

Cost Pressure Dents Terrific Topline Performance

Volume Growth and Upward Price Review Props Sales Across Segments

NESTLE demonstrated its tenacity in Q2:2021, raking in revenue of NGN84.18bn from NGN70.70bn in the corresponding period last year. This represents a second-quarter revenue growth of 19.08% year on year. A combination of robust sales volume and an upward price review upheld the performance. **Cumulatively, revenue for the first-half amounted to NGN171.44bn, a 21.57% growth relative to H1:2020.** Although, export revenue was down to NGN2.89bn (vs. NGN2.95bn in H1:2020), domestic sales surged by 22.58% to NGN169.25bn during the first-half.

The food segment – which typically accounts for c.62.09% of the total sales – improved by 17.58% to NGN101.15bn in H1:2021 on account of increased demand for the company’s products, specifically the seasoning product- Maggi. The beverage segment also made significant strides, expanding by +27.80%YoY in H1:2021 on the back of stronger demand for the company’s most notable beverage product (Milo). **Our revenue outlook for full year remains positive primarily influenced by the robust performance recorded so far and the expectation of improved demand relative to the corresponding period last year. On this note, we project an 11.71% growth in 2021FY to NGN320.70bn from NGN287.08bn in 2020FY.**

Increased Production Cost Drags Profitability

During the period, cost of sales rose by +30.95% to NGN105.01bn – *(the highest increase in direct costs since H1:2017)* – outpacing the improvement in revenue. Cost to sales, therefore, settled at 61.25% from 56.86% in H1:2020, reflective of the inflationary environment and increased sales volume. The improvement in revenue, however, provided marginal respite to operating profit (+5.83%) despite the 17.86% increase in marketing and distribution expenses. However, operating margin contracted slightly from 24.34% in H1:2020 to 21.19% in H1:2021.

There was a notable surge (+262.15% YoY) in finance cost to NGN3.39bn (H1:2020: NGN937mn), influenced by higher intercompany borrowings incurred during the period. **As a result, the interest coverage ratio contracted significantly to 8.17x in H1:2021 from 36.62x in H1:2020 (and five-year average of 15.02x).**

On a balance of these factors, PBT moderated by 1.43% to NGN33.38bn. Bottom-line declined even further by 0.43% to NGN21.73bn. **Our earnings expectation for the end of the year is largely contingent on our topline outlook and the ability of the firm to manage cost pressures. Ultimately, we forecast a 2021FY PAT of NGN40.83bn, implying a net margin of 12.73% from 13.66% in 2020FY.**

Novel Debt Bolsters Liquidity

NESTLE’s total debt ratio edged higher slightly to 0.20x in H1:2020 (vs. 0.16x in 2020FY). The gearing ratio also increased to 2.27x (vs. 1.37x in 2020FY), riding on the back of the company’s most recent intercompany loan, which pushed the cash position higher from NGN23.34bn to NGN88.34bn in H1:2021. Consequently, **NESTLE’s** working capital rebounded from its negative position of **-NGN14.53bn** in 2020FY to NGN1.73bn in H1:2021.

Recommendation

We retain our 2021FY target price of NGN1,482.13 on the back of an Expected EPS of NGN51.51 and a target P/E of 28.77x. This represents a downside potential of -3.76% to its closing price of NGN1,540.00 on August 16th, 2021. Hence, we rate the ticker a **HOLD**.

Company	NESTLE
Valuation (Trailing)	
EPS	49.35
BVPS	28.81
P/E	31.20x
P/BV	53.45x
Target PE	28.77x
Dec-2021 Exp. EPS	51.51
Dec 2021 Target price	NGN1,482.13
Current Price	NGN1,540.00
Up/Downside Potential	-3.76%
Ratings	HOLD
Key metrics (Trailing)	
ROE	34.97%
ROA	5.09%
Net margin	14.21%
Asset Turnover	1.25x
Leverage	5.79x
Share Price Data	
Year High	NGN1,540
Year Low	NGN1,350
YTD return	-12.34%
Beta	0.68
Adjusted Beta	0.79
Shares outstanding	0.79bn
Market cap [NGN]	1,221bn
Financial year end	Dec
Most Recent Period (MRP)	H1:2021

