Maybank Investment Bank

Nestle (Malaysia) (NESZ MK)

Dominant staple offering

Maintain BUY; TP lifted to MYR107.00

In our view, NESZ is well positioned to benefit from the rollout of Government cash assistant programs given the stapled-nature of its product range. With expectations for waning consumer boycotts and NESZ's existing market leadership within its core brands, the one-off MYR100 SARA cash aid may lead to a faster pace improvement in group sales in 2H25. We make no change to our earnings forecasts, but roll forward our valuation base, our DCF-TP is raised to MYR107.00 (WACC: 6.3%, LT growth: 2.5%).

Primary beneficiary of the MYR100 SARA cash aid

With over 90k SKUs across 14 product categories (Fig. 1) within the SARA programme, we believe that NESZ stands to be a clear beneficiary of the MYR100 one-off government cash aid (to be used from 31 Aug - 31 Dec 2025) to all eligible Malaysians aged 18 and above, due to its wide essential F&B product range. Based on our channel checks, majority of consumers have chosen to spend their cash aid on non-perishable items - of which Maggi Noodles, MILO drinks / powder variants, Nescafe original, canned sardines, evaporated milk, and biscuits appear to be popular choices for an average consumer basket.

Holding on to its market leadership position

We believe that consumer boycotts on certain NESZ products hit its peak in FY24 but has since showed signs of gradual sales volume improvement in 2Q25 - where domestic sales grew +6% YoY. Based on *Euromonitor* data (*Refer to Fig 2, 3, 4*), the group's market leadership in its core brands (i.e. *Maggi, MILO, Nescafe*) have also remained strong, with 2024 market share for instant coffee mixes (*Nescafe*) and other hot drinks (*MILO*) at 27% and 72% market share respectively, though its market share in the instant noodles category (*Maggi*) weakened to 43% in 2024 (vs. 48% in 2023). This is a testimony to NESZ's strong brand loyalty and its ability to stave off competitors amid temporary negative brand perception.

Recovery path on track

Our FY25E earnings projection of +23% YoY is premised on progressive sales recovery in 2H25 led by abating effects from consumer boycotts, uptick in consumer spending during the year-end festivities, alongside a sales volume boost from the MYR100 one-off SARA aid. NESZ also offers pedestrian dividend yields of 2% to 3%.

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FYE Dec (MYR m)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	7,051	6,225	6,577	6,906	7,251
EBITDA	1,150	830	996	1,082	1,233
Core net profit	767	435	535	587	690
Core EPS (sen)	327.3	185.6	228.0	250.1	294.1
Core EPS growth (%)	15.8	(43.3)	22.9	9.7	17.6
Net DPS (sen)	268.0	179.0	228.0	250.1	294.1
Core P/E (x)	35.9	53.9	42.7	38.9	33.1
P/BV (x)	40.9	42.8	41.7	41.7	41.7
Net dividend yield (%)	2.3	1.8	2.3	2.6	3.0
ROAE (%)	101.4	68.0	97.6	107.1	126.0
ROAA (%)	21.5	12.1	14.3	15.0	17.1
EV/EBITDA (x)	24.8	29.9	24.4	22.5	19.8
Net gearing (%) (incl perps)	105.0	199.7	214.7	229.2	244.8
Consensus net profit	-	-	499	545	596
MIBG vs. Consensus (%)	-	-	7.2	7.6	15.8

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BUY

Share Price MYR 97.40

12m Price Target MYR 107.00 (+12%)

Previous Price Target MYR 99.00

Company Description

Nestlé (Malaysia) Bhd. is an investment holding company, which engages in the manufacture, marketing, and sale of food products.

