



....The Bellwether of all time

November 3, 2018

KEY METRICS

KEY DATA

Fair Value per Share (N)	1029
Closing Price (N) *	1360
52-week High / Low (N)	1615/ 1371
YTD / 12-month Return	12.6%
P/E (TTM)	44.58
Shares Outstanding (Millions)	792.66
Market Cap (N' Millions)	1,233,365.2
Free Float	37%
Bloomberg Code	NESTLE:NL

Source: Bloomberg

12-month fair Value: **N1029**

Recommendation- HOLD

Reason for report: INITIAL COVERAGE

Nestle Nigeria is one of the companies on the exchange characterized by consistent growth over the years with its operations dating as far back as independence. Despite the challenging financial year in 2017 in the food and beverage industry, NESTLE stayed above competition to deliver an impressive result as revealed in its 2017FY numbers.

We believe the company's historic concentration on nutrition brands, rich product portfolio cutting across various consumable necessities, continuous research and development spurred by its international content and its aggressive route to market efforts are some of the factors traceable to its growth story.

While we assume that consumers re-allocated their spending to more necessity goods, NESTLE remained resilient in growing its profits

STOCK PERFORMANCE

	2015	2016	2017	2018F
EPS (N)	30.04	10.40	42.53	52.79
EPS Growth	9%	189%	76%	19%
P/E	28.71	81.00	36.57	44.58
Dividend Yield	3.20%	3.58%	1.61%	3.85%
EV/EBITDA	17.61	14.51	19.98	16.22

Source: Bloomberg



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Executive Summary

Nestle Nigeria Plc is a leader in the Nigerian Consumer Goods space and has been in existence for over 57 years. NESTLE has become a household name with popular brands such as Maggi, Milo, Cerelac, and Golden morn amongst others. The company is a part of Nestle Group; the world's largest Food and Beverage company renowned for its high-quality and innovative products for over 150 years.

The company's drive constant drive for innovation, productive investment in its manufacturing operations and expansion of its operations has continued to contribute to its growth. Nestle also sources for circa 80% of its raw materials locally and this has helped improved the company's cost-effectiveness; thus enhancing its bottom-line in recent times.

Nigerian Market drives Stellar Performance in Revenue

Nestle operates via a route-to-market strategy for distribution of its products. This strategy has made the company's products easily accessible in the market. The company's revenue has been on consistent increase since 2010. Having witnessed a growth in revenue from NGN116.71Billion in 2012 to NGN244.15Billion in 2017. The company recorded a 5-year CAGR of 15.91% in revenue.

Nestle principally generates its revenue from the sale of food products and purified water in Nigeria. In addition, the company is engaged in export of some of its products within and outside Africa. In terms of geographical contribution to its revenue, the Nigerian market accounts for the major share of its revenue; contributing 98.95% and 98.76% to the group's revenue in 2016 and 2017 respectively. The bellwether counter in the consumer goods space has recorded a YtD of -11.31%.

Although the counter is in the negative territory, it has outperformed the market by 1.89%. The counter's performance can be largely attributed to the profit-taking witnessed in the Nigerian equities market and the dwindling investor confidence as a result of the upcoming 2019 elections which has led to the decrease in the participation of Foreign Portfolio Investors in the bourse. This investment report will provide investors with the required information to make a conclusive decision to invest in Nestle Nigeria Plc.



Valuation

The purpose of this valuation exercise is to arrive, by using fundamental analysis, at a fair value estimate of the share price that should prevail for Nestle Nigeria over the next 12 months. This does not represent a guarantee that this value is achievable within that time period, as a wide range of variables and market dynamics affect the market price of a stock.

We arrived at a 12-month fair value for Nestle Nigeria of **N1029** per share by using two valuation methods: EV/EBITDA and peer comparison based on forward PE multiples. We specified a weight for each method, as shown below. The greater weight will be assigned to EV/EBITDA, as this method examines the fundamentals of the company to determine its future operating cash-generating ability. The 12-month fair value of N1029 represents a 24% downside from today's close; hence, our HOLD recommendation.

