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NESTLE (MALAYSIA)

(NESZ MK EQUITY, NESM.KL)

CONSUMER

28 Jul 2025

Recovery underway, but upside limited.

HOLD
(Upgraded)

Rationale for report: Company Result

Price	RM85.50
Fair Value	RM73.00
52-week High/Low	RM122.80/RM61.80

Key Changes

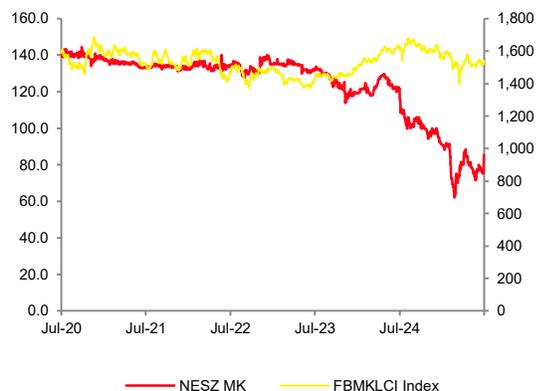
Fair value	↔
EPS	↔

YE to Dec	FY24	FY25F	FY26F	FY27F
Revenue (RM mil)	6,224.7	6,522.0	6,782.8	7,054.2
Core net profit (RM mil)	438.7	481.3	500.4	520.3
FD Core EPS (sen)	187.1	205.3	213.4	221.9
FD Core EPS growth (%)	(43.2)	9.7	4.0	4.0
Consensus Net Profit (RM mil)	-	482.0	535.1	595.9
DPS (sen)	171.9	201.2	209.1	217.4
PE (x)	45.7	41.7	40.1	38.5
EV/EBITDA (x)	26.7	25.0	24.1	23.3
Div yield (%)	2.1	2.4	2.5	2.6
ROE (%)	68.0	87.1	89.0	90.9
Net Gearing (%)	199.7	179.2	157.0	137.1

Stock and Financial Data

Shares Outstanding (million)	234.5
Market Cap (RMmil)	20,049.8
Book Value (RM/Share)	2.33
P/BV (x)	36.6
ROE (%)	68.0
Net Gearing (%)	199.7
Major Shareholders	Nestle SA (72.6%) Employees Provident Fund (12.9%) Blackrock Group (1.3%)
Free Float	25.3
Avg Daily Value (RMmil)	10.0

Price performance	3mth	6mth	12mth
Absolute (%)	6.9	(6.0)	(29.9)
Relative (%)	5.2	(3.6)	(26.2)



Investment Highlights

We upgraded the stock to HOLD (from UNDERWEIGHT) following the 14.5% share price decline since our downgrade on 13 Dec 2024, which has narrowed the downside to our unchanged TP of RM73.00. Positively, Nestle's revenue and earnings have recovered from the bottom as seen in 2HFY24 and the momentum is likely to sustain in the upcoming quarters. While earnings have recovered from the low base, upside remains capped by lacklustre growth, a lofty valuation at 40.1x FY26 PE and an unattractive 2.5% dividend yield. 1HFY25 core net profit (CNP) of RM288.8mil was within expectations, declining 4.8% YoY due to a lower gross profit margin of 30.4% (-1.1ppt YoY), attributed to higher raw material costs.

