

20th October 2016

Food & Beverages

**Nestlé**

Price CHF74.65

Full year guidance revised downwards

Fair Value CHF83 (+11%)

BUY

This morning, Nestlé reported Q3 2016 sales of CHF22,359m up 1.5% YoY (consensus: CHF22,645m and our estimate: CHF22,492m). Organic sales grew 2.9%, with volumes/mix +1.9% and price +1%. This is below expectations (consensus: +3.7% and our estimate: +3.5%) due to all divisions excluding Waters and Nestlé Nutrition. The slowdown vs H1 (+3.5%) is significant. The group has revised its FY guidance: it aims to achieve 3.5% organic sales growth in 2016 vs +4.2% previously.

**ANALYSIS**

- Q3 2016 sales increased 1.5% to CHF22,359m (consensus: CHF22,645m and our estimate: CHF22,492m). Sales grew 2.9% organically, with volumes/mix +1.9% and price +1.0%. This was a disappointment (consensus: +3.7% and our estimate: +3.5%) and was also below the H1 trend (+3.5%) contrary to what was indicated at the H1 release. Nestlé had indicated that organic sales growth should accelerate over the rest of the year, supposedly driven by a 1/ favourable comparison base as H2 2015 was affected by a rebate adjustment on skin health products in the US and the Maggi noodles recall, and 2/ a recovery in the pricing effect due to price increases made to offset currency depreciation. By division:
  - Americas (28% of group's sales): This division posted 3.4% organic sales growth (consensus and our estimate: +4%), decelerating strongly vs H1 (+5.1%). This is due to Brazil where volumes dropped significantly as a result of price increases in a tough macroeconomic environment.
  - Europe/Middle East/North Africa (19% of group's sales): Organic sales increased 1.4% in Q3 (consensus: +2.3% and our estimate: +2.5%) after +2.6% in H1. This was driven by double digit growth in Russia which were offset by the deflationary environment in Western Europe (pressure from the retailers and low commodity prices on coffee and dairy) and instability in the Middle East and North Africa.
  - Asia/Oceania/sub-Saharan Africa (16% of group's sales): Sales were up 3.8% organically (consensus: +4.1%), accelerating vs H1 (+2.3%). The region benefitted from easy comps, especially in India.
  - Other divisions . Sales of Nestlé Nutrition (12% of groups's sales) grew 1.3% organically (consensus: +0.4% and our estimate: -1.5%) The Chinese infant nutrition market has been disrupted by new regulations, which are inducing tough price competition, mainly in the mainstream and premium segments. Waters (9% of group's sales) continued to show good momentum, with organic sales up 4.2% (consensus: +3.9% and our estimate: +4.5%). Finally, sales of Other Businesses (16% of group's sales) rose 5.4% on an organic basis (consensus: +5.7%) as Nestlé Health Science and Nestlé Skin Health continued to enjoy good growth and the trend remained solid for Nespresso.
- 2016 guidance revised downwards. The group aims to achieve organic sales growth in 2016 of 3.5% vs 4.2% previously. Our current estimate calls for +3.7%. We are making no change to our forecasts before the conference call at 8h30am CET.

**VALUATION**

- Our DCF still points to a Fair Value of CH83.

**NEXT CATALYSTS**

- Nestlé: 2016 results on 16th February

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Bloomberg	NESN.VX
Reuters	NESZn.VX
12-month High / Low (CHF)	79.9 / 69.4
Market Cap (CHF)	232,323
Ev (BG Estimates) (CHF)	243,573
Avg. 6m daily volume (000)	4 959
3y EPS CAGR	7.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.2%	-4.0%	0.9%	0.1%
Food & Bev.	-0.6%	-1.8%	-1.3%	-1.6%
DJ Stoxx 600	0.7%	1.9%	-1.6%	-6.1%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	88,785	89,833	93,168	98,419
% change		1.2%	3.7%	5.6%
EBITDA	17,210	17,765	18,889	20,501
EBIT	13,382	13,916	14,958	16,302
% change		4.0%	7.5%	9.0%
Net income	10,353	10,839	11,669	12,815
% change		4.7%	7.7%	9.8%

	2015	2016e	2017e	2018e
Operating margin	15.1	15.5	16.1	16.6
Net margin	11.7	12.1	12.5	13.0
ROE	16.6	16.7	17.4	18.1
ROCE	12.5	12.9	14.3	15.8
Gearing	0.9	0.6	0.3	0.0

(CHF)	2015	2016e	2017e	2018e
EPS	3.30	3.51	3.77	4.14
% change	-	6.2%	7.7%	9.8%
P/E	22.6x	21.3x	19.8x	18.0x
FCF yield (%)	4.3%	4.3%	5.1%	5.6%
Dividends (CHF)	2.25	2.30	2.35	3.35
Div yield (%)	3.0%	3.1%	3.1%	4.5%
EV/Sales	2.8x	2.7x	2.6x	2.4x
EV/EBITDA	14.4x	13.7x	12.6x	11.4x
EV/EBIT	18.5x	17.5x	16.0x	14.3x



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