NESTLE (MALAYSIA)

(NESZ MK EQUITY, NESM.KL)

BUY

(MAINTAINED)

Price: RM94.28

Target Price (% return): RM135.00 (+46%)

52-week High/Low: RM122.20/RM88.70

Consumer

Rationale for report: Company Result

Justifying the premium

9M26 core net profit (CNP) came in line with our expectations but ahead of consensus, accounting for 79% of our FY26F CNP and 85% of consensus forecasts. We believe the market continues to overstate the impact of Middle East tensions, with supplier consolidation supporting resilient gross margins while commodity prices remain well below 2024-25 highs. With the share price down c.20% YTD and the SARA expansion approaching, we reiterate our BUY call with a street-high TP of RM135.

- **Reiterate BUY with an unchanged TP of RM135,** based on an unchanged 42x target PE, consistent with its 5- and 10-year historical averages and applied to FY27-28F EPS. We believe a longer earnings horizon more appropriately captures Nestlé's defensive consumption profile and earnings resilience on an ex-boycott basis.
- **Strong 9M26 results.** 9M26 core net profit (CNP) grew 40% YoY, in line with our expectations but ahead of consensus, accounting for 79% of Am's FY26F CNP and 85% of consensus. The improvement was driven by robust domestic sales growth, ongoing efficiency gains and lower commodity costs. We keep our numbers unchanged, as management guided for more moderate sales growth (<+6.7%) as persistent Middle East tensions continue to weigh on export demand.
- **Topline resilience speaks for itself.** Boycott pressures seem to have fully faded while domestic consumption remains strong, expanding 7% in 9M26. With an expanded government cash assistance set to be rolled out and Nestlé's portfolio of household brands deeply embedded in Malaysian consumption patterns, we believe domestic demand should remain well supported in the near term.
- **Restructuring efforts starting to bear fruit.** Procurement improvements, operational efficiencies and softer commodity costs collectively drove a 2.6ppt YoY expansion in 9M26 net margin. We expect automation and digitalisation efforts to contribute more meaningfully going forward, supporting further cost savings and margin expansion over the medium term.

Analyst (s)

Heng Yii Paul
heng.yii-paul@ambankgroup.com

Key Changes

Target Price:	⇔
EPS:	⇔

Stock and Financial Data

Shares Outstanding (million)	234.5
Market Cap (RMmil)	22,108.7
Book Value (RM/Share)	2.46
P/BV (x)	38.3
ROE (%)	84.6
Net Gearing (%)	165.9
Free Float	26.6
Avg Daily Value (RMmil)	7.1

Major Shareholders

Nestla SA	(72.6%)
EPF	(14.9%)
Vanguard Group Inc	(1.8%)

Price performance	3mth	6mth	12mth
Absolute(%)	3.3	(4.9)	(11.6)
Relative(%)	9.8	1.3	(11.2)

Source: Nestle (Malaysia) , AmInvestment Bank Bhd.

YE to Dec	FY25	FY26F	FY27F	FY28F
Revenue (RM mil)	6,880.8	7,224.9	7,586.1	7,965.4
Core net profit (RM mil)	494.0	687.6	705.3	803.4
FD Core EPS (sen)	210.7	293.2	300.8	342.6
FD Core EPS growth (%)	23.6	39.2	2.6	13.9
Consensus Net Profit (RM mil)	-	637.0	675.3	732.6
DPS (sen)	220.0	293.2	300.8	342.6
PE (x)	44.8	32.2	31.3	27.5
EV/EBITDA (x)	18.1	23.9	23.4	20.5
Div yield (%)	2.3	3.1	3.2	3.6
ROE (%)	84.6	108.0	106.9	108.8
Net Gearing (%)	165.9	93.3	75.3	46.8

Source: Nestle (Malaysia) , AmInvestment Bank Bhd.

Price Chart

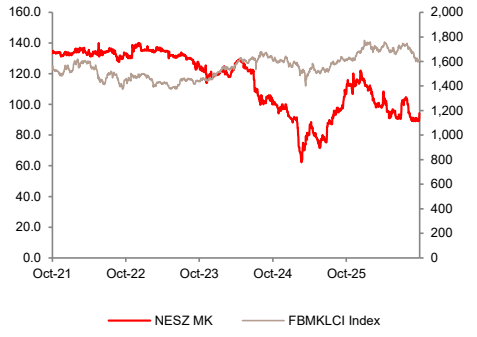
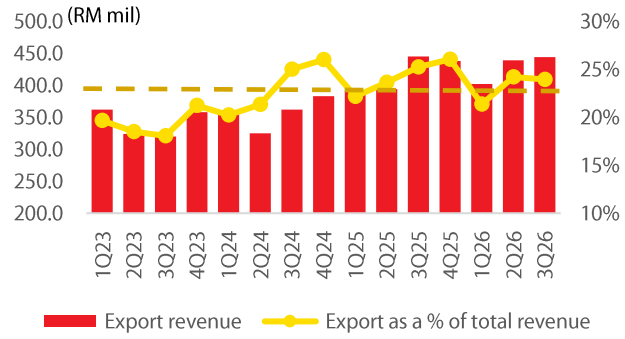


