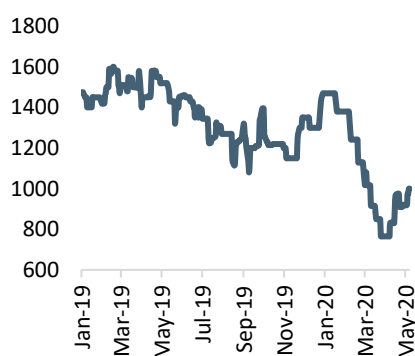


Nestle Nigeria Plc. (NESTLE.NL)

Rating	BUY
Price	₦1000.00
FVE	₦1404.40
52-week range	₦750- ₦1481.50
Market Cap. (₦'bn)	792,656
1-month Avg. Vol	474,892
Curr. PE	18x

NESTLE .NL – Share Price Trend



Analyst(s)

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Stock Report

Flattish revenue and elevated Opex drag earnings

- Nestle released its Q1 2020 financial result on Friday, revealing a 12.9% decline in earnings to ₦11.2billion (EPS: ₦14.12) buoyed by increased operating expense and flattish revenue. Q1 20 EPS is below our estimate by 10% mirroring lower than expected sales. Nonetheless, we maintain a buy rating on the stock hinged its favorable product portfolio, efficient cost and strong balance sheet management.**
- Flattish topline as food sales disappoints:** Over the review period, revenue declined by a meagre 0.9% YoY stemming largely from lower sales in its food segment (-8.7% YoY). Beverage sales at the other end grew by 13.1% YoY. For us, the outturn was a bit surprising, particularly at the food segment, given its favourable product portfolio. Nonetheless, its local raw material sourcing strategy as well as prepayments for some of its inputs late last year supported a faster drop in input cost by -2.1% YoY. Thus, gross margin expanded by 70bps to 45% YoY.
- Jump in Opex stretches weak top line performance:** Given the weak topline performance, increased OPEX (+14% YoY) led to an 8.1% YoY decline in operating profit to ₦17.5 billion. Clearly, increased personnel expenses (salaries for new recruitment as well as welfare and end of service benefit accounted for the large chunk of increased OPEX. Overall both PAT and PBT dropped by 8.71% YoY and 12.9% YoY respectively.
- Balance sheet remains strong:** Over the review period, the company paid up a large chunk of its debt, with overall borrowings down to ₦330.6 million (FY 19: ₦13.2 billion). As at FY 19, dollar loan accounted for c.40% of the company's total borrowing – we therefore believe this is positive for the company given recent devaluation of the naira. Also, trade receivables remained flat, however drawdown from prior prepayment for raw materials led to a decline in overall receivables to ₦46.8 billion (FY 19: ₦68.4 billion). Another interesting item is additional prepayment of ₦2.5 billion unrelated to trade made during the period. Not much details were provided.
- We have made a slight downward adjustment (-0.4%) to our revenue expectation and still maintain our view of a contraction in gross margin hinged on the technical devaluation which has taken the FX rates for corporates to ₦386/\$ from a range of ₦330/\$ - ₦368/\$. The impact is a cut in our FVE to ₦1404.40

(previously: ₦1447.39. Relative to the last closing price, it presents a 40.4% upside and translates to **BUY** rating.

Summary of Results and Forecasts - ₦'000

ANNUAL

Income Statement (₦' m) *	2018A	2019A	2020F	2021F	2022F
Revenue	266,275	284,035	301,334	326,623	352,752
COGS	-152,354	-155,888	-165,734	-178,663	-192,250
Gross Profit	113,920	128,147	135,600	147,960	160,502
Operating Cost	-53,279	-56,085	-59,363	-63,691	-68,787
Operating Profit	60,641	72,062	76,237	84,269	91,716
Interest Income	890	938	457	-33	-480
Interest Expense	59,751	71,124	75,780	84,302	92,196
PBT	16,743	25,441	21,218	23,605	25,815
Tax	43,008	45,683	54,562	60,698	66,381
PAT	266,275	284,035	301,334	326,623	352,752
Balance Sheet (₦ '000) *					
Fixed Assets	79,600	86,337	81,042	80,586	80,293
Stocks	82,734	107,037	105,812	104,751	102,284
Trade debtors	43,403	66,722	60,267	47,360	51,149
Liabilities	15,762	6,978	22,342	32,378	24,220
Trade Creditors	162,334	193,374	186,854	185,337	182,577
Non-current Liabilities					
Total liabilities	60,384	78,400	83,351	89,854	96,687
Shareholders' fund	19,996	22,281	22,392	22,504	22,619
Key Ratios					
Gross Margin	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%	18%	19%	19%
EPS	54.26	57.63	68.83	76.57	83.75
P/E	29.12	25.50	21.35	19.20	17.55
EV/EBITDA	17.54	14.73	13.65	12.34	11.45
ROA	28%	26%	29%	33%	36%

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 real portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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