

COMPANY RESULTS

Nestle Malaysia (NESZ MK)

3Q24: Soft Purchasing Power Hits Hard

Nestle's sales moderated at a sharper rate but a gradual improvement is expected, with growth anticipated to return in 1H25. An ASP revision mitigated high input cost but was more than offset by diseconomies of scale. The sharp earnings contraction is within our expectations, but disappointed consensus. Along with uninspiring earnings growth, Nestle's current valuation of +0.5SD is no longer appealing. Maintain HOLD and target price of RM114.00.

3Q24 RESULTS

Year to 31 Dec (RMm)	3Q24	qoq % chg	yoy % chg	9M24	yoy % chg	Comment
Revenue	1,446.2	(5.1)	(18.4)	4,752.0	(11.4)	Sales decline accelerates.
Gross profit	452.3	1.9	(19.5)	1491.3	(11.8)	
EBIT	121.8	(13.7)	(43.4)	536.4	(28.1)	
Profit before tax	104.1	(17.4)	(48.0)	489.2	(30.4)	
Tax expense	(18.7)	(42.2)	(71.9)	(114.6)	(39.9)	
Net profit	85.4	(8.7)	(36.1)	374.5	(26.8)	
Core net profit	85.4	(8.7)	(36.1)	374.5	(26.8)	Within our but below consensus expectations.
Margins (%)		+/- ppt	+/- ppt		+/- ppt	
Gross profit	31.3	2.1	(0.4)	31.4	(0.1)	Sequential improvement in margins following ASP revision.
EBIT	8.4	(0.8)	(3.7)	11.3	(2.6)	
Core net profit	5.9	(0.2)	(1.6)	7.9	(1.7)	
Effective tax rate	(18.0)	7.7	15.3	(23.4)	3.7	

Source: Nestle Malaysia, UOB Kay Hian

RESULTS

• **Continues to disappoint consensus.** Nestle Malaysia (Nestle) registered a 3Q24 core net profit of RM85.4m (-8.7% qoq, -36.1% yoy). This brought 9M24 core profit to RM375m (-26.8% yoy). This is within our expectations, but below consensus, with cumulative earnings accounting for 75% and 62% of our and consensus full-year forecasts respectively. Sales nosedived on a yoy basis but an ASP revision managed to expand margins on a sequential basis. An interim DPS of 35 sen was declared, bringing 9M24 DPS to 105 sen (9M23: 140 sen).

KEY FINANCIALS

Year to 31 Dec (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	6,664	7,051	6,416	6,795	7,186
EBITDA	1,107	1,149	958	1,074	1,171
Operating profit	903	939	736	835	915
Net profit (rep./act.)	620	660	498	568	630
Net profit (adj.)	620	660	498	568	630
EPS (sen)	264.5	281.4	212.6	242.0	268.5
PE (x)	39.2	36.8	48.7	42.8	38.6
P/B (x)	38.8	36.0	34.7	33.4	32.0
EV/EBITDA (x)	22.3	21.5	25.8	23.0	21.1
Dividend yield (%)	2.4	2.6	1.9	2.2	2.5
Net margin (%)	9.3	9.4	7.8	8.4	8.8
Net debt/(cash) to equity (%)	76.4	60.6	58.2	50.2	41.1
Interest cover (x)	25.0	19.0	13.1	13.5	15.3
ROE (%)	102.6	101.4	72.5	79.5	84.6
Consensus net profit	-	-	602.3	679.2	719.7
UOBKH/Consensus (x)	-	-	0.83	0.84	0.88

Source: Nestle Malaysia Bhd, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM102.50
Target Price	RM114.00
Upside	11.2%

COMPANY DESCRIPTION

Manufactures, distributes and exports food and beverage products.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	NESZ MK
Shares issued (m):	234.5
Market cap (RMm):	24,130.1
Market cap (US\$m):	6,113.5
3-mth avg daily t'over (US\$m):	2.6

