Nestlé (Malaysia)

Solid Start Amid Rising Cost Risks

MARKET PERFORM ↔

Price: RM102.30
Target Price: RM106.00 ↔

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NESTLE's 1QFY26 results met expectations, with core net profit rising 9% YoY, underpinned by resilient domestic demand and improved operational efficiencies on higher volumes. While sales have largely normalised to pre-boycott levels and margin recovery is underway, the sustainability of current margin levels will hinge on the timing of cost relief from easing raw material costs, particularly cocoa and coffee beans, while potential pressures from logistics and packaging may cap upside. Near-term demand should remain supported by policy measures such as the SARA cash aid. We maintain our forecasts and TP of RM106.00, implying 41x FY26F PER (0.5SD below its 5-year mean), which we view as fair as margins are gradually recovering towards FY23 levels, albeit still below peak in the near term. Reiterate MARKET PERFORM.

NESTLE's 1QFY26 core net profit of RM188m (after excluding RM17m net forex gain) came in at 31% of both our full-year forecast and the street's estimate. We deem the results within expectations, as 1Q typically accounts for ~30% of full-year earnings. As expected, no dividend was declared during the quarter.

YoY, 1QFY26 revenue rose 6%, driven by resilient domestic demand (which contributes c.80% of total sales), particularly during the festive season, as well as ongoing contribution from export markets. We believe this was partly supported by the RM100 one-off SARA cash aid disbursed in mid-Feb. Core net profit (adjusted for forex) grew 9%, likely driven by better economies of scale from higher sales volume.

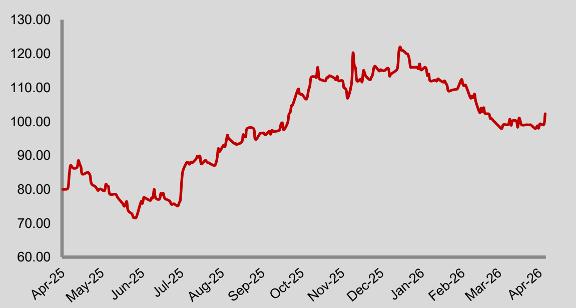
QoQ, 1QFY26 revenue climbed 12% on broad-based contributions across its diversified portfolio, further boosted by seasonally stronger demand during Chinese New Year and Hari Raya. The stronger top line translated into a 64% increase in EBIT, with margins expanding 4.8 ppts QoQ. This was likely due to better cost control and scale efficiencies, with 1Q margins also seasonally higher. Consequently, core net profit surged 62% despite a higher effective tax rate.

Outlook. We see emerging cost pressures from the Middle East conflict, which could raise logistic and packaging costs, driven by higher fuel prices and resin supply tightness (with global resin prices up ~80% recently). If sustained, potential further price pass-through may dampen demand as consumers down-trade to more affordable alternatives, though the RM100 one-off SARA cash aid should provide near-term support. Meanwhile, easing commodity prices are expected to offer some relief. Cocoa prices have declined significantly to near 2023 levels (now ~60% below 2024–2025 averages), while coffee bean prices are down 12% YTD but remain above historical averages (+31% vs. 2024 and +79% vs. 2023). Together with a stronger MYR, this should gradually ease input cost pressures. However, the relatively modest YoY gross margin expansion in 1QFY26 suggests lingering higher-cost inventory and hedging lags.

Overall, we expect a gradual margin recovery this year, supported by improving operational efficiencies on higher sales volumes. While sales are now largely back to pre-boycott levels, this has been partly driven by prior price hikes amid elevated commodity costs, and we believe margins are likely to remain below FY23 levels in the near term amid renewed cost pressures. The company is holding a briefing today (29 Apr), where we expect to gain further clarity on margin trends and potential impacts from ongoing geopolitical tensions.

Forecasts. Maintained.

