

PP14767/09/2012(030761)

Thursday, April 23, 2015

## Nestle Malaysia Berhad

## “Pre-GST Buying”

## Results Review

- **Actual vs. expectations.** Nestle Malaysia Berhad (Nestle) recorded a revenue of RM1.27 billion in 1Q15 that gained by 15% q-o-q and 0.4% y-o-y. The revenue increase was mainly driven by higher domestic demand in all major products i.e. confectionery, ice cream, and liquid drinks. The good domestic performance was led by the “Lebih Nilai, Lagi Hebat” consumer promotion campaign which was launched at the end of February 2015 as well as pre-GST buying.
- **Bottomline.** Nestle’s PAT of RM188 million in 1Q15 surged by 91% q-o-q and 2% y-o-y due to successful sales campaign and favourable input cost in this quarter. PAT margin for 1Q15 was at 19% same as in the 1Q14. Nestle’s 3M15 PAT of RM188 million accounted 33% and 32% of ours and consensus estimates respectively.
- **Dividend.** No dividend was declared during the quarter.
- **Segmental.** Food & beverages segment posted revenue of RM1.02 billion in 3M15 vs. RM1.04 in 3M14 (-2% y-o-y) impacted by lower export sales due to lower demand in affiliated companies. However, operating profit had gained by 11% y-o-y to RM261 million in 3M15 compared to RM235 million in 3M14, benefitting from soft commodity prices.
- **New product.** Nestle continue to lead F&B sector with launching three new successful products in this quarter such as 1) Nescafe Blend & Brew, 2) Kit Kat Rubbies and 3) Mat Cool Butterfly. We foresee this new product give a positive impact to boost the group’s domestic performance in 1Q15 link to the successful campaign and promotional activities.

## SELL (TP: RM59.30)

Current Price (RM)	RM74.00
New Fair Value (RM)	<b>RM59.30</b>
Previous Fair Value (RM)	RM59.30
Previous Recommend.	Sell
Upside To Fair Value	-20%
Dividend Yield (FY15F)	3.3%

## Stock Code

Bloomberg	NESZ MK
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## Stock &amp; Market Data

Listing	MAIN MARKET
Sector	Consumer
Shariah Compliance	Yes
Issued Shares (mn)	234.5
Market Cap (RM mn)	17,465.6
YTD Chg In Share Price	8.73%
Beta (x)	0.46
52-week Hi/Lo (RM)	75.50   63.50
6M Average Volume (shrs)	17,593mn
Estimated Free Float	0.5%

## Major Shareholders

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

- **Material cost.** Nestle's gross margin trend higher to 39% in 1Q15 vs 34% in 1Q14, thanks to the favourable input cost for this quarter. Commodities prices for Nestle such as cocoa (-9% y-o-y), milk (-32% y-o-y), sugar (-33% y-o-y), CPO (-15% y-o-y), coffee beans (Arabica: -25% y-o-y; Robusta: -21% y-o-y), and wheat (-27% y-o-y) had shown the declining trend in this quarter as compared to 1Q14.
- **Outlook.** We remain cautious about the earnings prospect moving forward with the coming 2Q15 results and continue to expect FY15 to be a very challenging year to the group caused by GST implementation in April 2015. Implementation of GST will influence consumer behavior spending and we expect its take time to adjust in market demand. However, we foresee the impact to Nestle to be lesser due to the group's a strong branding name in the nutrition segment of its F&B products. The group also remains active in innovating and renovating to give some value add on its products, apart from aggressive promotion and effective marketing strategy.
- **Changes to forecast.** We maintain our FY15 and FY16 earnings forecast. Nestle's PAT for FY15 and FY16 are expected to grow by 3% and 2% respectively assisted by 1) lower commodity prices, 2) aggressive marketing and promotion activities and 3) innovation and renovation in new products.
- **Valuation & recommendation.** We maintain our target price for Nestle at RM59.30 for now based on 5-years average PER of 24.5x and EPS FY15 of 242 cent and the stock is a SELL. Re-rating catalyst may come from expansion in new products as the new plant (Sri Muda factory in Shah Alam) is now ready and will be in full operation by August 2015 that will boost the group earnings in FY15 onwards.

