

Nestle Nigeria Plc: Interim Results – Q3'08



December 15, 2008

HOLD

Fair Value: ~~NGN~~ 187.31

Current Price: ~~NGN~~ 201.51

Valuation/Analyst Recommendation

In arriving at a fair value for Nestle, we estimated TO, Earning Before Interest Tax Depreciation and Amortization (EBITDA) and PAT for December 2008. We project a TO of **N51.70bn**, based on a growth of **17.4%**, over the previous year. We project EBITDA of **N11.30bn** based on EBITDA margin of **21.86%** and a PAT of **N6.92bn** based on a PAT margin of **12.63%**. We used **660.55mn** Ordinary Shares which we expect to be in issue as at December, 2008. The Forward Earning Per Share (FEPS) generates **N10.48k**. We estimated the Dividend Per Share (DPS) of **N10.17** (both interim and final) based on a dividend payout of 97%. Having paid an interim dividend of N1.95kobo per share, we expect a final dividend of N8.22kobo. Applying Enterprise Value EV/EBITDA multiple of **10.87x**, a P/E multiple of **18x**, we arrived at **N185.97k** per share using EV/EBITDA multiple and **N188.64k** per share using price earnings multiple. A simple average of the two values generates **N187.31k** which is our fair value. The forward earnings yield and dividend yield based on our fair value generate **5.60%** and **5.43%** respectively. **We therefore place a HOLD on Nestle Stock at the current market price.**

Business Description

Nestlé's principal activities are the manufacturing, marketing and distribution of food products including purified water and the manufacture of hydrolyzed plant protein mix of Maggi cubes & other food products.

Ticker	NESTLE
Sector	Food and Beverages
Date of Incorporation	September 25, 1961
Date of Listing	April 20, 1979
Year End	December
No of Ordinary Shares	660,546,875
Capitalisation	₦ 133,106,800,781
% of Market Capitalisation	1.96
52-Week High	₦ 300
52-Week Low	₦ 171
YTD Return	(24.22)%
52-Week Avg. Trade	159,695
Beta Value	0.70
Current EPS	₦9.16
Current PE	21.99x

Meeting Essential Needs of Life:

The unaudited Q3'08 result of Nestle Nigeria Plc (Nestle) for the period ended September, 2008 showed that its Turnover grew by **20.8%** to **N37.74bn**, compared with N31.23bn in the corresponding period of 2007. Profit Before Tax (PBT) grew by **13%** between 2007 and 2008 to **N8.1bn** from N7.17bn. The company's provision for tax which increased by **13.9%** between 2007 and 2008 to **N2.6bn** from N2.28bn in 2007 brought about a Profit After Tax (PAT) of **N5.49bn** as against N4.88bn in 2007, representing a growth of **12.5%**.

A cursory look at the company's profit margins reveals that Nestle achieved marginal decline over the corresponding period in 2007 but a marginal increase over FY'07. The PBT margin decreased marginally to **21.46%** in Q3'08 from **22.93%** as at Q3'07, but up from **19.22%** as at the end of the financial year in December, 2007. This shows that the company's total cost as a percentage of Turnover stood at 78.54% in Q3'08, up marginally from 77.07% in the corresponding period in 2007. PAT Margin currently stands at **14.56%**, down marginally from 15.62% in the corresponding period of 2007, but up from 12.36% as at FY '07. The result also indicates that the percentage of the Turnover, PBT, and PAT in the Q3 '08 result to the Full Year Audited Turnover, PBT and PAT for the period ended December, 2007 was: **85.71%**, **95.67%** and **100.96%** respectively. This suggests that the company may likely surpass both its top-line and bottom-line at the current run-rate.

Looking at the Audited result of the company in 2007, the cost of goods sold increased in 2007 over 2006 by 17.23% to N27.81bn. The increase was higher than the increase in TO which increased by 14.59% to N44.03bn, this led to an increase of 10.32% in gross profit to N16.22bn, and resulted in a marginal decrease in the gross profit margin from 38.27% in 2006 to 36.85% in 2007. The operating profit grew marginally by 4.79% in 2007 to N8.4bn, while PAT decreased marginally by 3.86% to N5.44bn.

Although, Nestlé's working capital position as at December 31, 2007 was strong, it weakened compared with the preceding period of 2006. The current assets decreased to N10.82bn in 2007 by 6.53% over the position of N11.57bn as at FY, 06. In another development, the current liabilities stood at N8.24bn as at FY 07, an increase of 12.44% over N7.33bn as at FY 06. The relationship between the current assets and the current liabilities led to a decrease in working capital to N2.58bn as at FY 07, down from N4.25bn as at FY, 06. The negative growth in current assets, compared with the positive growth in current liabilities between the two years resulted to a reduction in the current ratio which stood at 1.31:1 in FY 07 from 1.58:1 as at FY 2006. In a similar development, the quick ratio stood at 0.68:1 in 2007, down from 0.80:1 in 2006.

