

## Foundation Alert

### NESTLE: CY21 Analyst briefing takeaways

#### Event

- Nestle Pakistan Limited (NESTLE PA) held its analyst briefing today to discuss financial performance for CY21 and future outlook of the company. Following are the key takeaways of the briefing.

#### Impact

- NESTLE reported profitability of Rs3.7bn (EPS of Rs81.05/sh) in 4QCY21 compared to profit of Rs2.7bn (EPS of Rs59.29/sh) in 4QCY20 (↑37% YoY). As a result, cumulated profits for CY21 clocked in at Rs12.8bn (EPS of Rs281.55) (up 44% YoY) as compared to profit of Rs8.9bn (EPS of Rs136.62) in CY20.
- Management attributes increase in profitability to (1) increased sales volume in both dairy & beverages segments, (2) recovery in margins for beverages segment post Covid due to brand building activities & new launches, and (3) implementing various cost saving initiatives via pricing management to reduce fixed cost per unit.
- Company sales increased by 12% YoY in CY21. Segment wise Dairy & nutrition/Beverages grew by 10/22%. To highlight, support to revenue came from significant increase in sales in e-commerce channel, pharmacies & modern trade amid reduction in COVID related restrictions.
- NESTLE gross margins inclined by 1.11ppt YoY to 30.38% in CY21. Moreover, gross margins/net margins inclined by 2.75/2.33ppt YoY in 4QCY21. On sequential basis, gross/net margins inclined by 2.18/1.58ppt in 4QCY21.
- Among other major heads, NESTLE admin/other expenses increased by 9/118% YoY in CY21. Management has attributed this increase to hike in freight and energy costs.
- According to management, NESTLE imports 30% of the raw & packaging material while the remaining 70% is procured locally.
- Furthermore, company has discussed detail of its market share in different categories. NESTLE market share in UHT milk (MilkPak)/tea whitener segment/beverages stands at 36.6/40.5/39.5%.
- Management has shared details of its territory wise sales breakup. NESTLE is driving 35% of its revenue from south market (Sindh and Balochistan), 34% from center (Punjab) and 28% from north market (KPK, GB, FATA and AJK).
- Moreover, management has also shared that company is driving 77.2% of its revenue from dairy and nutrition products sale, beverages is contributing 22.6% in overall sales and 0.1% is contributed by the others.
- As per the management, major challenges faced by the company are (1) higher commodity prices (especially palm oil), (2) rising inflation & policy rate, (3) Increased sales tax (as imposed in mini-budget), (4) global supply chain issues and (5) rupee depreciation.

#### Outlook

- The stock is not under our formal coverage. However, company is expected to benefit from (1) conversion of consumer preferences from loose milk to packaged milk products, and (2) recovery in demand amid easing inflation.

Table 1: NESTLE 4QCY21 Financial highlights (Rs mn)

	4QCY21	4QCY20	YoY	3QCY21	QoQ	CY21	CY20	YoY
Net Sales	32,937	30,112	9%	34,554	-5%	133,295	118,781	12%
COGS	22,372	21,280	5%	24,221	-8%	92,803	84,017	10%
<b>Gross Profit</b>	<b>10,565</b>	<b>8,831</b>	<b>20%</b>	<b>10,333</b>	<b>2%</b>	<b>40,492</b>	<b>34,765</b>	<b>16%</b>
Administrative expenses	1,083	992	9%	942	15%	4,017	4,448	-10%
Sales expenses	3,594	3,614	-1%	3,607	0%	14,898	14,257	4%
Other Income	38	201	-81%	55	-31%	296	355	-17%
Other expense	357	164	118%	762	-53%	2,079	1,019	104%
<b>EBIT</b>	<b>5,570</b>	<b>4,262</b>	<b>31%</b>	<b>5,078</b>	<b>10%</b>	<b>19,794</b>	<b>15,396</b>	<b>29%</b>
Finance Cost	419	421	-1%	422	-1%	1840	2805	-34%
<b>PBT</b>	<b>5,151</b>	<b>3,840</b>	<b>34%</b>	<b>4,656</b>	<b>11%</b>	<b>17,954</b>	<b>12,591</b>	<b>43%</b>
Tax	1476	1151	28%	1347	10%	5,185	3,706	40%
<b>Net Profit</b>	<b>3,675</b>	<b>2,689</b>	<b>37%</b>	<b>3,309</b>	<b>11%</b>	<b>12,768</b>	<b>8,885</b>	<b>44%</b>
EPS	81.05	59.29		72.98		281.55	195.91	
Gross Margins	32.08%	29.33%		29.90%		30.38%	29.27%	
Net Margins	11.16%	8.93%		9.58%		9.58%	7.48%	
ETR	28.65%	29.98%		28.92%		28.88%	29.44%	

