



TROVE EQUITY SPOTLIGHT

— Nestle

JUNE 2020



Nestlé

Good Food, Good Life

N1,030

Current Price of
a share

↓ **-32.21%**

By how much has the
share price changed
from Jan till date

N764.90

Lowest price in the
last 1 year

N1469.90

Highest price in the
last 1 year

N1617.10

Lowest price in the
last 5 years

N570.00

Highest price in the
last years

Market Value: N788.69bn

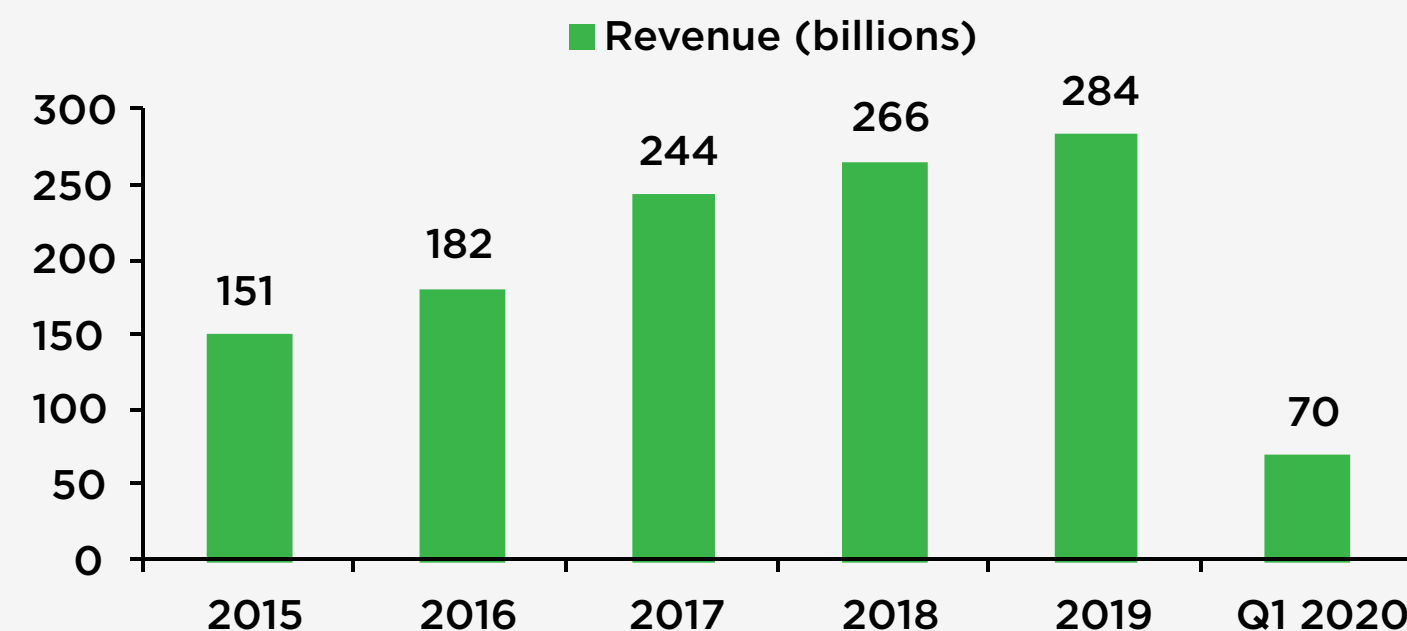
Largest company by value on the NSE

01

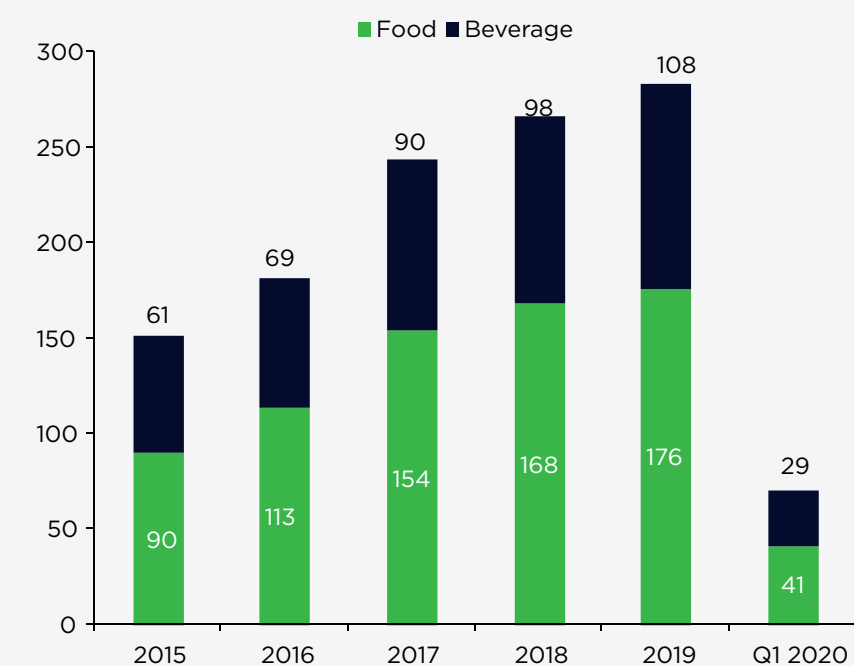
Nestle Nigeria Plc has consistently delivered strong revenue over the last five years from manufacturing, marketing and distribution of food and beverages products.

