

Foreign Exchange Loss Undermine Earnings

Beverage Segment Upholds Full Year Revenue

Nestle Nigeria Plc. (**NESTLE**) reported slower than expected sales growth in Q4:2020, missing our full year revenue estimates by c. NGN7.00bn. However, on a year on year basis, revenue expanded marginally, up 1.07% to NGN287.08bn (vs. NGN284.04bn in 2019FY). Although **NESTLE**'s food segment (*up 9.17% YoY in Q4:2020, relative to Q4:2019*) was the major source of revenue support during the quarter (*we suspect this was volume rather than price driven*), its beverage segment reported better sales growth over 2020FY (+6.86% YoY) – now accounting for 40.18% of total revenue, from 38.01% in 2019FY. Domestic sales (*which represents 98.46% of total sales*) has remained the principal revenue source, while export sales continue to fluctuate. In 2020FY, export sales fell to NGN4.41bn, from NGN4.98bn in the preceding year – traceable, in part to the FG's decision to shut the land borders, and also, distribution challenges ushered in by the coronavirus pandemic. **We however envisage a turnaround in 2021FY, and for export sales to improve following the decision to reopen the borders in December 2020. In the domestic market, we expect heightened competition and weaker spending power to constitute the major drag to sales. Notwithstanding, we reckon that the essential nature of the company's products should support local demand. Based on these factors, we forecast a 4.00% growth in sales to NGN298.57bn over 2021FY.**

Gross Margin Touches 2-Year Low

Growth in direct costs (+7.69% YoY to NGN167.87bn) outpaced revenue growth (+1.07% YoY), pushing cost to sales up to 58.48% (vs. 54.88% in 2019FY). Raw materials and consumable costs (which makes up the bulk of production costs) expanded by NGN14.06bn between both years (2019FY and 2020FY), reflecting, in our view, increased inflationary pressure in the domestic space (*recall that currently **NESTLE** sources c. 80% of its production inputs locally*). Gross margin was not spared, as it dropped by 359bps YoY to 41.52% - comparable to 41.31% in 2017FY. In contrast, operating expenses (Opex) moderated by 2.30% to NGN54.79bn due to a NGN2.23bn drop in marketing and distribution expenses relative to 2019FY. Overall, operating profit pegged at NGN64.42bn, 10.61% lower than in the prior year.

Movement in **NESTLE**'s net finance costs (*including a foreign exchange loss of NGN1.73bn and interest expense of NGN2.70bn incurred as a result of higher interest bearing liabilities*) came as a negative surprise during the period, bogging down the company's earnings (*PBT for the year came in at NGN60.64bn*). Interest bearing liabilities (*excluding leases*) grew from NGN13.21bn in 2019FY to NGN40.21bn (*comprising mostly of USD denominated intercompany loans: USD79.50mn, and other bank loans*). Expectedly, **NESTLE**'s debt metrics spiked considerably (*financial leverage: 5.87x from 3.71x, debt to equity: 1.37x from 0.23x in 2019FY*) while its interest coverage ratio dropped to 14.55x, from 31.79x in 2019FY. On the other hand, debt (*before cash adjustments*) to EBIT climbed to 0.62x, from 0.18x in 2019FY – howbeit still at comfortable levels considering the company's NGN58.70bn cash balance.

Dividend Information and Recommendation

NESTLE is proposing a final dividend of NGN35.50 per share, implying a dividend yield of 2.63% on the last closing price (NGN1,350.00 on 4th March). For **2021FY** TP, we applied our **expected EPS** of **NGN50.32** to our **Target PE** of **28.00x**. This yields a price target of **NGN1,408.96**, and an implied 4.37% upside based on the closing price on 4th March 2021. Hence, we rate the ticker a **HOLD**.

Company	NESTLE
Valuation	
EPS	NGN49.47
BVPS	NGN36.96
P/E	27.29x
P/BV	36.53x
Target PE	28.00x
Dec-2021 Exp. EPS	NGN50.32
Dec 2021 Target price	NGN1,408.96
Current Price	NGN1,350.00
Up/Downside Potential	+4.37%
Ratings	HOLD
Key metrics	
RoAE	104.77%
RoAA	17.84%
Net Margin	13.66%
Asset Turnover	1.31
Leverage	8.40x
Share/Share Price Statistics	
Yr Hi	NGN1,505.00
Yr Lo	NGN1,350.00
YTD return	-10.30%
Beta	0.80
Adjusted Beta	0.86
Shares outstanding	0.79bn
Market cap [NGN]	1.07trn
Financial year end	December
Most Recent Period (MRP)	2020FY

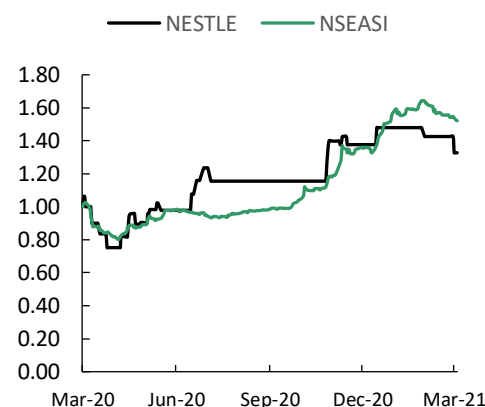


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	1,280.63
EPS						Max	1,545.18
Target PE		46.57	48.41	50.32	52.23	54.22	
	27.5x	1,280.63	1,331.22	1,383.80	1,436.38	1,490.97	
	27.8x	1,292.27	1,343.32	1,396.38	1,449.44	1,504.52	
	28.0x	1,303.91	1,355.42	1,408.96	1,462.50	1,518.08	
	28.3x	1,315.56	1,367.52	1,421.54	1,475.56	1,531.63	
	28.5x	1,327.20	1,379.62	1,434.12	1,488.62	1,545.18	

Financial Highlights (NGN billion) Nestle Nigeria Plc. Audited 2020FY Results			
Profit & Loss Account	2020FY	2019FY	y/y Growth
Revenue	287.08	284.04	1.07%
Cost of Sales	167.87	155.89	7.69%
Gross Profit	119.21	128.15	-6.97%
OPEX	54.79	56.08	-2.30%
Operating Profit	64.42	72.06	-10.61%
Net Finance Costs	-3.78	-0.94	-302.90%
PBT	60.64	71.12	-14.74%
PAT	39.21	45.68	-14.17%
Balance Sheet	2020FY	2019FY	
PPE	87.27	79.39	9.92%
Inventories	52.22	33.28	56.92%
Trade and other Receivables	39.56	65.82	-39.90%
Cash and bank	58.70	6.98	741.25%
Other Assets	8.44	7.90	6.77%
Total Assets	246.18	193.37	27.31%
Shareholders' fund	29.30	45.56	-35.69%
Trade and Other Payables	116.51	78.40	48.61%
Total Borrowings	40.21	13.21	204.39%
Total Liabilities	216.89	147.82	46.73%

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Movements in Price Target

Company Name: Nestle Nigeria Plc.

Date	Price (NGN)	Previous Target Price (NGN)	New Target Price (NGN)	Previous Recommendation	New Recommendation
08-Mar-2021	1,350.00	1,621.25	1,408.96	HOLD	HOLD

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Nestle Nigeria Plc	

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