

# Nestle (Malaysia) (NESZ MK)

## 1Q22 results: In-line

### Maintain SELL with unchanged TP of MYR101.20

NESZ's 1Q22 results were within our expectations. We expect sales momentum to continue in FY22 as consumer mobility increases and consumers and business alike adjust to post-pandemic spending habits and routines. That said, raw material cost pressures remain a key challenge in FY22 and we do not discount the possibility of product price hikes to maintain operational margins going forward. We keep our earnings estimates, SELL call and DCF-TP of MYR101.20 (WACC: 6.3%, LT growth: 2.5%) unchanged.

### Met expectations

1Q22 core net profit of MYR207m (+18% YoY, +71% QoQ) came in within expectations at 31%/37% of our/consensus full-year earnings estimates. Note that 1Q is historically a seasonally stronger quarter, accounting for c.33% of full-year earnings. No dividends were declared this quarter, as expected.

### Strong domestic and export sales recovery

NESZ's revenue grew 17% YoY on the back of robust domestic and export sales growth of 15% YoY and 25% YoY respectively. Domestic sales were mainly driven by relaxed movement restrictions and Chinese New Year celebrations which led to improved performance in both its core F&B and out-of-home segments (eg. HORECA). 1Q22 pre-tax profit also increased by 31% YoY given lower COVID-19 related expenses. The impact of Cukai Makmur led to 1Q22's higher effective tax rate of 29% (+8.4ppts YoY).

### No change in earnings estimates

Our FY22 earnings growth projection is on track at 15% YoY in light of strong sales momentum post-pandemic. We believe NESZ will focus heavily on driving sales through new product launches in FY22 in order to partially offset raw material cost pressures and lower supply availability (Eg. wheat, barley, sunflower oils) led by the Russia-Ukraine war. Given that the side effects of new COVID-19 variants are less severe, we also expect the group to incur lower COVID-19 related expenses in FY22 (FY21: MYR93m).

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	5,412	5,734	6,021	6,322	6,638
EBITDA	932	980	1,114	1,175	1,209
Core net profit	558	580	665	701	737
Core EPS (sen)	237.9	247.2	283.5	299.1	314.3
Core EPS growth (%)	(16.4)	3.9	14.7	5.5	5.1
Net DPS (sen)	232.0	242.0	282.3	297.9	313.0
Core P/E (x)	58.4	54.3	47.1	44.6	42.4
P/BV (x)	58.5	54.0	53.4	53.2	52.9
Net dividend yield (%)	1.7	1.8	2.1	2.2	2.3
ROAE (%)	90.5	100.0	113.8	119.5	125.0
ROAA (%)	20.0	19.8	21.9	22.6	23.3
EV/EBITDA (x)	35.6	32.7	28.6	27.1	26.3
Net gearing (%) (incl perps)	62.5	58.1	65.4	54.2	43.6
Consensus net profit	-	-	582	666	749
MKE vs. Consensus (%)	-	-	14.3	5.3	(1.6)

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# SELL

Share Price	MYR 133.40
12m Price Target	MYR 101.20 (-24%)
Previous Price Target	MYR 101.20

### Company Description

Nestlé (Malaysia) Bhd. is an investment holding company, which engages in the manufacture, marketing, and sale of food products.

### Statistics

52w high/low (MYR)	137.00/131.20
3m avg turnover (USDm)	1.7
Free float (%)	17.2
Issued shares (m)	235
Market capitalisation	MYR31.3B USD7.2B

### Major shareholders:

Nestle SA	72.6%
Employees Provident Fund	9.4%
BlackRock Fund Advisors	1.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	0	(2)
Relative to index (%)	(2)	(4)	(0)