Table 1: Peers comparison (Calenderised)

Company	YE	Price (RM)	EPS (sen)		P/E (X)		P/BV (X)		ROE (%)	DY (%)	TP (RM)	Call
			FY15	FY16	FY14	FY15	FY15	FY16				
Parkson*	Jun	2.12	17	19	17	16	1	1	5	NA	2.25	Hold
Amway	Dec	11.00	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	74.00	254	277	27	24	18	18	58	3.5	59.30	Sell
MSM	Dec	5.18	34	38	14	13	2	2	13	5.1	5.30	Hold
Dutch Lady	Dec	48.60	216	229	22	20	14	16	58	2.4	48.8	Hold
Padini*	Jun	1.40	15	18	13	11	3	3	24	5.0	2.35	Buy
Scientex	July	6.65	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	2.06	11	33	10	6	2	2	10	5.1	1.80	Sell
Aeon Co	Dec	3.10	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	4.12	16	18	19	17	3	3	15	1.0	NA	NA
Average					18	15	5	5				

Source: Bloomberg, M&amp;A Securities

Table 2: Financial Forecast

YE: Dec (RM million)	FY12	FY13	FY14	FY15F	FY16F
Revenue	4,556	4,788	4,809	4,953	5,151
Gross Profit	1,553	1,698	1,700	1,751	1,839
Profit before tax	638	719	701	722	736
Net Profit	505	562	550	567	578
EPS (sen)	216	240	235	242	246
GP Margin	34%	35%	35%	35%	36%
PBT Margin	14%	15%	15%	15%	14%
PAT Margin	11%	12%	11%	11%	11%
P/E (x)	29.1	27.6	26.9	24.7	25.2
P/BV (x)	19.6	21.6	18.9	18.1	17.8
Dividend (RM)	2.1	2.35	2.35	2.4	2.45
Dividend yield (%)	2.86	3.1	3.2%	3.3%	3.4%
Dividend Payout	97.45	98.11	100%	99.2%	98.4%

