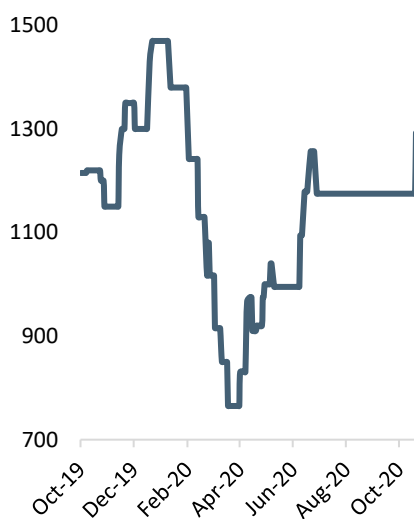




Nestle Nigeria Plc. (NESTLE.NL)

Rating	NEUTRAL
Price	₦1292.50
FVE	₦1288.63
52-week range	₦750- ₦1469.90
Market Cap. (₦'bn)	1,025
1-month Avg. Vol	92,809
Curr. PE	26.24x

NESTLE .NL – Share Price Trend



Analyst(s)

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Stock Report

Higher costs continue to weigh on performance

- Nestle reported a 3.3% YoY growth in revenue to ₦71.7 billion for Q320, which is 1% higher than our estimate for the period. However, a faster rise in cost of sales of 8.5% YoY meant that gross profit declined by 3.5% YoY to ₦29.19 billion. And despite a decline in OPEX and net finance costs, the lower gross profit was enough to see PBT decline by 4.5% YoY to ₦15.4 billion (Q319: ₦16.12 billion). Over the 9M period, cost growth (+6.7%) also outweighed revenue growth (+0.7%) leading gross profit lower by 6.5% to ₦90 billion. PBT was 13% lower over the 9M at ₦49.26 billion (9M19: ₦56.55 billion) as OPEX (+1.5%) and net finance expense (+86% YoY) also rose. Nestle also announced an interim dividend of ₦25 per 50kobo ordinary share which is a dividend yield of 1.9%**
- COGS rises again but at a slower pace:** Q320's 3.3% YoY revenue growth was led by a higher beverages sales (+33% YoY) while food sales declined by 14% YoY. This is the opposite of what we saw in Q220. Going by our checks, while prices of items in the food segment remained flat YoY, we saw an increase in prices for items in the beverage segment. We therefore believe the outturn in the food segment mirrors a blend of both volume and price increase. Cost of sales, meanwhile, rose again this time by 8.5% YoY to ₦42.52 billion largely reflecting the impact of the FX devaluation which occurred earlier in the year. Gross profit printed at ₦29.19 billion which gives a gross profit margin of 40.7% (Q319: 43.5%).
- Sales and admin costs both declined by 0.9% and 7.3% respectively to bring overall OPEX down by 2.1% YoY to ₦13.33 billion. However, the lower top line meant that operating profit declined by 4.6% to ₦15.86 billion (Q319: ₦16.62 billion) leading to a slightly lower EBIT margin of 22.1% (from 23.9% in Q319). Despite the lower interest rate environment weighing on interest income on deposits (-0.75% YoY), a 119% YoY increase in FX gain from FCY balances led finance income higher by 24%. Finance cost was only 0.6% higher which meant that net finance cost declined 8.1% to ₦0.46 billion. Overall, PBT and PAT were 4.5% lower at ₦15.4 billion and ₦10.11 billion (Q319: ₦16.12 billion and ₦10.6 billion) respectively.**
- Higher borrowings the standout balance sheet item:** Between the end of Q220 and Q320 Nestle saw a huge increase in both short term and long term borrowings. Short term borrowings (including overdrafts) printed at ₦11.38 billion at the end of the

9M period from ~~¥~~0.04 billion at the end of June while long term borrowing rose to ~~¥~~16.96 billion from ~~¥~~5.81 billion. Payables declined 11% QoQ from a 7-year high of ~~¥~~106.4 billion to ~~¥~~94.55 billion, although this is still considerably higher than the 3-year historical averages of ~~¥~~62.4 billion.

- We maintain our FY20 revenue expectations for Nestle at ~~¥~~283.7 billion while still expecting gross margin to contract as costs weigh on revenue growth. We our FVE unchanged at **¥1288.63** with a **NEUTRAL** recommendation

Summary of Results and Forecasts - ₦'000

ANNUAL

Income Statement (₦'m) *	2018A	2019A	2020F	2021F	2022F
Revenue	266,275	284,035	283,751	307,530	332,132
COGS	-152,354	-155,888	-157,482	-168,219	-181,012
Gross Profit	113,920	128,147	126,269	139,311	151,120
Operating Cost	-53,279	-56,085	-55,899	-59,968	-64,766
Operating Profit	60,641	72,062	70,370	79,343	86,354
Net finance Cost	890	938	686	-183	-1107
PBT	59,751	71,124	69,685	79,526	87,461
Tax	16,743	25,441	24,390	23,858	26,238
PAT	43,008	45,683	45,295	55,668	61,223
Balance Sheet (₦ '000) *					
Fixed Assets	79,600	86,337	80,603	79,695	78,942
Stocks	82,734	107,037	96,774	99,486	98,085
Trade debtors	43,403	66,722	56,750	44,592	48,159
Cash & other bank balances	15,762	6,978	17,976	31,343	24,584
Total Assets	162,334	193,374	177,376	179,181	177,027
Liabilities					
Trade Creditors	60,384	78,400	79,201	84,601	91,035
Non-current Liabilities	19,996	22,281	22,392	22,504	22,619
Total liabilities	101,926	112,114	147,817	142,548	148,109
Shareholders' fund	44,878	50,220	45,558	35,931	32,174
Key Ratios					
	2018E	2019F	2020F	2021E	2022E
Gross Margin	43%	45%	45%	45%	46%
EBIT Margin	23%	25%	25%	26%	26%
PBT Margin	22%	25%	25%	26%	26%
Net Margin	16%	16%	16%	18%	18%
EPS	54.26	57.63	57.14	70.23	77.24
P/E	29.12	25.50	20.56	16.73	15.21
EV/EBITDA	17.54	14.73	11.76	10.39	9.65
ROA	28%	26%	24%	31%	34%

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% — 20 %	NEUTRAL	5% — 20 %
NEUTRAL	0% — 10 %	SELL	<5%
UNDERWEIGHT	-5% — 0%		
SELL	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't buy otherwise—subject to reas portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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