Nestle earns its income from the production and sale of food products like Maggi, Cerelac, Nan, Lactogen and Goldern morn. As you have probably guessed, Maggi remains their star product in this segment. For beverages, Nestle earns its income from the production as sale of Milo, Chocomilo, Nescafe, Milo ready to drink and Nestle pure life. In this segment, Milo is their star brand.

REVENUE (N'BILLIONS)



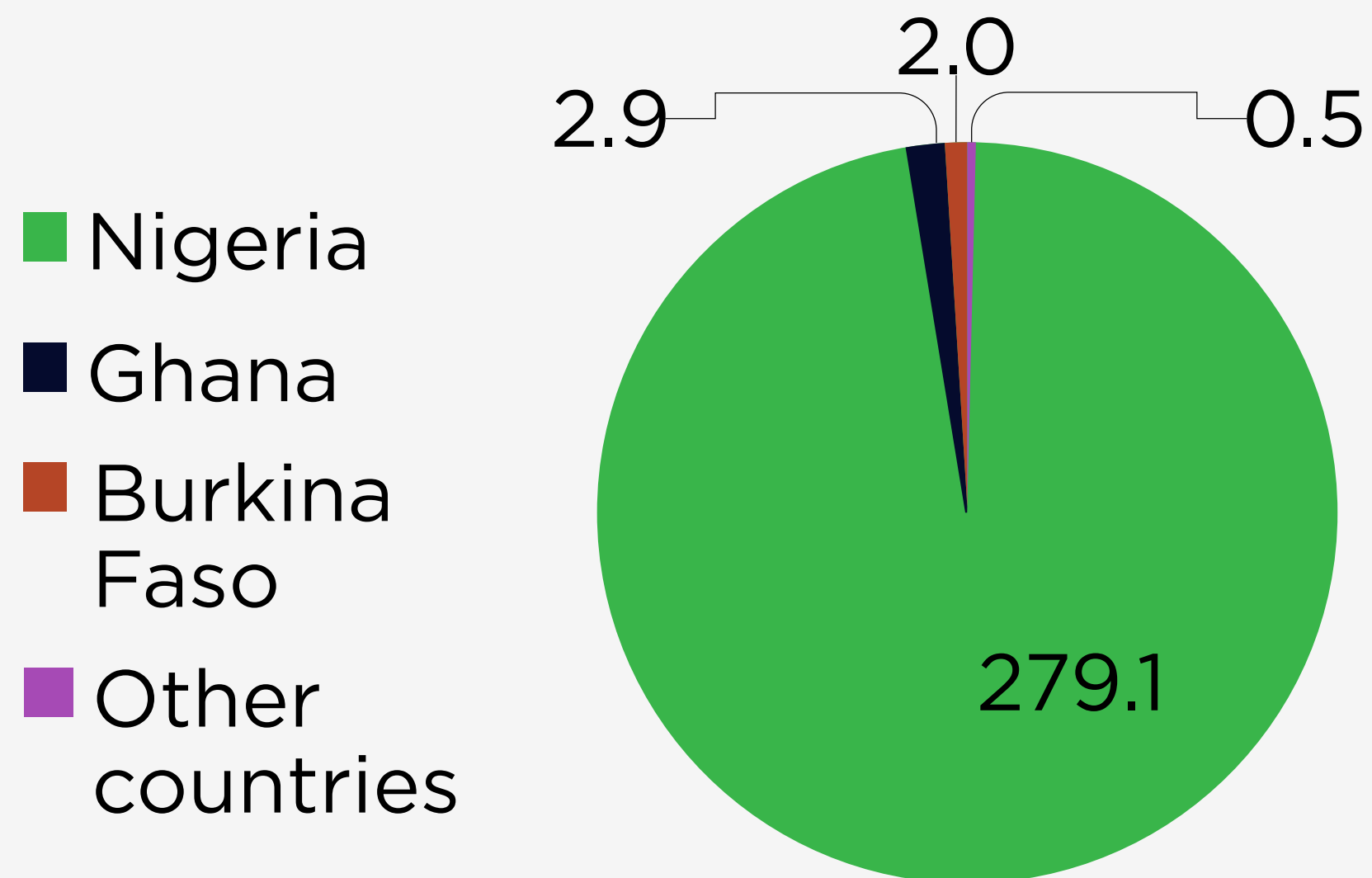
REVENUE COMPOSITION (N'BILLIONS)