Source: FactSet

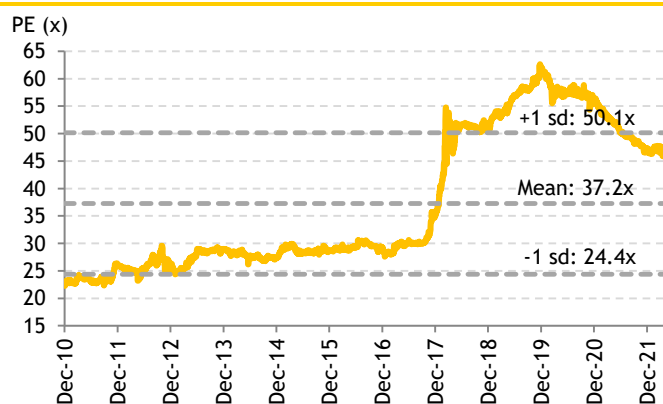
Fig 1: Nestle Malaysia: Results Summary Table

FY Dec (MYR m)	Quarterly				
	1Q21	1Q20	% YoY	4Q20	% QoQ
Turnover	1,693.8	1,448.8	16.9	1,466.5	15.5
Gross profit	575.8	518.9	11.0	462.6	24.5
EBITDA	346.0	275.5	25.6	206.5	67.6
Dep & Amort	(48.2)	(47.5)	1.5	(49.2)	(1.9)
EBIT	297.8	228.0	30.6	157.3	89.3
Net interest expense	(9.5)	(8.1)	17.3	(10.1)	(5.6)
Associate	0.4	0.5	(23.9)	(0.4)	n.m.
<b>Pre-tax profits</b>	<b>288.6</b>	<b>220.4</b>	<b>31.0</b>	<b>146.8</b>	<b>96.6</b>
Tax	(83.5)	(45.2)	84.6	(34.7)	140.5
<b>Net profit</b>	<b>205.2</b>	<b>175.2</b>	<b>17.1</b>	<b>112.1</b>	<b>83.0</b>
<b>Core net profit*</b>	<b>207.3</b>	<b>175.6</b>	<b>18.0</b>	<b>121.0</b>	<b>71.3</b>
			+/- p.ptsYoY		+/- p.ptsQoQ
Gross profit margin (%)	34.0	35.8	(1.8)	31.5	2.4
EBITDA margin (%)	20.4	19.0	1.4	14.1	6.3
EBIT margin (%)	17.6	15.7	1.8	10.7	6.9
Tax rate (%)	28.9	20.5	8.4	23.6	5.3

\*1Q22: Forex loss of MYR2.1m; 1Q21: Forex loss of MYR2.8m, reversal of provision of inventories of MYR2.4m; 4Q21: Provision & write-off of inventories of MYR5.5m, PPE written off of MYR2.3m, impairment loss on right-of-used assets of MYR1.2m

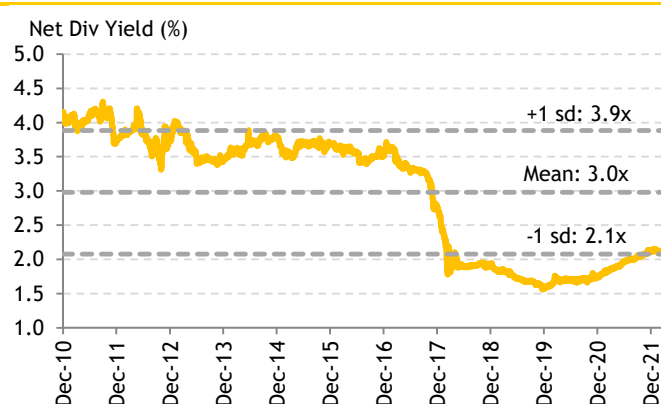
Source: Company, Maybank IBG Research

Fig 2: One-year forward PER



Source: Bloomberg, Maybank IBG Research

Fig 3: One-year forward dividend yield



Source: Bloomberg, Maybank IBG Research

## Risk statement

There are several risk factors for our earnings estimates, price target, and rating for Nestle Malaysia. A spike in raw material prices may impact earnings for Nestle Malaysia. Additionally, sharp appreciation of USD against MYR will also affect its earnings, for about 50% of its raw material requirements are denominated in USD. Its export sales, which account for about 20% of total sales, should however provide some natural hedge.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	59.5	55.5	47.1	44.6	42.4
Core P/E (x)	58.4	54.3	47.1	44.6	42.4
P/BV (x)	58.5	54.0	53.4	53.2	52.9
P/NTA (x)	66.1	60.6	59.8	59.3	58.9
Net dividend yield (%)	1.7	1.8	2.1	2.2	2.3
FCF yield (%)	1.9	2.0	2.1	2.6	2.6
EV/EBITDA (x)	35.6	32.7	28.6	27.1	26.3
EV/EBIT (x)	43.9	40.7	35.2	33.2	31.8