EXHIBIT 1. 9M26 Earnings Summary

FYE Dec (RMmil)	3Q26	3Q25	YoY (%)	2Q26	QoQ	9M26	9M25	YoY (%)
Revenue	1,856	1,762	5.3%	1,813	2.4%	5,549	5,199	6.7%
Gross profit	633	520	21.8%	594	6.6%	1,826	1,564	16.8%
EBITDA	**331**	**240**	**37.9%**	**280**	**18.2%**	**952**	**747**	**27.6%**
Depreciation & ammortisation	58	47	22.5%	63	-9.2%	179	160	11.9%
EBIT	**273**	**193**	**41.7%**	**216**	**26.3%**	**774**	**587**	**31.8%**
Finance cost	(10)	(14)	-31.5%	(11)	-8.8%	(33)	(47)	-28.7%
Profit before tax	**263**	**178**	**47.5%**	**206**	**28.0%**	**741**	**540**	**37.2%**
Taxation	(66)	(64)	1.9%	(51)	29.5%	(183)	(153)	20.0%
EI gain/(loss)	(8)	12	-170.3%	(4)	135.4%	17	3	581.4%
Net profit	**198**	**114**	**73.2%**	**155**	**27.5%**	**558**	**387**	**43.9%**
Core net profit	**206**	**102**	**101.3%**	**158**	**29.9%**	**541**	**385**	**40.4%**
EPS (sen)	84.23	48.63	73.2%	66.10	27.4%	237.80	165.24	43.9%
DPS (sen)	80.00	60.00	33.3%	80.00	0.0%	160.00	130.00	23.1%
Margins (%)								
Gross profit margin	34.1%	29.5%	4.6ppt	32.8%	1.3ppt	32.9%	30.1%	2.8ppt
EBITDA margin (%)	17.8%	13.6%	4.2ppt	15.4%	2.4ppt	17.2%	14.4%	2.8ppt
PBT margin (%)	14.2%	10.1%	4.1ppt	11.3%	2.8ppt	13.3%	10.4%	3.0ppt
Effective tax rate (%)	24.9%	36.1%	-11.1ppt	24.6%	0.3ppt	24.7%	28.2%	-3.5ppt
Net profit margin	10.6%	6.5%	4.2ppt	8.5%	2.1ppt	10.0%	7.5%	2.6ppt
Core net profit margin	11.1%	5.8%	5.3ppt	8.7%	2.3ppt	9.7%	7.4%	2.3ppt
Reveune breakdown (%)								
Food & beverages	1,485 (80%)	1,417 (80%)	4.8%	1,454 (80%)	2.1%	4,459 (80%)	4,153 (80%)	7.4%
Others	371 (20%)	346 (20%)	7.2%	359 (20%)	3.3%	1,090 (20%)	1,046 (20%)	4.2%

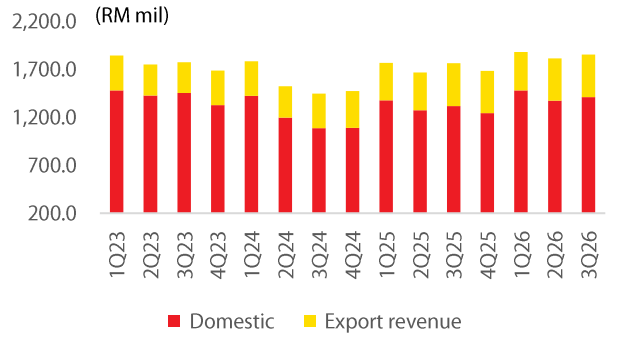
Source: Nestle, AmInvestment Bank Bhd.