03

REVENUE BY GEOGRAPHICAL LOCATION (N'BILLIONS) - 2019



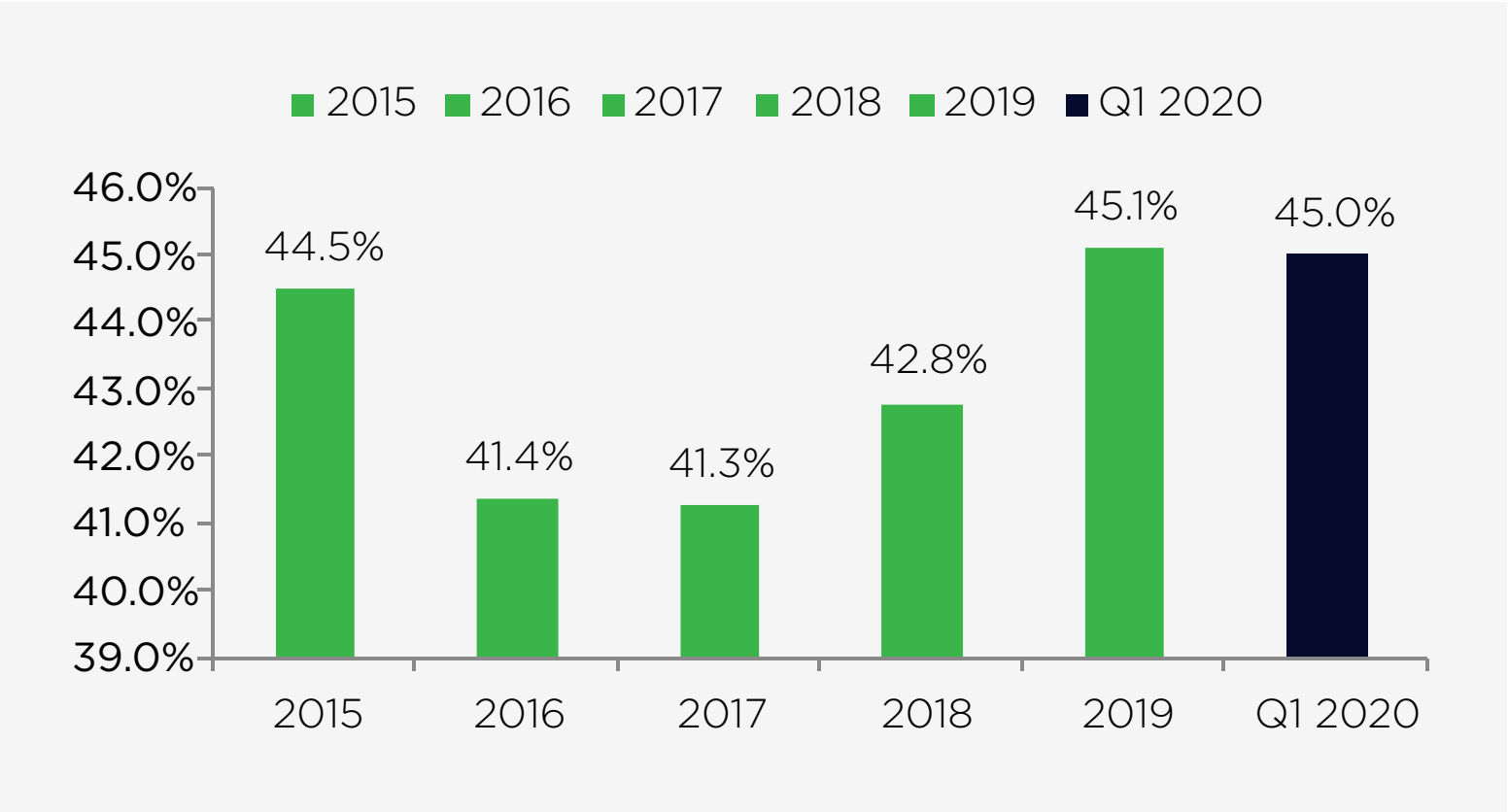
In West Africa, Nestle earns 98% of its revenue from Nigeria, while 2% comes from Burkina faso, Ghana and other countries.