Table 3: Results Analysis

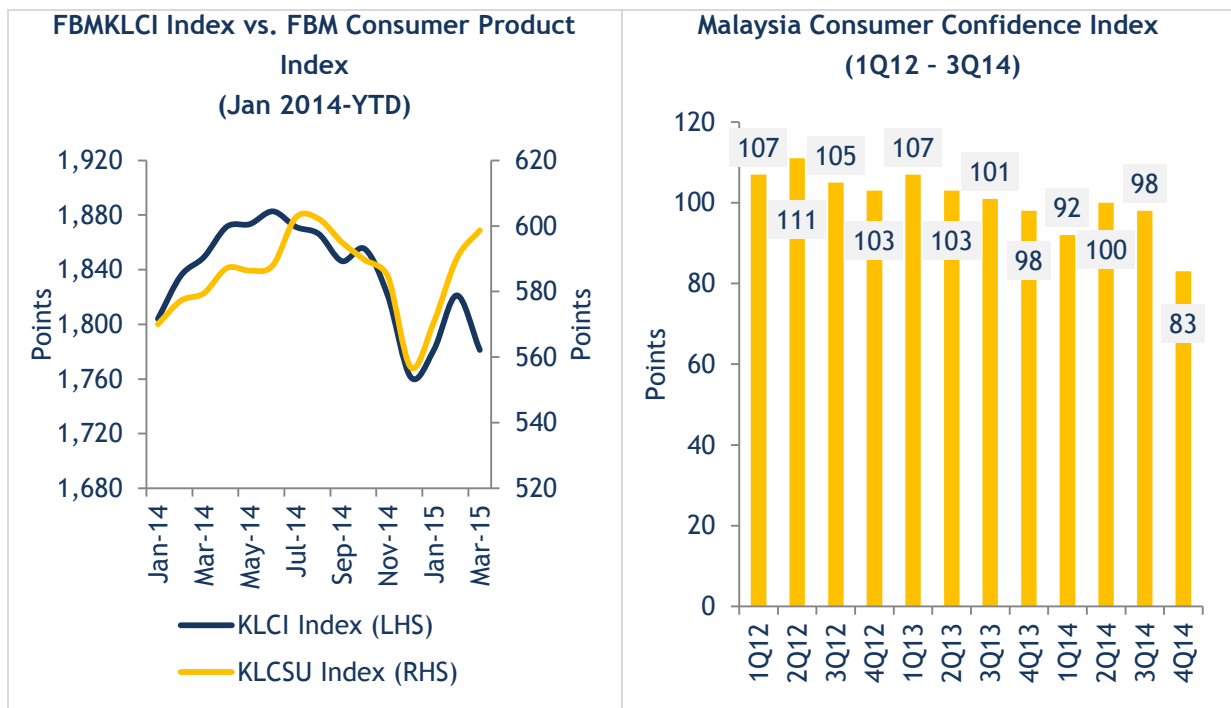
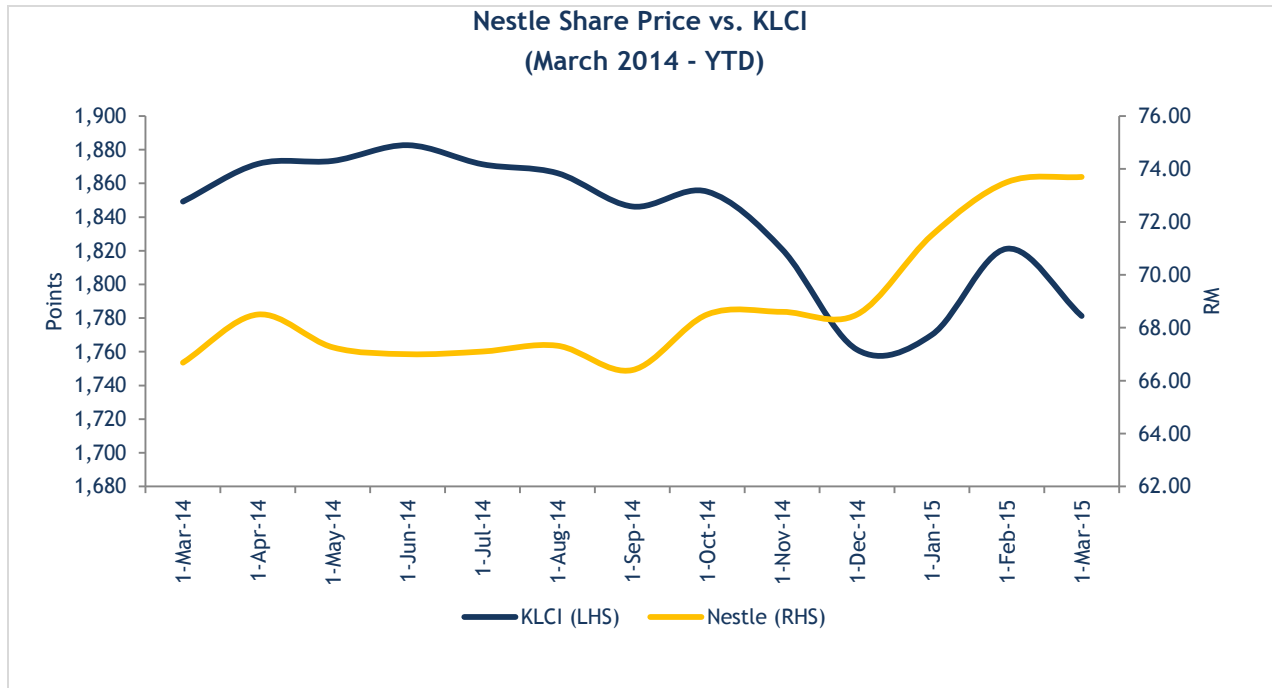
YE: Dec (RM million)	4Q14	4Q13	3Q14	q-o-q	y-o-y	12M14	12M13	y-o-y
Revenue	1,278	1,273	1,109	15.2%	0.4%	1,278	1,273	0.4%
Gross Profit	(779)	(799)	(732)	6.5%	-2.5%	(779)	(799)	-2.5%
Operating Profit	498	473	377	32.1%	5.3%	498	473	5.3%
Profit before tax	244	239	117	107.9%	2.3%	244	239	2.3%
Net Profit	188	184	98	91.1%	2.4%	188	184	2.4%
EPS (sen)	80	78	42	91.1%	2.4%	80	78	2.4%
GP Margin	39%	37%	34%			39%	37%	
PBT Margin	19%	19%	11%			19%	19%	
PAT Margin	15%	14%	9%			15%	14%	