- **Upgraded to HOLD (from UNDERWEIGHT)** following the 14.5% share price decline since our downgrade on 13 Dec 2024, which has narrowed the downside to our unchanged TP of RM73.00. While earnings have recovered from the low base, upside remains capped due to lacklustre growth, a lofty valuation at 40.1x FY26 PE and an unattractive 2.5% dividend yield. Our valuation is based on a target CY26F PE of 33x and an ESG premium of 3%. We maintain our earnings forecasts as 1HFY25 results were within expectations.
- **Within expectations.** 1HFY25 CNP of RM288.8mil made up 60% of both our and consensus full-year estimates. Historically, 1H constituted 51-69% of full-year earnings (FY20–FY24) due to festive season demand. Nestle declared 70sen DPS (similar to 1HFY24). 1HFY25 revenue rose 4.0% YoY to RM3.4bil, but CNP declined 4.8% YoY on lower gross profit margin (30.4% vs 31.4% in 1HFY24) mainly due to higher raw material cost.
- **2QFY25 results rebounded strongly from a low base.** 2QFY25 revenue and CNP rose by 9.5% and 33.0% YoY, respectively, supported by a strong sales recovery and an expansion in net margin to 6.7% (+1.2ppt YoY), driven by efficiency gains and cost optimisation. Notably, exports sales surged by 21.2% YoY in 2QFY25, contributing nearly half of the revenue growth for the quarter, led by halal product expansion into new Muslim markets (e.g. Kazakhstan).
- **Recovery expected but upside limited.** FY25 marks a recovery year for Nestle with a 4% YoY rebound in 1HFY25 revenue as it rebounded from the sluggish consumer sentiment related to the geopolitical tension in 1HFY24. We expect the revenue recovery to sustain in the following quarters on the back of low base effect and relief measures announced by the Prime Minister. On the cost front, management expects gross profit margin to remain stable despite the recent decline in raw material prices particularly coffee, cocoa, and sugar which have retraced from their peaks in recent months (Refer to Exhibits 4–9) though SST expansion may have a manageable negative impact.

EXHIBIT 1: 2QFY25 EARNINGS SUMMARY

FYE Dec (RM mil)	2Q24	1Q25	2Q25	QoQ (%)	YoY (%)	1HFY24	1HFY25	YoY (%)
Revenue	1,523.3	1,768.2	1,668.4	-5.6%	9.5%	3,305.8	3,436.7	4.0%
Gross profit	443.7	547.3	496.3	-9.3%	11.9%	1,039.0	1,043.6	0.4%
EBITDA	186.6	301.4	220.8	-26.7%	18.3%	536.9	522.2	-2.7%
D&A	55.3	55.8	56.8	1.7%	2.7%	108.1	112.7	4.3%
EBIT	141.1	229.5	164.7	-28.3%	16.7%	414.5	394.2	-4.9%
Finance cost	-15.0	-16.4	-16.0	-2.7%	6.7%	-28.9	-32.4	12.0%
Pretax profit	126.0	213.0	148.6	-30.3%	17.9%	385.1	361.6	-6.1%
Taxation	-32.4	-51.7	-36.4	-29.5%	12.6%	-96.0	-88.1	-8.1%
PATAMI	93.6	161.3	112.1	-30.5%	19.8%	289.1	273.5	-5.4%
Core PATAMI	83.8	177.4	111.4	-37.2%	33.0%	303.5	288.8	-4.8%
Core EPS (sen)	39.9	68.8	47.8	-30.5%	19.8%	123.3	116.6	-5.4%
Gross DPS (sen)	70.0	0.0	70.0	n/a	0.0%	70.0	70.0	0.0%
Margins (%)								
GP margin (%)	29.1%	31.0%	29.7%	-1.2 ppt	0.6 ppt	31.4%	30.4%	-1.1 ppt
EBITDA margin (%)	12.2%	17.0%	13.2%	-3.8 ppt	1.0 ppt	16.2%	15.2%	-1.0 ppt
Pretax margin (%)	8.3%	12.0%	8.9%	-3.1 ppt	0.6 ppt	11.6%	10.5%	-1.1 ppt
Effective tax rate (%)	-25.7%	-24.3%	-24.5%	0.3 ppt	-1.2 ppt	-24.9%	-24.4%	-0.5 ppt
Core net profit margin (%)	5.5%	10.0%	6.7%	-3.4 ppt	1.2 ppt	8.7%	8.0%	-0.8 ppt

Source: Company

Company profile

Nestlé (Malaysia) Berhad (Nestle), a subsidiary of Nestlé S.A. manufactures and sells food and beverage products in Malaysia and internationally. The Company offers ice-cream, powdered milk and drinks, liquid milk and juices, instant coffee and other beverages, chocolate confectionery products, instant noodles, culinary products, cereals, and related products. The Company offers its products under well-known brands such as Milo, Nescafé, Maggi, KitKat, Nestum, Drumstick, Mat Kool, Nestlé Just Milk, Nestlé, Nestlé Omega Plus, Nestlé Crunch, Lactogrow, Lactogrow Aktif, and La Cremeria. The Company was founded in 1912 and is headquartered in Petaling Jaya, Malaysia.