Source: Company acc, Foundation Research, February 2022

Fig 1: NESTLE key financial highlights in CY21 and revenue contribution from different regions and segments



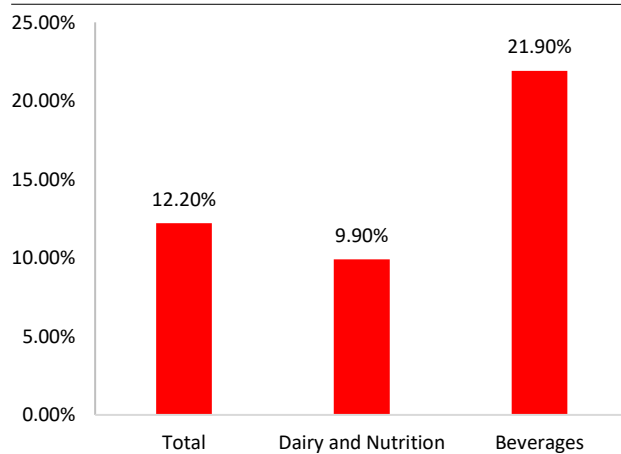
Source: Company acc, Foundation Research, February 2022

**Table 2: NESTLE Key financial and operational ratios**

Rs mn		CY15	CY16	CY17	CY18	CY19	CY20
Sales		99,659	108,959	118,553	120,701	115,962	118,781
GP		30,799	36,349	41,094	38,814	33,349	34,765
PBT		12,520	17,020	20,989	16,967	10,716	12,591
Net Profit		8,761	11,847	14,642	11,612	7,354	8,885
Equity		12,638	8,812	4,634	3,912	3,256	4,190
Capex		2,701	4,080	5,457	4,533	3,804	3,157
Depreciation		3,427	3,496	3,375	3,711	4,005	4,147
Fixed assets - net		29,996	28,046	28,735	30,363	30,333	28,680
Total assets		49,267	50,782	58,346	67,160	65,112	60,906
Dividend		90	170	320	248	152	194
<b>Ratios</b>							
<b>Profitability</b>							
GP Margin	%	30.90	33.36	34.66	32.16	28.76	29.27
PBT Margin	%	12.56	15.62	17.70	14.06	9.24	10.60
NP Margin	%	8.79	10.87	12.35	9.62	6.34	7.48
<b>Investment</b>							
ROE before tax	%	99.07	193.14	452.90	433.69	329.12	300.47
ROE after tax	%	69.32	134.44	315.95	296.81	225.86	212.03
EPS	Rs	193.19	261.24	322.87	256.06	162.16	195.92
Sales to fixed assets		3.32	3.89	4.13	3.98	3.82	4.14
Sales to total assets		2.02	2.15	2.03	1.8	1.78	1.95
<b>Liquidity</b>							
Current ratio		0.70	0.60	0.60	0.70	0.60	0.70
Interest cover ratio		9.50	18.70	20.20	10.10	4.40	5.50
Debt-to-Equity ratio		2.24	2.45	3.43	3.76	3.76	3.55
Book Value per Share		278.67	194.31	102.19	86.27	71.80	92.40

