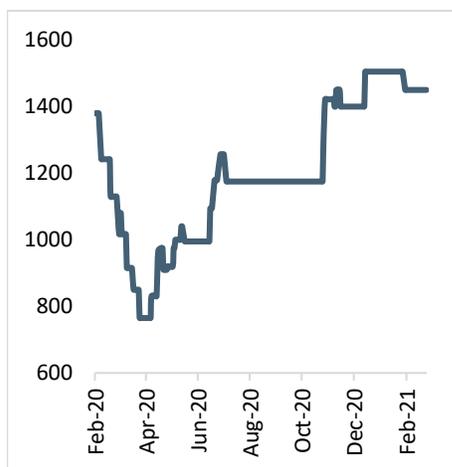




## Nestle Nigeria Plc. (NESTLE.NL)

Rating	<b>NEUTRAL</b>
Price	₦1305.0
FVE	<b>₦1502.97</b>
52-week range	₦750- ₦1505
Market Cap. (₦'bn)	1,034
1-month Avg. Vol	92,809
Curr. PE	26.38x

### NESTLE .NL – Share Price Trend



### Analyst(s)

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### Stock Report

#### A feeling of déjà vu

- If Nestle's topline performance in Q420 had you feeling like you had seen this story before, it's probably because you have! Revenue grew on a YoY basis for the second consecutive quarter, this time by 2.3% to ₦74.35 billion. But, just like Q320, costs grew faster than revenue at a rate of 10.6%YoY which led gross profit down by 8.3%YoY to ₦29.19 billion. Also similar to Q320 was a fall in OPEX (-9.8%YoY) which was not enough to stop EBIT from declining (-6.7%YoY to ₦14.23 billion). The difference this time round, however, was net finance expense which rose significantly after a decline in Q320. PBT fell 22%YoY to ₦11.38 billion, making it 4 consecutive quarters of PBT declines, while PAT was lower by 18%YoY at ₦7.27 billion. Our new FVE of ₦1502.97 reflects the improved revenue performances but also takes into consideration the struggles with cost.**
- Food drives revenue while raw materials drives cost:** Food grew by 9.17%YoY to drive Nestle's revenue growth in Q420, this marks an improvement (29%QoQ) from Q320 where it declined 14.24%. Beverages, meanwhile, declined by 8.44%YoY after a strong performance in Q320 (+33%YoY). Overall, revenue was up by 2.3%YoY to ₦74.35 billion. In our last report, we highlighted the negative effect of FX depreciation on Nestle's costs and that, coupled with higher inflation, continued to weigh on Nestle's cost of sales. Cost of raw materials was up 13% over FY20 while general license fees was up 4% over the same period. Total cost of sales rose 10.6%YoY in Q420 to ₦45.16 billion and the cost of sales margin rose to 60.7% (Q419: 56%) highlighting the increased costs burden faced by Nestle. On the back of the faster rise in costs gross profit fell 8.3%YoY to ₦29.19 billion which translates to a gross profit margin of 39.3% (Q419: 43.8%).
- OPEX came in lower by 9.8%YoY to ₦14.95 billion following strong declines in admin costs (-35%YoY) and sales & distribution costs (-5.7%YoY). However, this was not enough to stop EBIT from falling 9.8%YoY to ₦14.23 billion which gives an EBIT margin of 19.1% (Q419: 21.0%). Net finance expense rose by over 500%YoY to ₦2.86 billion as finance income fell (-122%YoY) and finance expense rose (303%YoY). The decline in finance income is understandable given the lower interest rate environment in 2020 while finance**

expense rose on the back of a higher net FX loss. Nestle's PBT declined 21.9%YoY in Q420 to ₪11.38 billion while PAT was 17.7%YoY lower at ₪7.27 billion.