**INCOME STATEMENT (MYR m)**

Revenue	5,412.2	5,733.8	6,020.5	6,321.5	6,637.6
EBITDA	932.5	980.3	1,114.2	1,174.8	1,209.4
Depreciation	(175.2)	(193.0)	(208.0)	(216.0)	(210.3)
Amortisation	(1.3)	(1.2)	(1.1)	(1.1)	(1.1)
EBIT	756.0	786.1	905.1	957.7	998.0
Net interest income / (exp)	(31.9)	(35.0)	(34.0)	(38.5)	(32.2)
Associates & JV	0.7	0.7	0.7	0.7	0.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	724.8	751.8	871.8	919.9	966.5
Income tax	(172.1)	(182.0)	(207.0)	(218.4)	(229.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	552.7	569.8	664.8	701.5	737.0
Core net profit	557.9	579.8	664.8	701.5	737.0

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	9.4	6.9	7.7	27.1	88.0
Accounts receivable	472.7	377.1	395.9	415.7	436.5
Inventory	597.3	745.0	771.0	803.3	838.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,423.8	1,534.3	1,593.9	1,551.5	1,514.9
Intangible assets	64.5	63.3	62.2	61.1	60.0
Investment in Associates & JVs	5.6	5.9	6.3	6.6	7.0
Other assets	288.1	252.3	252.3	252.3	252.3
<b>Total assets</b>	<b>2,861.4</b>	<b>2,984.8</b>	<b>3,089.3</b>	<b>3,117.7</b>	<b>3,196.9</b>
ST interest bearing debt	257.7	245.7	245.7	245.7	245.7
Accounts payable	1,480.8	1,626.1	1,682.8	1,753.3	1,829.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	100.0	100.0	145.0	100.0	100.0
Other liabilities	466.0	430.0	430.0	430.0	430.0
<b>Total Liabilities</b>	<b>2,304.2</b>	<b>2,402.1</b>	<b>2,503.9</b>	<b>2,529.4</b>	<b>2,605.6</b>
Shareholders Equity	557.1	582.7	585.4	588.3	591.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>557.1</b>	<b>582.7</b>	<b>585.4</b>	<b>588.3</b>	<b>591.3</b>
<b>Total liabilities and equity</b>	<b>2,861.4</b>	<b>2,984.8</b>	<b>3,089.3</b>	<b>3,117.7</b>	<b>3,196.9</b>

**CASH FLOW (MYR m)**

Pretax profit	724.8	751.8	871.8	919.9	966.5
Depreciation & amortisation	176.5	194.1	209.1	217.1	211.4
Adj net interest (income)/exp	31.9	35.0	34.0	38.5	32.2
Change in working capital	133.0	83.9	11.9	18.4	20.5
Cash taxes paid	(175.0)	(189.0)	(207.0)	(218.4)	(229.5)
Other operating cash flow	26.2	21.9	0.0	0.0	0.0
Cash flow from operations	909.3	887.5	919.1	974.8	1,000.4
Capex	(294.1)	(267.5)	(267.5)	(173.7)	(173.7)
Free cash flow	615.2	620.0	651.5	801.1	826.7
Dividends paid	(656.6)	(544.0)	(662.1)	(698.6)	(734.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	105.6	15.0	45.0	(45.0)	0.0
Other invest/financing cash flow	(31.5)	(34.6)	(33.6)	(38.1)	(31.9)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>32.8</b>	<b>56.3</b>	<b>0.8</b>	<b>19.4</b>	<b>60.9</b>

