

26 July 2024

Nestlé (Malaysia)

Going Slow on Price Hikes

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NESTLE's 1HFY24 results disappointed due to weak domestic sales and higher marketing expenses, which also drove its 1HFY24 net profit lower by 24% YoY. The price hikes from 1 Jul 2024 may prompt further downtrading by consumers. We cut our FY24-25F net profit forecasts by 13% and 7%, respectively, trim our TP to RM114.85 (from RM115.00). Maintain UNDERPERFORM.

NESTLE's 1HFY24 net profit of RM289m came in below expectations at 42% and 37% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from weak domestic sales and higher marketing expenses. It declared an interim dividend of 70 sen as expected.

YoY, its 1HFY24 top line decreased by 8.0% due to the decline in domestic sales attributable to downtrading (i.e. switching to more affordable alternatives) by consumers amidst sustained elevated inflation that has eroded their purchasing power.

Its net profit fell by a sharper 24% due to higher marketing expenses while its input cost was contained thanks to lower prices for milk and palm oil along with forward purchases of cocoa and coffee at cheaper prices, though partially eroded by a weak MYR.

QoQ, its top line fell by 15% from a high base in the preceding quarter due to Chinese New Year and Ramadan celebrations. Its net profit dipped by a sharper 52% due to cost pressure, a weak MYR and weakened economies of scale on lower sales volume.

Outlook. Looking ahead, NESTLE anticipates challenging conditions to persist through 3Q, with gradual improvement expected towards the end of the year and a return to growth by 1HCY25. NESTLE S.A., the parent company, has cut its full-year sales growth target to 3% (from 4%) as it plans to go slow on price hikes as consumers become more cost-conscious. We expect NESTLE Malaysia to follow suit, having last raised prices of its best sellers, i.e. Milo, Nescafe, and Maggi tomato ketchup, by about 5% to 6% from 1 Jul 2024.

Its key products such as cereal, milk, and evaporated milk may be particularly vulnerable due to their lower brand equity. Additionally, gross profit margins are likely to remain under pressure due to elevated prices of key commodities such as cocoa and coffee, driven by supply shortages observed in 2QFY24. Nonetheless, NESTLE's extensive range of staple food products could help to cushion the impact.

Forecasts. We cut our FY24-25F turnover projections by 6% each and reduce our FY24 gross profit margin estimate to 30.9% from 31.1%, while maintaining our FY25 gross profit margin assumption at 31%. Consequently, we reduce our FY24-25F net profit forecasts down by 12.6% and 7.1%, respectively.

Valuations. We also trim our DCF-derived TP to RM114.90 from RM115.00 previously, 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).

Investment case. We like NESTLE for its strong brand and diversified product range, and the inelasticity in the demand for staple food products. However, recent experience has shown that it is vulnerable to downtrading by consumers amidst sustained elevated inflation. Maintain UNDERPERFORM.

UNDERPERFORM ↔

Price : RM122.00
Target Price : RM114.90 ↓

Share Price Performance



KLCI 1,615.18
YTD KLCI chg 11.0%
YTD stock price chg 3.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	NESZ MK EQUITY
Market Cap (RM m)	28,609.0
Shares Outstanding	234.5
52-week range (H)	134.50
52-week range (L)	111.60
3-mth avg. daily vol.	90,668
Free Float	14%
Beta	0.5

Major Shareholders

Nestlé SA	72.6%
Employees Provident Fund	11.7%
Blackrock	1.6%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	7,051	6,759	7,109
EBIT	939	863	960
PBT	879	798	888
Net Profit (NP)	660	599	666
Consensus (NP)	-	771	815
Earnings Revision	-	-13%	-7%
Core EPS (sen)	281	255	284
Core EPS Growth (%)	6.4	-9.3	11.2
NDPS (sen)	268	250	275
BVPS (RM)	2.9	2.9	3.0
Core PER (x)	45.1	49.7	44.7
Price/BV (x)	44.1	43.3	42.0
Net Gearing (x)	-1.1	-1.0	-0.7
Net Div. Yield (%)	2.1	2.0	2.2

