

29 July 2024

Nestlé (Malaysia) Bhd

Broad-based Downtrading a Key Risk

By Cheow Ming Liang | cheowml@kenanga.com.my

NESTLE reiterated that it will go slow on price hikes to check further downtrading, i.e. the switching from Nestle to cheaper brands or lower-end of its product range by consumers. This has become even more critical given that the trading is broad-based across all products. We maintain our forecasts, TP of RM114.90 and UNDERPERFORM call.

We came away from NESTLE's results briefing feeling cautious on its prospects. The key takeaways are as follows:

- Broad-base downtrading.** NESTLE revealed that the recent downtrading by consumers, i.e. the switching from Nestle to cheaper brands or lower-end of its product range, had been broad-base across all products. This shows sustained elevated inflation is really eroding consumer purchasing power. No helping either, is the lingering boycott of certain Western products due to Israel's war on Gaza.
- Going slow on price hikes.** As such, NESTLE will go with the pricing strategy of its parent Nestle S.A., i.e. to go slow on price hikes as consumers turn more cost-conscious.

Recall, it did raise prices of its best sellers, including Milo, Nescafe, and Maggi tomato ketchup, by approximately 5% to 6% from July 1, 2024, to partially mitigate the rising cost of raw materials such as cocoa and coffee beans.
- Limited impact from the EPF's account 3 withdrawal scheme.** As expected, NESTLE did not sense any boost in demand for its products following the introduction of the EPF's account 3 withdrawal scheme. According to the EPF, as of July 19, 2024, a total of RM8.9b has been withdrawn by 3.4m of its members.

Outlook. We remain cautious on the company's outlook. 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. 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 beans, driven by ongoing supply shortages. Nonetheless, NESTLE's extensive range of staple food products could help to cushion the impact.

Forecasts. Maintained.

Valuations. We also keep our DCF-derived TP of RM114.90 (based on WACC of 5.2% and TG of 2%). There is no adjustment to our TP based on ESG given its 3-star rating as appraised by us (see Page 5).

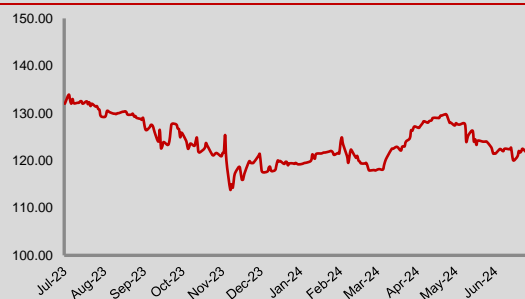
Investment case. We like NESTLE for its strong brand and diversified product range, and the inelasticity in the demand for staple food products. However, recent experience has shown that it is vulnerable to downtrading by consumers amidst sustained elevated inflation. Maintain **UNDERPERFORM**.

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.

UNDERPERFORM ↔

Price : RM115.90
Target Price : RM114.90 ↔

Share Price Performance



KLCI 1,612.88
YTD KLCI chg 10.9%
YTD stock price chg -1.4%

Shariah Compliant	Yes
Bloomberg Ticker	NESZ MK EQUITY
Market Cap (RM m)	27,178.6
Shares Outstanding	234.5
52-week range (H)	134.50
52-week range (L)	111.60
3-mth avg daily vol	92,863
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)	20223	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)	-	663	725
Earnings Revision	-	-	-
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)	41.2	45.4	40.8
Price/BV (x)	40.3	39.5	38.3
Net Gearing (x)	-1.1	-1.0	-0.7
Net Div. Yield (%)	2.3	2.2	2.4



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Peer Comparison

Name	Rating	Last Price @ 26Jul (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	1.37	1.21	-11.7%	1,923.5	Y	12/2024	8.7	8.9	6.9%	2.1%	15.7	15.4	1.0	6.5%	4.0	2.9%
FRASER & NEAVE HOLDINGS BHD	OP	30.32	38.25	26.2%	11,120.7	Y	09/2024	167.6	176.4	26.9%	5.3%	18.1	17.2	3.1	17.7%	85.0	2.8%
MR D.I.Y. GROUP (M) BHD	MP	2.05	1.97	-3.9%	19,378.4	Y	12/2024	7.0	7.9	18.2%	12.6%	29.2	26.0	9.7	35.4%	4.0	2.0%
NESTLE (MALAYSIA) BHD	UP	115.90	114.90	-0.9%	27,178.6	Y	12/2024	255.4	284.1	-9.2%	11.2%	45.4	40.8	39.5	87.9%	250.0	2.2%
PADINI HOLDINGS BHD	MP	3.47	3.63	4.6%	2,282.9	Y	06/2024	23.5	26.9	-30.4%	14.2%	14.7	12.9	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	6.58	6.25	-5.0%	16,013.5	Y	03/2025	19.5	20.8	8.7%	6.2%	33.7	31.7	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					79,481.6					6.5%	9.7%	29.5	26.9	5.9	20.0%		2.5%

Source: Bloomberg, Kenanga Research

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

☆ 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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my