

Nestlé

Price CHF74.10

No buyback and no return to the Nestlé's model

Fair Value CHF76 (+3%)

NEUTRAL

Q4 2015 sales came out 4% below consensus due to FX. Organic sales growth was just in line at +4.2%, implying a slight improvement vs Q3 (+3.7%) as a number of negative one-offs decreased. The full year EBIT margin stood at 15.1%, down 20bps YoY while the market was expecting a 10bps increase. A greater cause for concern is the guidance of organic sales growth in line with 2015 (ie +4.2%), which means no return to the Nestlé's model (5-6% organic sales growth). It could disappoint the market as well as the lack of the announcement of a share buyback program.

ANALYSIS

- Q4 2015 sales amounted to CHF23,922m (consensus: CHF24,807m and our estimate: CHF: CHF25,040m), down 5.8% due to FX headwinds of 9.2%. **The organic sales growth in Q4 stood at +4.2% (% RIG: +2.2%; % pricing: +2%), accelerating vs Q3 (+3.7%) as a number of negative one-offs decreased**, especially the impact of the false health scare in India and the change in the prescription drug rebate policy in the US. **Over the year, organic sales grew 4.2%, in line with the consensus but below the company guidance of organic sales growth of around 4.5%.** The 2015 EBIT margin was disappointing, down 20bps to 15.1% (consensus: 15.4% and our estimate: 15.5%) because of the strong Swiss franc. In constant currencies, it only rose 10bps, penalized by the impact of Maggi noodles in India and some investments. Underlying EPS fell 3.8% reported, but rose 6.5% ex-FX.
- The improvement in Q4 vs Q3 was driven by Zone AOA and Other Businesses. The details by division are provided below:**
 - ✓ **Zone Americas** (29% of group's sales): Organic sales rose 4.8% in Q4, decelerating vs Q3 (+6.9%). The group confirmed the recovery of the frozen food business in the US. In LATAM, the very volatile environment is impacting the group's performance.
 - ✓ **Zone EMENA** (19% of group's sales): Sales grew 2.6% organically over the quarter, below the Q3 trend (+4.7%). In Western Europe, the group proved to be resilient, notably thanks to Nescafé Dolce Gusto and petcare. The trend in Central and Eastern Europe remained solid, even in Russia which registered positive growth.
 - ✓ **Zone AOA** (16% of group's sales): The region returned into positive territory in Q4, with organic sales up 3.2% after -3% in Q3 (-0.5% in 9M). India improved over the quarter as the group was allowed to resume sales of Maggi noodles in early November following a health scare that started in Q2. The situation in China was reported to improve at the end of the year as the group invested in Nescafé soluble coffee and Nescafé ready to drink.
 - ✓ **Other Businesses** (16% of group's sales): Q4 organic sales increased 4.9%, which is a strong improvement vs the last quarter (+1.2%) which was impacted by a negative one off related to a change in the prescription drug rebate policy in the US.
 - ✓ **Nestlé Nutrition** (12% of group's sales): This division posted 2.2% organic sales growth, negatively affected by tough comps and soft pricing. This is globally in line with Q3 (+2.4%) and remains well below the 2014 trend (+7.7%).
 - ✓ **Nestlé Waters** (9% of group's sales): Sales were up 6.4% organically in Q4 following a 9.6% growth in Q3 which benefitted from exceptional weather conditions.
- The group aims to achieve organic growth in 2016 in line with 2015.** This means that 2016 would be the fourth consecutive year when the "Nestlé model" (5-6% organic sales growth) is missed. **This is slightly below our estimate (+4.5%) and could be disappointing for the market.** Besides, **Nestlé has not announced a share buyback program**, contrary to market expectations. It has announced a dividend of CHF2.25 (free cash flow yield: +3%), up 2.5% over the year. **A negative share price reaction today is likely.**

VALUATION

- We maintain our estimates before the conference call at 8.30am CET. Our DCF points to a Fair Value of CHF76. At yesterday's share price, the stock is trading at 21.6x P/E 2016e and 20.1x P/E 2017e, 6% and 7% above the peers' average.

NEXT CATALYSTS

- Annual general meeting on April 7th / Q1 2016 sales on April 14th
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Bloomberg	NESN VX
Reuters	NESZn.VX
12-month High / Low (CHF)	76.8 / 67.5
Market Cap (CHF)	236,260
Ev (BG Estimates) (CHF)	252,629
Avg. 6m daily volume (000)	6 214
3y EPS CAGR	2.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.7%	-1.4%	-1.2%	-0.6%
Food & Bev.	2.3%	-7.4%	-0.3%	-4.4%
DJ Stoxx 600	-0.3%	-13.5%	-15.1%	-10.1%

YEnd Dec. (CHFm)	2014	2015e	2016e	2017e
Sales	91,612	90,038	90,695	95,109
% change		-1.7%	0.7%	4.9%
EBITDA	17,874	17,670	18,025	19,185
EBIT	14,019	13,917	14,356	15,298
% change		-0.7%	3.2%	6.6%
Net income	10,968	10,379	10,694	11,510
% change		-5.4%	3.0%	7.6%

	2014	2015e	2016e	2017e
Operating margin	15.3	15.5	15.8	16.1
Net margin	12.0	11.5	11.8	12.1
ROE	15.6	14.5	14.7	15.7
ROCE	12.1	12.0	12.4	13.5
Gearing	0.7	0.9	0.8	0.6

(CHF)	2014	2015e	2016e	2017e
EPS	3.43	3.31	3.43	3.69
% change	-	-3.6%	3.6%	7.6%
P/E	21.6x	22.4x	21.6x	20.1x
FCF yield (%)	4.3%	4.0%	4.2%	4.3%
Dividends (CHF)	2.20	2.25	2.30	2.35
Div yield (%)	3.0%	3.0%	3.1%	3.2%
EV/Sales	2.7x	2.8x	2.8x	2.6x
EV/EBITDA	13.9x	14.3x	13.9x	12.9x
EV/EBIT	17.7x	18.2x	17.4x	16.2x



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