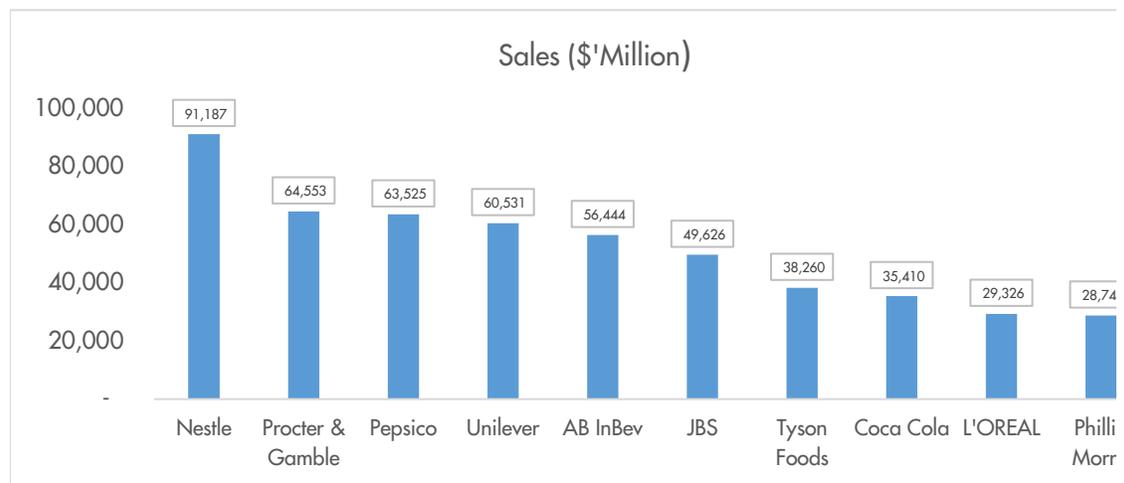
Weighted Valuation Summary			
	Lower Range (N)	Upper Range (N)	Weightings
NAV	4,487,817.70	4,487,817.70	0.10
Maintainable Earnings	1,903,868.33	2,225,827.90	0.10
P/E	442,420,224.77	501,691,933.40	0.40
EV/EBITDA	302,406,267.44	313,991,053.90	0.40
Valuation Range	406,620,860.11	815,682,987.30	1.00
Outstanding Shares	792,656.25	792,656.25	
Value Per Share	512.99	1,029.05	

Sectorial Overview

Global

The fast-moving consumer goods (FMCG) sector also known as the Consumer-Packaged Goods sector represents one of the largest industries worldwide with an estimated value of over \$4 trillion according to McKinsey Research Institute. The industry is mainly characterized by companies that supply low-cost products that are in constant high demand. FMCG covers mass-market consumables, including food and drinks, personal care, home care, and over-the-counter pharmaceuticals. The term “fastmoving” stems from the fact that FMCG products usually have a short shelf life and are non-durable. FMCG is often cited as a low margin-high volume game as firms in this industry employ strategies focused on increasing top-line sales owing to the slim profit margin. Well known FMCG multinationals include Coca-Cola, Unilever, Procter & Gamble and Johnson & Johnson.

World’s Top 10 Largest FMCG Companies in the World



Source: Consultancy.uk analysis, Bloomberg, OC&C Strategy Consultants

Domestic

According to the World Bank Consumption Database, Nigeria has the highest FMCG household expenditure in Africa of \$41.7 billion in 2010. The growth prospect of FMCG industry is directly linked to size, with an estimated population of 180 million, Nigeria offers high growth potentials to the FMCG sector. A key strategy being adopted by FMCG companies in Nigeria is the gradual consolidation/integration along the value chain

A report by McKinsey estimates that between 2008 and 2020, there is a \$40 billion growth opportunity in Nigeria’s food and consumer goods space which is the highest in any African nation. Nigeria's population of 186 million people and the country's rapid urbanisation present a huge opportunity for global retailers.