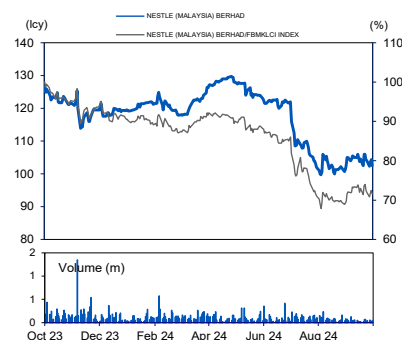
Price Performance (%)

52-week high/low	RM133.90/RM97.72			
1mth	3mth	6mth	1yr	YTD
2.2	(14.9)	(18.0)	(17.0)	(11.0)

Major Shareholders

Shareholder	%
Nestle SA	72.6
Employees Provident Fund	9.3
BlackRock	1.9
FY24 NAV/Share (RM)	3.04
FY24 Net Debt/Share (RM)	1.52

PRICE CHART



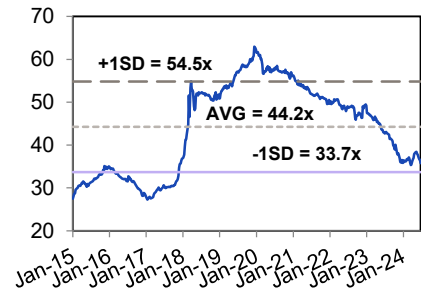
Source: Bloomberg

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- **Sales decline accelerates.** 3Q24 revenue plunged by 18.4% yoy, indicating an acceleration in revenue following 2Q24's 13.0% yoy decline. The erosion of consumer purchasing power has resulted in downtrading within Nestle's range of products and away to more affordable brands. Nestle expects a gradual improvement to its challenging conditions and only expects a return to growth in 1H25. We also gather that the quarter saw ASPs being revised for some range of products as well. Positively, 3Q24 revenue only declined 5.1% sequentially.
- **ASP revision lifts gross margins but earnings hit by double whammy.** 3Q24 gross margins declined 0.4ppt yoy to 31.3% amid the backdrop of higher input costs. The ASP revision exercise resulted in gross margin improving 2.1ppt on a qoq basis. Operating margin declined further by 3.7ppt to 8.4% following the diseconomies of scale. PAT margin for the quarter declined by 0.4ppt qoq and 1.6ppt yoy. Given the double whammy of lower sales and weaker margins, PAT earnings contracted sharply by 36.1% yoy.

HISTORICAL PE BAND



Source: Bloomberg, UOB Kay Hian

STOCK IMPACT

- **Out-of-whack cocoa and coffee prices mitigated by ASP revision.** Collectively, prices of sugar, CPO and wheat were largely unchanged vs 2023's average. In contrast, despite the recent moderation in cocoa and coffee prices, they remain a lofty 124% and 88% higher respectively vs 2023's average. Given the steep rise in input costs, Nestle raised its ASPs for certain products by 5-6% in Jul 24. Meanwhile, we estimate that for every 10% strengthening of the ringgit against the US dollar, Nestle's earnings could benefit by up to +2.5%.

EARNINGS REVISION/RISK

- **No changes to earnings.** Upside risks include: a) lower-than-expected operating costs, b) stronger-than-expected recovery in sales, and c) favourable commodities prices. Downside risks are spiralling commodities prices and a weakening of the ringgit against the US dollar.

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM114.00.** While Nestle is relatively defensive and typically commands resilient demand, it is no longer attractive given that it trades at +0.5SD to its five-year mean. Nestle offers dividend yields of 1.9-2.5% in 2024-26. Our target price is DCF-based with WACC of 7.4% and terminal growth of 4.9%, which implies 47.1x 2025F PE.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Energy management. 100% renewable electricity are utilised across all Nestle Malaysia sites. Nestle aims to utilise 100% natural refrigerants throughout its operations by end-25. - Emission. Reduce GHG emissions by 20% from 2018 levels by 2025. • Social <ul style="list-style-type: none"> - Sustainable production. 100% of key raw material volumes to be produced sustainably by 2030. • Governance <ul style="list-style-type: none"> - Board gender diversity. Male to female ratio of 4:3. - Board balance and composition. Five board members are independent directors, amounting to 63% of the board members.