Source: Bursa Malaysia, M&amp;A Securities

Table 4: Segmental Analysis

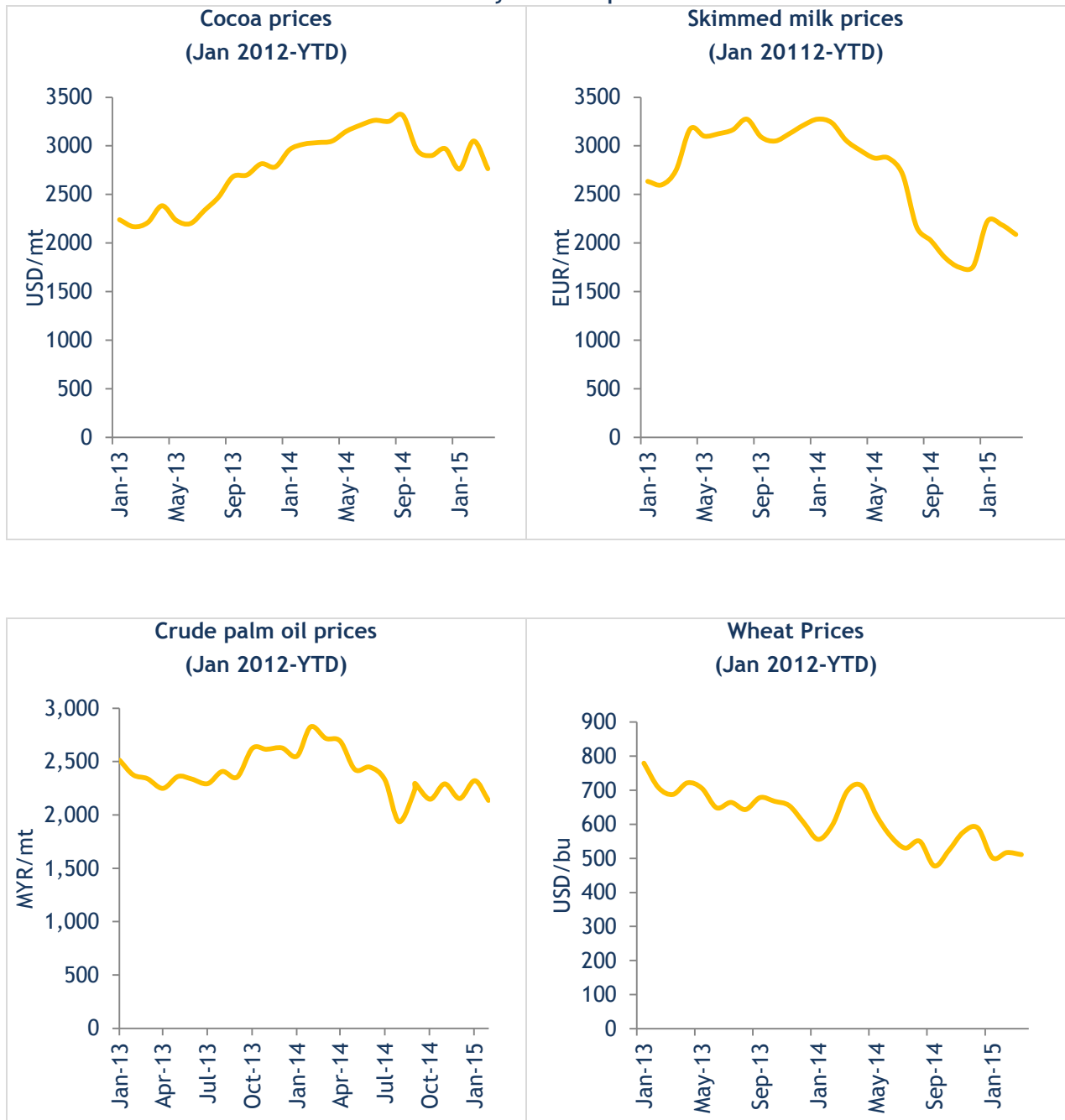
YE: Dec (RM million)	Sales			Operating Profit		
	3M15	3M14	y-o-y	3M15	3M14	y-o-y
Food & Beverages	1,017	1,038	-2%	201	197	2%
Others	261	235	11%	50	45	11%
Total	1,278	1,273	0%	251	242	4%