- Over FY20, Nestle's revenue came in at ₪287.08 billion, a 1.1% growth from FY19. This revenue growth was driven by beverages which rose 6.9% over the year while food fell 2.5% over the same period. As expected, cost of sales rose by a quicker pace (7.7%) over FY20 to ₪167.87 billion which led to a 7% decline in gross profit to ₪119.21 billion as well a contraction in gross margins to 41.5% (from 45.1%). Opex declined by 2.3% YoY to ₪54.79 billion, led by sales & distribution costs which fell 4.85% while admin costs were up 9.4% for the year. EBIT, however, declined 10.6% to ₪64.42 billion translating to an EBIT margin of 22.4% (FY19: 25.4%). PBT for the year came in 14.7% lower at ₪60.64 billion as net finance cost rose 302%. After an income tax expense of ₪21.43 billion, PAT printed 14.2% lower at ₪39.21 billion.
  - Combing through Nestle's balance sheet, we saw a 67%QoQ rise in cash and cash equivalents to ₪58.7 billion. Boosting this cash position is a couple FCY intercompany loans with a total carrying value of ₪33.84 billion. Also noticeable is a 23%QoQ increase in trade payables to ₪116.51 billion which is comfortably the highest level of payables we have in our records dating back to FY2012. This increase is driven from a 172%QoQ rise in payables due to related parties to ₪61.27 billion at the end of Q420 (from ₪22.51 billion at the end of Q320). Dividend payable, meanwhile, fell 70% from ₪26.92 billion at the end of Q320 to ₪8.29 billion as at the end of Q420.
  - Looking ahead to FY21, we have a revenue projection ₪297.4 billion based on the premise of a return to growth in the food segment and continued (but slower) growth of beverages as economic growth picks up steam and consumer wallets improve. Costs will continue to weigh on Nestle's numbers, however, with cost of sales margin projected to come in at circa 58% and OPEX margin at just under 19%. We project that profit will return to growth over the year with PBT coming in at about ₪67.4 billion. Based on these estimates we have a FVE of **₪1502.97** which based on today's close is a recommendation of an **OVERWEIGHT on the stock**
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## Summary of Results and Forecasts - ₺'000

## ANNUAL

Income Statement (₺'m) *	2019A	2020A	2021F	2022F	2023F
Revenue	284,035,255	287,084,087	297,439,888	308,808,567	316,268,617
COGS	(155,888,473)	(167,872,616)	(172,515,135)	(176,020,883)	(173,947,740)
Gross Profit	128,146,782	119,211,471	124,924,753	132,787,684	142,320,878
Operating Cost	(56,084,736)	(54,792,888)	(55,621,259)	(57,747,202)	(59,142,231)
Operating Profit	72,062,046	64,418,583	69,303,494	75,040,482	83,178,646
Net finance Cost	(938,222)	(3,780,140)	(1,888,647)	(618,638)	(433,275)
PBT	71,123,824	60,638,443	67,414,847	74,421,844	82,745,371
Tax	(25,440,711)	(21,426,418)	(20,224,454)	(22,326,553)	(24,823,611)
PAT	45,683,113	39,212,025	47,190,393	52,095,291	57,921,760
<b>Balance Sheet (₺ '000) *</b>					
Fixed Assets	86,336,830	94,683,541	79,327,583	78,001,299	74,820,569
Inventories	107,037,484	151,501,455	103,384,163	109,825,624	115,917,579
Trade debtors	65,820,188	39,555,290	43,128,784	44,777,242	45,858,950
Cash & other bank balances	6,978,071	58,703,209	36,103,260	40,405,458	46,575,685
Total Assets	193,374,314	246,184,996	182,711,746	187,826,923	190,738,149
Liabilities					
Trade Creditors	78,400,058	116,512,689	86,762,006	88,525,131	87,482,497
Non-current Liabilities	22,281,255	50,857,661	22,194,621	22,309,406	22,426,486
Total liabilities	147,816,685	217,224,826	150,769,314	152,696,307	151,820,328
Shareholders' fund	45,557,630	29,296,984	40,555,270	43,743,454	47,530,659
<b>Key Ratios</b>					
	2018E	2019F	2020F	2021E	2022E
Gross Margin	45.1%	41.5%	42.0%	43.0%	45.0%
EBIT Margin	25.4%	22.4%	23.3%	24.3%	26.3%
PBT Margin	25.0%	21.1%	23%	24%	26%
Net Margin	16.1%	13.7%	16%	17%	18%
EPS	57.63	49.47	59.53	65.72	73.07
ROA	25.7%	17.8%	22.0%	28.1%	30.6%
EV/EBITDA	14.7	16.3	15.02	13.87	12.73

**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
<b>STRONG BUY</b>	>20%	<b>BUY</b>	>20%
<b>OVERWEIGHT</b>	10% — 20 %	<b>NEUTRAL</b>	5% — 20 %
<b>NEUTRAL</b>	0% — 10 %	<b>SELL</b>	<5%
<b>UNDERWEIGHT</b>	-5% — 0%		
<b>SELL</b>	<-5%		

RECOMMENDATION KEY	
Rating	Recommendation
<b>BUY</b>	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
<b>OVERWEIGHT</b>	Accumulate security to an extent moderated by cognizance of its benchmark weight
<b>NEUTRAL</b>	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
<b>UNDERWEIGHT</b>	Minimize exposure to security taking cognizance of its index weighting
<b>SELL</b>	Sell-off security completely from portfolio

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