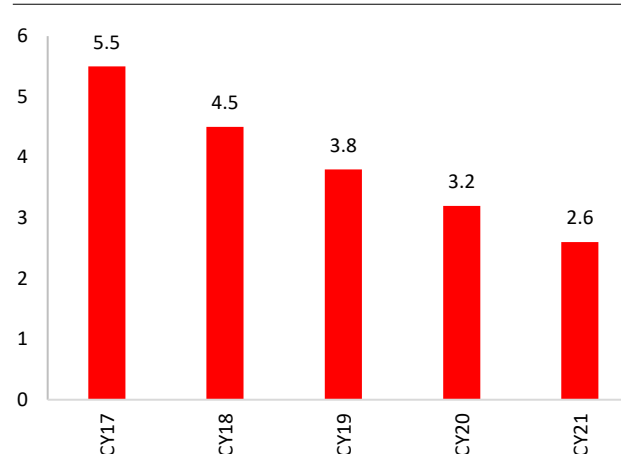
Source: Company accounts, Foundation Research, February 2022

**Fig 2: Beverages segment recovering Post Covid**



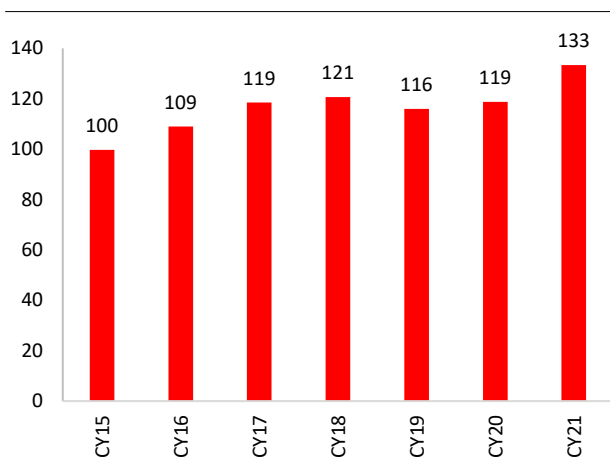
Source: Company acc, Foundation Research, Feb 2022

**Fig 3: Capex ↓ due to ↓ competitiveness (Rs bn)**



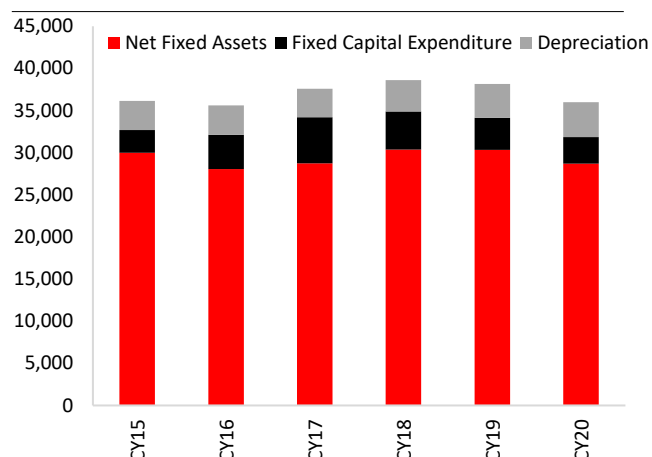
Source: Company acc, Foundation Research, Feb 2022

**Fig 4: Sales ↑ despite stiff competition (Rs bn)**



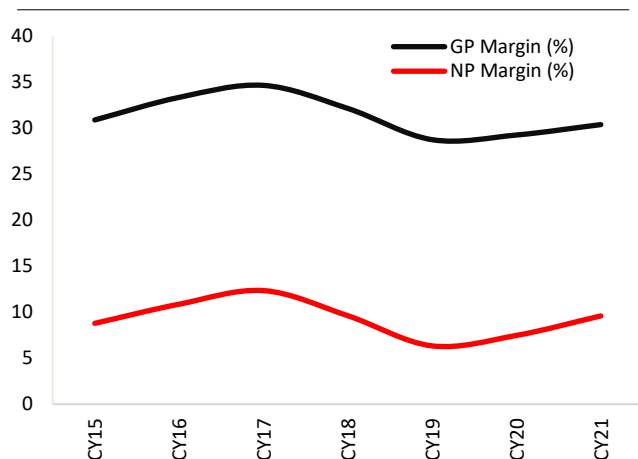
Source: Company acc, FSL Research, Feb 2022