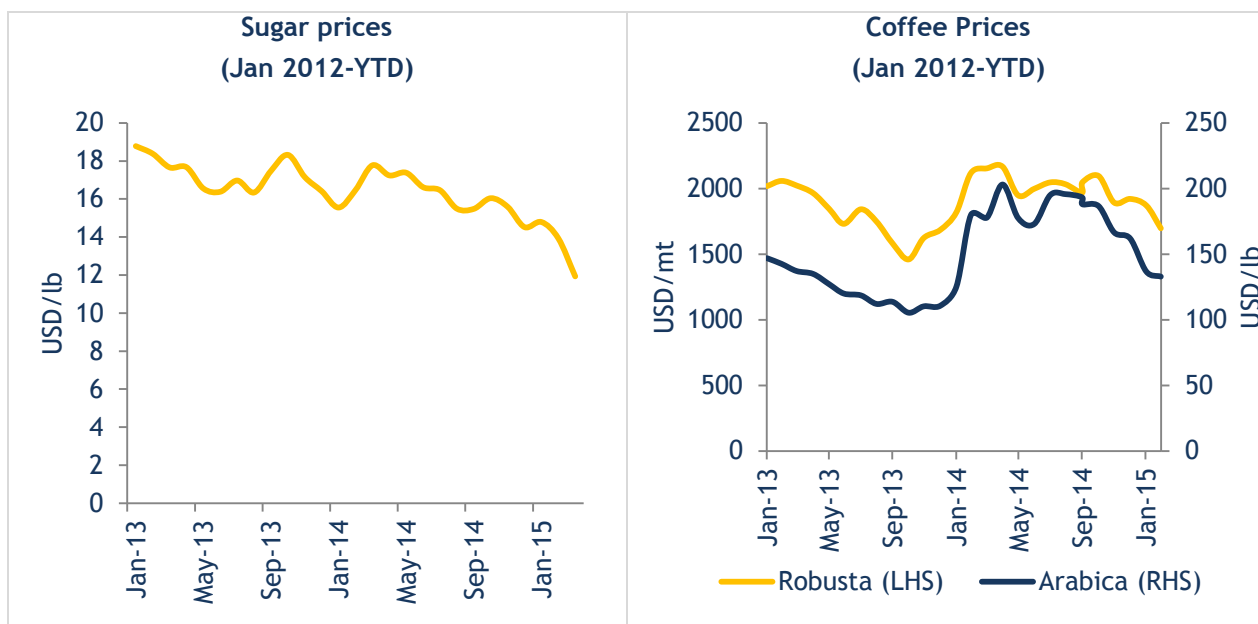
Source: Bursa Malaysia, M&amp;A Securities



Source: Bloomberg, M&A Securities

## Nestle key material prices





Source: Bursa Malaysia, M&A Securities

## 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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