

PP14767/09/2012(030761)

## Nestle Malaysia Berhad

## “A Growing Cash Cow”

- 1H16 results review.** Nestle Malaysia Berhad (Nestle) registered encouraging top-line growth in 1H16 after delivering RM2.55 billion in sales turnover (+5% y-o-y), boosted by new product launches last year that pushed both domestic and export businesses to a new high level. EBITDA expanded 15% y-o-y from RM475 million to RM548 million with a sustained EBITDA margin of 21% (+2% y-o-y). PAT achieved record high of RM409 million, recording a decent 31% y-o-y bottom-line growth, well above our expectations and accounting 66% of our FY16 earnings forecast.
- Dividend.** The board announced its first interim dividend of 70 sen in 2Q16 which was 5 sen higher than the previous corresponding period. Annualising the dividend payout will translate into 3.6% dividend yield capitalised on the last closing price of RM78.76.
- 2Q16 results.** Nestle registered strong topline of RM1.2 billion (-6% q-o-q; +8% y-o-y) during the quarter, boosted by both domestic and export businesses. Earnings intensity had expanded EBITDA by 17% y-o-y from RM197 million to RM231 million, pushing a sustained EBITDA margin of 19% (+1% y-o-y). Coupled with lower effective tax rate in 2Q16, PAT jumped substantially to RM189 million (-14% q-o-q ; +52% y-o-y) in 2Q16, sending net margin to 15% (versus 11% in 2Q15). On quarterly basis, both top-line and bottom-line dropped due to a fall in sales turnover and more marketing and promotional activities prior to Hari Raya festive.

Tuesday, August 23, 2016

HOLD (TP: RM84.56)

Current Price (RM)	RM78.76
New Fair Value (RM)	<b>RM84.56</b>
Previous Fair Value (RM)	RM79.52
Previous Recommend.	HOLD
Upside To Fair Value	7%
Dividend Yield (FY16F)	3%

## Stock Code

Bloomberg NESZ MK

## Stock &amp; Market Data

Listing	MAIN MARKET
Sector	Consumer
Shariah Compliance	Yes
Issued Shares (mn)	234.5
Market Cap (RM mn)	18,469.0
YTD Chg In Share Price	7.6%
Beta (x)	0.4
52-week Hi/Lo (RM)	81.80   70.81
6M Average Volume (shrs)	0.2 mn
Estimated Free Float	10.1%

## Major Shareholders

Nestle SA	72.61%
Landsbanki	9.75%
Securities UK LTD	9.27%
EPF	

- **Strong earnings continued driven by F&B segment.** Various new F&B products were launched in 1H16 such as Nestle Omega Plus Milk With Oats, Nescafe Latte range, Nestle Aiskrim Tradisi, etc which received good response from consumers and generated organic growth to the group's top-line. F&B segment sales hit record high and surpassed RM2.0 billion mark in 1H16 after adding additional RM101 million on top of the already large sales base of RM1.94 billion in 1H15. New products driven by marketing and trade promotions were proven successful in the previous quarters and will continue to drive Nestle sales in 2H16 amid cautious outlook expected by the Management.
- **Earnings margins improved.** Significant improvement in gross profit from RM446 million to RM527 million (+17% y-o-y) in 2Q16 with a gross margin of 43% (+4% y-o-y) was credited by favorable raw material prices and ongoing efficiency programmes that improved end-to-end supply chain of the group. EBITDA and PBT margins also maintained at decent levels of 19% and 18% respectively in 2Q16, charting 1-4% y-o-y improvements.
- **Outlook.** Apart from the 30% ramped up capacity in the new Maggie noodle line, Nestle has also embarked on new Nespresso business in May 2016 which focuses on selling premium coffee capsules called Nespresso Grand Crus. The high end premium coffee capsules are offered in variety range namely Intenso, Espresso, Pure Origin, Lungo, Decaffeinato and Variations via e-commerce platforms such as Lazada.com, 11street.my, Qoo10.my, etc. Not only Nespresso caters to consumer market but also provides coffee solution to business owners through its exclusive capsule delivery system which helps to control costs and preserve the best quality of end products.
- **Change to forecast.** We tweak our FY16/17 PAT forecast to RM721 million/RM708 million, respectively underpinned by i) stronger than expected earnings driven by successful marketing and promotion activities; ii) robust growth in export sales amid weaker ringgit; iii) new product launches that are expected to encroach into untapped markets domestically and regionally. PAT margin is expected to maintain above 12% level over the course, well supported by high margin products such as Nespresso coffee capsules and coffee making machines.
- **Valuation and recommendation.** Nestle hit our target price in July 2016, one month after we revised our earnings and continued to achieve all-time high of RM81.80 (or +11.4% YTD growth) in July 2016. Taking into account of the changes of earnings forecast, we revise our target price from RM79.52 to RM84.56 (+6.3%) based on its 3-year mean of 28x, which is in line with Nestle's peers in local bourse, pegged to our FY17 EPS forecast of 284 sen. Maintain **HOLD** call.

