

Nestlé

Price CHF78.95

Pricing slowing down

Fair Value CHF80 (+1%)

BUY

This morning, Nestlé reported Q2 sales in line with consensus in reported and slightly below in organic. Sales amounted to CHF22,221m (consensus: CHF22,294m and our estimate: CHF22,059m), up 1.4% in reported and 3.1% in organic. The EBIT margin increased 30bps both in reported and in constant currencies to 15.3% (consensus and our estimate: 15.2%), reflecting a tailwind coming from input costs. The group confirmed its full year outlook and said that pricing should recover in the coming months from the historically low level in H1. It seemed to be confident, excluding for China which was reported to have slowed down in Q2.

ANALYSIS

- **Pricing growth decelerating.** In Q2 sales were up 1.4% to CHF22,221m (consensus: CHF22,294m and our estimate: CHF22,059m). In organic, they rose 3.1% (consensus: +3.6% and our estimate: +3.7%), below the Q1 trend (+3.9%) and mainly driven by volumes/mix (+2.6% in Q2). The pricing continued to slow down, only up 0.7% after +0.9% in Q1. This is contrary to Nestlé's comments at the release of the Q1 sales but is not surprising given the deflationary environment in a number of markets, the tough comparison base (price increases in Latam and Eastern Europe) and the lack of rebound in commodity prices.
- **EBIT margin up 30bps.** The H1 EBIT came out in line with market expectations. It increased 2.6% to CHF6,603m (consensus: CHF6,554m and our estimate: CHF6,548m), implying a margin of 15.3%, (consensus and our estimate: 15.2%), up 30bps both in reported and in constant currencies thanks to a tailwind coming from input costs. Underlying EPS rose 5.8% in reported and 5.7% ex-FX to CHF1.65.
- **No change in trend in Americas despite negative technical effects.** This division (29% of group's sales) posted 5.2% organic sales growth in Q2 (after +5% in Q1) driven by frozen meals, Coffee-mate and petcare. Latin America was resilient despite the poor macro background and the low dairy prices in Brazil.
- **Q2 organic sales in Europe/Middle East/North Africa (18% of group's sales) slowed down.** Q2 sales increased 2.0% organically, impacted by the pressure from retailers in Europe, the low commodity prices (coffee and dairy) and the political instability in countries of the Middle East.
- **China still weighing on Asia/Oceania/Sub-Saharan Africa (17% of group's sales).** Q2 organic sales were up 2.5% after +2.1% in Q1. The group reported a significant slowdown in the food and beverage market in China and said it remained focused in improving its Yinlu business. The comparison base remains difficult in India as Maggi noodles were recalled in mid Q2.
- **In the other divisions.** Sales of Nestlé Nutrition (13% of groups's sales) were flat in Q2 due to China and the US. Waters (9% of group's sales) continued to be solid, with organic sales up 3.3%. Finally, sales of Other Businesses (16% of group's sales) rose 3.3% driven by double digit growth at Nestlé Health Science.
- **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. The company also indicated that pricing should recover somewhat in the coming months.

VALUATION

- We maintain our estimates before the conference call at 8h30 am CEST. Our DCF currently points to a Fair Value of CHF80.

NEXT CATALYSTS

- Q3 2016 sales in October: Unilever on 13th, Danone on 18th and Nestlé on 20th

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Bloomberg	NESN.VX
Reuters	NESZn.VX
12-month High / Low (CHF)	79.9 / 68.4
Market Cap (CHF)	245,705
Ev (BG Estimates) (CHF)	256,575
Avg. 6m daily volume (000)	5 579
3y EPS CAGR	7.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.4%	8.2%	8.1%	5.9%
Food & Bev.	0.4%	4.4%	7.0%	0.8%
DJ Stoxx 600	1.6%	2.6%	7.2%	-6.1%

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	23.9x	22.6x	21.1x	19.5x
FCF yield (%)	4.0%	4.2%	4.5%	4.8%
Dividends (CHF)	2.25	2.30	2.35	3.35
Div yield (%)	2.8%	2.9%	3.0%	4.2%
EV/Sales	2.9x	2.9x	2.7x	2.5x
EV/EBITDA	15.2x	14.3x	13.3x	12.2x
EV/EBIT	19.5x	18.4x	17.0x	15.4x



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