Key Drivers of Fast-moving Consumer Goods in Nigeria

Key Drivers of Fast-Moving Consumer Goods in Nigeria are:

- (i) Large Market Size: The FMCG market is a high-volume low margin market and its growth and success is hinged on the size of the population. Nigeria with a population of 186 million people and has been projected to reach a population of provides a huge opportunity for the FMCG market. This makes Nigeria one of the major spots
- (ii) Youthful Population: With the increasing size of the FMCG sect
- (iii) Urbanization

SWOT ANALYSIS

<ul style="list-style-type: none"> • Global recognition/Strong brand • Strong Internal Growth • Carefully selected employees • High emphasis on quality • Strong corporate culture 	<ul style="list-style-type: none"> • Warehouse storage problems • Diversified portfolio sometimes makes decision process difficult • Poor Working Capital Management
<ul style="list-style-type: none"> • Increasing demand for healthier food products • Can establish joint ventures • Government Policies that encourage local production • Huge customer space 	<ul style="list-style-type: none"> • More rigorous advertisement and campaigns by rivals • Controversies • Product pricing not preferred by many • Homogenous products • Slim profit margins

Sub-segmentation of the Nigerian Consumer Goods Market

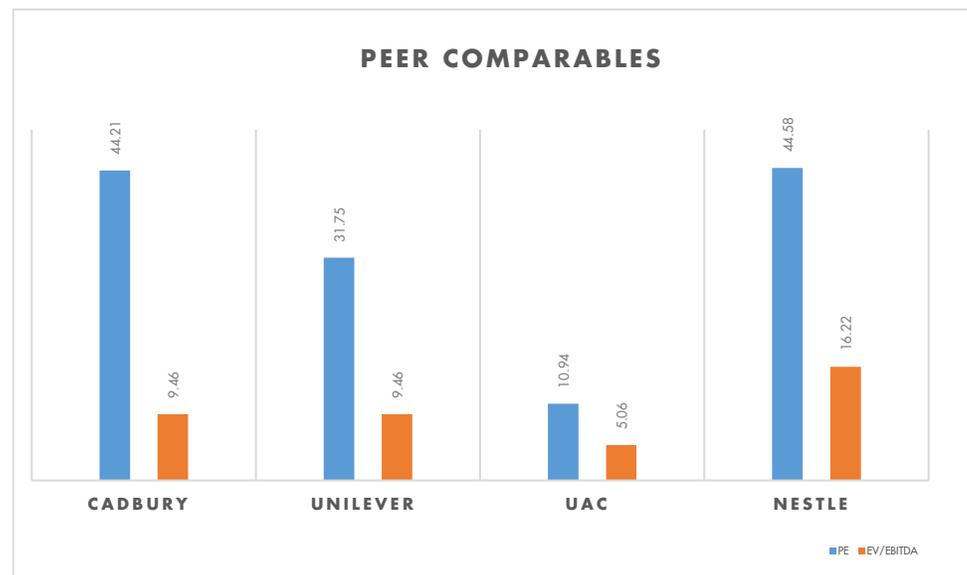
This sector comprises companies that are engaged in the production and manufacturing of final goods. In general, these are products and services classified for personal use, specifically intended for the mass market.

This major sector encompasses goods that are consumed rather than used in the production of other goods, and include both durable and non-durable consumables. 2018 has been a turnaround year for many companies especially in the consumer goods and beverage companies.

The Nigerian consumer goods sector narrative is changing positively, as most companies in the sector have posted performance well ahead of forecasts.

This growth can be connected to the growth in the manufacturing sector GDP — where food/beverage is 34% as at FY 2017. Sectoral analysis from Bloomberg indicate that the growth in market share, from of Unilever Nigeria Plc, PZ Cussons Plc, Flour Mills of Nigeria Plc and Dangote Sugar Refinery Plc, will spill over into 2018/19.

One of the key developments in the sector is the backward integration to source raw materials in order to reduce income losses due to importation major raw materials. Most companies cut down the exposure to FX from circa 96 per cent to 34 per cent across the sector.



Nestle –Company Overview

Nestle Nigeria Plc is a publicly listed food and beverage specialty company headquartered in Lagos. It is majority owned by Nestle S.A. of Switzerland. The company was founded in 1961 and conducted trading under the name of Nestle Products Nigeria Limited. It has its main factory in Agbara Industrial Estate, Ogun State. The firm manufactures breakfast cereal, baby food products, food seasoning and hydrolyzed plant protein mix.

The firm was listed as one of the largest 100 companies in Africa by Africa Business magazine.

