

PP14767/09/2012(030761)

Market Access

Nestle Malaysia Berhad

“Challenging Outlook”

Results Review

- Actual vs. expectations.** Nestle Malaysia Berhad (Nestle) recorded 9M15 net profit of RM491 million compared to RM452 million in 9M14 (+8.6% y-o-y). The higher net profit was driven by higher domestic sales due to aggressive promotional and marketing activities led by “Lagi Sihat, Lagi Happy” campaign. Notwithstanding that, Nestle’s net profit of RM491 million accounting 85% and 65% of ours and consensus full year estimates respectively.
- Bottomline.** 9M15 revenue fell to RM3.6 billion or reducing by 1.7% y-o-y compared to RM3.7 billion in 9M14. The lower revenue was impacted by higher operating expenses due to heighten promotional activities.
- Dividend.** Declared an interim dividend of 130sen/share vs. 60sen/share in 6M14, translating into a dividend payout ratio of 62% vs. 6M14 payout of 31%.
- Segmental.** Food & beverages segment posted revenue of RM2.9 billion in 9M15 vs. RM3.0 billion in 9M14 (-3% y-o-y). However, operating profit had gained by 5% y-o-y to RM523 million in 9M15 compared to RM496 million in 9M14, benefitting from tight costing management.
- Outlook.** We foresee Nestle will face a challenging situation to sustain their performance in 2H15. The higher cost of living due to implementation of GST will influence consumer behaviour spending in FY15. Addition, the stiff competition from other players in F&B industry and weak consumer sentiment may give negative impact to the group earnings. However, we still optimistic the group will continue to perform fairly as the group also remains active in innovating to provide value add on its products, apart from

Friday, October 23, 2015

SELL (TP: RM61.50)

Current Price (RM)	RM72.00
New Fair Value (RM)	RM61.50
Previous Fair Value (RM)	RM61.50
Previous Recommend.	Sell
Upside To Fair Value	-15%
Dividend Yield (FY16F)	3.4%

Stock Code	
Bloomberg	NESZ MK

Stock & Market Data	
Listing	MAIN MARKET
Sector	Consumer
Shariah Compliance	Yes
Issued Shares (mn)	234.5
Market Cap (RM mn)	16,884.0
YTD Chg In Share Price	5.11%
Beta (x)	0.42
52-week Hi/Lo (RM)	75.50 65.90
6M Average Volume (shrs)	17,593mn
Estimated Free Float	0.1%

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

aggressive promotional and effective marketing strategy.

- **Change 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) favorable commodity prices, 2) innovation and renovation in new products and 3) aggressive marketing and promotion activities.
- **Valuation and recommendation.** We maintain our SELL call on Nestle due to the tough operating environment ahead with unchanged TP of RM61.50 based on 25x PER pegged to FY16 EPS of 246sen. 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 in August 2015.

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	1.08	17	19	17	16	1	1	5	NA	1.20	Buy
Amway	Dec	9.85	69	73	17	16	9	8	55	3.4	10.50	Hold
Nestle	Dec	72.00	254	277	27	24	18	18	58	3.5	61.50	Sell
MSM	Dec	4.92	34	38	14	13	2	2	13	5.1	5.46	Buy
Dutch Lady	Dec	47.20	216	229	22	20	14	16	58	2.4	41.6	Sell
Padini*	Jun	1.45	15	18	13	11	3	3	24	5.0	1.45	Hold
Scientex	July	7.67	68	80	10	8	2	2	20	4.0	7.30	Hold
Zhulian	Nov	1.65	11	33	10	6	2	2	10	5.1	1.80	Hold
Aeon Co	Dec	2.73	18	19	23	21	3	3	14	1.4	NA	NA
QL Resources	Mac	4.13	16	18	19	17	3	3	15	1.0	NA	NA
Average					18	15	5	5				

Source: Bloomberg, M&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%	99.6%

