

## A Mix of Tenacity and Vulnerability

### Strong Domestic Demand Props Topline Growth

NESTLE rounded off its 2021FY financial scorecard on an impressive note, delivering robust double-digit (+22.55%YoY) growth to NGN351.82bn in 2021FY (from NGN287.08bn in 2020FY). The outstanding performance was propelled by the increase in domestic sales (+22.59%YoY) supported by the rebound in economic activities, increased household spending and continued customer loyalty to the company's product. The firm also revised upward the prices on products in the food segment (which typically makes up c.61% of total revenue) like Maggi, Golden Morn, and Cerelac, pushing the segment's revenue higher by +21.29%YoY. Similarly, the beverage segment also made remarkable progress, posting a 24.43%YoY growth in 2021FY from NGN115.35bn in 2020FY to NGN143.53bn, attributable to volume expansion and increase in the price of the Milo and Nescafe. The firm made notable headway in export sales as it rose by +19.94%YoY to NGN5.29bn from NGN4.41bn in 2020FY. **We expect export sales to maintain its upward trend in 2022FY, premised on expectations of unrelenting demand from its export markets. However, in the domestic market, we envisage heightened competition and weakened purchasing power (due to the inflationary pressure) to constitute the major headwind to volume growth in 2022FY. Nonetheless, we expect that the essential nature of the company's product and the brand loyalty it enjoys will support its domestic sales. We have thus modelled a 7.93%YoY growth in 2022FY revenue to NGN379.71bn (vs. NGN351.82bn in 2021FY).**

### Earnings Dampened by Inflationary Pressures

During the period, production cost expanded by 31.04%YoY, outpacing the improvement in revenue. Consequently, its cost to sales ratio for the period came in higher at 62.53% (vs. 58.48% in 2020FY). This was influenced by the increase (+31.22%YoY) in raw material and consumables – *which jointly account for c.70% of the total production cost* – reflecting the impact of the rising inflationary pressure and FX volatility in the domestic market. Similarly, OPEX rose by 9.27%YoY to NGN59.87bn from NGN54.79bn in 2020FY, fueled by a 7.52%YoY and 9.70%YoY increase in administrative and distribution expenses, respectively. As a result, the operating margin declined to 20.46% (vs. 22.44% in 2020FY). Intercompany borrowings of (NGN42.60bn) during the period increased the firm's debt position, resulting in a notable surge in Finance cost (+172.84%YoY) to NGN12.08bn (vs NGN4.43bn in 2020FY). Consequently, the interest coverage ratio contracted significantly to 5.96x in 2021FY relative to 14.55x recorded in 2020FY. Cumulatively, profit for the year improved by 2.10% from NGN39.21bn in 2020FY to NGN40.04bn. **For 2022FY, our earnings expectation is dependent mainly on our topline outlook. However, we consider the escalating cost pressure and finance related costs as the major headwinds to the bottom line performance. Hence, we forecast a 2022FY PAT of NGN43.34bn, implying a net margin of 11.41% (vs. 11.38% in 2021FY)**

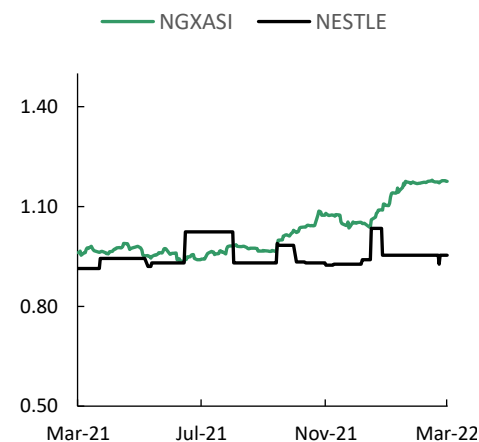
### Fresh Debt Bolsters Liquidity Metrics

From a negative balance of **-NG14.52bn** in 2020FY, NESTLE's working capital came in positive at NGN8.41bn in 2021FY. This was due to the cash influx from the intercompany loan during the period, which bolstered its cash balance to NGN100.52bn in 2021FY from NGN58.70bn in 2020FY. We also observed that its trade receivables and inventories turnover increased to 8.12x and 3.59x (from 7.26x and 3.07x in 2020FY), respectively. Flowing from this, current, quick and cash ratios all improved from previous levels (to 1.04x, 0.74x and 0.51x from 0.91x, 0.60x and 0.35x in 2020FY, respectively) but lower compared to its listed peer (UNILEVER – 2.06x, 1.64x and 1.30x in trailing 2021FY respectively).

### Recommendation

We project a 2022FY expected EPS of NGN54.67 and a target PE of 28.18x. This yields a target price of NGN1,540.92 and an implied 7.38% upside potential based on the closing price on March 16<sup>th</sup>, 2022. Hence, we rate the ticker a **HOLD**.

