

14th April 2016

Food & Beverages

Nestlé

Price CHF71.20

Weak pricing penalizing Q1

Fair Value CHF72 (+1%)

NEUTRAL

This morning, Nestlé released Q1 2016 sales globally in line with market expectations. Organic sales grew 3.9%, thanks to an acceleration of RIG (+3% vs +2.7% in Q4 2015). Pricing remains low (+0.9% vs consensus: +1.1%) as a result of tough negotiations with retailers, weak prices of commodities and tough comps in emerging market after last years' price hikes. The group has reiterated its FY guidance: it aims to achieve organic growth in line with 2015, with improvement in margin.

ANALYSIS

- **Group's sales globally in line with consensus. Q1 2016 sales were basically flattish year on year at CHF20,934m** (consensus: CHF21,040m and our estimate: CHF: 20,912m). The currency impact is still negative (-2.8%), but is lower than in 2015 (-7.4%). **The organic sales growth was slightly better than expected at 3.9%** (consensus: +3.6% and our estimate: +3.5%). **This is due to the RIG** which amounted to 3% (consensus and our estimate: +2.5%), above the Q4 2015 trend (+2.7%). **But pricing is really weak** (+0.9% vs consensus: +1.1% and our estimate: +1%). The negotiations with retailers are tough in developed countries, while the comparison base is unfavourable in emerging countries (price hikes last year to offset inflation). More generally, like its peers, Nestlé remains penalized by the low global pricing of commodities. **We think that the extra day in February (29 vs 28 last year) could have added as much as 1% to the group's organic sales growth.**
- **Good momentum in Americas . This division (29% of group's sales) posted 5% organic sales growth (consensus: +4.3%), above the Q4 2015 performance (+4.8%). The group reported a solid growth of its frozen food business in North America.** This is despite the recall of 14 SKUs in the US and 2 SKUs in Canada of the Stouffer's/Lean Cuisine/frozen pizzas brands. **Latin America proved to be resilient** despite the poor macro background and the low dairy prices in Brazil.
- **Europe/Middle East/North Africa (EMENA) was a positive surprise.** Organic sales in EMENA (19% of group's sales) increased 3.2%, above consensus expectations (+1.7%). **This was driven by a double digit growth in Russia,** which was not completely offset by the deflationary environment in Western Europe (pressure from the retailers and low commodity prices on coffee and dairy) and the instability in the Middle East and North Africa.
- **Gradual recovery in Asia/Oceania/sub-Saharan Africa. In this division (17% of group's sales), sales were up 2.1% organically (consensus: +2.9%), decelerating vs Q4 2015 (+3.2%).** China was weak on tough comps (timing of the Chinese New Year) and destocking issues. The comparison base in India was difficult as Maggi noodles were recalled in Q2 2015.
- **Good momentum in the other divisions . Sales of Nestlé Nutrition (13% of groups's sales) only grew 2.6% organically (consensus: +2.8%) due to weak pricing. Waters (9% of group's sales) continued to show good momentum, with organic sales up 5.3% (consensus: +4.9%). Finally, sales of Other Businesses (16% of group's sales) rose 5.2% on an organic basis (consensus: +5.4%) as Nestlé Health Science and Nestlé Skin Health continued to enjoy good growth and the trend remained solid for Nespresso.**
- **2016 guidance confirmed.** The group aims to achieve organic sales growth in 2016 in line with 2015, that-is-to-say +4.2%, with improvement in margin and underlying earnings per share in constant currencies.

VALUATION

- We maintain our estimates before the conference call at 8.30am CET. Our DCF points to a Fair Value of CHF72. At yesterday's share price, the stock is trading at 21.2x P/E 2016e and 19.9x P/E 2017e, globally in line with the average of Danone's and Unilever's multiples.

NEXT CATALYSTS

- Danone's Q1 2016 on April 19th

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Bloomberg	NESN.VX
Reuters	NESZn.VX
12-month High / Low (CHF)	76.8 / 67.5
Market Cap (CHF)	227,014
Ev (BG Estimates) (CHF)	242,414
Avg. 6m daily volume (000)	5 968
3y EPS CAGR	1.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.5%	-1.9%	-5.1%	-4.5%
Food & Bev.	0.2%	-0.2%	1.3%	-3.5%
DJ Stoxx 600	0.2%	-0.5%	-4.3%	-6.2%

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	20.7x	21.8x	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	17.5x	16.3x



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