Statistics

52w high/low (MYR)	106.00/62.24
3m avg turnover (USDm)	1.7
Free float (%)	13.1
Issued shares (m)	235
Market capitalisation	MYR22.8B
	USD5.4B

Major shareholders:

Nestle SA	72.6%
Employees Provident Fund	13.2%
The Vanguard Group, Inc.	1.0%

Price Performance



Nestle (M) - (LHS, MYR) ——Nestle (M) / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	3	26	(7)
Relative to index (%)	0	20	(4)

Source: FactSet

Glossary:

SARA: Sumbangan Asas Rahmah



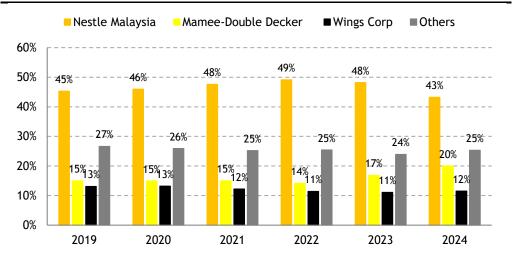


Fig 1: Product categories approved under the SARA government assistance program



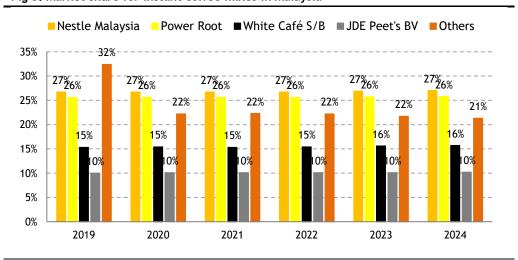
Source: Ministry of Finance

Fig 2: Market share for instant noodles in Malaysia



Source: Euromonitor

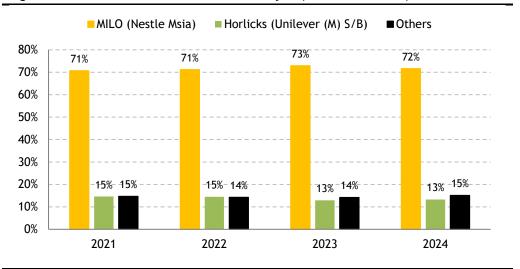
Fig 3: Market share for instant coffee mixes in Malaysia



Source: Euromonitor

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Fig 4: Market share for other hot drinks in Malaysia (Excl. coffee & tea)



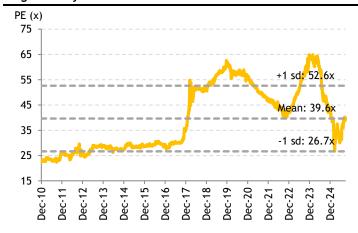
Source: Euromonitor

Fig 5: Valuation (new)

(MYRm)	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	FY36E	Prev.
Enterprise FCF	578	680	721	779	841	906	975	1,047	1,124	1,205	1,290	
Discounted FCF	578	640	639	649	659	668	677	684	691	697	702	
Terminal value											35,095	
Discounted terminal value											19,108	
Enterprise value	26,393											23,965
Net cash/ (debt)	-1,303											-1,303
Equity value	25,089											22,662
Equity value /share (MYR)	107.00											99.00

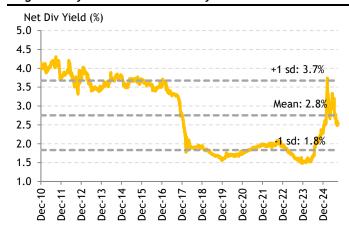
Source: Maybank IBG Research

Fig 6: One-year forward PER



Source: Bloomberg, Maybank IBG Research

Fig 7: One-year forward dividend yield



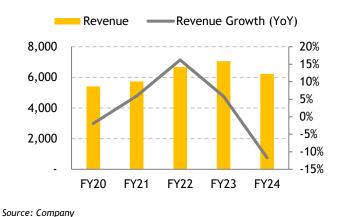
Source: Bloomberg, Maybank IBG Research

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Value Proposition

- Nestle Malaysia is one of the largest FMCG players in Malaysia, with product categories that include instant noodles, RTD / mix powder beverages, confectionary, icecreams, food seasonings etc.
- Nestle Malaysia's product portfolio is built upon highly recognized household brands such as MILO, Maggi, Nescafe and Kit Kat.
- With its rich 112 years' history of operating in Malaysia, today
 Nestle Malaysia operates 6 manufacturing factories
 producing over 90% of its products in Malaysia.
- Nestle Malaysia has an extensive range of over 500 Halalcertified products.