We like Nestle for its i) resilient business model that consistently rewards shareholders with >90% dividend payout; ii) organic growth by ramping up capacity for existing products; iii) riding on the bandwagon of e-commerce by selling high end premium coffee capsules and coffee making machines to further grow market share beyond home market.

Table 1: Peers Comparison

Name	Price (RM)	EPS (sen)		P/E (x)		P/B		ROE (%)	DY (%)	TP (RM)	Call
		FY14	FY15	FY14	FY15	FY14	FY15				
NESTLE	78.76	235	252	29	29	21	24	80%	3%	79.52	HOLD
F&N	24.50	71	76	24	24	4	4	16%	3%	NA	NA
DUTCH LADY	60.00	172	220	25	22	17	19	90%	2%	NA	NA

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

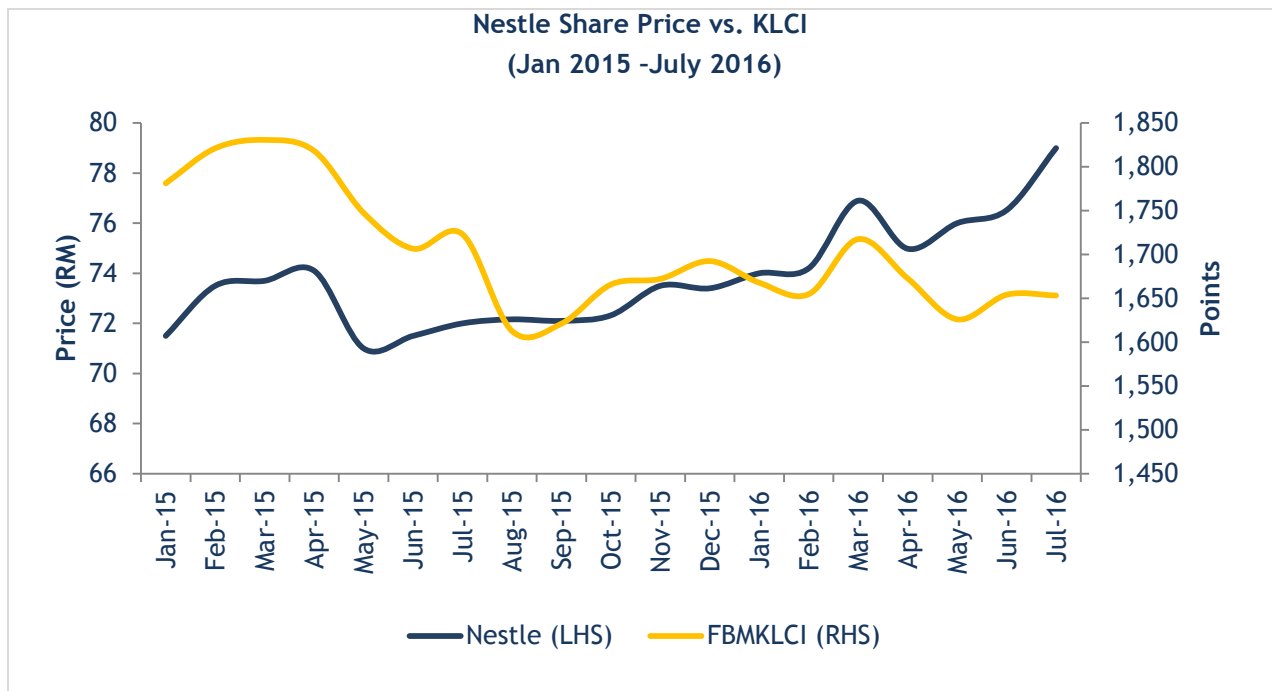
FYE DEC (RM million)	FY14A	FY15A	FY16F	FY17F	FY18F
Revenue	4,809	4,838	5,128	5,385	5,654
EBITDA	837	886	1,110	1,116	1,119
D&A	(112)	(126)	(136)	(146)	(158)
Net interest income/ (expense)	(24)	(33)	(62)	(74)	(76)
JV & Associates	0	1	1	1	1
PBT	701	728	913	896	886
Tax expense	(151)	(137)	(192)	(188)	(186)
PAT	550	591	721	708	700
EPS (sen)	235	252	308	302	299
Dividend payout (sen)	235	260	246	241	239
Dividend yield (%)	3.1%	3.4%	3.2%	3.1%	3.1%
EBITDA margin	17.4%	18.3%	21.6%	20.7%	19.8%
PBT margin	14.6%	15.0%	17.8%	16.6%	15.7%
PAT margin	11.4%	12.2%	14.1%	13.1%	12.4%

