



NESTLE NIGERIA PLC

Returning to pre-pandemic levels

Nestle Nigeria PLC released its 9M'21 earnings result which showed a 23% y/y growth in Revenue to ₦261.6 billion (9M'20: ₦212.7 billion, Vetiva: ₦253.7 billion), and a 5% y/y improvement in PAT to ₦33.6 billion (9M'20: ₦32.0 billion, Vetiva: ₦32.1 billion). The company has declared a ₦25.00 interim dividend to shareholders, unchanged from 9M'20.

Food records striking comeback in Q3

We note that the Beverage segment had been the stronger growth force in recent years, averaging 8% over the last two years (Food has averaged 1% in the same period). However, the earnings beat in Q3 was driven by a robust performance in the company's Food segment, which grew 42% y/y and outstripped the Beverage segment (which only grew 8% y/y). Accordingly, given that Nestle increased prices in Q2, we believe that the steeper growth in Q3 is owed to a q/q rise in volumes, specifically in the Food segment. Thus, Q3 Revenue scaled 26% y/y to ₦90.1 billion (Vetiva: ₦82.2 billion). For the next quarter, our 33% y/y growth outlook is driven by the expected increase in consumer spending, in line with seasonal festivities and the sustained y/y impact of price increases implemented in Q2. Thus, we expect Q4 topline to come in at ₦95.4 billion, resulting in a FY'21 figure of ₦357.0 billion (+24 y/y, FY'20: ₦287.1 billion).

Margin growth stalled on cost pressures

Despite the expansion in Revenue, but in line with our Q3 estimate, Nestle's gross margin declined 200bps y/y to 39%, shrinking from FX pressures, although Gross profit printed 19% higher y/y at ₦34.9 billion. Contrarily, EBIT margin stayed flat y/y at 22%. For the 9M period however, both gross margin and EBIT margin declined 300bps y/y to 39% and 21% respectively, with EBIT printing at ₦56.1 billion, driven by a 13% rise in OPEX for the period. Our full year outlook on margins remains unchanged as amid persisting FX liquidity challenges, we estimate that EBIT margin will print at 22% (FY'20: 22%).

Admittedly, driven by its increased foreign currency intercompany borrowings, exchange rate depreciations as well as generally higher yields, Nestle's finance costs have jumped considerably so far this year, rising 2.5x to ₦4.7 billion. However, the rates rally has also proved positive for Nestle's finance income, which grew 71% y/y to ₦1.2 billion. Thus, with Net finance cost printing at 3.9x higher at ₦4.5 billion, Nestle's PBT grew by a slight 5% to ₦51.6 billion (Q3: +18% to ₦18.2 billion). Accounting for a 4% y/y increase in tax charge, the company also reported a moderate 5% y/y growth in PAT to ₦33.6 billion (Q3: +17% y/y to ₦11.9 billion).

Considering current realities, we adjust our finance line projections and estimate that finance costs will print at ₦8.8 billion for the full year. Likewise, we increase our Interest Income expectation to ₦2.0 billion. Thus, net finance cost for the full year is projected at ₦6.7 billion, yielding a PBT of ₦70.8 billion (+17% y/y) and a PAT of ₦46.1 billion (+18% y/y), 1% higher than FY'20. With more efficient working capital management, Nestle's overall cash balance has improved significantly (+32%) to ₦116.7 billion. Thus, we estimate a target price of ₦1,602.80 and rate the stock a HOLD.

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HOLD

Target price **₦1,602.80**

Company Statistics

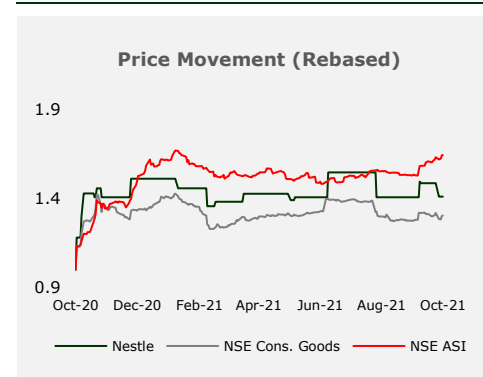
Price (₦)	1,405.00
Market Cap (₦Mn)	1,220,696
Enterprise Value (₦Mn)	982,328
Net cash (₦Mn)	36,430
Shares Outstanding (Mn)	793
NSE	NESTLE
Bloomberg	NESTLE.NL
Reuters	NESTLE.LG

Ownership Structure

Nestle S.A. Switzerland	63.5%
Others	36.5%

Share Price Performance

30 days	0.36%
YTD	-6.64%
365 days	20.00%



Source: NSE, Vetiva Research

Business Description

Nestle Nigeria PLC, a subsidiary of Nestle S.A., is one of Nigeria's largest food and beverage companies. Nestle has been in operation in Nigeria since 1961 in the Food and Beverage Segments. The company produces and markets global brands including market leading Maggi seasoning cube, Milo and Nestle Pure Life Water.