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(1.9)	5.9	5.0	5.0	5.0
EBITDA growth	(13.6)	5.1	13.7	5.4	2.9
EBIT growth	(17.1)	4.0	15.1	5.8	4.2
Pretax growth	(17.2)	3.7	16.0	5.5	5.1
Reported net profit growth	(17.9)	3.1	16.7	5.5	5.1
Core net profit growth	(16.4)	3.9	14.7	5.5	5.1
<b>Profitability ratios (%)</b>					
EBITDA margin	17.2	17.1	18.5	18.6	18.2
EBIT margin	14.0	13.7	15.0	15.1	15.0
Pretax profit margin	13.4	13.1	14.5	14.6	14.6
Payout ratio	98.4	99.6	99.6	99.6	99.6
<b>DuPont analysis</b>					
Net profit margin (%)	10.2	9.9	11.0	11.1	11.1
Revenue/Assets (x)	1.9	1.9	1.9	2.0	2.1
Assets/Equity (x)	5.1	5.1	5.3	5.3	5.4
ROAE (%)	90.5	100.0	113.8	119.5	125.0
ROAA (%)	20.0	19.8	21.9	22.6	23.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(53.7)	(57.5)	(59.5)	(59.2)	(59.2)
Days receivable outstanding	32.6	26.7	23.1	23.1	23.1
Days inventory outstanding	60.0	64.0	69.8	69.6	69.6
Days payables outstanding	146.3	148.1	152.4	151.9	151.8
Dividend cover (x)	1.0	1.0	1.0	1.0	1.0
Current ratio (x)	0.6	0.6	0.6	0.6	0.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.2	1.2	1.2	1.2	1.2
Net gearing (%) (incl perps)	62.5	58.1	65.4	54.2	43.6
Net gearing (%) (excl. perps)	62.5	58.1	65.4	54.2	43.6
Net interest cover (x)	23.7	22.4	26.6	24.9	30.9
Debt/EBITDA (x)	0.4	0.4	0.4	0.3	0.3
Capex/revenue (%)	5.4	4.7	4.4	2.7	2.6
Net debt/ (net cash)	348.3	338.8	383.0	318.6	257.7

Source: Company; Maybank IBG Research

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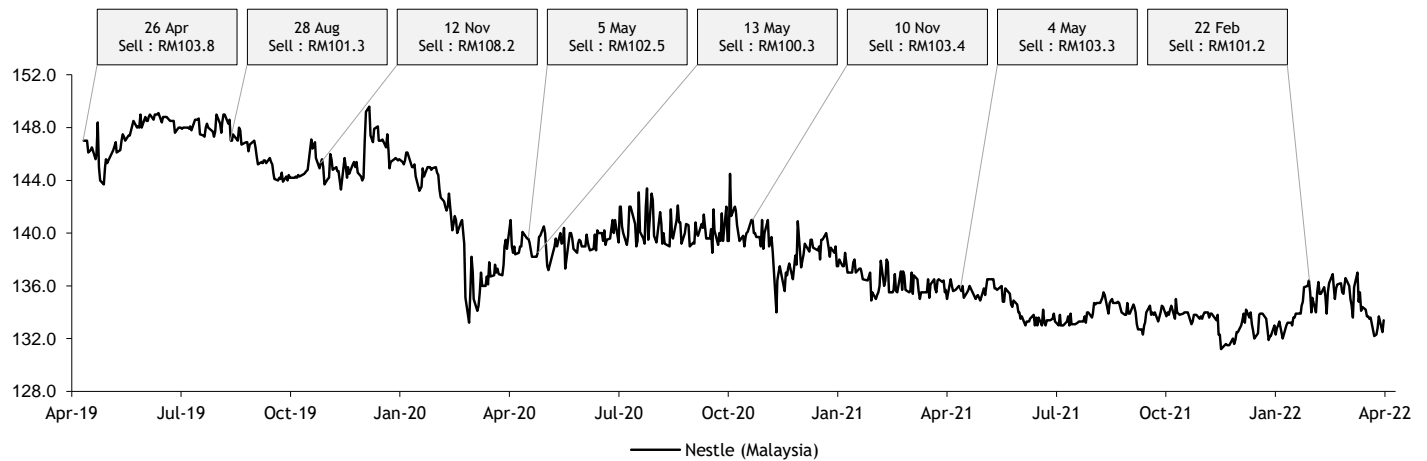
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## Historical recommendations and target price: Nestle (Malaysia) (NESZ MK)



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