Products

Nestlé manufactures a range of high quality brands among which are:

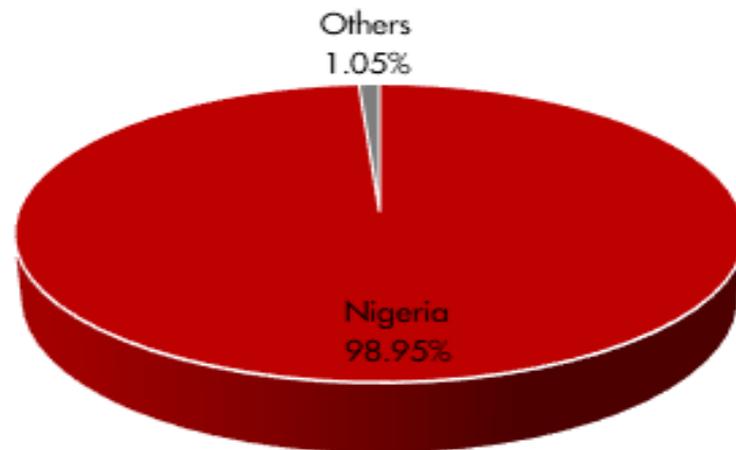
- Infant cereal- Nestlé NUTREND, Nestlé CERELA
- Family Cereal- Nestlé GOLDEN MORN
- Beverage Drink- Nestlé MILO
- Confectionery- Nestlé CHOCO MILO
- Bouillon- Maggi cube
- Table water- Nestlé PURE LIFE

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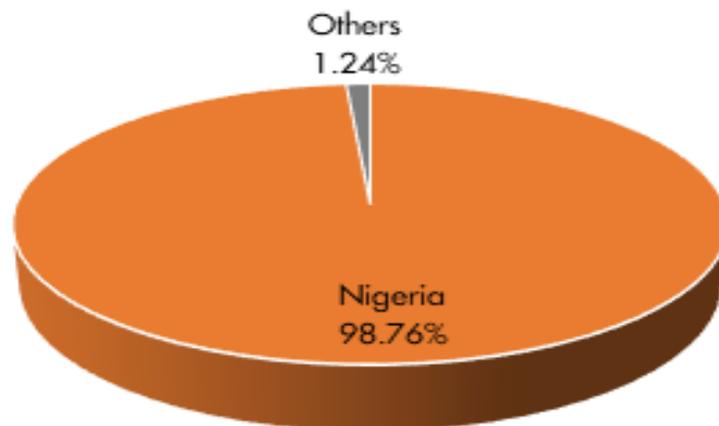
Nestle principally generates its revenue from the sale of food products and purified water in Nigeria. Also, the company is engaged in export of some of its products within and outside Africa. In terms of geographical contribution to its revenue, the Nigerian market accounts for the lion share of its revenue; contributing 98.95% and 98.76% to the group's revenue in 2016 and 2017 respectively.

Nigerian Market drives Stellar Performance in Revenue

Contribution to Revenue by Geographical Segment (in 2016)



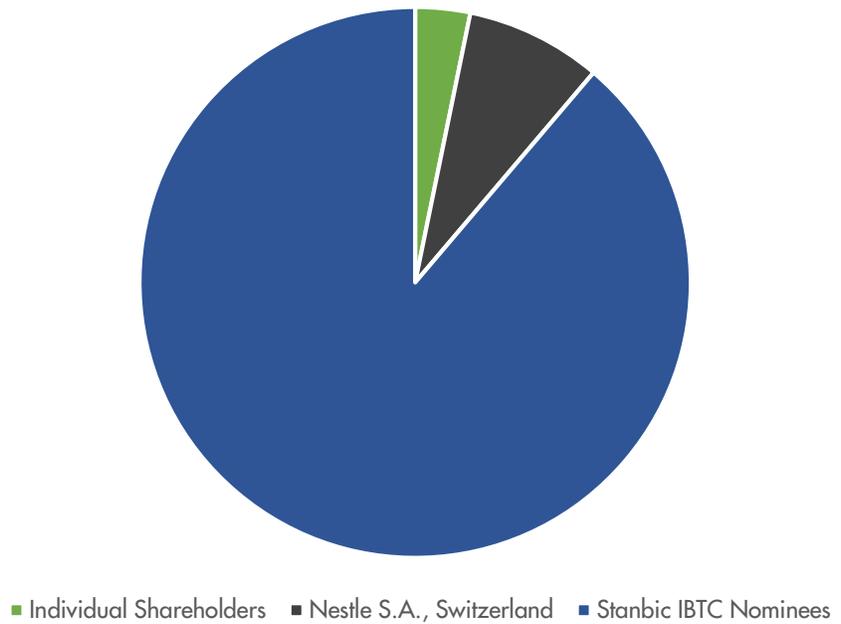
Contribution to Revenue by Geographical Segment (in 2017)



