

# Nestle Nigeria Plc.

## First Glance: Q2-17; PAT in Line With Expectation

This morning, NESTLE announced Q2-17 PAT of N8.19 billion, (1) compared to a loss of N6.15 billion in Q2-16, (2) below the 8.36 billion reported in Q1-17, and (3) below our N8.51 billion estimate. Compared to Q2-16, the latest result shows the group performed impressively across all reporting lines. But compared to Q1-17, **we note that revenue contraction (a deviation from historical trend) and principally, significant surge in financing cost (283.2%), masked a notable positive --recovery of gross margin.**

Revenue grew 37.1% y/y (below our estimate of 57%), benefitting from relatively higher prices. But given that prices have been relatively stable since the increases implemented earlier this year, we note that the q/q contraction in revenue may be the result of lower sales volume. Revenue from the Food division grew by 40% y/y (-6% q/q) while Beverage division recorded 33% y/y (9% q/q) topline growth.

A noteworthy positive in the result is the 717 bps y/y and 250 bps q/q recovery in gross margin to 40.9%, ahead of our 40% estimate. We note possible savings from the significantly reduced FX volatility in this regard.

Although opex increased 26.3% y/y, opex margin fell by 161 bps to 18.7% (below our estimate of 20%), above Q1-17's 16.8% but still below end-2016FY's 20.4%. NESTLE's management said it continues to adopt internal efficiency initiatives that are supportive of profit growth.

Finance cost was lower by 58.5% y/y, driven majorly by comparatively lower FX loss (N4.14 billion vs. N13.12 billion). The reported FX loss was however higher than the N1.03 billion recognized in Q1-17, suggesting to us that the group may have valued the interest on its USD borrowings using the NAFEX rate of N366 (against interbank rate of N305 in Q1). Meanwhile, interest expense on financial liabilities increased by 73% y/y and 245% q/q (despite N5.7 billion decrease in gross borrowing).

Finance income increased by 655.4% y/y, reflecting the relatively higher cash balance (N57 billion vs. N37 billion in H1-16), 64% of which is held in high interest yielding short term investments.

**We expect positive reaction to NESTLE's result which is consistent with the broadly positive expectation for the year. Annualized, the PAT recognized YtD is N33.10 billion, well-above the 2016FY PAT of N7.92 billion. Our estimates are under review.**

## SELL

Target Price (N)*	812.52
Current Price (N)	955.50
Implied Return (%)	-14.96

### Company Data

NSE Code	NESTLE
Bloomberg Code	NESTLE:NL
Reuters Code	NESTLE.LG
Sector	CONSUMER GOODS
Market Cap. (N'bn)	757.38
Free Float (%)	36.25

Ratios	Q2-2017	Q2-2016	2016FY
Gross margin	40.9%	33.7%	41.41%
Opex margin	18.7%	20.3%	20.40%
EBIT margin	22.2%	13.4%	21.01%
PAT margin	13.5%	-13.9%	4.36%
*RoAE	59.6%	35.3%	23.35%
EPS (N)	10.33	-7.75	10.00

\*Trailing

Income Statement (N'bn)	Q2-17a	Q2-16a	Q2-17 (Cordros)
Revenue	60.77	44.31	64.21
Cost of sales	-35.91	-29.36	-38.53
Gross profit	24.86	14.95	25.68
Opex	-11.37	-9.01	-12.84
Operating profit	13.49	5.95	12.84
Finance income	2.54	0.34	2.67
Financial charges	-5.86	-14.11	-1.08
Profit before tax	10.18	-7.83	14.43
Taxation	-1.99	1.68	-5.92
Profit after tax	8.19	-6.15	8.51

# Disclosures

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