

Nestlé

Price CHF71.35

Buyback still on the agenda

Fair Value CHF73 vs. CHF76 (+2%)

NEUTRAL

The guidance for 2016 disappointed. As a consequence of the toughening of the pricing environment resulting from the low global prices of raw materials, the group targets organic sales growth of only 4.2% in 2016. We adjust our estimates accordingly. The lack of buyback announcement also disappointed. We think that it is still on the agenda as the group will need to find a way to use its excess cash in order to maintain its AA+ credit rating. Neutral recommendation maintained. Fair Value adjusted to CHF73.

ANALYSIS

- **The guidance for 2016 disappointed.** The group said that it expects improvement in margins and underlying EPS in constant currencies, and capital efficiency. More importantly, it targets organic sales growth in line with 2015 ie +4.2%. It is clearly well below the consensus and the Nestlé's model of 5-6% organic sales growth. **This weak top line guidance is the consequence of the toughening of the pricing environment. The low global prices of raw materials are the main reason behind this but there are some aggravating factors.** In developed countries, the negotiations with retailers are tough and there is a low capability of the consumer to take on pricing. In emerging markets, the comparison base is unfavourable in terms of pricing as the group took significant price increases the last year to offset inflation and currency devaluation.
- **The lack of buyback announcement also disappointed.** Net debt/EBITDA ratio in 2015 stood at 0.9x and is expected to decline further to 0.8x in 2016e. A credit rating change from AA+ to AAA is likely below 1.0x and Nestlé has specifically indicated that it does not want it. During the conference, the group said that its priorities are investing in marketing and research/development and acquisitions (bolt-on). **Nevertheless, our understanding is that a share buyback program is still on the agenda to use the excess cash. Nestlé has a long history of doing so. This remains a positive catalyst on the stock.**

Impact of a share buyback program

| | 2016e | 2017e | 2016e | 2017e | 2016e | 2017e |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Amount (CHFm) | 10 000 | | 15 000 | | 20 000 | |
| Number of repurchased shares (in millions) | 133 | | 200 | | 266 | |
| New net debt | 19 041 | 16 418 | 21 541 | 18 918 | 24 041 | 21 418 |
| Net debt/EBITDA (x) | 1,1 | 0,9 | 1,2 | 1,0 | 1,4 | 1,2 |
| New diluted EPS | 3,39 | 3,69 | 3,41 | 3,75 | 3,43 | 3,81 |
| Accretive impact | 0,8% | 3,0% | 1,3% | 4,7% | 1,9% | 6,5% |

Source: Nestlé, Bryan, Garnier & Co

- **Cutting our estimates.** Q1 sales trend should be weak due to the early timing of the Chinese New Year and tough comps related to two health alerts (Beneful in the US and the Maggi noodles in India). We now expect 2016 organic sales growth in line with the group's guidance (+4.2% vs +4.5% previously). We also adjust for the last FX movements. All in all, our forecasts for next year are cut by 2% in terms of sales and 4% in terms of EBIT. Our Fair Value is adjusted downwards to CHF73.

VALUATION

- At yesterday's share price, the stock is trading at 21.2x P/E 2016e and 19.9x P/E 2017e, 5% and 6% above the peers' average.

NEXT CATALYSTS

- Annual general meeting on April 7th
- Q1 2016 sales on April 14th

| | |
|----------------------------|-------------|
| Bloomberg | NESN.VX |
| Reuters | NESZn.VX |
| 12-month High / Low (CHF) | 76.8 / 67.5 |
| Market Cap (CHF) | 227,492 |
| Ev (BG Estimates) (CHF) | 242,892 |
| Avg. 6m daily volume (000) | 6 293 |
| 3y EPS CAGR | 1.4% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|----------------|------|--------|--------|----------|
| Absolute perf. | 1.9% | -5.9% | -4.8% | -4.3% |
| Food & Bev. | 1.1% | -8.4% | -1.8% | -5.5% |
| DJ Stoxx 600 | 0.1% | -13.3% | -15.3% | -10.1% |

| YEnd Dec. (CHFm) | 2014 | 2015 | 2016e | 2017e |
|------------------|--------|--------|--------|--------|
| Sales | 91,612 | 88,785 | 89,067 | 92,285 |
| % change | | -3.1% | 0.3% | 3.6% |
| EBITDA | 17,874 | 17,425 | 17,703 | 18,618 |
| EBIT | 14,019 | 13,407 | 13,755 | 14,606 |
| % change | | -4.4% | 2.6% | 6.2% |
| Net income | 10,968 | 10,234 | 10,503 | 11,172 |
| % change | | -6.7% | 2.6% | 6.4% |

| | 2014 | 2015 | 2016e | 2017e |
|------------------|------|------|-------|-------|
| Operating margin | 15.3 | 15.1 | 15.4 | 15.8 |
| Net margin | 12.0 | 11.5 | 11.8 | 12.1 |
| ROE | 15.6 | 14.4 | 14.8 | 15.7 |
| ROCE | 12.1 | 11.6 | 11.9 | 13.0 |
| Gearing | 0.7 | 0.9 | 0.8 | 0.7 |

| (CHF) | 2014 | 2015 | 2016e | 2017e |
|-----------------|-------|-------|-------|-------|
| EPS | 3.43 | 3.26 | 3.37 | 3.58 |
| % change | - | -5.0% | 3.2% | 6.4% |
| P/E | 20.8x | 21.9x | 21.2x | 19.9x |
| FCF yield (%) | 4.5% | 4.1% | 4.1% | 4.4% |
| Dividends (CHF) | 2.20 | 2.25 | 2.30 | 2.35 |
| Div yield (%) | 3.1% | 3.2% | 3.2% | 3.3% |
| EV/Sales | 2.6x | 2.7x | 2.7x | 2.6x |
| EV/EBITDA | 13.4x | 13.9x | 13.6x | 12.8x |
| EV/EBIT | 17.1x | 18.1x | 17.6x | 16.4x |



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| | |
|---------|---|
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