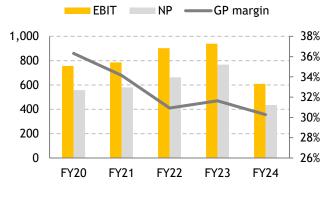
NESZ's 5-year revenue and revenue growth



Financial Metrics

- Nestle Malaysia has posted a 3-year (FY21-FY24) revenue and earnings CAGR of 3% and -9% respectively.
- Strong FCF generation of >MYR200m over the past 3 years with an average dividend payout of c.MYR575m.
- Capex spend of c.MYR300m over the past 5 years (FY20-FY24), reflecting confidence in long-term operational resilience.

NESZ's 5-year EBIT, NP and GP margin



Source: Company

Price Drivers



Source: Company, Maybank IBG Research

- 1. Consumer boycotts driven by geopolitical tensions drove sales volume down for its core brands.
- 2. Input cost pressures further exacerbated group margin compression
- 3. Stabilising sales growth signals waning consumer boycotts on its products and the potential for gradual sales recovery going forward

Swing Factors

Upside

- Stronger pace of growth in domestic consumer disposable income.
- Successful product innovation could boost sales and market share.
- Robust economic recovery could have a favourable spill over effect for Nestle Malaysia.

Downside

- Boycotts stemming from geopolitical or ethical concerns could erode demand for Nestle Malaysia products.
- Supply chain disruptions could lead to an increase in costs and would limit product availability thus.
- Unexpected spikes in raw material costs will have an adverse effect on margins.

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Risk Rating & Score ¹	24.0 (medium)
Score Momentum ²	+4.8
Last Updated	13 Apr 2023
Controversy Score ³ (Updated: 29 Aug 2024)	1 - Business ethics (IP)

Business Model & Industry Issues

- NESZ's long-term goal to eliminate its usage of non-recyclable packaging sets an example for its peers to emulate but this could prove to be a costly exercise given that higher demand for recycled flakes may drive its costs above that for virgin plastic materials. Furthermore, upon fully converting to recyclable packaging, more research still needs to be done in order to address the root cause of the global plastic wastage problem as only c.10% of recyclable goods are actually recycled with the remaining c.90% accumulating in landfills or littered in the natural environment.
- There is growing pressure from end-consumers for the F&B industry to adopt sustainable sourcing solutions. To that end, NESZ is a leader in this aspect with a clear framework in place to promote raw material traceability and sustainable farming practices while being socially responsible in uplifting the livelihood of farmers that they work with.
- NESZ's ESG strategy is comparable to its industry peers with formal guidelines to soften its environmental and social impact on society relating to waste management, pollution, and product health & safety.
- NESZ also scores above-average in our proprietary scoring methodology (see next page) with an overall score of 65/100.

Material E issues

- NESZ has committed to converting all its packaging to recyclable and reusable materials by 2025. 75% of total plastic packaging is designed for recycling.
- Committed to reduce GHG emissions by at least 20% (vs. 2018 baseline) by 2025, halving emissions by 2030, and achieving net zero by 2050.
- NESZ's successfully introduced 100% paper straws across their entire UHT range while also redesigning various Nescafe and Milo products for more efficient use of plastics.
- 100% of the wastewater at its factories is treated to remove 96% of organic load before the water is discharged. NESZ has reduced its water usage per tonne of product by 20% since 2015
- NESZ is committed to zero deforestation and 100% of palm oil and palm oil products are RSPO certified.
- NESZ is committed to source 20% of our key ingredients through regenerative agriculture by 2025, and 50% by 2030 (from 2018).

Material S issues

- To uphold consumer confidence in product health and safety, an extensive framework was implemented across its supply chain in 2018 under its global Responsible Sourcing Standard (RSS), aligned with standards set forth by the OECD for multinational enterprises and the United Nations' Sustainable Development Goals (SDGs).
- Raw materials are pivotal to product quality. NESZ supports local farmers through rural development programmes, sourcing directly through contract farming initiatives that provide hands-on assistance and training to improve quantity and quality of crop yields. NESZ has on-going programmes for local growers of chilli, paddy, and coffee at present.
- NESZ has a total workforce of 5,336 staff. In 2023, over 57.6% of leadership positions within the organisation were held by women.