Source: M&amp;A Securities

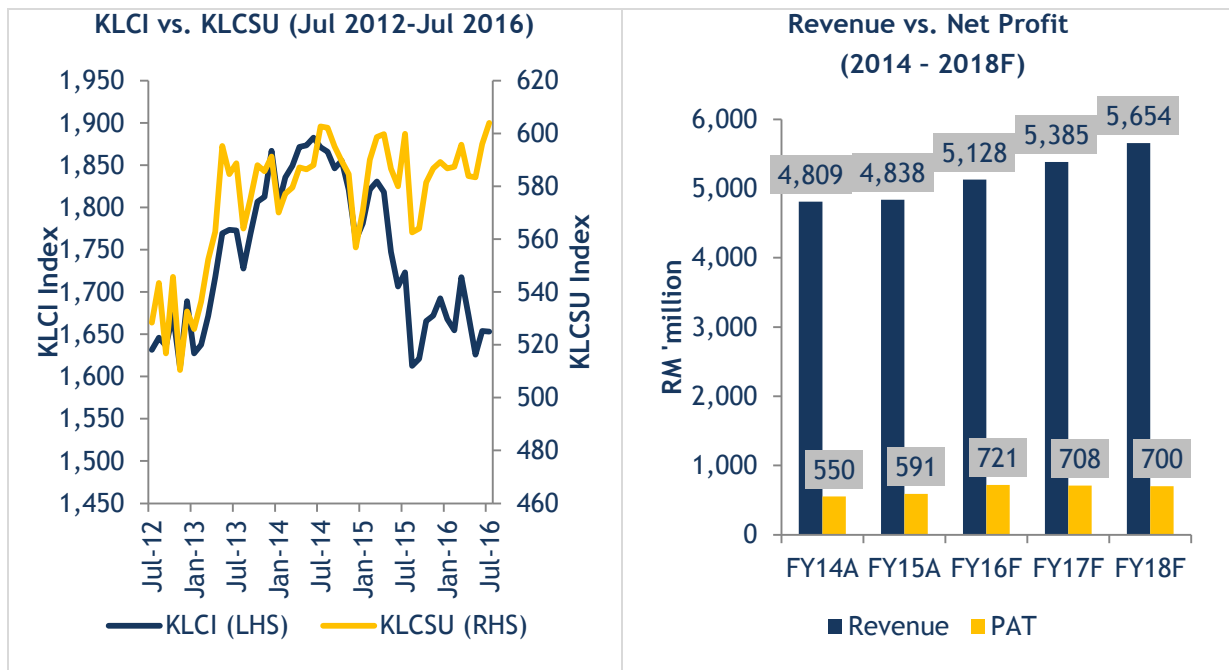
Table 3: Results Analysis

FYE DEC (RM million)	2Q16	1Q16	2Q15	q-o-q	y-o-y	6M16	6M15	y-o-y
Revenue	1,237	1,313	1,143	-6%	8%	2,551	2,421	5%
Gross profit	527	522	446	1%	18%	1,049	944	11%
EBITDA	231	318	197	-27%	17%	548	475	15%
Operating expenses	(296)	(237)	(279)	25%	6%	(533)	(526)	1%
Operating profit	231	285	167	-19%	38%	516	418	23%
Net finance costs	(7)	(9)	(7)	-21%	1%	(16)	(14)	15%
Share of tax profit of associate	0	0	0	132%	N.M	1	0	39%
PBT	224	276	160	-19%	40%	500	404	24%
Tax expense	(35)	(55)	(36)	-36%	-2%	(90)	(92)	-2%
PAT	189	221	124	-14%	52%	409	312	31%
EPS (sen)	81	94	53	-14%	52%	175	133	31%
GP margin	43%	40%	39%	3%	4%	41%	39%	2%
EBITDA margin	19%	24%	17%	-6%	1%	21%	20%	2%
PBT margin	18%	21%	14%	-3%	4%	20%	17%	3%
PAT margin	15%	17%	11%	-2%	4%	16%	13%	3%

