

High finance cost leads to Pre-Tax loss

In its 9M 2023 earnings result, Nestle's Revenue grew by 18.93% y/y to N396.59bn from N333.47bn in 9M 2022. The food segment grew by 27.0% y/y to N254.38bn in 9M 2023 from N200.26bn in 9M 2022 and contributed the most to the company's revenue by (64.1%). The company's beverage segment (Milo, Nescafe, Nido and others) also grew by 6.8% y/y to N142.21bn in 9M 2023 from N133.22bn in 9M 2022. We forecast Revenue growth of 13% and 14% y/y from its Food and Beverage segments and project FY 2023 Revenue growth of 13% y/y to N506.65bn.

The company's high Net Finance Cost of N148.24bn however impeded bottom line growth resulting in a Net Loss of N43.07bn in 9M 2023 compared with profit of N40.15bn in 9M 2022. We do not expect as steep a devaluation of the currency as seen in FY 2023, so we forecast lower finance cost ahead. We estimate the company will return to profitability in FY 2024 with Net Profit of N51.91bn.

We have revised our target price up to N1,834.56/s from N1,414.70/s and we retain a Buy recommendation. We arrive at our target price using the discounted cash flow (DCF) and relative valuation methodologies in a ratio of 60:40.

Nestle 9M 2023

Nm, except where mentioned otherwise	9M 2023	9M 2022	y/y	Q3 2023	Q2 2023	q/q
Revenue	396,592	333,472	18.93%	134,822	133,799	0.8%
Cost of Sales (Ex-Dep)	(230,427)	(211,231)	9.09%	-79,825	-73,161	9.1%
Gross Profit	166,165	122,242	35.93%	54,998	60,638	-9.3%
Marketing and Administrative expenses (Ex-Dep)	(58,025)	(42,672)	35.98%	-18,262	-20,266	-9.9%
Selling and Distribution Expenses (Ex-Dep)	(7,990)	(7,612)	4.97%	-2,854	-1,152	147.8%
Impairment (Loss)/Writeback	-	-	-	-	-	n/a
EBITDA	100,149	71,957	39.18%	33,882	39,221	-13.6%
Depreciation and Amortization	(8,563)	(7,080)	20.94%	-3,088	-7,081	-56.4%
Operating Profit	91,586	64,877	41.17%	30,793	32,140	-4.2%
Other Income	-	-	-	-	-	n/a
EBIT	91,586	64,877	41.17%	30,793	32,140	-4.2%
Net Finance Income/(Cost)	(148,244)	(6,492)	2183.65%	-18,333	-126,161	-85.5%
Profit before tax	(56,657)	58,386	-197.04%	12,460	-94,021	-113.3%
Minimum tax	-	-	-	0	0	n/a
Tax expense	13,589	(18,233)	174.53%	-5,547	27,830	-119.9%
Profit from continuing operations	(43,068)	40,152	-207.26%	6,913	-66,191	-110.4%
Profit from discontinued operations	-	-	-	-	-	n/a
Net Profit	-43,068	40,152	-207.26%	6,913	-66,191	-110.4%
Net income attributable to equity holders	-43,068	40,152	-207.3%	6,913	-66,191	-110.4%
Margins:	9M 2023	9M 2022	y/y	Q3 2023	Q2 2023	q/q
Gross margin	41.9%	36.7%	5.2ppts	40.8%	45.3%	-4.5ppts
Opex Margin	16.6%	15.1%	1.6ppts	15.7%	16.0%	-0.3ppts
EBITDA Margin	25.3%	21.6%	3.7ppts	25.1%	29.3%	-4.2ppts
PBT Margin	-14.3%	17.5%	-31.8ppts	9.2%	-70.3%	79.5ppts
Effective Tax Rate	24.0%	31.2%	-7.2ppts	44.5%	29.6%	14.9ppts
Net margin	-10.9%	12.0%	-22.9ppts	5.1%	-49.5%	54.6ppts

Source: Company, CSL Research

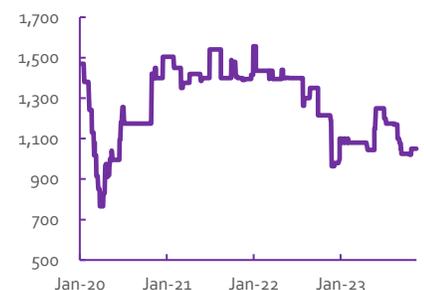
Recommendation	Buy
Target Price	1,834.56
Closing Price	1,050.00