Key G metrics and issues

- In 2023, NESZ's Board comprised of 8 directors, the majority of whom are independent directors 5 independent directors,
 1 non-independent, non-executive director (Chairman) and the group CEO and CFO, both of whom are executive directors.
- The Chairman of the Board and the CEO positions are held by separate individuals.
- 3 out of 8 members of the Board are women, for 37.5% female representation.
- NESZ's constitution states that one-third of the groups Directors shall retire from the Board by rotation on an annual basis but Directors are allowed to offer themselves for reelection, if eligible.
- Annual shareholders' approval is required for independent directors serving beyond 9 years. At present, no Directors have served as Independent Directors beyond 12 years.
- The governance, nomination and compensation committee is led by the Chairman of NESZ, deviating from industry norms of having an independent director chairing the committee.
- The group CEO's total remuneration package (MYR5.0m) represents 0.6% of NESZ's reported group pre-tax profit in 2023.
- NESZ's is audited by Ernst & Young PLT. To ensure the independence of external auditors, the groups audit committee requires that its lead audit partner is rotated once every 7 years.
- NESZ enters into recurring related party transactions (RPT)
 mostly involving purchases of raw materials, semi-finished and
 finished food products from other Nestle affiliated companies
 globally. Other recurring RPT's include those involved in
 payment of royalties for the usage of trademarks of food
 products, and payments for shared services in IT.

<u>Raisk Rating & Score</u> - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <u>2Score Momentum</u> - indicates changes to the company's score since the last update - a <u>negative</u> integer indicates a company's improving risk score; a <u>positive</u> integer indicates a deterioration. <u>3Controversy Score</u> - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).





	Quantitative Parameters (Score: 47)								
	Particulars	Unit	2021	2022	2023	FNH MK (2023)			
	Scope 1 GHG emissions	tCO2e	60,180	59,428	51,659	39,253			
	Scope 2 GHG emissions	tCO2e	62,305	-	-	35,372			
	Total	tCO2e	122,485	59,428	51,659	74,625			
	Scope 3 GHG emissions	tCO2e	11,489	10,913	19,211	525,973			
Ε	Total	tCO2e	133,974	70,341	70,870	600,598			
-	GHG intensity (Scope 1, 2 and 3)	kgCO2e/tonne	348	176	193	NA			
	Total energy consumption per tonne	GJ/tonne	3.78	3.60	3.77	NA			
	Total renewable fuel consumption usage	%	3%	5%	7%	NA			
	% of packaging that is recyclable and reusable	%	74%	75%	75%	99%			
	Total waste generated	tonne	26,783	28,264	28,599	11,904			
	% of women in workforce	%	35%	36%	NA	27.0%			
	% of women in management roles	%	51.0%	54.0%	57.6%	46.0%			
S	Lost time injury frequency (LTIF) rate	no.	1.1	0.6	1.3	0			
	No. of students involved in Nestle for healthier kids								
	program	no.	24,986	24,704	25,726	NA			
	No. of products certified with healthier choice logo	no.	36	40	41	82			
	MD/CEO salary as % of reported net profit	%	0.99%	0.88%	0.76%	NA			
G	Board salary as % of reported net profit	%	1.65%	1.55%	1.26%	0.3%			
- G	Independent directors on the Board	%	57%	57%	63%	55%			
	Female directors on the Board	%	43%	43%	38%	36%			

Qualitative Parameters (Score: 67)

- a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee? Yes NESZ has established a dedicated sustainability committee which is led by its Board of Directors in order to reflect the group's global sustainability aspirations into its governance structure.
- b) Is the senior management salary linked to fulfilling ESG targets?
- c) Does the company follow the task force of climate-related disclosures (TCFD) framework for ESG reporting? Yes.
- e) Does the company have a mechanism to capture Scope 3 emissions which parameters are captured? Yes indirect emission data from sales people, long-term business partners' travel, and the Nestlé National Distribution Centre Carbon Report are included into the calculations for Scope 3 emissions.
- f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company? All NESZ's facilities in Malaysia have transitioned to 100% renewable energy (solar & hydro) through the Green Energy Programme and Renewable Energy Certificate from TNB and Sarawak Energy respectively. The group diverts most of its manufacture wastes to either animal feed, recycled material, fertiliser; or these wastes are incinerated to generate electricity.
- g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