Investment thesis and catalysts

We have a HOLD recommendation on the stock. The storm has passed, but upside is capped due to lacklustre growth at lofty valuation with unattractive dividend at 2%.

Valuation methodology

The stock is valued based on target FY26F PE of 33x, which is 2SD below its 5Y historical average forward PE but in line with 3Y historical mean PE for large cap consumer stocks which include (Nestle, Mr DIY and QL). Our target price also includes a 3% ESG premium based on a 4-star rating.

Risk factors

Upside risk include recovery in consumer sentiment towards the brand's products and declining raw material costs.

EXHIBIT 2: VALUATIONS

Target PE (x)	33
FY26 EPS (sen)	213.4
ESG premium	3%
12-month target price (RM)	73.00

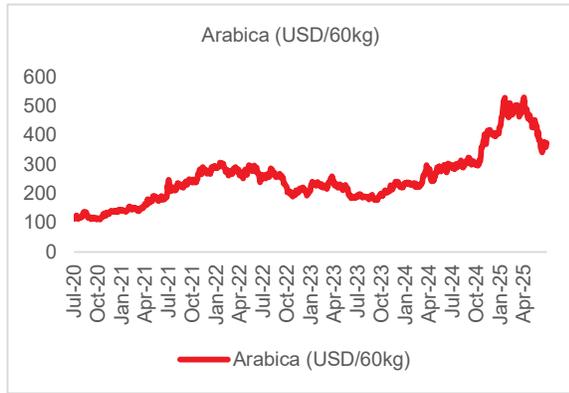
Source: AmlInvestment Bank Bhd

EXHIBIT 3: PE BAND CHART



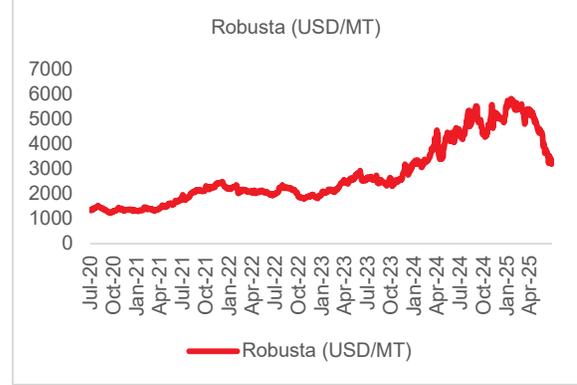
Source: Bloomberg

EXHIBIT 4: ARABICA COFFEE BEAN PRICE TREND



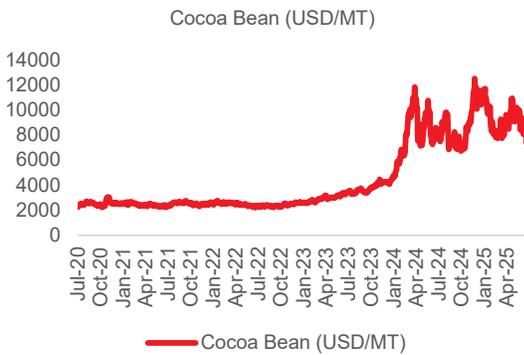
Source: Bloomberg

EXHIBIT 5: ROBUSTA COFFEE BEAN PRICE TREND



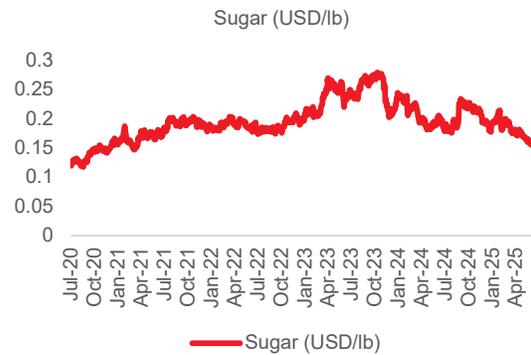
Source: Bloomberg

EXHIBIT 6: COCOA BEAN PRICE TREND



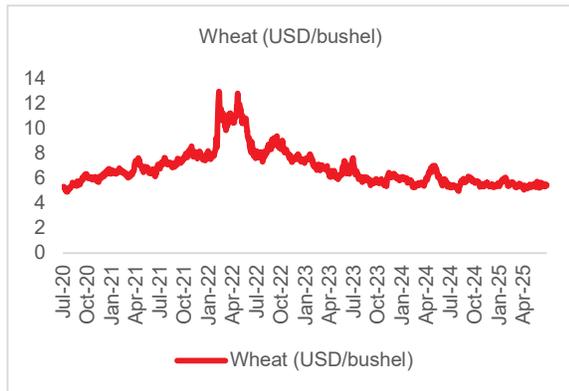
Source: Bloomberg

EXHIBIT 7: SUGAR PRICE TREND



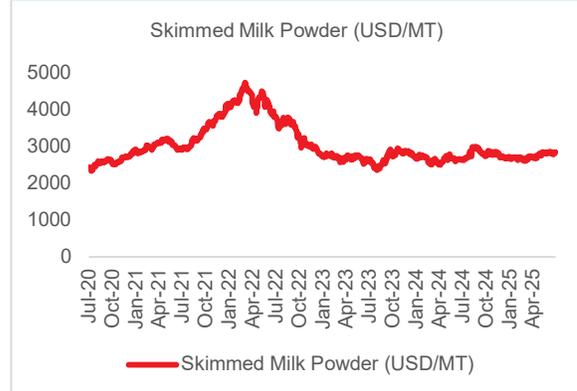
Source: Bloomberg

EXHIBIT 8: WHEAT PRICE TREND



Source: Bloomberg

EXHIBIT 9: SKIMMED MILK POWDER TREND



Source: Bloomberg

EXHIBIT 10: ESG RATING

ESG	Parameters	Weightage	Rating				Rationale
Environmental assessment							
1	GHG reduction	45% CO2 reduction by 2030	30%	*	*	*	17.6% reduction in 2024 from 2023