Nestle -Shareholding Structure

Share Holding Structure	
Nigerians/Others	26.60%
Nestle S.A., Switzerland	66.06%
Stanbic IBTC Nominees	7.34
Shares Outstanding (MN)	792,656,252
Date Listed	20th April, 1979
Year End	31st December

Shareholding Structure



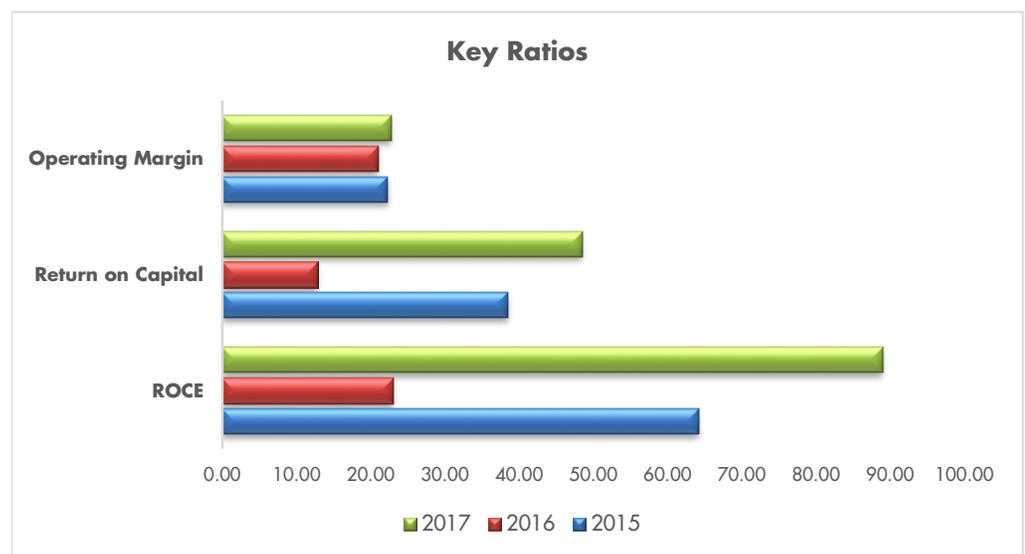
Nestle –Company Overview

Nestle Nigeria has solidified its position as the food and beverages giant, year after year they release their financial performance scorecard to the shareholders and stakeholders beating market expectations of their performance. Their impressive financial performance always creates a positive stimulus to the company’s share price performance.

The growth in the company revenues indicate a positive management strategy to reposition and reformulate its products by packaging them in affordable packs in other to meet different consumer segments, increasing its market share.

The company started the year on an impressive note with revenue growth supported by increasing market share and price growth, the forecast shows that the business will deliver a decent topline growth at the end of the year. It is our projection, that the rest of the year will drive upward movement in earnings that will drive growth in share price, as the drive sales volumes for the company’s products.

Nestlé’s entry to the baseline agriculture/farming business in other to drive efficiency gains in cost management and backward integration is paying off, and will definitely push up profit figures by year end 2018. The company has expanded its value chain thereby fostering local input in its production processes. The integration and cost saving strategies of the company has helped to sustain profitability during the toughest times in the economy and can be seen from their strong profit margins



Source : Bloomberg

Nestle - Operational Strategy

Nestlé's ability to set itself apart as an industry leader in the Nigerian FMCG sector can be attributed to the strategic guidance of their board and management toward cost reduction via backward integration and reduction of dependence on imported raw materials, which expose their sales numbers to FX pressures.

This strategic positioning direction by Nestle will definitely yield results in the coming years when they become sector leaders in the agriculture and agro-allied market space.

They have also ventured into production of smaller sized consumption packs to gain entrance into the lower income consumer segment.

