Nestlé

Price CHF72.60

Bloomberg	NESN VX
Reuters	NESZn.VX
12-month High / Low (CHF)	76.8 / 67.5
Market Cap (CHF)	231,478
Ev (BG Estimates) (CHF)	242,348
Avg. 6m daily volume (000)	5 989
3y EPS CAGR	7.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.4%	1.8%	-2.4%	-2.6%
Food & Bev.	0.8%	2.8%	2.5%	-2.6%
DJ Stoxx 600	-0.2%	1.3%	-3.3%	-6.0%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	88,785	89,899	93,836	99,476
% change		*1.3%*	*4.4%*	*6.0%*
EBITDA	17,210	17,958	19,023	20,316
EBIT	13,382	13,968	14,902	16,083
% change		*4.4%*	*6.7%*	*7.9%*
Net income	10,351	10,901	11,701	12,631
% change		*5.3%*	*7.3%*	*7.9%*

	2015	2016e	2017e	2018e
Operating margin	15.1	15.5	15.9	16.2
Net margin	11.7	12.1	12.5	12.7
ROE	16.6	16.7	17.5	18.0
ROCE	12.5	12.9	14.1	15.4
Gearing	0.9	0.6	0.4	0.1

(CHF)	2015	2016e	2017e	2018e
EPS	3.30	3.49	3.75	4.05
% change	-	*5.9%*	*7.3%*	*7.9%*
P/E	22.0x	20.8x	19.4x	17.9x
FCF yield (%)	4.4%	4.6%	4.9%	5.2%
Dividends (CHF)	2.25	2.30	2.35	3.35
Div yield (%)	3.1%	3.2%	3.2%	4.6%
EV/Sales	2.8x	2.7x	2.5x	2.4x
EV/EBITDA	14.3x	13.5x	12.5x	11.5x
EV/EBIT	18.5x	17.3x	16.0x	14.5x

The momentum is improving

Fair Value CHF80 vs. CHF72 (+10%) **BUY vs. NEUTRAL**

The group's sales trend should accelerate in the remainder of the year for two main reasons. The first one is that the comparison base will become much more favourable due to a number of negative technical effects in Q2/Q3/Q4 2015. The second one is that the pricing effect is expected to gradually improve through 2016. The sales guidance for the year is likely to be exceeded. We now forecast the group's sales to rise 4.7% in 2016 on an organic basis (vs +4.2% as previously guided). This mainly arises from the divisions Americas and EMENA which have margins higher than the group's average. Besides, we think a buyback is still on the agenda to use the excess cash. We upgrade to Buy and we revised upwards our Fair Value to CHF80.

ANALYSIS

- **Organic sales growth to accelerate strongly over the rest of the year. The group's sales trend should improve in the remainder of the year for two main reasons. The first is that the comparison base will become much more favourable due to a number of negative technical effects in Q2/Q3/Q4 2015**: the Maggi noodles recall in India, the negative media campaign around the Beneful petcare brand and the rebate adjustments related to the Skin Health products sold in the US. **The second one is that the pricing effect should gradually improve through 2016**, even though it is unlikely to reach the same level than in 2015 (+1.9%). The group indicated that will take some pricing in emerging markets (especially Brazil) to offset the decrease of currencies. More importantly, management said during the conference call that the price of commodities has reached a bottom. This could trigger some upward pressure on retail prices.
- **2016 sales guidance is likely to be exceeded**. The group indicated at the release of its full year results that organic sales growth in 2016 will be in line with 2015 ie +4.2%. This appear really too cautious: an organic sales growth of 4.2% over the year assumes a very slight acceleration in Q2/Q3/Q4 2016. **We forecast the group's sales to rise 4.7% in 2016 on an organic basis** (vs +4.2% previously). The group should return in 2017 to its model ie organic sales growth between 5-6%. This better top-line performance mainly arises from the divisions Americas and EMENA whose margins are higher than the group average. **Our EPS estimates have been revised upwards by 7% on average over the next three years.**
- **A buyback program remains likely. Net debt/EBITDA ratio in 2015 stood at 0.9x and is expected to decline further to 0.6x 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.** The group said that its priorities are investing in marketing and research/development and acquisitions (bolt-on). Nevertheless, we think that a share buyback program is on the agenda to use the excess cash. Nestlé has a long history of doing so. This remains a positive catalyst for 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)	132		198		265	
New net debt	**15 870**	**11 929**	**18 370**	**14 429**	**20 870**	**16 929**
Net debt/EBITDA (x)	**0,9**	**0,6**	**1,0**	**0,8**	**1,2**	**0,9**
New diluted EPS	**3,52**	**3,86**	**3,54**	**3,93**	**3,56**	**3,99**
Accretive impact	**0,8%**	**3,0%**	**1,3%**	**4,7%**	**1,9%**	**6,5%**

VALUATION/ NEXT CATALYSTS

- We upgrade our recommendation to Buy. Our DCF points to a Fair Value of CHF80. At yesterday's share price, the stock is trading at 20.8x P/E 2016e and 19.4x P/E 2017, globally in line with the peers' average. We do not think this premium is unjustified given the improvement of the visibility / Danone's Q1 2016 sales on April 19th

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