Operating & returns metrics

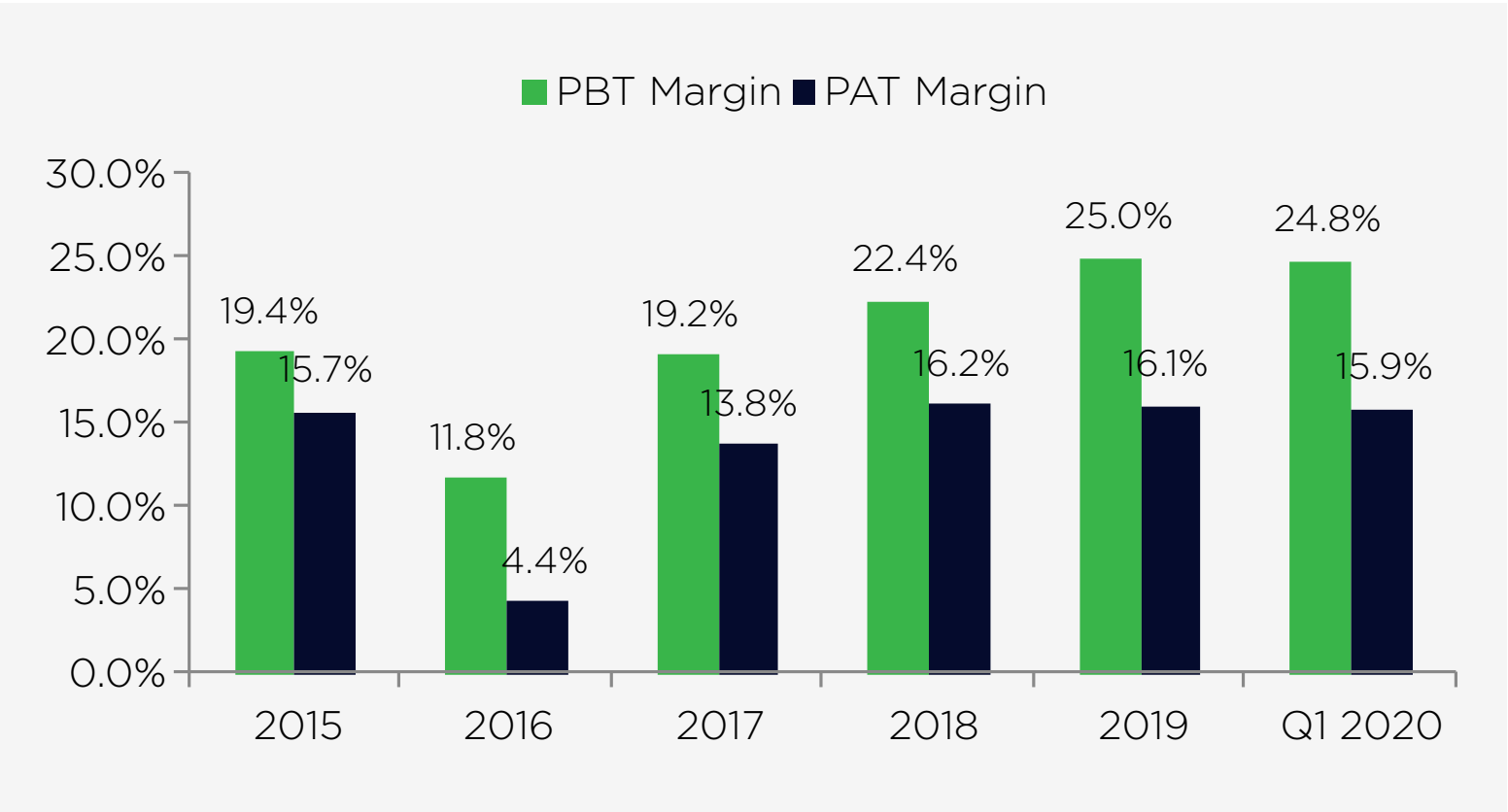
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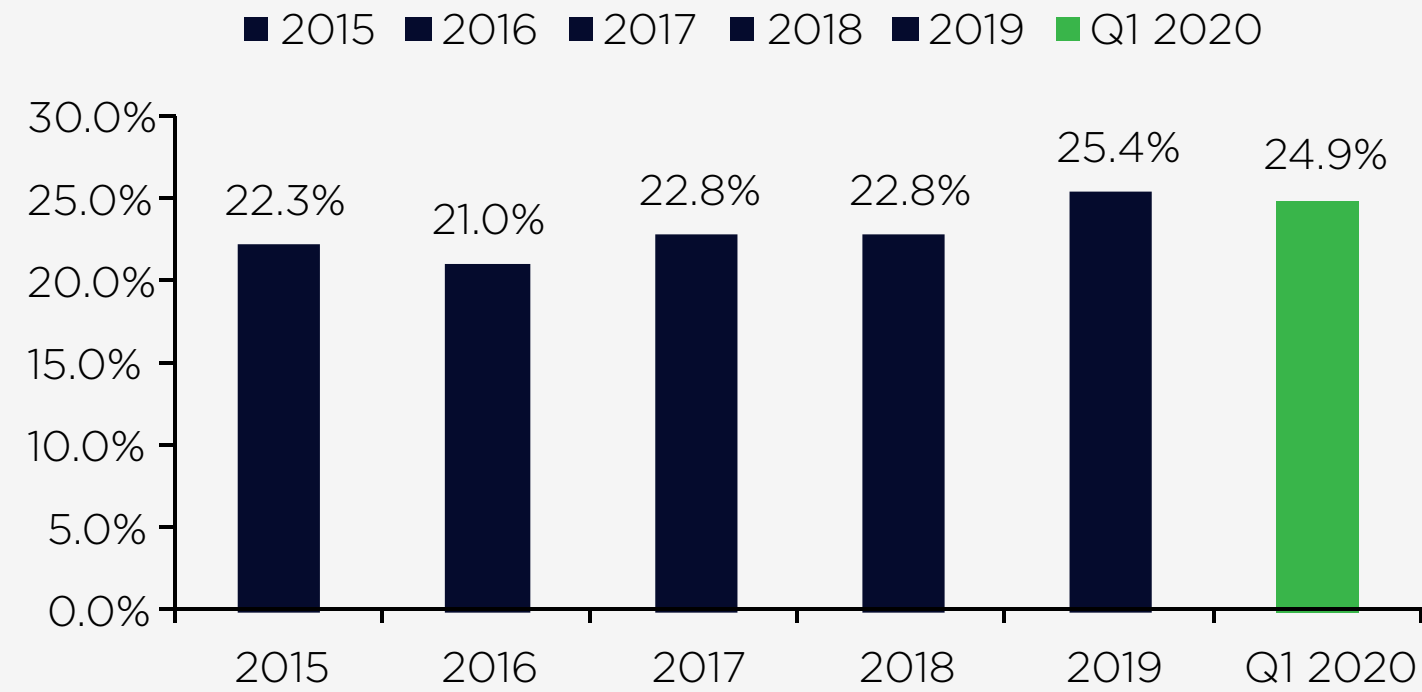