Company	NESTLE
<b>Valuation</b>	
Trailing EPS	50.51
BVPS	26.97
P/E	28.41x
P/BV	53.21x
Target PE	28.18x
Dec-2022 Exp. EPS	54.57
Dec 2022 Target price	<b>1,540.92</b>
Current Price	1,435.00
Up/Downside Potential	+7.38%
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROE	187.28%
ROA	12.91%
Net margin	11.38%
Asset Turnover	1.26
Leverage	14.51
Yr Hi	1,557
Yr Lo	1,395
YTD return	-10.38%
Beta	0.61
Adjusted Beta	0.74
Shares outstanding	0.79bn
Market cap [NGN]	1,137bn
Financial year end	Dec
Most Recent Period (MRP)	2021FY



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2022 Target Price to key model inputs						Min	1,449.85
EPS						Max	1,634.76
	1,540.92	53.03	53.85	54.67	55.49	56.31	
Target PE	27.34x	1,449.85	1,472.27	1,494.69	1,517.11	1,539.54	
	27.76x	1,472.27	1,495.04	1,517.81	1,540.58	1,563.34	
	28.18x	1,494.69	1,517.81	1,540.92	1,564.04	1,587.15	
	28.61x	1,517.11	1,540.58	1,564.04	1,587.50	1,610.96	
	29.03x	1,539.54	1,563.34	1,587.15	1,610.96	1,634.76	

**Financial Highlights and Forecasts (NGN billion)**

<b>Profit &amp; Loss Account</b>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Revenue	287.08	351.82	379.71	409.92	442.65	478.10	516.54
Cost of sales	167.87	219.99	233.75	252.39	272.57	294.46	318.33
Gross profit	119.21	131.84	227.57	245.44	264.77	285.92	308.71
Other income	54.79	59.87	74.09	80.16	86.80	93.74	101.28
Operating expense	64.42	71.97	71.88	77.37	83.28	89.90	96.93
Operating profit	4.43	12.08	9.84	7.73	5.81	3.94	2.04
Finance cost	60.64	61.88	63.73	71.26	79.15	87.95	97.00
PBT	39.21	40.04	43.34	48.46	53.82	59.81	65.96
PBT	287.08	351.82	379.71	409.92	442.65	478.10	516.54

<b>Balance Sheet</b>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	87.27	98.96	101.56	109.71	119.19	129.40	140.36
Total Debt	41.01	77.15	47.67	37.45	28.12	19.09	9.86
<b>Total Assets</b>	246.18	310.24	289.47	298.16	310.38	324.40	343.25
<b>Total Equity</b>	29.30	21.38	38.02	39.74	42.60	43.93	48.24
<b>Total Current Liabilities</b>	166.03	195.52	200.05	212.66	226.89	244.10	263.14
<b>Non-Current Liabilities</b>	50.86	93.34	51.40	45.76	40.88	36.37	31.88
<b>Total Liabilities</b>	216.89	288.86	251.44	258.42	267.77	280.46	295.02

<b>Financial Ratios</b>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Gross Margin	41.52%	37.47%	59.93%	59.87%	59.81%	59.80%	59.76%
Operating Margin	22.44%	20.46%	18.93%	18.87%	18.81%	18.80%	18.76%
Net Margin	13.66%	11.38%	11.41%	11.82%	12.16%	12.51%	12.77%
Return on Asset	15.93%	12.91%	14.97%	16.25%	17.34%	18.44%	19.22%
Return on Equity	133.84%	187.28%	113.98%	121.94%	126.33%	136.13%	136.75%
Return on Invested Capital	296.87%	498.75%	55.71%	102.37%	91.21%	88.05%	129.84%
Earnings per share	1.17x	1.13x	1.31x	1.37x	1.43x	1.47x	1.50x
Asset Turnover	8.40x	14.51x	7.61x	7.50x	7.29x	7.38x	7.12x
Financial Leverage	6.02x	4.01x	6.06x	7.94x	11.00x	16.91x	34.46x
Debt to Asset Ratio	0.63x	1.08x	0.66x	0.49x	0.34x	0.21x	0.10x
Debt to EBIT Ratio	0.91x	1.04x	0.89x	0.84x	0.79x	0.74x	0.71x
Current Ratio	0.60x	0.74x	0.68x	0.62x	0.57x	0.52x	0.49x
Quick Ratio	41.52%	37.47%	59.93%	59.87%	59.81%	59.80%	59.76%

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We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

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**Asset allocation:** The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

**Movements in Price Target**

**Company Name:** Nestle Nigeria Plc

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
09-Aug-2021	1,540.00	1,482.13	1,485.04	HOLD	HOLD
08-Nov-2021	1,400.00	1,485.04	1,493.49	HOLD	HOLD
17- Nov-2022	1,435.00	1,493.49	1,540.92	HOLD	HOLD

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Company	Disclosure
Nestle Nigeria Plc	

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