*Price as at 24 November 2023

Key data

Year to December, Nbn	2022	2023e	2024e	2025e
Sales	446.82	506.65	576.51	665.27
EBITDA	96.65	134.02	193.61	270.46
Net Profits	49.00	(76.19)	51.91	71.26
EPS, N	61.81	(96.11)	65.49	89.90
PE Ratio	19.0x	-	17.9x	13.1x
EV/EBITDA	11.2x	8.4x	5.0x	3.6x
Dividend yield	0.7%	0.0%	1.1%	1.2%
Market cap.	N832.29bn (US\$993.20m)			
Free float	n/a			
Bloomberg	NESTLE NL			
Reuters	NESTLE LG			

Three-year graph



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9M 2023 Review

Nestlé remains optimistic about future growth

In its 9M 2023 earnings result, Nestle's Revenue grew by 18.93% y/y to N396.59bn from N333.47bn in 9M 2022. The Food Segment with its multiple products of golden morn, cerelac, milo and others grew by 27.0% y/y to N254.38bn in 9M 2023 from N200.26bn in 9M 2022 and contributed the most to the company's revenue by (64.1%). The company's beverage segment (Milo, Nescafe, Nido and others) also grew by 6.8% y/y to N142.21bn in 9M 2023 from N133.22bn in 9M 2022. We forecast Revenue growth of 13% and 14% y/y from its Food and Beverage segments and project FY 2023 Revenue growth of 13% y/y to N506.65bn.

High cost of operations increases OPEX margin

The company recorded moderate growth in Cost-of-Sales (adjusted for depreciation) which rose by 9.09% y/y to N230.43bn in 9M 2023 from N211.23bn in 9M 2022. This resulted in an increase in the company's Gross Profit to N166.17bn (+35.93% y/y) in 9M 2023 from N122.42bn in 9M 2022 and as such its Gross profit margin settled at 41.9% (+5.2ppts), up from 36.7% in 9M 2022.

Players in the consumer goods sector have witnessed cost pressures with the rising cost of energy and the depreciation of the Naira, and Nestle was not left behind. The company's Operating Expenses adjusted for depreciation (Opex) advanced by 31.28% y/y to N66.02bn in 9M 2023 from N50.28bn which was largely driven by the 35.98% y/y hike in its Marketing and Administration Expenses to N58.03bn from N42.67bn in 9M 2022. The Selling and Distribution Expenses also grew by 4.97% y/y to N7.99bn from N7.61bn in 9M 2023. This brought the company's Opex margin higher to 16.6% (+1.6ppts) in 9M 2023 from 15.1% in 9M 2022.

Overall, the company's EBITDA grew to N100.15bn in 9M 2023 from N71.96bn in 9M 2022. The expected increases import duties, energy prices and other factors may leave the company's Operating Expense elevated in the near term. Therefore, we forecast a 33.82% y/y increase in its Opex to N88.90bn for FY 2023 from N66.43bn in FY 2022. We also forecast EBITDA will grow by 38.66% to N134.02bn in 2023e with an EBITDA Margin of 26.45% for the period.

High Net Finance Cost depresses profitability

The depreciation of the currency caused the company to report a significant growth in Finance Cost to N156.53bn in 9M 2023 from N9.01bn in 9M 2022 which resulted in a Net Finance Cost of N148.24bn in 9M 2023 (vs N6.49bn in 9M 2022) despite a surge of 221.27% y/y in its Finance Income to N8.29bn in 9M 2023 from N2.58bn in 9M 2022. The high Finance Cost resulted in the company reporting a Loss Before Tax of N56.66bn from a Profit of N58.38bn in 9M 2022. The tax relief of N13.59bn in 9M 2023 tempered the company's Loss After Tax to N43.07bn in the period from a Profit After Tax of N40.15bn in 9M 2022. We forecast a Loss After Tax of N76.19bn for FY 2023.

Outlook and forecasts

Expected organic sales growth

Nestle products have a strong brand equity and the company's Revenue has grown at a Compound Annual Growth Rate of (CAGR) of 13.82% over the last five years driven by increasing demand for food and beverage products in Nigeria and Nestle's strong brand recognition.