2	Scope 1 & Scope 2 GHG Emissions	CO2e reduction	20%	*	*	*	26.3% reduction in 2024 from 2023
3	Reducing energy consumption	GJ	15%	*	*	*	4.4% reduction in 2024 from 2023
4	Air, noise & water quality	% reduction in water withdrawal from all areas	15%	*	*	*	2.4% decrease in 2024
5	Minimise waste generation	% total waste diverted from disposal	10%	*	*	*	99.9% of total waste are diverted from disposal
6	Reforestation efforts	Reforestation efforts	10%	*	*	*	29.1% decrease in number of trees planted in FY24 vs FY23
Weighted score for environmental assessment			100%	*	*	*	*
Social assessment							
1	Employee turnover	No of workforce changes	25%	*	*	*	5.2% in 2024
2	Health, safety & well-being	Recorded injuries	25%	*	*	*	Significant decrease 83% YoY
3	Women in workforce	% of leadership position	20%	*	*	*	57% in workforce
4	Investment in employee training	RM	20%	*	*	*	RM4mil
5	CSR programmes	No. of food aid	10%	*	*	*	5,000 boxes of essential food aid in 2024
Weighted score for social assessment			100%	*	*	*	*
Governance assessment							
1	Board age diversity	% under 60 years old	25%	*	*	*	56%
2	Board women representation	% of total board directors	25%	*	*	*	43% representation
3	Independent board directors	% of total board directors	25%	*	*	*	62.5% - independent non-exec
4	Remuneration to directors	% of total staff costs	25%	*	*	*	1.9% of total staff cost
Weighted score for governance assessment			100%	*	*	*	*
Environmental score			33%	*	*	*	*
Social score			33%	*	*	*	*
Governance score			33%	*	*	*	*
Overall ESG Score			100%	*	*	*	*