See below some of their product categories especially the smaller pack productions



Source: Google Images

Nestle Nigeria – Financial Overview

....Profitability Attributable to Company's Strategy

NESTLE NIGERIA PLC	2013	2014	2015	2016	2017
Gross Profit Margin	50.81	50.90	48.47	43.20	41.66
OPEX Margin	25.75	25.10	21.17	16.86	16.58
ROcE	41.86	29.92	22.12	16.81	19.21
ROAA	17.01	14.13	10.79	7.86	8.82
Cash Ratio (x)	0.10	0.05	0.04	0.08	0.10
Current Ratio (x)	0.45	0.50	0.41	0.52	0.56
Quick Ratio (x)	0.18	0.15	0.12	0.17	0.19
Inventory turnover (x)	-0.09	5.24	6.00	7.16	11.63
Pay Out Ratio	79.90%	102.27	97.93	128.36	86.11

Du-Pont Analysis					
ROE	42.08	29.55	22.09	16.74	19.01
Net Income Margin	16.04	15.96	12.95	9.06	9.59
Asset Turnover (x)	1.06	0.88	0.83	0.87	0.92
Leverage (x)	2.46	2.12	2.05	2.14	2.18

Source: Bloomberg

For the analysis, we have reviewed the revenue contribution of the product categories available to Nestle and the company's growth potential. Analyzing the company's FY 2017 results shows the company able to grow its revenue reasonably in all of the quarters of the year.

Nestle presented a compelling returns at FY, with earnings rising to circa N32.8 billion, quadruple growth from the previous year.

There has been a marked increase in volume induced by revenue growth and declining FX exposure as key drivers of profit at year end 2018. Revenue growth in the four quarters of 2017 was: 5.98%, -2.33%, 1.23% and 11.74%. This resulted in a YoY growth rate of 19.11% bringing the company's 5-year CAGR to 21.35%.