Forecasted Revenue performance for Nestle

	2021	2022	2023e	2024e	2025e	2026e
Food	208,287	271,991	307,350	347,306	399,401	475,288
change	21%	31%	13.00%	13%	15%	19%
Beverages	143,535	174,828	199,304	229,200	265,872	313,728
change	24%	22%	14.00%	15%	16%	18%
Total	351,822	446,819	506,654	576,505	665,273	789,016

Source: CLS Research

We also expect the company to drive Revenue growth through price increases as input costs are expected to remain elevated. The company is confident that it can pass on these costs to consumers without a dent to volumes.

Net Finance Cost to slow

We do not expect as steep a devaluation of the currency as seen in FY 2023, so we forecast lower finance cost. We estimate the company will return to profitability in FY 2024 with Net Profit of N51.90bn.

Valuation

We revise Nestle's target price to N1,834.56/share from N1,414.70 previously. This was derived from the combined use of Discounted Cash Flow (DCF) and Relative valuation, assigning a weighting of 60:40.

Nestle Nigeria							
<i>Nm (unless otherwise stated)</i>							
Income Statement	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenues	351,822	446,819	506,654	576,505	665,273	789,016	935,792
Cost of Sales*	-213,679	-283,740	-283,740	-283,740	-283,740	-283,740	-283,740
Gross Profit	138,143	163,079	222,914	292,765	381,533	505,276	652,052
Total Opex*	-57,768	-66,431	-88,899	-99,154	-111,070	-129,061	-153,055
EBITDA	80,375	96,648	134,015	193,611	270,463	376,215	498,997
Depreciation & Amortisation	-8,409	-9,753	-14,106	-15,901	-17,157	-18,457	-19,804
Other Income	-	-	-	-	-	-	-
EBIT	71,966	86,896	119,909	177,710	253,306	357,758	479,194
PBT before Exceptional Items	61,875	71,138	(89,775)	63,260	86,471	120,795	141,546
Exceptional Items	-	-	-	-	-	-	-
PBT	61,875	71,138	-89,775	63,260	86,471	120,795	141,546
Taxation	-21,838	-22,144	13,589	-11,350	-15,209	-20,228	-26,903
Net Profits	40,037	48,995	-76,186	51,910	71,262	100,567	114,644
EPS, N	50.51	61.81	-96.11	65.49	89.90	126.87	144.63
DPS, N	6.37	7.76	0.00	13.15	13.67	19.25	21.88
Payout Ratio	13%	13%	0%	20%	15%	15%	15%
Dividend Sum	5,050	6,150	0	10,427	10,832	15,262	17,341
Number of Shares Outstanding	793	793	793	793	793	793	793
<i>*Cost of Sales and Total Opex adjusted for Depreciation & Amortisation</i>							
Balance Sheet	2021	2022	2023e	2024e	2025e	2026e	2027e
Fixed Assets	98,964	116,739	128,615	143,964	162,215	183,677	207,914
Intangible Assets	-	-	-	-	-	-	-
Other Non-current Assets	2,501	2,816	3,051	3,255	3,423	3,688	3,987
Non-Current Assets	101,465	119,556	131,665	147,219	165,639	187,365	211,900
Stocks	58,964	88,341	73,302	78,839	82,042	80,164	80,538
Trade & Other Receivables	44,397	84,166	89,216	110,302	135,572	163,390	193,514
Cash and Cash Equivalents	0	0	59,979	68,822	81,191	85,688	82,723
Current Assets	103,361	172,507	222,497	257,963	298,805	329,243	356,774
Total Assets	204,826	292,062	354,163	405,182	464,444	516,608	568,675
Creditors & Accruals	148,384	166,162	166,863	176,412	182,094	177,714	173,849
Current Portion of Term Loan	432	8,294	4,218	4,856	4,835	4,527	5,346
Taxation	28,282	26,209	15,490	14,919	14,388	14,007	13,799
Bank Overdraft	2	-	-	-	-	-	-
Other Current Liabilities	2,701	1,026	1,224	1,430	1,241	1,120	1,157
Current Liabilities	179,802	201,690	187,794	197,618	202,559	197,367	194,151
Non-current liabilities	93,342	166,348	274,278	125,282	146,621	166,394	181,714
Total Liabilities	273,144	368,038	462,072	322,899	349,179	363,762	375,865
Share premium Account	396	396	396	396	396	396	396
Share Based Reserve	32	32	32	32	32	32	32
Retained Earnings	113	90	119	28,978	89,408	174,713	272,016
Shareholders' Funds	310,239	415,044	521,772	390,321	429,353	461,853	504,618