Gross margin measures how much sales Nestle has after spending on all direct costs used in manufacturing and selling its food and beverages products. As the chart shows, Nestle has a track record of efficiency by consistently reporting high gross margin above 40%.

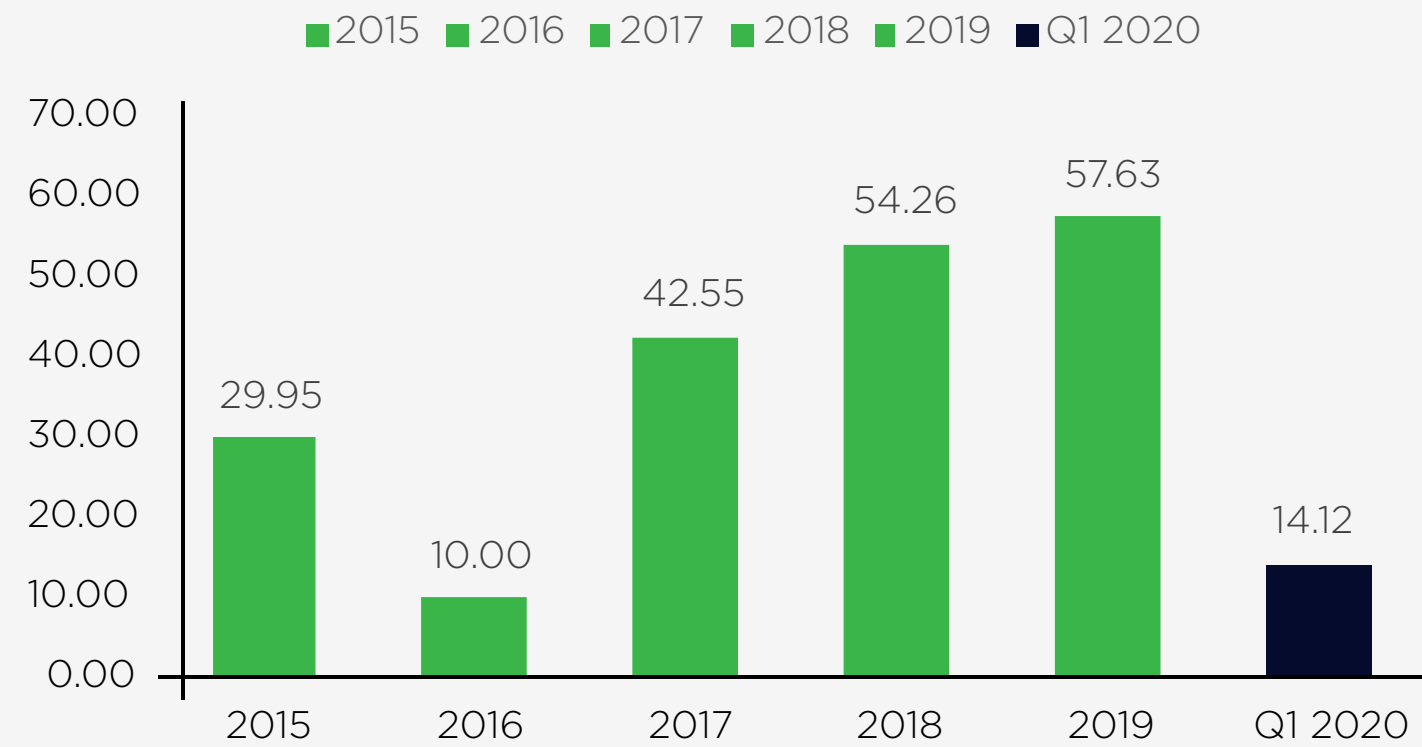


PBT margin tells us how much profit Nestle makes on each Naira of Revenue, prior to taxes, while PAT margin depicts the percentage of revenue left over after all expenses have been paid. Nestle’s PBT and PAT margin indicates that it has provided more value by delivering attractive earnings to shareholders through economic cycles.