Source: Bursa Malaysia, M&amp;A Securities

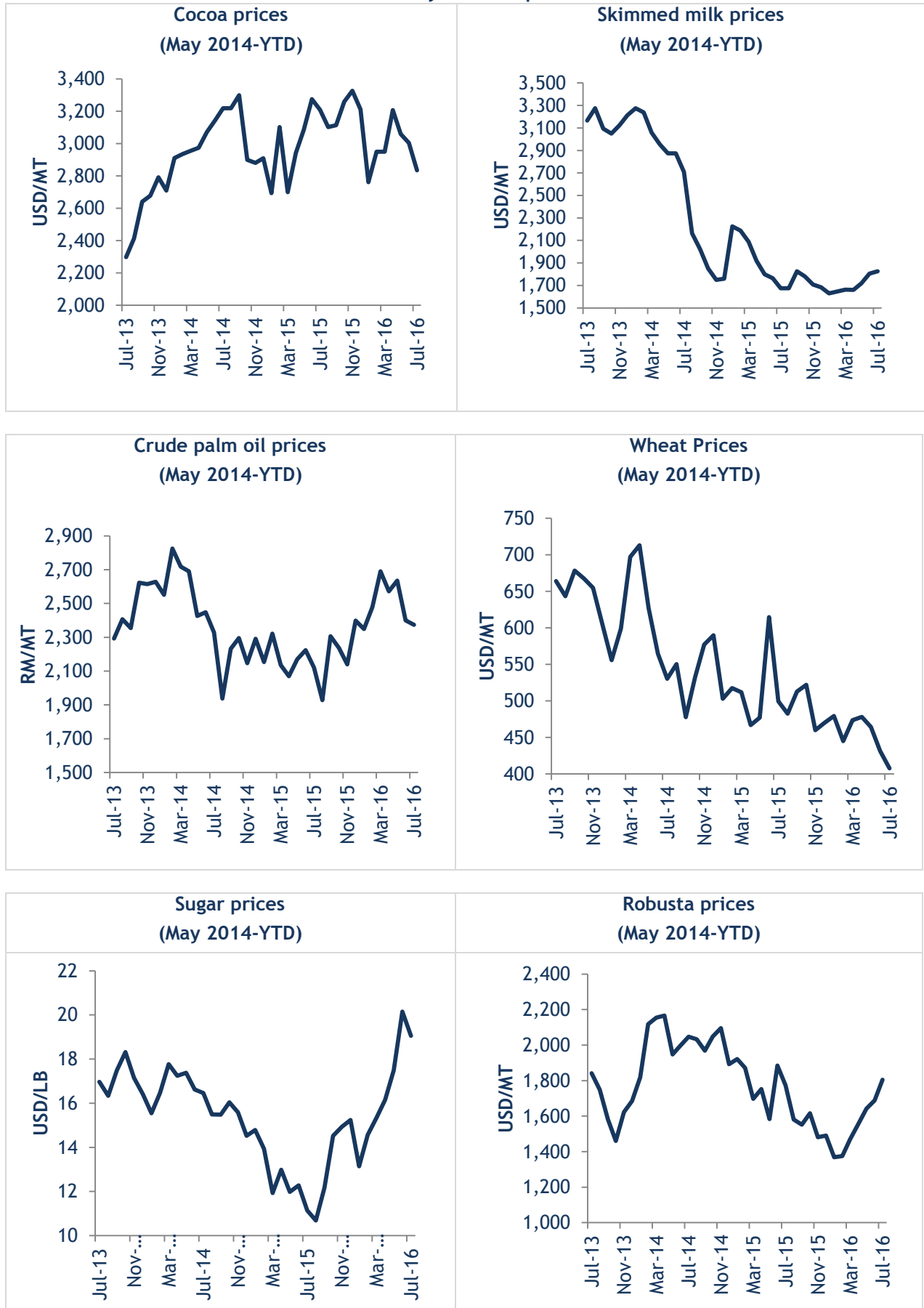


Source: Bloomberg, M&A Securities



Source: Bloomberg, M&A Securities

## Nestle key material prices



Source: Bloomberg, M&amp;A Securities

Research Team  
 research@mna.com.my  
 03-22821820 ext. 257, 229, 221, 249, 258

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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M & A Securities SdnBhd (15017-H)

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A Participating Organisation of Bursa Malaysia Securities Berhad

Principal Office:

Level 1,2,3 No.45 & 47,43-6

The Boulevard, Mid Valley City,

Lingkaran Syed Putra,

59200 Kuala Lumpur

Tel: +603 - 2282 1820 Fax: +603 - 2283 1893

Website: [www.mnaonline.com.my](http://www.mnaonline.com.my)