Source: CSL Research

24 November 2023

Nigeria | Consumer Goods | Nestle

Profitability Ratios	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Gross Profit Margin	43.5%	39.3%	36.5%	44.0%	50.8%	57.3%	64.0%	69.7%
Opex/Sales	18.4%	16.4%	14.9%	17.5%	17.2%	16.7%	16.4%	16.4%
EBITDA Margin	25.1%	22.8%	21.6%	26.5%	33.6%	40.7%	47.7%	53.3%
Operating Profit Margin	22.4%	20.5%	19.4%	23.7%	30.8%	38.1%	45.3%	51.2%
PBT Margin	21.1%	17.6%	15.9%	-17.7%	11.0%	13.0%	15.3%	15.1%
Net Profit Margin	13.7%	11.4%	11.0%	-15.0%	9.0%	10.7%	12.7%	12.3%
ROAA	17.8%	14.4%	13.5%	-15.9%	8.0%	7.1%	7.0%	6.2%
ROCE	65.5%	55.9%	42.3%	39.0%	82.5%	242.6%	306.8%	343.1%
ROAE	106.3%	161.5%	193.6%	-260.6%	187.2%	274.8%	401.2%	446.3%
Dividend Yield	0.6%	0.5%	0.7%	0.0%	1.1%	1.2%	1.6%	2.1%

Activity Ratios	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Inventory Turnover	3.8x	3.8x	3.9x	3.5x	3.7x	3.5x	3.5x	3.5x
Days of Inventory on Hand	96 days	95 days	95 days	104 days	98 days	103 days	104 days	103 days
Receivables Turnover	5.4x	8.5x	7.1x	6.0x	5.9x	5.5x	5.4x	5.3x
Days of Sales Outstanding	67 days	43 days	51 days	61 days	62 days	66 days	68 days	68 days
Payables Turnover	1.7x	1.6x	1.8x	1.7x	1.7x	1.6x	1.6x	1.6x
Payable Days	219 days	226 days	202 days	214 days	221 days	231 days	231 days	226 days

Operating Performance Ratios	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Total Asset Turnover	1.3x	1.3x	1.2x	1.1x	0.9x	0.7x	0.6x	0.5x
Fixed Asset Turnover	3.4x	3.8x	4.1x	4.1x	4.2x	4.3x	4.6x	4.8x
Current Asset Turnover	2.2x	2.0x	1.8x	1.5x	1.1x	0.8x	0.6x	0.6x
Inventory Turnover	3.8x	3.8x	3.9x	3.5x	3.7x	3.5x	3.5x	3.5x
Cash Turnover	-	-	-	16.9x	9.0x	8.9x	9.5x	11.1x

Liquidity Ratios	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Current Ratio	17.5x	13.2x	17.6x	16.8x	17.2x	21.8x	20.4x	19.6x
Quick Ratio	4.7x	2.9x	5.1x	6.2x	5.1x	4.3x	3.7x	2.8x
Cash Ratio	0.0x	0.0x	0.0x	2.5x	2.0x	1.6x	1.3x	0.9x

Solvency Ratios	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Debt-to-Capital Ratio	58%	79%	84%	90%	80%	84%	85%	86%
Net Debt-to-Equity Ratio	140%	369%	522%	691%	147%	186%	238%	289%
Debt-to-Equity Ratio	140%	369%	522%	900%	404%	509%	580%	603%
Debt-to-Assets Ratio	7%	16%	25%	37%	48%	14%	10%	9%
Leverage	6.0x	11.2x	14.3x	16.4x	23.3x	39.0x	56.9x	72.1x

Investment Valuation Ratios	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Price-to-Earnings Ratio	23.8x	23.3x	19.0x	-12.2x	17.9x	13.1x	9.3x	7.3x
Price-to-Book Ratio	32.4x	44.7x	31.3x	29.0x	34.8x	37.1x	37.2x	31.6x
Price-to-Sales Ratio	3.2x	2.6x	2.1x	1.8x	1.6x	1.4x	1.2x	0.9x
EV/EBITDA	13.5x	12.5x	11.2x	8.4x	5.0x	3.6x	2.6x	1.8x
EV/Sales	3.4x	2.9x	2.4x	2.2x	1.7x	1.5x	1.3x	1.0x
Free Cash Flow Yield	0.1x	0.1x	0.1x	-0.2x	0.1x	0.1x	0.1x	0.2x

Source: CSL Research

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