Table 3: Results Analysis

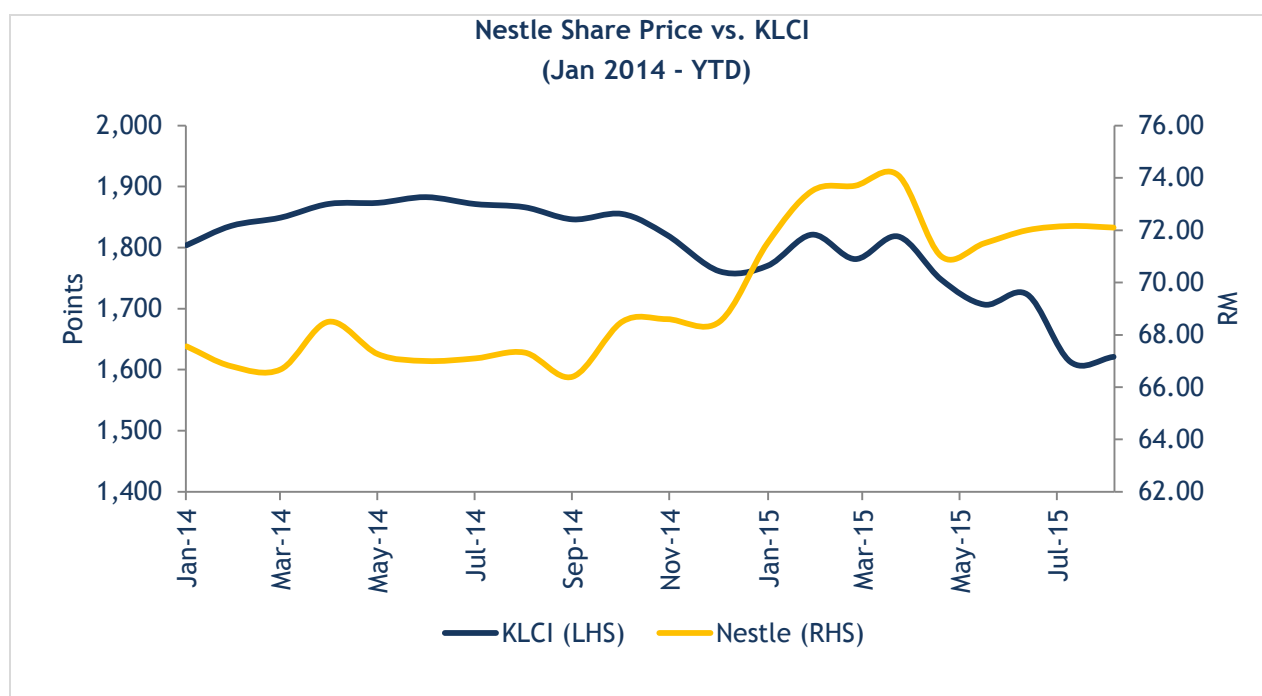
YE: Dec (RM million)	3Q15	3Q15	2Q14	q-o-q	y-o-y	9M15	9M14	y-o-y
Revenue	1,218	1,157	1,143	6.6%	5.3%	3,639	3,700	-1.7%
Gross Profit	461	425	446	3.5%	8.6%	1,406	1,323	6.3%
Operating Profit	214	197	167	28.6%	9.0%	632	600	5.3%
Profit before tax	205	190	160	28.6%	8.1%	609	584	4.3%
Net Profit	179	150	124	44.6%	19.4%	491	452	8.6%
EPS (sen)	76	64	53	44.6%	19.4%	209	193	8.6%
GP Margin	38%	37%	39%			39%	36%	
PBT Margin	17%	16%	14%			17%	16%	
PAT Margin	15%	13%	11%			13%	12%	

