Nestlé (Malaysia)

Back on Track, Margins to Catch Up

MARKET PERFORM ↔

Price: RM110.50
Target Price: RM106.00 ↑

By Thin Yun Jing I thinyj@kenanga.com.my

NESTLE's FY25 results met expectations, with core net profit up 25% YoY on the back of 11% revenue growth on domestic demand recovery and double-digit export expansion. While sales have normalised to pre-boycott levels and raw material prices, particularly cocoa and coffee beans, are easing, margin recovery remains gradual due to inventory and hedging lags, with further improvement expected in FY26. We raise our FY26F earnings by 2%. Our DCF-derived TP is uplifted to RM106.00 (from RM99.20), based on a valuation that continues to imply -0.5SD over its 5-year average PER valuation which accounts for aforementioned gradual margin recovery towards previous 2023 levels. Maintain MARKET PERFORM.

NESTLE's FY25 core net profit of RM501m (after excluding RM12m net forex gain) met expectations, coming in at 98% of our forecast and 95% of the consensus estimate. It declared a final dividend of 90 sen in 4QFY25 (4QFY24: 74 sen), bringing FY25 total dividend to 220 sen, which was in line with our expectation.

YoY, its FY25 revenue grew 11% driven by recovery in domestic demand, which we believe reflects easing boycott impact and additional support from the RM100 one-off SARA cash aid in late FY25, alongside double-digit export growth. The stronger top line translated into a 25% increase in EBIT, with margin expanding by 1.3 ppts on scale efficiencies. As a result, core net profit (adjusted for forex) climbed 25% despite a higher effective tax rate.

QoQ, 4QFY25 revenue declined 5% as consumers may have potentially front-loaded purchases related to the SARA cash aid disbursed on 31 Aug last year. Consequently, its EBIT fell a sharper 10% amid higher opex and input costs. However, core net profit rose 13%, mainly attributed to lower effective tax rate, as the elevated taxes in 3Q was on a one-off basis.

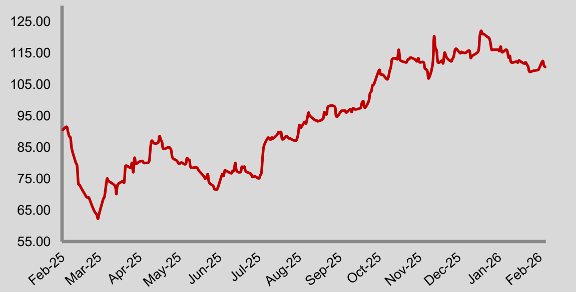
Outlook. We expect recovery momentum to persist into FY26, as domestic demand continues to normalise amid improving consumer sentiment, further aided by another round of RM100 SARA cash aid from mid-Feb 2026 (with utilisation spread through year-end) and incremental tourism-related spending under Visit Malaysia 2026. Sales are now largely back to pre-boycott levels, though partly driven by price hikes implemented in recent years in response to higher commodity costs.

Meanwhile, cocoa prices have fallen from their mid-2025 levels and are currently ~63% below 2024 and 2025 averages (broadly returning to 2023 levels. Coffee prices are down 17% YTD but remain above historical averages (+23% vs. 2024 and +68% vs. 2023). Together with a stronger MYR, this should gradually alleviate input cost pressures. That said, FY25 GP margin was flat YoY despite lower spot cocoa bean prices, which we believe indicates higher-cost inventory and hedging lags. Hence, we expect a gradual margin recovery this year, albeit likely still below FY23 levels. The company is holding a briefing today (26 Feb), where we expect to gain further clarity on margin trends.

Forecasts. We revise up our FY26F earnings by 2% to account for easing raw material costs, particularly cocoa and coffee beans. Meanwhile, we introduce our FY27F estimates.

Valuations. We lift our DCF-derived TP to RM106.00 (from RM99.20), as we fine-tune our long-term margin assumptions, while keeping our WACC at 5.3% and TG at 2%. While revenue has normalised to pre-boycott levels, margin recovery remains gradual and is unlikely to return to the EBITDA

Share Price Performance



KLCI	1,747.81
YTD KLCI chg	4.0%
YTD stock price chg	-3.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	NESZ MK EQUITY
Market Cap (RM m)	25,912.3
Shares Outstanding	234.5
52-week range (H)	122.20
52-week range (L)	61.80
3-mth avg. daily vol.	109,815
Free Float	27%
Beta	0.9

Major Shareholders

Nestlé S.A.	72.6%
Employees Provident Fund Board	13.2%
Blackrock Inc	1.3%

Summary Earnings Table

FYE Dec (RM m)	2025A	2026F	2027F
Turnover	6,881	7,300	7,803
EBIT	761	847	948
PBT	700	803	890
Net Profit (NP)	513	602	668
Core Net Profit	501	602	668
Consensus (NP)	-	596	655
Earnings Revision	-	+2%	NEW
Core EPS (sen)	214	257	285
Core EPS Growth (%)	25.3	17.4	10.8
NDPS (sen)	220	255	270
BVPS (RM)	2.5	2.5	2.6
Core PER (x)	50.5	43.0	38.8
PBV (x)	44.9	44.6	42.1
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.0	2.3	2.4

level of 16.5% seen in 2023. Our revised TP continues to imply 0.5SD below 5-year average PER of 43x, which maps to 41x FY26F PER (from previously 39x), which we deem as fair, supported by its potential leverage to the SARA cash aid and VM2026 tourism themes. 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, while margin recovery is underway, it remains below historical levels, and we believe valuations are fair at current levels. Reiterate **MARKET PERFORM**.