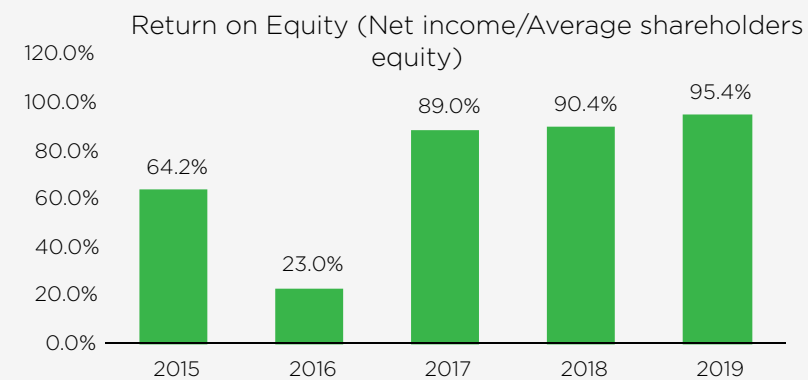




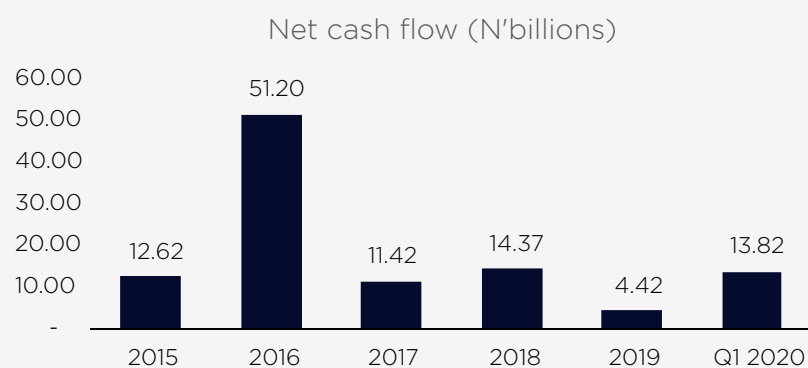
Operating margin shows the proportion of revenue that is available to Nestle, after paying for variable costs like costs of raw materials, packaging of Nestle's products, etc. In Q1 2020, Nestle made N0.249k before interest and taxes for every Naira of sales.



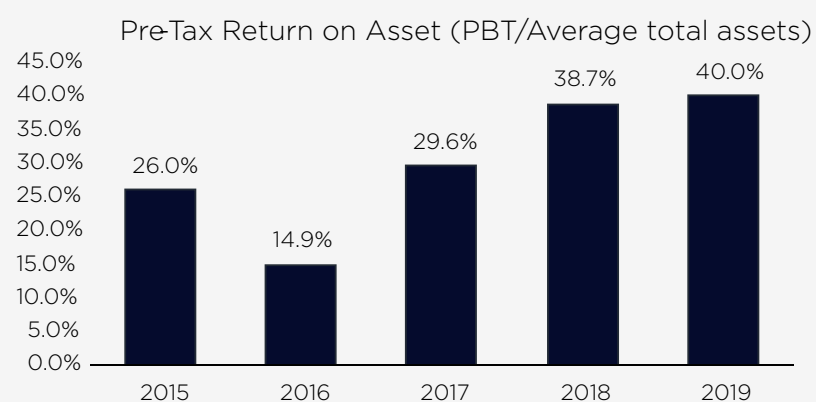
EPS shows the amount of money each stock would receive if all the profits were distributed to the outstanding shares at the end of the year.



ROE ratio reveals how much money Nestle earns on the money contributed by shareholders. A glance at the chart tells us that Nestle is efficient in utilizing investment financing to grow their business, especially between 2017 and 2019 where it reported attractive ROE.



Net cash flow is the fuel that helps Nestle expand, develop new products, buy back stock, pay dividends, and conduct their day to day business activities. The chart shows Nestle's steady positive net cash flow positions.



Return on assets (ROA) tells us how profitable Nestle is compared to its total assets. It shows how Nestle uses its assets to generate income. For example, in 2019, every N1 that Nestle invested in assets generated N0.4 of net income before tax.