Source: Bursa Malaysia, M&A Securities

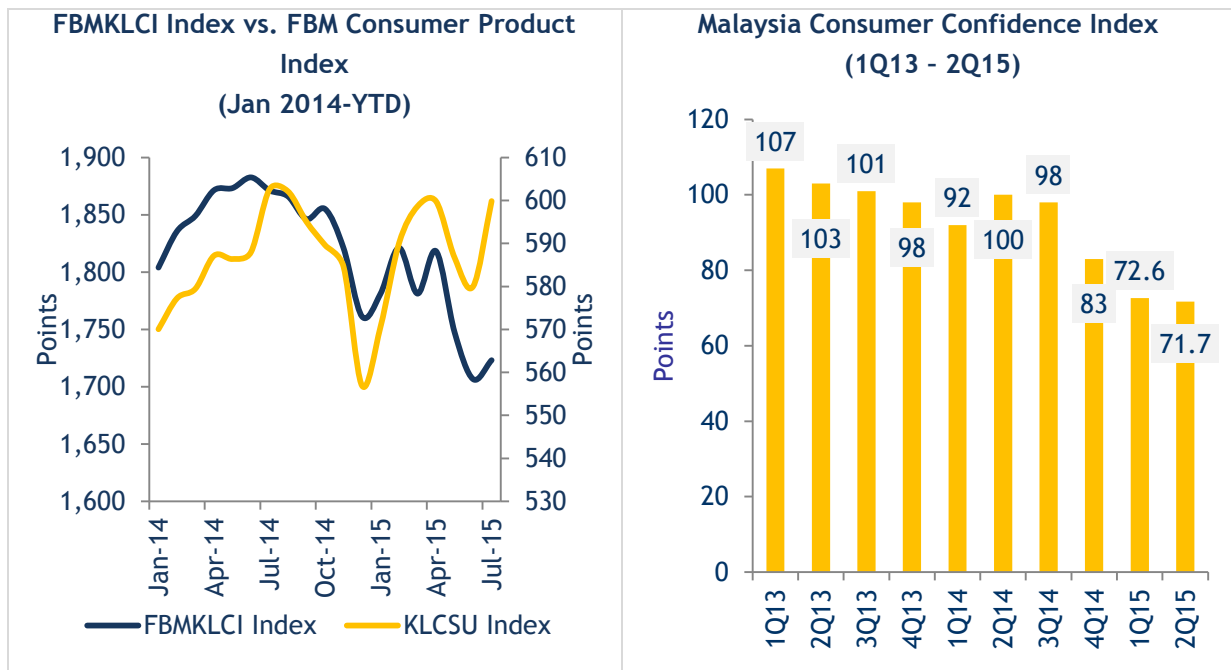
Table 4: Segmental Analysis

YE: Dec (RM million)	Sales			Operating Profit		
	9M15	9M14	y-o-y	9M15	9M14	y-o-y
Food & Beverages	2,916	3,013	-3%	523	496	5%
Others	723	687	5%	109	103	6%
Total	3,639	3,700	-1.7%	632	599	5%