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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)	2Q24	1Q24	QoQ Chg	2Q23	YoY Chg	1H24	1H23	YoY Chg
Turnover	1,523.3	1,782.6	-14.5%	1,750.9	-13.0%	3,305.8	3,593.3	-8.0%
Gross Profit	443.7	595.3	-25.5%	564.7	-21.4%	1,039.0	1,128.0	-7.9%
EBITDA	143.7	326.2	-56.0%	305.3	-52.9%	469.8	632.7	-25.7%
EBIT	141.1	273.4	-48.4%	254.0	-44.4%	414.5	531.1	-21.9%
PBT/(LBT)	126.0	259.1	-51.4%	239.8	-47.5%	385.1	502.2	-23.3%
Taxation	(32.4)	(63.6)	-49.1%	(58.9)	-45.1%	(96.0)	(124.1)	-22.7%
MI	0.0	0.0	NA	0.0	NA	0.0	0.0	NA
Net Profit	93.6	195.5	-52.1%	180.9	-48.3%	289.1	378.1	-23.5%
Core EPS (sen)	39.9	83.4	-52.1%	77.2	-48.3%	123.3	161.2	-23.5%
DPS (sen)	70.0	0.0	NM	70.0	0.0%	70.0	70.0	0.0%
Gross Margin	29.1%	33.4%		32.3%		31.4%	31.4%	
EBITDA Margins	9.4%	18.3%		17.4%		14.2%	17.6%	
EBIT Margin	9.3%	15.3%		14.5%		12.5%	14.8%	
PBT Margin	8.3%	14.5%		13.7%		11.6%	14.0%	
Net Profit Margin	6.1%	11.0%		10.3%		8.7%	10.5%	
Taxation Rate	-25.7%	-24.5%		-24.6%		-24.9%	-24.7%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Rating	Last Price @25 Jul (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	MP	1.36	1.21	-11.0%	1,909.4	Y	12/2024	8.7	8.9	6.9%	2.1%	15.6	15.2	1.0	6.5%	4.0	2.9%
FRASER & NEAVE HOLDINGS BHD	OP	30.00	38.25	27.5%	11,003.4	Y	09/2024	167.6	176.4	26.9%	5.3%	17.9	17.0	3.0	17.7%	85.0	2.8%
MR D.I.Y. GROUP (M) BHD	MP	2.02	1.97	-2.5%	19,094.3	Y	12/2024	7.0	7.9	18.2%	12.6%	28.8	25.6	9.5	35.4%	4.0	2.0%
NESTLE (MALAYSIA) BHD	UP	122.00	114.90	-5.8%	28,609.0	Y	12/2024	255.4	284.1	-9.2%	11.2%	47.8	42.9	41.6	87.9%	250.0	2.0%
PADINI HOLDINGS BHD	MP	3.45	3.63	5.2%	2,269.8	Y	06/2024	23.5	26.9	-30.4%	14.2%	14.7	12.8	2.0	14.3%	12.0	3.5%
POWER ROOT BHD	UP	1.55	1.40	-9.7%	709.6	Y	03/2025	9.1	9.8	2.6%	7.3%	17.0	15.9	2.0	12.2%	7.0	4.5%
QL RESOURCES BHD	MP	6.61	6.25	-5.4%	16,086.5	Y	03/2025	19.5	20.8	8.7%	6.2%	33.8	31.8	5.0	16.4%	9.0	1.4%
KAREX BHD	OP	0.830	1.10	32.5%	874.4	Y	06/2024	2.4	4.4	137.1%	85.1%	35.1	19.0	1.8	5.1%	1.0	1.2%
Sector Aggregate					80,556.4					6.5%	9.7%	29.9	27.2	6.0	20.0%		2.5%

Source: Bloomberg, Kenanga Research

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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