EXHIBIT 2. Export revenue contribution



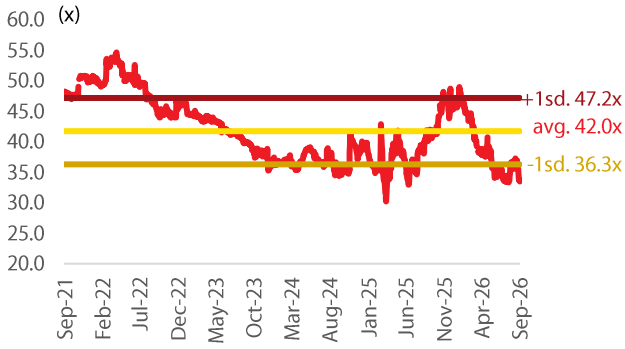
Source: Nestle, AmInvestment Bank Bhd.

EXHIBIT 3. Revenue breakdown



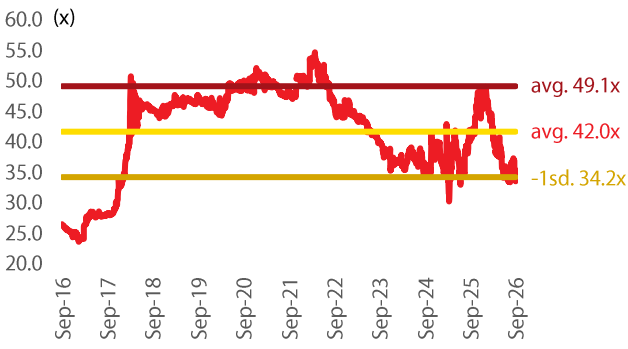
Source: Nestle, AmInvestment Bank Bhd.

EXHIBIT 4. 5-year 12M Forward PE



Source: Nestle, AmInvestment Bank Bhd.

EXHIBIT 5. 10-year 12M Forward PE



Source: Nestle, AmInvestment Bank Bhd.

EXHIBIT 6. Valuations

Target PE (x)	42x
Blended CY27/28 EPS	RM3.22
Target price	RM135.00

Source: AmInvestment Bank Bhd.

Background

Established in 1912 and headquartered in Petaling Jaya, Malaysia, Nestlé (Malaysia) Berhad (Nestle) is a subsidiary of Nestlé S.A. that operates Malaysia's largest packaged F&B player. Functioning as Nestle S.A.'s global Halal Centre of Excellence, ~20% of revenue is derived from its export franchise which has been growing.

The Company offers ice-cream *(exploring potential sale to Froneri, a JV between Nestle & PAI Partners),* powdered milk and drinks, liquid milk and juices, instant coffee and other beverages, chocolate confectionery products, instant noodles, culinary products, cereals, and related products. Nestle brands are anchor of household pantries operating through century-old brands - Milo, Nescafé, Maggi, KitKat, Nestum, Nestlé Just Milk, Nestlé, Nestlé Omega Plus, Nestlé Crunch, Lactogrow, Lactogrow Aktif, Drumstick, Mat Kool and La Cremeria.

Investment thesis and catalysts

Defensive brand mix will prove its resilience. Despite cautious sentiment signals, national retail F&B staples sales continue to grow at mid-single digit pace, while Nestle boycott pressures have softened, and export levels are structurally higher reflecting Malaysia's position as Nestle's global halal manufacturing hub. Coupled with additional cost-of-living support expected, we think a strong earnings recovery is underway.

Input cost volatility well-contained. A prolonged Hormuz conflict and Super El Nino has led commodities climbing to near 2024 highs. While we expect near-term margins to compress, past Super El Ninos impact typically spans across 1-2 quarters with recovery rarely disappointing, reflecting Nestle's global procurement scale and strategy. Our numbers assume a base-bear case for key input costs namely: cocoa, skim milk powder, sugar, and robusta, expecting to face near-term supply tightness.

Restructuring remains underappreciated. A 16k job cut (12k white-collar, 4k manufacturing) via automation, AI and shared service models have already removed >250 roles (majority in manufacturing) from end-24 to end-25. We estimate white-collar job cuts to accelerate in the coming months which would significantly improve operating leverage if done right. Combined with a renewed focus on core items, we think cost-base will improve as well.

Valuation Methodology

The stock is valued based on target FY27/28F PE of 42x, which is 1sd. above 3-year average, but in-line with its 5- and 10-year average forward PE. We think a 3-year look is inaccurate as it reflects a boycott problem that is no longer applicable. Moreover, Nestle's dependable dividend record and thin free-float (ex. SWF) caps realistic downside.

Risk factors

Key downside risks include additional input cost pressures from intensifying geopolitical conflict, pest and disease outbreaks, regulatory and policy shifts, weaker ringgit and resurfacing of a boycott.