Target (Score: 100)						
Particulars	Target	Achieved				
Halve GHG emissions by 2030 vs. 2018	50%	6.94%				
Achieve net zero emissions by 2050	0.0	NA				
Reduce specific GHG emissions by 5% p.a.	5%	49%				
100% RSPO-certified sustainable palm oil by 2030	100%	71 %				
100% assessed deforestation-free by end of 2022	100%	96%				
100% of packaging to be recyclable and reusable by 2025	100%	75%				
Reduce virgin plastic in packaging by a third by 2025	33%	NA				
Achieve plastic neutrality by 2025	100%	NA				
100% renewable electricity at all group sites by 2025	100%	100%				
Impact						
NA						
Overall Score: 65						
As per our ESG matrix, Nestle (Malaysia) (NESZ MK) has an overall score of 65.						

ESG score	Weights	Scores	Final Score
Quantitative	50%	47	24
Qualitative	25%	67	17
Target	25%	100	25
Total			65

As per our ESG assessment, NESZ has a dedicated sustainability framework with long-term targets towards carbon neutrality. NESZ's overall ESG score is **65**, which makes its ESG rating **above average**, in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

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Appendix I

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

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FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Metrics	46.4	64.0	42.7	38.9	33.1
P/E (reported) (x) Core P/E (x)	35.9	53.9	42.7	38.9	33.1
P/BV (x)	40.9	42.8	41.7	41.7	41.7
P/NTA (x)	62.6	74.9	72.9	72.9	72.9
Net dividend yield (%)	2.3	1.8	2.3	2.6	3.0
FCF yield (%)	3.4	1.2	2.3	2.5	3.0
EV/EBITDA (x)	24.8	29.9	24.4	22.5	19.8
EV/EBIT (x)	30.4	40.7	31.7	29.0	24.9
INCOME STATEMENT (MYR m)					
Revenue	7,050.9	6,224.7	6,577.1	6,905.9	7,251.2
EBITDA	1,150.5	830.4	995.8	1,081.9	1,233.2
Depreciation	(210.0)	(221.4)	(228.9)	(242.1)	(253.6)
Amortisation	(1.2)	0.0	0.0	0.0	0.0
EBIT	939.3	609.0	766.9	839.7	979.5
Net interest income /(exp)	(60.3)	(63.9)	(66.1)	(70.9)	(75.7)
Associates & JV	0.1	(0.7)	(0.7)	(0.7)	(0.7)
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	879.1	544.4	700.1	768.2	903.2
Income tax	(219.2) 0.0	(128.8) 0.0	(165.6) 0.0	(181.6) 0.0	(213.5) 0.0
Minorities Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	659.9	415.6	534.6	586.5	689.6
Core net profit	767.4	435.1	534.6	586.5	689.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	11.0	11.2	9.4	9.6	4.3
Accounts receivable	463.0	433.6	458.1	481.0	505.1
Inventory	831.4	831.3	883.2	920.7	940.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,749.5	1,809.5	1,913.6	2,004.5	2,083.9
Intangible assets	234.4	234.4	234.4	234.4	234.4
Investment in Associates & JVs	6.0	5.3	4.6	4.0	3.3
Other assets	273.9	324.4	324.4	324.4	324.4
Total assets	3,569.2	3,649.7	3,827.6	3,978.5	4,095.6
ST interest bearing debt	419.8	804.7	804.7	804.7	804.7
Accounts payable	1,671.6	1,570.1	1,667.9	1,738.8	1,775.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	300.0	300.0	380.0	460.0	540.0
Other liabilities	503.0	427.0	427.0	427.0	427.0
Total Liabilities	2,894.3 674.9	3,102.2 547.5	3,280.1 547.5	3,431.0 547.5	3,548.1
Shareholders Equity Minority Interest	0.0	0.0	0.0	0.0	547.5 0.0
Total shareholder equity	674.9	547.5	547.5	547.5	547.5
Total liabilities and equity	3,569.2	3,649.7	3,827.6	3,978.5	4,095.6
CASH FLOW (MYR m)					
Pretax profit	879.1	544.4	700.1	768.2	903.2
Depreciation & amortisation	211.1	221.4	228.9	242.1	253.6
Adj net interest (income)/exp	60.3	63.9	66.1	70.9	75.7
Change in working capital	222.7	(72.4)	21.5	10.5	(6.6)
Cash taxes paid	(197.8)	(176.3)	(165.6)	(181.6)	(213.5)
Other operating cash flow	110.3	43.6	0.0	0.0	0.0
Cash flow from operations	1,276.2	557.6	851.8	910.7	1,013.0
Capex	(351.2)	(278.5)	(333.0)	(333.0)	(333.0)
Free cash flow	925.0	279.2	518.8	577.7	680.0
Dividends paid	(614.4)	(546.4)	(534.6)	(586.5)	(689.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	100.0	150.0	80.0	80.0	80.0
Other invest/financing cash flow	(211.0)	(80.9)	(66.1)	(70.9)	(75.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	199.6	(198.1)	(1.9)	0.2	(5.3)