N1,030

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At a current share price of N1,030, Nestle is trading near its lowest price in the last one year. Wouldn't this be a good time to buy? In our opinion...yes

Company Name	Price to Earnings	Enterprise Value to EBITDA	Enterprise Value to Revenue	Dividend Yield	EBITDA Margin	Net Income Margin
Nestle Nigeria Plc	17.9x	9.9x	2.7x	7.0%	27.5%	15.5%
Nestle India Ltd	0.0x	53.1x	12.4x	1.0%	23.4%	15.9%
Nestle Pakistan Ltd	45.5x	18.6x	3.0x	2.0%	15.9%	6.0%
Nestle Malaysia	52.1x	32.4x	6.0x	2.0%	17.8%	11.4%
Average	28.9x	28.5x	6.0x	3.0%	21.2%	12.2%

X – number of times

Price to Earnings Ratio

Price to Earnings Ratio

(Market Price of Share)

(Earnings per Share)

EV to EBITDA

EV to EBITDA Ratio

Enterprise Value

EBITDA

Dividend Yield (Stock) Formula

Annual Dividends Per Share

Price Per Share

EBITDA Margin

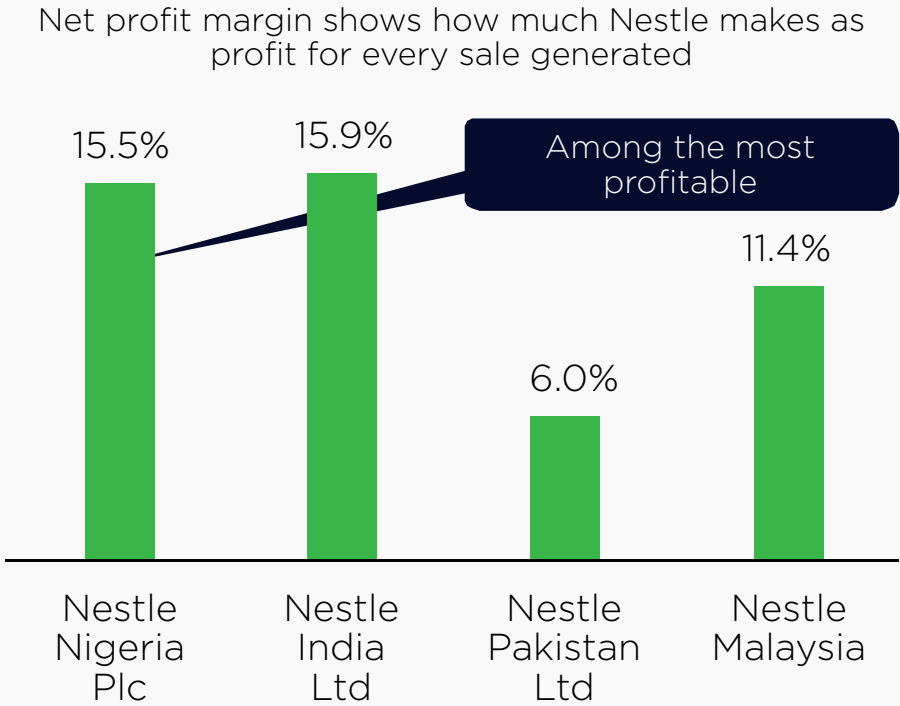
EBITDA Margin

EBITDA

Total Sales

x 100

- Price to Earnings tell us the length of time until an investor regains the investment
- The lower this multiple, the better
- This multiple shows if a company currently has a low or high valuation
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- This margin shows how efficient and profitable a company is



EBITDA – Earnings before interest, tax, depreciation and amortization – It is a representation of cashflow for a company