Source: Bursa Malaysia, M&A Securities

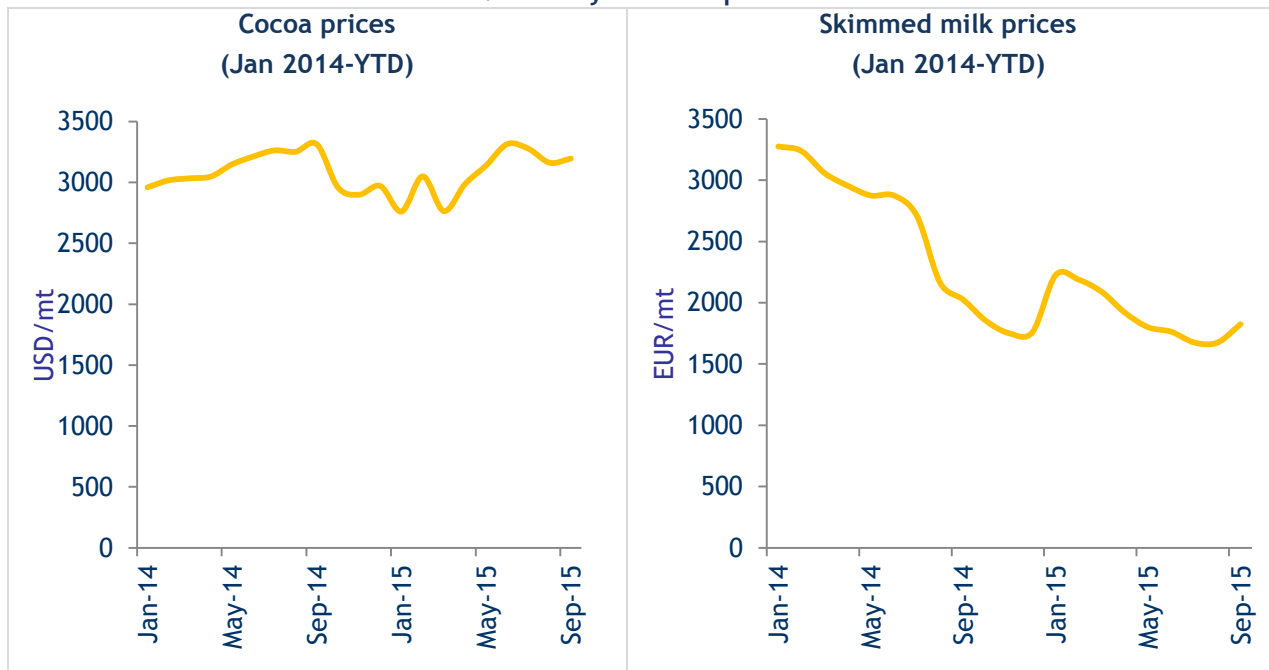


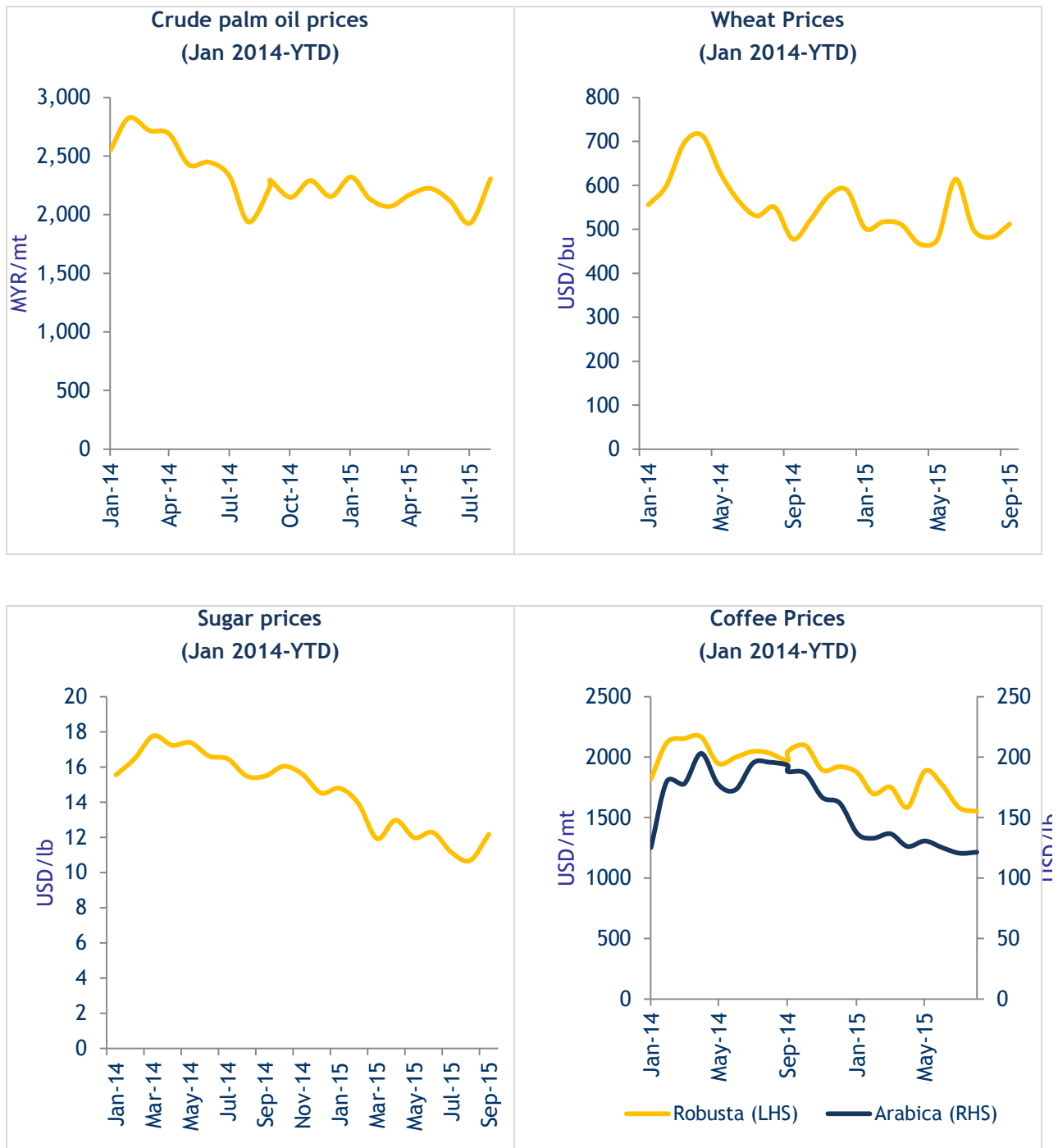
Source: Bloomberg, M&A Securities



Source: Bloomberg, M&A Securities

Nestle key material prices





Source: Bursa Malaysia, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

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

SECTOR RECOMMENDATIONS

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

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