Financial Summary

Income Statement (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue	6,224.7	6,880.8	7,224.9	7,586.1	7,965.4
EBITDA	1,028.8	1,276.7	953.5	971.0	1,096.3
Depreciation/Amortisation	(419.8)	(515.9)	-	-	-
Operating income (EBIT)	609.0	760.8	953.5	971.0	1,096.3
Other income & associates	(0.7)	-	-	-	-
Net interest	(63.9)	(60.4)	(39.6)	(33.5)	(28.6)
Exceptional items	-	-	-	-	-
Pretax profit	**544.4**	**700.4**	**913.9**	**937.4**	**1,067.8**
Taxation	(128.8)	(187.4)	(226.3)	(232.1)	(264.4)
Minorities/pref dividends	-	-	-	-	-
Net profit	**415.6**	**513.0**	**687.6**	**705.3**	**803.4**
Core net profit	399.8	494.0	687.6	705.3	803.4

Balance Sheet (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Fixed assets	2,067.7	1,966.5	1,897.4	1,830.5	1,765.9
Intangible assets	234.4	234.4	234.4	234.4	234.4
Other long-term assets	26.9	25.5	25.5	25.5	25.5
Total non-current assets	**2,328.9**	**2,226.4**	**2,157.3**	**2,090.3**	**2,025.7**
Cash & equivalent	11.2	6.1	163.8	197.0	292.2
Stock	831.3	901.8	940.9	999.3	1,034.3
Trade debtors	433.6	492.0	516.6	542.4	569.5
Other current assets	44.6	20.4	20.4	20.4	20.4
Total current assets	**1,320.8**	**1,420.3**	**1,641.7**	**1,759.1**	**1,916.4**
Trade creditors	1,570.1	1,867.6	1,948.4	2,069.5	2,141.9
Short-term borrowings	843.3	828.1	744.9	676.7	614.5
Other current liabilities	4.2	34.4	34.4	34.4	34.4
Total current liabilities	**2,417.6**	**2,730.1**	**2,727.8**	**2,780.6**	**2,790.8**
Long-term borrowings	471.2	134.5	117.4	97.3	81.7
Other long-term liabilities	213.4	205.5	205.5	205.5	205.5
Total long-term liabilities	**684.6**	**340.0**	**322.9**	**302.9**	**287.3**
Shareholders' funds	**547.5**	**576.6**	**748.3**	**766.0**	**864.1**
Minority interests	-	-	-	-	-
BV/share (RM)	2.33	2.46	3.19	3.27	3.68

Cash Flow (RMmil)

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Pretax profit	544.4	700.4	913.9	937.4	1,067.8
Depreciation/Amortisation	419.8	515.9	-	-	-
Net change in working capital	(72.4)	168.9	17.2	36.8	10.3
Others	(334.2)	(351.3)	45.9	40.0	9.0
Cash flow from operations	**557.6**	**1,033.9**	**977.0**	**1,014.2**	**1,087.1**
Capital expenditure	(295.4)	(144.9)	(159.9)	(167.9)	(176.3)
Net investments & sale of fixed assets	-	-	-	-	-
Others	0.2	0.2	2.0	4.3	5.9
Cash flow from investing	**(295.2)**	**(144.6)**	**(157.8)**	**(163.5)**	**(170.4)**
Debt raised/(repaid)	113.4	(139.2)	(103.9)	(92.0)	(81.8)
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(546.4)	(478.4)	(515.9)	(687.6)	(705.3)
Others	(64.2)	(60.6)	(41.7)	(37.9)	(34.5)
Cash flow from financing	**(497.1)**	**(678.2)**	**(661.4)**	**(817.5)**	**(821.5)**
Net cash flow	**(234.7)**	**211.1**	**157.7**	**33.2**	**95.2**
Net cash/(debt) b/f	**(8.8)**	**(243.5)**	**(32.4)**	**125.3**	**158.5**
Net cash/(debt) c/f	**(243.5)**	**(32.4)**	**125.3**	**158.5**	**253.7**

Key Ratios

YE to Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue growth (%)	(11.7)	10.5	5.0	5.0	5.0
EBITDA growth (%)	(34.4)	24.1	(25.3)	1.8	12.9
Pretax margin (%)	8.7	10.2	12.6	12.4	13.4
Net profit margin (%)	6.7	7.5	9.5	9.3	10.1
Interest cover (x)	9.5	12.6	24.1	29.0	38.4
Effective tax rate (%)	23.7	26.8	24.8	24.8	24.8
Dividend payout (%)	131.5	93.2	75.0	97.5	87.8
Debtors turnover (days)	24	25	25	23	24
Stock turnover (days)	46	53	45	44	44
Creditors turnover (days)	94	95	91	88	92

Source: Company, AmInvestment Bank Bhd.

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