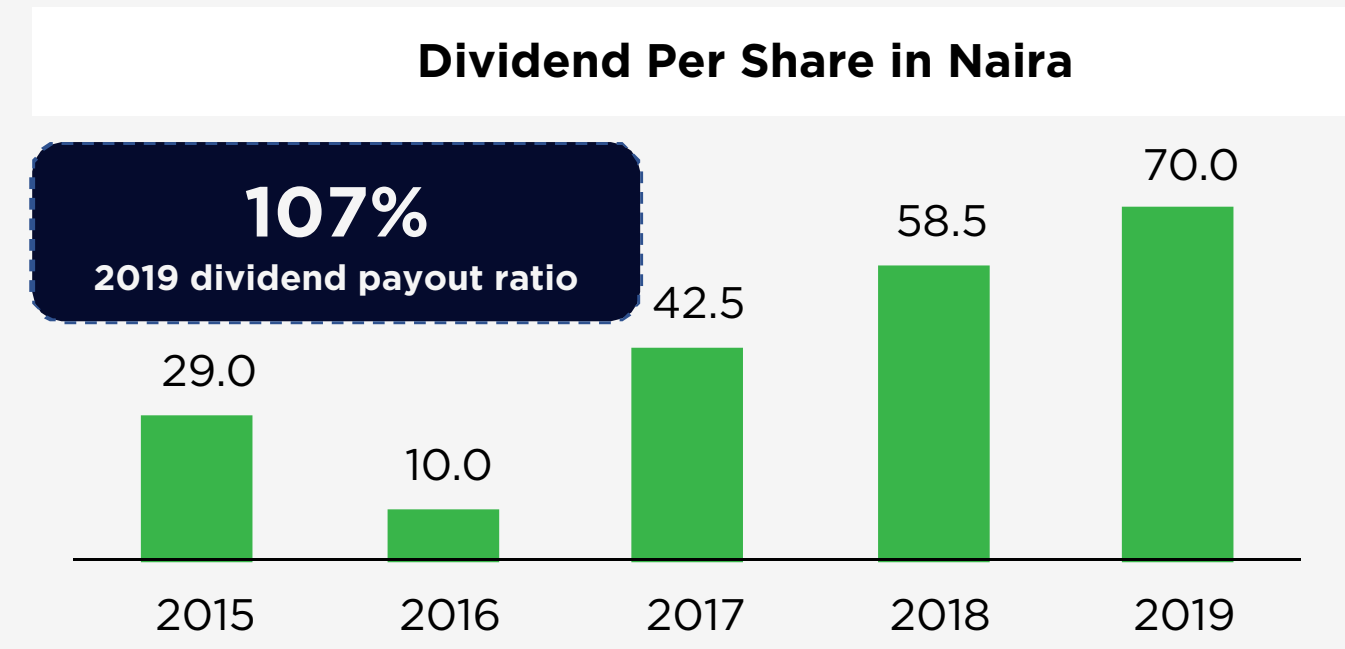
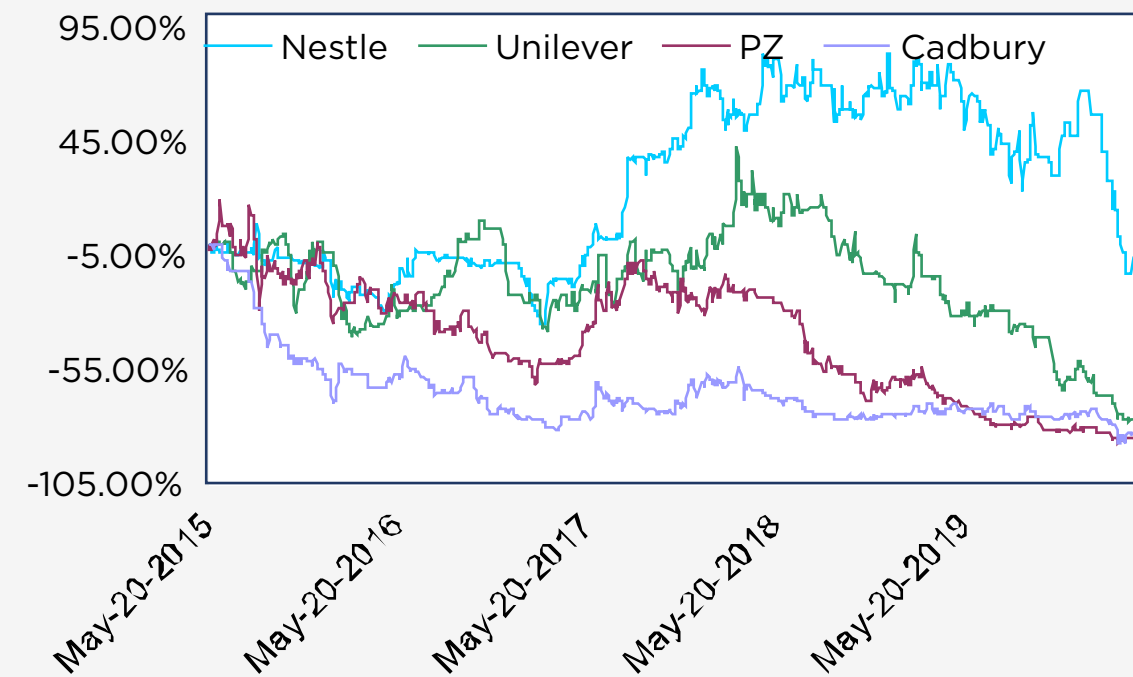
**Double digit
dividend growth
supported by
strong earnings
and cashflow
coverage**



09



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One of the biggest stories out of Nestle Nigeria is its consistent and unmatched dividend payout and growth



$$\text{Price to Earnings Ratio} = \frac{(\text{Market Price of Share})}{(\text{Earnings per Share})}$$


It tells us how long it takes for an investor to regain his investment in a stock

Based on this, we estimated a value of N1,666 per share – 61.7% upside

EV to EBITDA



$$\text{EV to EBITDA Ratio} = \frac{\text{Enterprise Value}}{\text{EBITDA}}$$



It compares the total value of the company to how much it makes in operating profit before depreciation

We estimated a value of N1,510 per share – 46.6% potential upside

General market fluctuations and unanticipated economic events may largely affect this valuation; however we are of the opinion that you buy the stock

We have also gathered the target price of Nestle Nigeria from the top 5 ranked analysts by Bloomberg

Research House	Target Price	Upside Potential
ARM Securities	1,404.00	36.3%
CSL Stock Brokers	1,323.27	28.5%
FSDH Research	1,325.00	28.6%
RMB Stock Brokers	1,724.00	67.4%
United Capital	1,643.10	59.5%
Mean	1,483.87	44.1%

- When compared to Nigerian peers, Nestle Nigeria has been the best performing stock over the past five years
- Analysts views further buttress our analysis of Nestle Nigeria Plc



For more information please visit



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