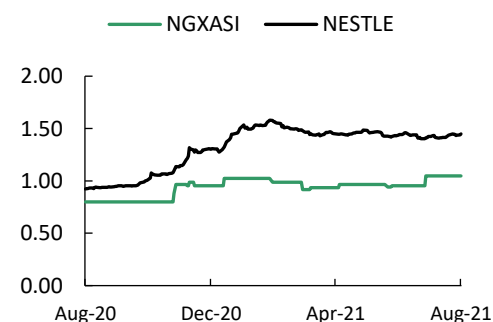


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2021 Target Price to key model inputs						Min	1,394.54
						Max	1,572.39
EPS							
	1,482.13	49.96	50.74	51.51	52.28	53.05	
Target PE	27.91x	1,394.54	1,416.10	1,437.67	1,459.23	1,480.80	
	28.34x	1,416.10	1,438.00	1,459.90	1,481.80	1,503.69	
	28.77x	1,437.67	1,459.90	1,482.13	1,504.36	1,526.59	
	29.21x	1,459.23	1,481.80	1,504.36	1,526.93	1,549.49	
	29.64x	1,480.80	1,503.69	1,526.59	1,549.49	1,572.39	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2020	H1:2021	2021F	2022F	2023F	2024F	2025F
Revenue	141.03	171.44	320.70	346.19	373.80	403.71	436.14
Cost of sales	80.19	105.01	194.96	203.42	223.36	241.19	260.54
Gross Profit	60.84	66.43	125.75	144.00	153.02	166.67	181.50
OPEX	26.51	30.10	61.74	67.55	73.10	79.16	85.51
Operating Profit	34.33	36.33	64.01	75.91	78.74	85.60	93.26
Finance Cost	0.94	3.39	3.97	3.18	2.50	1.88	1.27
PBT	33.86	33.38	60.04	72.04	74.85	81.49	88.81
PAT	21.83	21.73	40.83	48.99	50.90	55.41	60.39

Balance Sheet	H1:2021	2020FY	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	85.89	87.27	93.01	98.89	105.66	113.66	122.39
Total Debt	52.41	40.78	26.46	21.20	16.66	12.51	8.48
Total Assets	262.79	246.18	237.82	245.31	259.95	275.31	291.84
Total Equity	22.84	29.30	36.46	38.38	40.19	43.14	44.48
Total Current Liabilities	167.90	166.03	165.02	172.79	187.19	200.76	216.85
Non-Current Liabilities	72.05	50.86	36.34	34.14	32.57	31.42	30.51
Total Liabilities	239.95	216.89	201.36	206.93	219.76	232.17	247.36

Financial Ratios	H1:2021	2020FY	2021F	2022F	2023F	2024F	2025F
Gross Margin	38.75%	44.22%	42.00%	44.00%	43.00%	43.00%	43.00%
Operating Margin	21.19%	25.14%	22.75%	24.49%	23.44%	23.39%	23.39%
Net Margin	12.68%	13.66%	12.73%	14.15%	13.62%	13.73%	13.85%
Return on Asset	8.27%	15.93%	17.17%	19.97%	19.58%	20.13%	20.69%
Return on Equity	95.15%	133.84%	111.98%	127.62%	126.65%	128.46%	135.77%
Return on Invested Capital	181.18%	296.87%	81.04%	107.99%	106.63%	93.25%	89.12%
Asset Turnover	0.65	1.17	1.35	1.41	1.44	1.47	1.49
Financial Leverage	11.51	8.40	6.52	6.39	6.47	6.38	6.56
Debt to Asset Ratio	5.06	0.17	0.11	0.09	0.06	0.05	0.03
Debt to EBIT Ratio	1.43	0.63	0.41	0.28	0.22	0.15	0.10
Current Ratio	1.01	0.91	0.83	0.79	0.77	0.75	0.72
Quick Ratio	0.71	0.60	0.61	0.58	0.56	0.53	0.50

(Q1- First-Quarter); (H1- First-Half); (H2- Second Half) (FY- Full Year); (F- Forecast)

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Movements in Price Target

Company Name: Nestle Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
08-Mar-2021	1,350.00	1,621.25	1,408.96	HOLD	HOLD
19-Mar-2021	1,384.50	1,408.96	1,482.13	HOLD	HOLD
09-Aug-2021	1,540.00	1,482.13	-	HOLD	-

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Company	Disclosure
Nestle Nigeria Plc	

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