PROFIT & LOSS

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Net turnover	7,050.9	6,416.3	6,794.9	7,185.6
EBITDA	1,149.3	957.9	1,073.6	1,171.2
Deprec. & amort.	210.0	221.9	238.7	256.5
EBIT	939.3	736.1	834.9	914.8
Associate contributions	0.0	0.0	0.0	(0.0)
Net interest income/(expense)	0.1	0.9	0.9	0.9
Pre-tax profit	(60.3)	(72.9)	(79.6)	(76.8)
Tax	879.1	664.1	756.1	838.9
Net profit	(219.2)	(165.6)	(188.6)	(209.2)
Net profit (adj.)	0.0	0.0	0.0	0.0

CASH FLOW

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Operating	1,276.2	749.7	899.7	984.2
Pre-tax profit	879.1	664.1	756.1	838.9
Tax	(219.2)	(165.6)	(188.6)	(209.2)
Deprec. & amort.	210.0	221.9	238.7	256.5
Working capital changes	(0.1)	(0.9)	(0.9)	(0.9)
Other operating cashflows	212.6	(43.5)	13.8	21.2
Investing	0.0	0.0	0.0	0.0
Capex (growth)	193.9	73.8	80.5	77.7
Proceeds from sale of assets	(501.5)	(221.9)	(238.7)	(256.5)
Others	(352.6)	(221.9)	(238.7)	(256.5)
Financing	5.6	5.6	5.6	5.6
Dividend payments	(154.6)	(5.6)	(5.6)	(5.6)
Proceeds from borrowings	(604.7)	(526.4)	(618.8)	(675.0)
Loan repayment	(614.4)	(473.6)	(539.2)	(598.2)
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	100.0	20.0	0.0	0.0
Beginning cash & cash equivalent	(90.3)	(72.9)	(79.6)	(76.8)
Changes due to forex impact	170.0	1.4	42.1	52.7
Ending cash & cash equivalent	8.2	11.0	12.4	54.6

BALANCE SHEET

Year to 31 Dec (RMm)	2023	2024F	2025F	2026F
Fixed assets	1,749.5	1,913.0	2,066.3	2,221.8
Other LT assets	513.7	513.7	513.7	513.7
LT debt	11.0	12.4	54.6	107.3
Cash/ST investment	1,295.0	1,168.4	1,231.5	1,303.5
Other current assets	3,569.2	3,607.5	3,866.0	4,146.3
Total assets	419.8	419.8	419.8	419.8
ST debt	1,718.1	1,548.5	1,625.4	1,718.7
Other current liabilities	0.0	0.0	0.0	0.0
Other LT liabilities	756.4	939.4	1,092.6	1,248.2
Shareholders' equity	674.9	699.8	728.2	759.7
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	3,569.2	3,607.5	3,866.0	4,146.3

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	16.3	14.9	15.8	16.3
Pre-tax margin	12.5	10.4	11.1	11.7
Net margin	9.4	7.8	8.4	8.8
ROA	18.5	13.9	15.2	15.7
ROE	101.4	72.5	79.5	84.6
Growth				
Turnover	5.8	(9.0)	5.9	5.8
EBITDA	3.8	(16.6)	12.1	9.1
Pre-tax profit	2.3	(24.5)	13.9	11.0
Net profit	6.4	(24.5)	13.9	11.0
Net profit (adj.)	6.4	(24.5)	13.9	11.0
EPS	6.4	(24.5)	13.9	11.0
Leverage				
Debt to total capital	38.3	37.5	36.6	35.6
Debt to equity	62.2	60.0	57.6	55.3
Net debt/(cash) to equity	60.6	58.2	50.2	41.1
Interest cover (x)	19.0	13.1	13.5	15.3

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