

Nestle Nigeria Plc.

ALERT - Nestle Nigeria Plc: Impressive Q4 Performance in Line With Expectation

Nestle Nigeria plc (NESTLE) just released results for Q4-2016 and full year 2016. As expected, EPS in 2016 was at 9-year low of N10, following losses recorded in the second and third quarters, wherein the significant depreciation of the NGN/USD exchange rate adversely impacted margins and also resulted in elevated revaluation losses on the company's USD denominated liabilities. NESTLE's average USD/NGN rate was N251.95 in 2016 (vs. N197.96 in 2015) while the spot rate at the end of the year was N304.70 (vs. N199.20 in 2015).

Profit aside, revenue growth was impressive at 20.3% in 2016, mostly achieved with the help of price increases taken to offset rising cost pressure on margins. The revenue growth marked the strongest since the 21% reported in 2010. The Board proposed a final and total dividend of N10.00 per share (vs. N29.00 total in 2015), slightly higher than the N9.5 we expected.

Importantly, NESTLE's performance in the fourth quarter was unsurprisingly impressive, consistent with the rebound in the third quarter, following a shocking second quarter. Revenue grew by 21% y/y (vs. Cordros' 25% estimate) and c.7% q/q (vs. 10% estimate) during the period, where we understand prices were increased by 18-20% average across products. PBT increased by 88.6% y/y, and despite reporting 55% effective tax rate (vs. 24% in Q4-2015), PAT still increased by 14.5% y/y.

Gross profit grew by 21% y/y but the margin was behind Q4-2015's by c.5bps. The 44% gross margin recorded during the quarter was next to the year's high of 49% reported in the first quarter. Following the release of the third quarter result (39% GP margin), management guided that it would be more responsive to costs, hence the price increase mentioned above. We think NESTLE's margin may have also benefited from the generally softer grain prices during the final quarter of 2016. Notably, the price of maize was down by about 1% while sorghum and soybean meal prices were 9% lower apiece.

Operating expenses increased by a marginal 2.8% y/y but relative to revenue, it was 359bps lower y/y to 20%. Relative to Q3-16 however, opex increased by 19.9% in reflection of increased promotional spending usually associated with the festive season. Overall, we think NESTLE, similar to other FMCG companies, kept expenses under check in 2016.

A more than 3000% y/y increase in finance income also had a strong impact on NESTLE's Q4 earnings. We believe increased short term investments (standing at N47.11 billion at the end of 2016, from end-2015's N4.6 billion), in a continued high interest rate environment, may have bolstered finance income. The gross N4.2 billion finance income reported at the end of 2016FY came as record high.

The U-turn from foreign exchange losses of N6.3 billion and N13.1 billion in Q3 and Q2 respectively to a gain of N3.1 billion was a positive surprise in NESTLE's Q4 result. Clarity on this line is important, given that NESTLE's reported spot USD/NGN rate at the end of 2016 was N304.70, a slight change from the CBN's quoted N305.25. Also, the CBN's average USD/NGN rate of N306.78 in Q4 changed only marginally from the N306.64 Q3 average. The carrying value of NESTLE's USD loans was N46.5 billion at the end of 2016, from N24.2 as at December 2015. The gain on forex more than offset interest expense on financial liabilities (which increased by 241% y/y as gross borrowings remained elevated at N50.67 billion vs. N29.9 billion at 2015 ending), resulting in overall gain of N1.1 billion during the review period.

In addition to the 101% tax rate reported in Q3, NESTLE's ETR in 2016 was at record high of 63.2%. Management noted that tax increased as a result of the expiration of the pioneer status at its major factories (notably the Flower Gate and Agbara).

We expect positive reaction to the result. NESTLE's shares have lost 29.63% YtD, using yesterday's closing price.

HOLD

Target Price (N)*	569.80
Current Price (N)	570.00
Implied Return (%)	-0.03

Company Data

NSE Code	NESTLE
Bloomberg Code	NESTLE:NL
Reuters Code	NESTLE.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	451.81
Free Float (%)	36.25

Ratios	Q4-2016	Q4-2015	2016FY
Gross margin	44.62%	44.67%	41.41%
Opex margin	20.12%	23.71%	20.40%
EBIT margin	24.50%	20.96%	21.01%
PAT margin	14.19%	15.02%	4.36%
RoAE	72.70%	63.19%	23.35%
EPS (N)	9.39	8.20	10.00

*Under Review

Income Statement (N'bn)	Q4-16a	Q4-16 Y/Y	Cordros est.
Revenue	52.43	21.1%	53.94
Cost of Sales	-29.03	21.2%	-32.37
Gross profit	23.39	21.0%	21.58
OPEX	-10.55	2.8%	-11.87
EBIT	12.84	41.6%	9.71
Finance income	2.08	3095.9%	0.41
Financial charges	1.12	-278.5%	-0.48
Profit before tax	16.04	88.6%	9.63
Taxation	-8.60	328.4%	-2.41
Profit after tax	7.44	14.5%	7.23

Disclosures

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