Nestle – Financial Overview

....Profitability Attributable to Company's Strategy

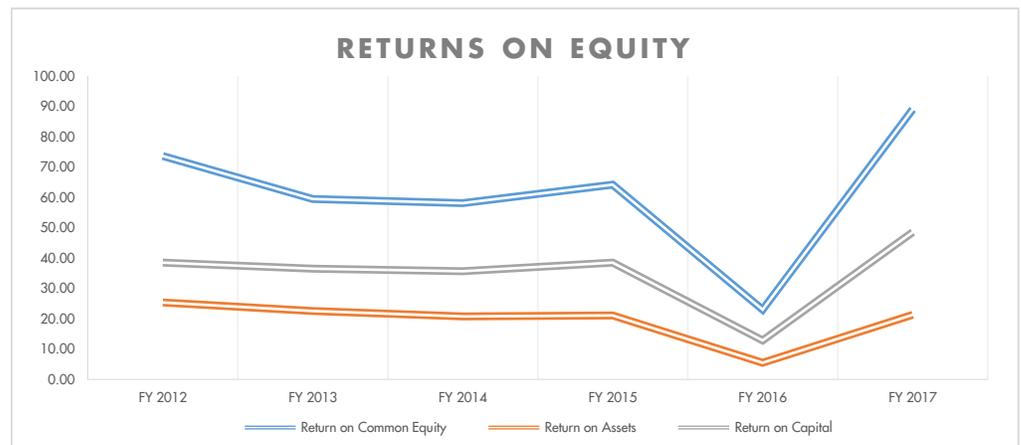
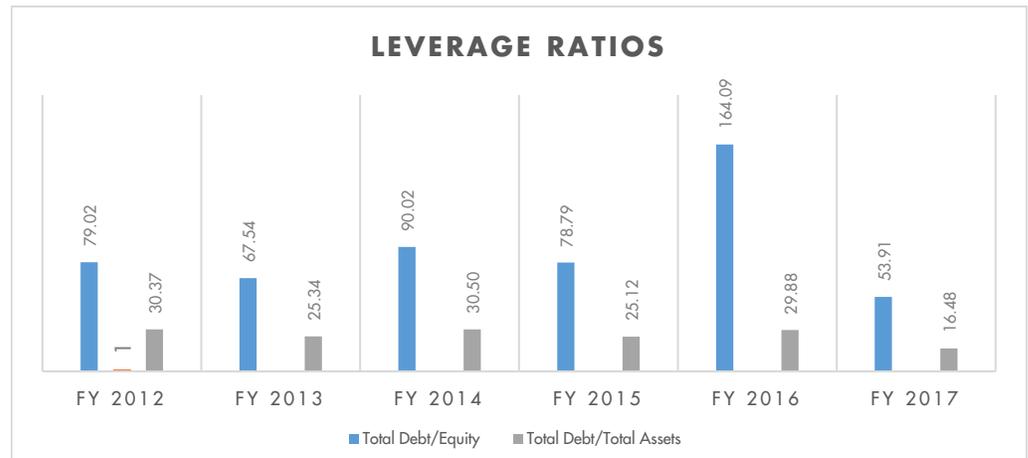
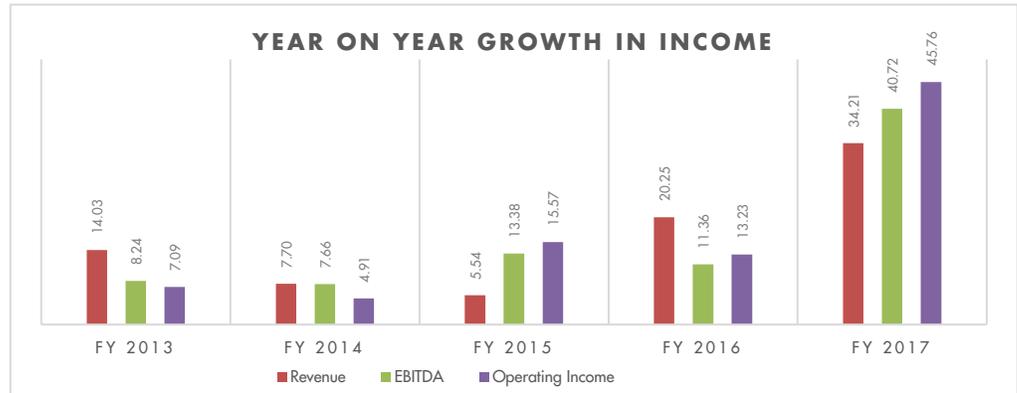
<i>In Millions of NGN</i>	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Income Statement					
Revenue	268,613.5	266,372.5	293,905.8	313,743.1	344,562.5
Operating Profit	69,171.4	66,860.9	62,229.2	52,903.2	57,121.1
Net Profit	43,080.3	42,520.3	38,055.4	28,414.8	33,044.4
Balance Sheet					
Current assets	45,285.5	56,931.9	57,481.2	74,559.2	87,492.8
Total assets	252,759.6	349,229.2	356,218.7	367,146.5	382,228.1
Current Liabilities					
Current liabilities	100,295.7	114,025.6	140,079.1	144,255.1	156,053.0
Non-Current Liabilities					
Total liabilities	140,400.4	177,264.9	183,897.2	201,232.7	203,929.7
Total Equity	112,359.2	171,964.3	172,321.5	165,913.8	178,298.4
Total equity and liabilities	252,759.6	349,229.2	356,218.7	367,146.5	382,228.1
Cash Flow					
Net cash from operating activities	95,167.9	60,860.0	72,627.2	70,154.0	72,050.5
Net cash used in investing activities	-32,514.2	-28,590.6	-32,360.5	-18,809.0	-32,065.0
Net cash used in financing activities	-62,639.0	-36,328.4	-59,844.7	-25,951.1	-35,875.3

The table above agrees with our projection of higher operating expenses owing to their new business expansion activities especially to penetrate the lower customer segments. Despite the effects on its operating profits, Nestle has managed to sustain its positive profit levels especially with the customers' acceptance of their products and the top of mind awareness created by their brand & marketing activities and strong distribution channel network.

On their balance sheet, nestle deployed mostly long term capital and reinvested equity to manage their finance costs. The prudence in the deployment of financing to new projects is in line with our risk management profile.

The company has continued to excite shareholders with a minimum dividend payout ratio of circa 82% over the last five years, this represents the higher threshold of dividend payout levels available in the Nigerian stock market.

Nestle - Profitability and Liquidity Ratios



Source: Bloomberg

Important Disclaimer

Please Read This Document Before Reading This Report.

This Report has been written by MBA students at Lagos Business School, Pan-Atlantic University, Lagos Nigeria for the purposes of a GNAM competition. This Report is written solely for purposes of the investment competition and the analysis based on Publicly Available Information and May Not Be Complete Analyses of All Relevant Data.