Income Statement (₹ Millions)	9M'21	9M'20	y/y Change	Vetiva Estimate	Variance
Revenue	261,591	212,733	23%	253,677	3%
Gross Profit	101,291	90,025	13%	98,720	3%
Operating Expenses	(45,169)	(39,839)	13%	(45,285)	0%
EBIT	56,122	50,185	12%	53,435	5%
Net Finance Expense	(4,537)	(924)	NM	(4,097)	11%
Profit Before Taxation	51,584	49,262	5%	49,338	5%
Profit After Tax	33,584	31,938	5%	32,088	5%
Gross Margin	39%	42%		39%	
OPEX to Sales	-17%	-19%		-18%	
EBIT Margin	21%	24%		21%	
PAT Margin	13%	15%		13%	



Income Statement	2019A	2020A	2021E	2022F	2023F
Turnover	284,035	287,084	356,962	377,587	397,489
Cost of Sales	(155,888)	(167,873)	(218,476)	(233,411)	(245,713)
Gross Profit	128,147	119,211	138,485	144,176	151,775
Operating Profit	72,062	64,419	77,604	79,777	83,982
EBITDA	79,513	72,170	85,823	88,495	93,163
Depreciation	(7,451)	(7,751)	(8,219)	(8,718)	(9,181)
EBIT	72,062	64,419	77,604	79,777	83,982
Interest Expense	(2,267)	(4,427)	(8,761)	(8,973)	(7,987)
Interest Income	1,329	647	2,042	1,932	2,122
PBT	71,124	60,638	70,885	72,736	78,118
Taxation	(25,441)	(21,426)	(24,755)	(25,401)	(27,281)
PAT	45,683	39,212	46,130	47,335	50,837

2019A	2020A	2021E	2022F	2023F
693	700	871	921	969
(380)	(409)	(533)	(569)	(599)
313	291	338	352	370
176	157	189	195	205
194	176	209	216	227
(18)	(19)	(20)	(21)	(22)
176	157	189	195	205
(6)	(11)	(21)	(22)	(19)
3	2	5	5	5
173	148	173	177	191
(62)	(52)	(60)	(62)	(67)
111	96	113	115	124

Balance Sheet	2019A	2020A	2021E	2022F	2023F
Fixed Assets	79,394	87,266	98,936	111,552	123,023
Stock	33,279	52,222	47,885	47,961	47,123
Trade and other debtors	65,820	39,555	49,183	52,025	49,005
Cash and bank balances	6,978	58,703	66,289	59,744	62,492
Total Assets	193,374	246,185	271,567	281,363	292,373
Creditors and Accruals	78,400	116,513	151,634	166,265	181,761
Borrowings	5,516	33,834	37,804	28,235	18,667
Total liabilities	147,817	216,888	249,599	254,662	260,589
Net Assets	45,558	29,297	21,968	26,701	31,785

2019A	2020A	2021E	2022F	2023F
194	213	241	272	300
81	127	117	117	115
161	96	120	127	120
17	143	162	146	152
472	600	662	686	713
191	284	370	406	443
13	83	92	69	46
361	529	609	621	636
111	71	54	65	78

Growth	2020A	2021E	2022F	2023F
Turnover	1%	24%	6%	5%
EBITDA	8%	30%	7%	5%
PBT	-7%	16%	4%	5%
PAT	-11%	20%	3%	5%

Profitability	2020A	2021E	2022F	2023F
Return on Equity	134%	210%	177%	160%
Return on Assets	16%	17%	17%	17%

Margins	2020A	2021E	2022F	2023F
EBITDA margin	25%	24%	23%	23%
EBIT margin	22%	22%	21%	21%
PBT margin	21%	20%	19%	20%
Net Profit margin	14%	13%	13%	13%

Per share data	2020A	2021E	2022F	2023F
EPS	17.90	21.06	21.61	23.21
NAPS	13.38	10.03	12.19	14.51



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Company	Disclosure
Nestle Nigeria Plc	

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