Risks to our call include: (i) a significant rise in commodities prices, (ii) a weaker MYR leading to higher cost of imported raw materials, and (iii) consumers opting for more affordable alternatives as purchasing power declines or inflation worsens.

Results Highlights

FYE Dec (RM m)	4QFY25	3QFY25	QoQ Chg	4QFY24	YoY Chg	FY25	FY24	YoY Chg
Revenue	1,681.9	1,762.3	-5%	1,472.7	14%	6,880.8	6,224.7	11%
GP	525.1	519.9	1%	393.5	33%	2,088.6	1,884.8	11%
EBITDA	230.6	250.2	-8%	131.2	76%	987.7	830.4	19%
EBIT	173.9	192.7	-10%	72.6	139%	760.8	609.0	25%
PBT / (LBT)	160.4	178.4	-10%	55.2	190%	700.4	544.4	29%
Taxation	(34.9)	(64.4)	-46%	(14.1)	147%	(187.4)	(128.8)	46%
Minority Interest	0.0	0.0	N.A.	0.0	N.A.	0.0	0.0	N.A.
Net Profit	**125.5**	**114.0**	**10%**	**41.1**	**205%**	**513.0**	**415.6**	**23%**
Core Net Profit (CNP)	**116.0**	**102.3**	**13%**	**35.2**	**230%**	**501.3**	**400.1**	**25%**
Core EPS (sen)	49.5	43.6	13%	15.0	230%	213.8	170.6	25%
DPS (sen)	90.0	60.0	50%	74.0	22%	220.0	179.0	23%
GP Margin (%)	31.2	29.5		26.7		30.4	30.3	
EBITDA Margin (%)	13.7	14.2		8.9		14.4	13.3	
EBIT Margin (%)	10.3	10.9		4.9		11.1	9.8	
PBT Margin (%)	9.5	10.1		3.8		10.2	8.7	
CNP Margin (%)	6.9	5.8		2.4		7.3	6.4	
Effective Tax Rate (%)	21.7	36.1		25.6		26.8	23.7	

Source: Company, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (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	OP	1.33	1.40	5.3%	1,867.3	Y	12/2025	9.2	10.3	-14.7%	13.0%	14.5	12.9	0.9	6.5%	5.0	3.8%
FARM FRESH BHD	MP	2.78	2.70	-2.9%	5,238.2	Y	03/2026	7.5	9.0	29.2%	20.4%	37.2	30.9	6.4	18.2%	3.0	1.1%
FRASER & NEAVE HOLDINGS BHD	OP	33.68	37.70	11.9%	12,353.1	Y	09/2026	144.2	160.7	3.6%	11.4%	23.4	21.0	3.0	13.2%	70.0	2.1%
MR D.I.Y. GROUP (M) BHD	MP	1.84	1.95	6.0%	17,438.6	Y	12/2026	7.5	8.2	11.6%	9.0%	24.5	22.5	8.6	35.3%	8.0	4.3%
NESTLE (MALAYSIA) BHD	MP	110.50	106.00	-4.1%	25,912.3	Y	12/2026	256.9	284.7	20.2%	10.8%	43.0	38.8	44.6	104.1%	255.0	2.3%
PADINI HOLDINGS BHD	OP	2.01	2.35	16.9%	1,983.6	Y	06/2026	17.4	18.2	6.0%	4.5%	11.5	11.0	1.6	14.0%	9.1	4.5%
POWER ROOT BHD	MP	1.19	1.08	-9.2%	501.1	Y	03/2026	5.6	7.2	-21.5%	28.3%	21.2	16.5	1.7	7.5%	5.0	4.2%
QL RESOURCES BHD	MP	3.99	4.26	6.8%	14,564.5	Y	03/2026	12.2	13.4	-2.0%	9.5%	32.6	29.8	4.1	14.1%	5.0	1.3%
KAREX BHD	MP	0.585	0.580	-0.9%	616.3	Y	06/2026	1.0	2.3	5250.0%	126.2%	57.6	25.5	1.3	2.3%	1.5	2.6%
SECTOR AGGREGATE					**80,474.9**					**8.1%**	**11.0%**	**29.1**	**26.2**	**5.3**	**18.3%**		**2.9%**

Source: Kenanga Research

This section is intentionally left blank

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★	☆	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
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
★★★★★	+10% premium to TP

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.***

Published by:

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