Source: AmInvestment Bank Bhd

EXHIBIT 11: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	7,050.9	6,224.7	6,522.0	6,782.8	7,054.2
EBITDA	1,117.9	790.8	842.3	868.4	895.1
Depreciation/Amortisation	(178.6)	(181.8)	(157.7)	(156.4)	(154.7)
Operating income (EBIT)	939.3	609.0	684.6	712.0	740.5
Other income & associates	0.1	(0.7)	0.7	0.7	0.7
Net interest	(60.3)	(64.2)	(51.9)	(54.2)	(56.5)
Exceptional items	(112.6)	(23.3)	-	-	-
Pretax profit	879.1	544.2	633.3	658.4	684.6
Taxation	(219.2)	(128.8)	(152.0)	(158.0)	(164.3)
Minorities/pref dividends	-	-	-	-	-
Net profit	659.9	415.4	481.3	500.4	520.3
Core net profit	772.5	438.7	481.3	500.4	520.3
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	1,749.5	1,809.5	1,752.7	1,696.9	1,647.0
Intangible assets	234.4	234.4	234.4	234.4	234.4
Other long-term assets	279.3	285.0	249.9	219.5	193.3
Total non-current assets	2,263.2	2,328.9	2,237.0	2,150.8	2,074.7
Cash & equivalent	11.0	11.2	156.1	314.2	463.1
Stock	831.4	831.3	869.3	904.1	940.2
Trade debtors	463.0	433.6	446.7	464.6	483.2
Other current assets	0.6	44.6	44.6	44.6	44.6
Total current assets	1,306.0	1,320.8	1,516.7	1,727.5	1,931.1
Trade creditors	1,671.6	1,570.1	1,614.4	1,679.0	1,746.1
Short-term borrowings	419.8	804.7	854.7	904.7	954.7
Other current liabilities	46.5	42.8	42.8	42.8	42.8
Total current liabilities	2,137.9	2,417.6	2,511.9	2,626.5	2,743.7
Long-term borrowings	300.0	300.0	300.0	300.0	300.0
Other long-term liabilities	456.4	384.6	384.6	384.6	384.6
Total long-term liabilities	756.4	684.6	684.6	684.6	684.6
Shareholders' funds	674.9	547.5	557.2	567.2	577.6
Minority interests	-	-	-	-	-
BV/share (RM)	2.88	2.33	2.38	2.42	2.46
Cash Flow (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	879.1	544.2	633.3	658.4	684.6
Depreciation/Amortisation	178.6	181.8	157.7	156.4	154.7
Net change in working capital	222.7	(72.4)	(6.7)	11.9	12.4
Others	(35.8)	(95.1)	(66.6)	(75.1)	(83.2)
Cash flow from operations	1,244.6	558.5	717.7	751.7	768.5
Capital expenditure	(352.6)	(296.9)	(135.0)	(130.0)	(130.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(148.9)	1.7	1.2	1.2	1.2
Cash flow from investing	(501.5)	(295.2)	(133.8)	(128.8)	(128.8)
Debt raised/(repaid)	70.4	113.4	50.0	50.0	50.0
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(614.4)	(546.4)	(471.7)	(490.4)	(509.9)
Others	(60.7)	(64.2)	(53.1)	(55.4)	(57.7)
Cash flow from financing	(604.7)	(497.1)	(474.8)	(495.8)	(517.6)
Net cash flow	170.0	(234.7)	144.9	158.1	148.9
Net cash/(debt) b/f	(178.7)	(8.8)	(243.5)	(98.6)	59.5
Net cash/(debt) c/f	(8.8)	(243.5)	(98.6)	59.5	208.4
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	5.8	(11.7)	4.8	4.0	4.0
EBITDA growth (%)	4.6	(29.3)	6.5	3.1	3.1
Pretax margin (%)	12.5	8.7	9.7	9.7	9.7
Net profit margin (%)	9.4	6.7	7.4	7.4	7.4
Interest cover (x)	15.6	9.5	13.2	13.1	13.1
Effective tax rate (%)	24.9	23.7	24.0	24.0	24.0
Dividend payout (%)	93.1	131.5	98.0	98.0	98.0
Debtors turnover (days)	24	26	25	25	25
Stock turnover (days)	50	49	48	48	48
Creditors turnover (days)	88	95	89	89	89

Source: Company, AmInvestment Bank Bhd estimate

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