**Fig 5: Net Assets declined slightly with Capex (Rs mn)**



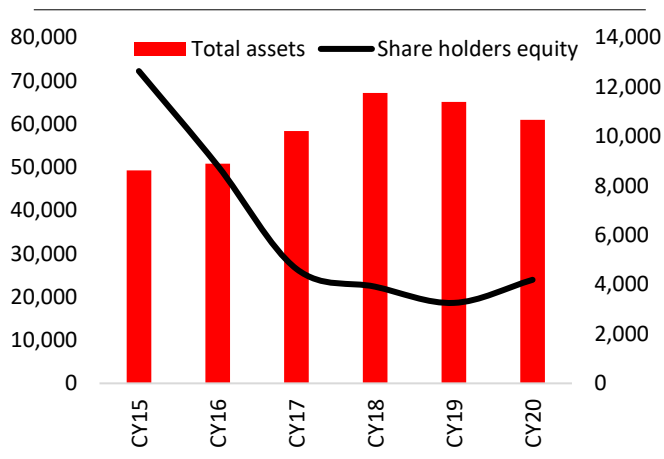
Source: Company acc, FSL Research, Feb 2022

**Fig 6: Margins recovering post Covid**



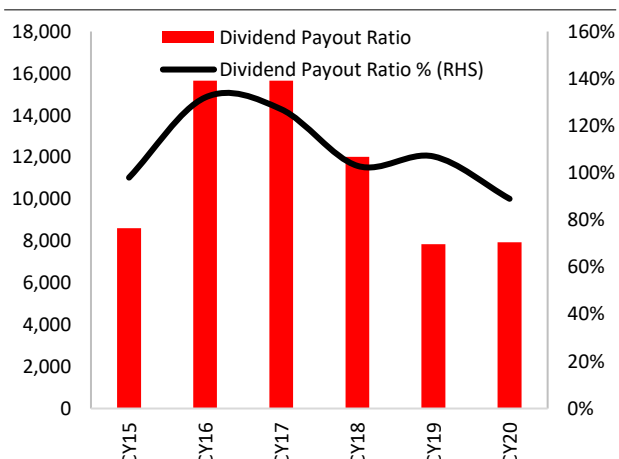
Source: Company acc, FSL Research, Feb 2022

**Fig 7: Shareholders' equity substantially decreased (mn)**



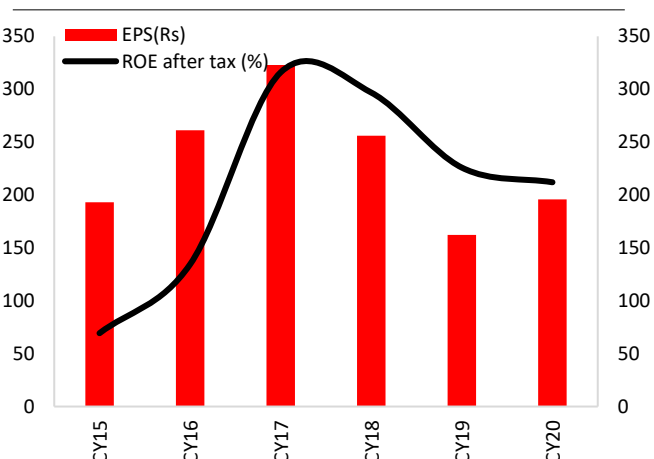
Source: Company acc, FSL Research, Feb 2022

**Fig 8: Dividend yield is likely to recover (Rs mn)**



Source: Company acc, FSL Research, Feb 2022

**Fig 9: Earnings on a recovery path post Covid**



Source: Company acc, FSL Research, Feb 2022

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.