Share Price Performance



KLCI	1,729.60
YTD KLCI chg	2.9%
YTD stock price chg	-10.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	NESZ MK Equity
Market Cap (RM m)	23,989.4
Shares Outstanding	234.5
52-week range (H)	122.00
52-week range (L)	71.56
3-mth avg. daily vol.	108,277
Free Float	27%
Beta	0.9

Major Shareholders

Nestlé S.A.	72.6%
Employees Provident Fund Board	13.5%
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)	-	603	653
Earnings Revision	-	-	-
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)	46.8	39.8	35.9
PBV (x)	41.6	41.3	39.0
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.2	2.5	2.6

Valuations. We also keep our DCF-derived TP of RM106.00, based on WACC of 5.3% and TG of 2%. NESTLE's revenue has normalised to pre-boycott levels, and margin recovery is underway, with EBITDA margin improving to 18.2% in 1QFY26, nearing FY23 levels. Nonetheless, visibility on sustaining such margins remains somewhat limited due to emerging cost pressures, particularly from logistics and packaging costs following recent Middle East conflict. Our TP implies 41x FY26F PER (0.5SD below its 5-year mean of 43x), which we deem as fair, supported by its potential leverage to the SARA cash aid. 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, despite ongoing margin recovery, uncertainty remains around the sustainability of current margin levels. 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)	1QFY26	4QFY25	QoQ Chg	1QFY25	YoY Chg
Revenue	1,880.4	1,681.9	12%	1,768.2	6%
GP	599.2	525.1	14%	547.3	9%
EBITDA	342.1	230.6	48%	285.4	20%
EBIT	284.5	173.9	64%	229.5	24%
PBT / (LBT)	271.9	160.4	70%	213.0	28%
Taxation	(66.8)	(34.9)	92%	(51.7)	29%
Minority Interest	0.0	0.0	N.A.	0.0	N.A.
Net Profit	**205.1**	**125.5**	**63%**	**161.3**	**27%**
Core Net Profit (CNP)	**188.3**	**116.0**	**62%**	**172.2**	**9%**
Core EPS (sen)	80.3	49.5	62%	73.4	9%
DPS (sen)	0.0	90.0	-100%	0.0	N.A.
GP Margin (%)	31.9	31.2		31.0	
EBITDA Margin (%)	18.2	13.7		16.1	
EBIT Margin (%)	15.1	10.3		13.0	
PBT Margin (%)	14.5	9.5		12.0	
CNP Margin (%)	10.0	6.9		9.7	
Effective Tax Rate (%)	24.6	21.7		24.3	

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	1.18	1.30	10.2%	1,656.7	Y	12/2026	10.3	11.3	8.6%	9.0%	11.4	10.5	0.8	7.1%	5.0	4.2%
FARM FRESH BHD	MP	2.53	2.40	-5.1%	4,767.6	Y	03/2026	7.5	8.6	29.2%	15.5%	34.0	29.4	5.8	18.2%	3.0	1.2%
FRASER & NEAVE HOLDINGS BHD	OP	31.40	37.70	20.1%	11,516.8	Y	09/2026	144.2	160.7	3.6%	11.4%	21.8	19.5	2.8	13.2%	70.0	2.2%
MR D.I.Y. GROUP (M) BHD	OP	1.70	1.80	5.9%	16,111.7	Y	12/2026	7.5	8.2	11.6%	9.0%	22.6	20.7	8.0	35.3%	8.0	4.7%
NESTLE (MALAYSIA) BHD	MP	102.30	106.00	3.6%	23,989.4	Y	12/2026	256.9	284.7	20.2%	10.8%	39.8	35.9	41.3	104.1%	255.0	2.5%
PADINI HOLDINGS BHD	MP	1.49	1.75	17.4%	1,470.4	Y	06/2026	14.0	15.9	-15.0%	13.5%	10.6	9.4	1.2	11.1%	8.2	5.5%
POWER ROOT BHD	MP	1.18	1.08	-8.5%	494.3	Y	03/2026	5.6	7.2	-21.5%	28.3%	21.0	16.4	1.7	7.5%	5.0	4.2%
QL RESOURCES BHD	MP	3.80	4.05	6.6%	13,871.0	Y	03/2026	12.2	13.4	-2.0%	9.5%	31.1	28.4	3.9	14.1%	5.0	1.3%
KAREX BHD	MP	0.550	0.580	5.5%	579.4	Y	06/2026	1.0	2.3	5250.0%	126.2%	54.1	23.9	1.3	2.3%	1.5	2.7%
SECTOR AGGREGATE					**74,457.3**					**8.2%**	**11.1%**	**27.1**	**24.4**	**4.9**	**18.1%**		**3.2%**

Source: Kenanga Research

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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.***

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