM m) | Shariah Compliant | Current FYE | Core EPS (sen) | | Core EPS Growth | | PER (x) - Core Earnings | | PBV (x) | ROE | Net. Div. (sen) | Net Div Yld |
|--------------------------------|--------|--------------------------------|-------------------------|--------|----------------------|----------------------|----------------|----------------|---------------|-----------------|---------------|----------------------------|---------------|---------------|---------------|--------------------|----------------|
| | | | | | | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. |
| CONSUMER | | | | | | | | | | | | | | | | | |
| AEON CO. (M) BHD | UP | 1.11 | 1.01 | -9.0% | 1,558.4 | Y | 12/2024 | 8.3 | 8.4 | 1.2% | 2.1% | 13.4 | 13.1 | 0.8 | 6.2% | 4.0 | 3.6% |
| DUTCH LADY MILK INDUSTRIES BHD | UP | 33.82 | 27.65 | -18.2% | 2,164.5 | Y | 12/2024 | 123.1 | 126.3 | 9.4% | 2.5% | 27.5 | 26.8 | 4.5 | 17.1% | 50.0 | 1.5% |
| FRASER & NEAVE HOLDINGS BHD | OP | 31.60 | 33.80 | 7.0% | 11,590.2 | Y | 09/2024 | 150.2 | 155.7 | 13.8% | 3.6% | 21.0 | 20.3 | 3.2 | 16.0% | 77.0 | 2.4% |
| MR D.I.Y. GROUP (M) BHD | OP | 1.57 | 1.95 | 24.2% | 14,834.1 | Y | 12/2024 | 7.0 | 7.8 | 17.6% | 12.2% | 22.6 | 20.1 | 7.3 | 34.8% | 4.0 | 2.5% |
| NESTLE (MALAYSIA) BHD | UP | 126.90 | 115.00 | -9.4% | 29,758.1 | Y | 12/2024 | 292.3 | 306.0 | 3.8% | 4.7% | 43.4 | 41.5 | 45.3 | 102.9% | 300.0 | 2.4% |
| PADINI HOLDINGS BHD | UP | 3.56 | 3.20 | -10.1% | 2,342.2 | Y | 06/2024 | 23.0 | 26.7 | -31.9% | 15.7% | 15.4 | 13.4 | 2.1 | 14.0% | 10.0 | 2.8% |
| POWER ROOT BHD | UP | 1.64 | 1.55 | -5.5% | 755.3 | Y | 03/2024 | 10.2 | 11.6 | -25.0% | 13.4% | 16.0 | 14.1 | 2.4 | 15.0% | 8.0 | 4.9% |
| QL RESOURCES BHD | MP | 6.45 | 6.25 | -3.1% | 15,697.1 | Y | 03/2024 | 17.8 | 19.5 | 25.2% | 9.2% | 36.2 | 33.1 | 5.4 | 17.0% | 9.0 | 1.4% |
| KAREX BHD | OP | 0.810 | 1.06 | 30.9% | 853.3 | Y | 06/2024 | 2.3 | 4.2 | 125.7% | 87.8% | 36.0 | 19.2 | 1.7 | 4.9% | 0.5 | 0.6% |
| Sector Aggregate | | | | | 79,553.1 | | | | | 8.5% | 8.3% | 29.0 | 26.8 | 5.9 | 20.3% | | 2.5% |

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

| | Criterion | Rating | | | | |
|-----------------|-----------------------------------|--------|---|---|---|--|
| GENERAL | Earnings Sustainability & Quality | ★ | ★ | ★ | | |
| | Corporate Social Responsibility | ★ | ★ | ★ | ☆ | |
| | Management/Workforce Diversity | ★ | ★ | ★ | | |
| | Accessibility & Transparency | ★ | ★ | ★ | | |
| | Corruption-Free Pledge | ★ | ★ | ★ | | |
| | Carbon-Neutral Initiatives | ★ | ★ | ★ | | |
| | OVERALL | ★ | ★ | ★ | | |
| SPECIFIC | Product Quality & Safety | ★ | ★ | ★ | ☆ | |
| | Effluent/Waste Management | ★ | ★ | ★ | | |
| | Digitalisation & Innovation | ★ | ★ | ★ | ★ | |
| | Use of Biodegradable Materials | ★ | ★ | ★ | | |
| | Supply Chain Management | ★ | ★ | ★ | ☆ | |
| | Energy Efficiency | ★ | ★ | ★ | | |

- ☆ denotes half-star
- ★ -10% discount to TP
- ★★ -5% discount to TP
- ★★★ TP unchanged
- ★★★★ +5% premium to TP

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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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