FYE 31 Dec	FY23A	FY24A	FY25E	FY26E	FY27E
Key Ratios					
Growth ratios (%)					
Revenue growth	5.8	(11.7)	5.7	5.0	5.0
EBITDA growth	4.5	(27.8)	19.9	8.6	14.0
EBIT growth	4.0	(35.2)	25.9	9.5	16.6
Pretax growth	2.3	(38.1)	28.6	9.7	17.6
Reported net profit growth	6.4	(37.0)	28.6	9.7	17.6
Core net profit growth	15.8	(43.3)	22.9	9.7	17.6
Profitability ratios (%)					
EBITDA margin	16.3	13.3	15.1	15.7	17.0
EBIT margin	13.3	9.8	11.7	12.2	13.5
Pretax profit margin	12.5	8.7	10.6	11.1	12.5
Payout ratio	95.2	101.0	100.0	100.0	100.0
DuPont analysis					
Net profit margin (%)	9.4	6.7	8.1	8.5	9.5
Revenue/Assets (x)	2.0	1.7	1.7	1.7	1.8
Assets/Equity (x)	5.3	6.7	7.0	7.3	7.5
ROAE (%)	101.4	68.0	97.6	107.1	126.0
ROAA (%)	21.5	12.1	14.3	15.0	17.1
Liquidity & Efficiency					
Cash conversion cycle	(31.0)	(39.6)	(35.1)	(35.5)	(36.2)
Days receivable outstanding	23.2	25.9	24.4	24.5	24.5
Days inventory outstanding	72.7	69.0	66.9	67.6	68.2
Days payables outstanding	126.8	134.4	126.4	127.6	128.9
Dividend cover (x)	1.0	1.0	1.0	1.0	1.0
Current ratio (x)	0.6	0.5	0.6	0.6	0.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.2	1.2	1.2	1.2	1.2
Net gearing (%) (incl perps)	105.0	199.7	214.7	229.2	244.8
Net gearing (%) (excl. perps)	105.0	199.7	214.7	229.2	244.8
Net interest cover (x)	15.6	9.5	11.6	11.8	12.9
Debt/EBITDA (x)	0.6	1.3	1.2	1.2	1.1
Capex/revenue (%)	5.0	4.5	5.1	4.8	4.6
Net debt/ (net cash)	708.8	1,093.5	1,175.3	1,255.1	1,340.4

Source: Company; Maybank IBG Research



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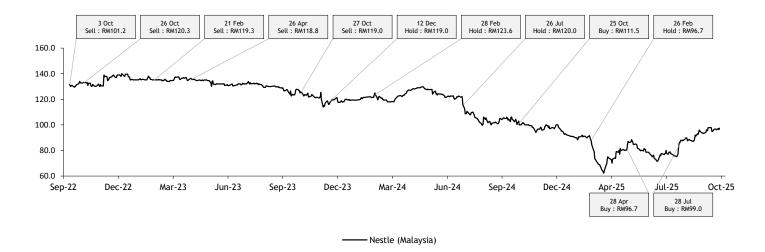
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