The capital employed increased by 12.37% to N13.02bn, while the shareholders' funds decreased marginally by 1.95% to N6.24bn from the previous year's figure of N6.36bn. The Return on Capital Employed (ROCE) and Return on Equity (ROE) stood at 64.51% and 87.26% respectively in 2007. The company paid a total dividend of N8.20 as benefits to its shareholders in 2007 financial year end.

Analysis of TO of Nestle Nigeria Plc as at December, 2007 indicates that the **N44.03bn** was derived entirely from domestic sales, which represents the invoiced value of goods sold to external customers, net of value added tax. Looking at the shareholding structure as at December, 2007, **99.99%** of the 31,011 shareholders of the company held 37.70% of the company's shares totaling **660,546,875**. Collectively, **62.3%** of the issued and paid up shares were held by Nestle CWA Limited, Ghana and Nestle S.A. Switzerland as at December 31, 2007 while the remaining **37.7%** was held by the Nigerian Public. Nestle Nigeria's products includes Cerelac, Golden Morn, NIDO, Milo, Maggi, Nescafe, Pure life Water among others.

Industry Analysis (Nmn)

Company	TO	PBT	PAT	PAT Margin (%)	ROE (%)	EPS*	PE*
Nestle	44,027	8,463	5,441	12.36	87.26	9.16	21.99
Dangote Sugar	80,649	30,661	21,475	26.63	82.75	1.85	7.42
Flour Mills**	127,662	9,878	6,363	4.98	19.86	4.55	8.07
7-Up**	30,572	2,480	1,609	5.26	22.27	3.14	11.75
NBC	68,529	4,346	3,172	4.63	13.88	2.74	12.16

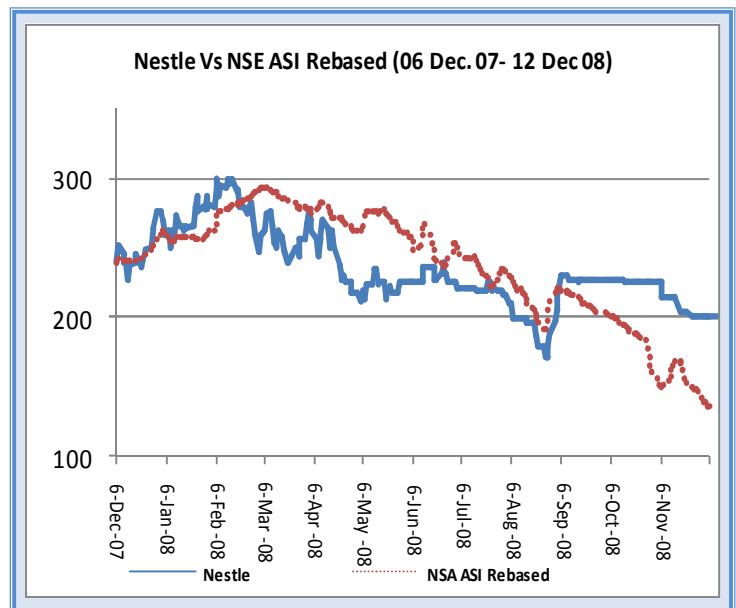
Source: Company Annual Reports as at FY '07, NSE FACTBOOK. * Current. 7-Up and Flour Mills have different Year End. **2008

Financial Performance (Nmn)

	Q3 '08	Q3 '07	%Δ	FY 2007	FY 2006	%Δ	FY 2008E
Turnover	37,736	31,249	20.80	44,027	38,442	14.59	51,698
PBT	8,097	7,166	13.00	8,463	8,197	3.24	9,207
PAT	5,494	4,882	12.54	5,441	5,660	(3.86)	6,922
PBT Margin (%)	21.46	22.93	(1.47)	19.22	21.34	(2.11)	17.81
PAT Margin (%)	14.56	15.62	(1.06)	12.36	14.73	(2.37)	13.39

Directors as at December, 2007

Name	Position	% Holding
Chief O. Osunkeye	Chairman	450,000
Mr. K.P. Wachsmuth	Mg. Director	NIL
Mr. R. Stettler	Director	Nil
Mr. A. Cantacuzene	Director	Nil
Mr. J. Vauthier	Director	Nil
Mr. D.C. Ifezuilike	Director	63,546
Mr. F. Mahler	Director	Nil
Dr. F.D. Msheila	Director	3,125
Mr. E. Benet	Director	Nil

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