

Nestle S.A.

CORE HOLDING*

Recommended since 20.04.15

07.08.2023



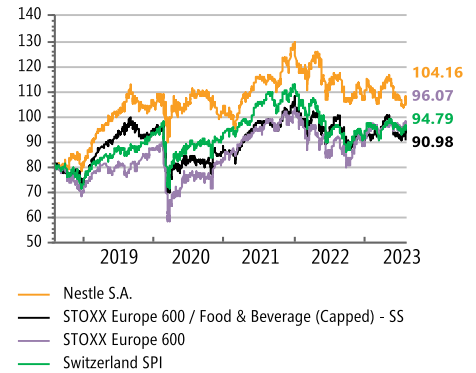
Country CH Market capitalization (bn) CHF 277,9
 Sector Food & Beverage Free float 96,8%
 Factset NESN-CH Closing price CHF 104,16
 ISIN CH0038863350 ESG Risk score* 27,3 Medium risk

Perf. since reco. (%)
 Nestle S.A. 40,8
 Sector 15,5

*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Nestlé is one of the world's leading food companies with strong positions in the business categories in which it operates: Water (Vittel, Perrier, Contrex, San Pellegrino), Dairy Products (Chambourcy, Laitière), Soluble Beverages (Nescafé, Nespresso, Nesquik), Chocolate (Cailler, KitKat), Food (Maggi, Buitoni), Pet Food (Purina, Friskies), Ice Creams (Mövenpick, Motta), Baby Food (Gerber, Cerelac). Nestlé holds a 23% stake in L'Oréal.



Source: Factset

Market - competition - positions - barriers to entry

The agro-food sector is a fragmented market with a solid growth potential (up 4% per year). A market leader, or almost ranking first, in nearly all its business segments, Nestlé has a real negotiating leverage on purchases vis-à-vis its suppliers and a confirmed pricing power. Barriers to entry are low but risks are limited (differentiated products / strong brands) even if competition is intense in developed markets.

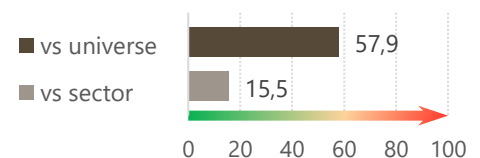
Investment case

- Nestlé is maintaining its steady course. Mr. Schneider (CEO) has re-launched the growth dynamic not through acquisitions but by redoubling his focus on the Group's success in order to optimise performance and deploy its potential. Nestlé is focusing on its four business areas with higher growth and profitability (60% of EBIT): Pet Food, Coffee, Water, Baby food. In addition, the Group has sold underperforming assets (US confectionery, Gerber Insurance, Galderma, Herta, Yinlu). While Food remains strategic (distribution agreement for Starbucks' products -> coffee branch), Healthcare for the general public is a source of growth (acquisition of Atrium, Terrafertil, Zenpep, Aimmune Therapeutics).
- Nestlé performed well against Covid in 2020: the pandemic weighed on consumption but affected Food, Water, Coffee and Baby food less. Last year, its performance was good with organic sales growth of +7.5%, a margin of 17.4% (-30bp) which resisted well to cost inflation (raw materials + integration of The Bountiful Company) and an EPS which benefited from an increased contribution from the stake in L'Oréal. In 2023, the commercial dynamics were impressive in Q1 (organic growth +9.3%) and even more so in Q2 (+8.7%). Nestlé is showing its brand power to pass on high price increases to consumers without too much alteration of its volumes and the improvement of the product mix for the majority of its categories.
- The Group is raising its organic sales growth target to between +7% and +8% from close to +7% previously and reiterates its EBIT margin target of ~17.3%. For the period 2023-25, Nestlé targets sustained organic sales growth of +5%, margin improvement in the range of 17.5% to 18.5% by 2025 and EPS growth at constant exchange rates between +6% and +10%. It confirms the continuation of its share buyback program for a total amount of CHF 20 bn over 2022-24. Given the deteriorating environment (price inflation, energy and wage costs / rising interest rates / economic slowdown), the message sent by Nestlé through these new guidelines is reassuring. Beyond the quality fundamentals and solid earnings growth prospects, the group's defensive profile is to be preferred in the current context.

ESG - risks and key points

- Nestlé has an average risk of suffering significant financial impacts related to ESG factors, due to its high exposure (with a diversified product portfolio and a global revenue base) and its rigorous management of significant issues.
- Nestlé has experienced controversies related to human rights (sourcing), raw materials (cocoa, palm oil), water resources and product management, but the high quality of its governance is recognised.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in CHF

Current price 104
 Value Bordier Scenario 133

Our scenario includes 10-year rates in Switzerland at 1.75%, a rebound in sales (organic growth) as of 2021 to target a 4% increase in 2026, and a margin improvement to 18% over this horizon, to be normalised at this level in the long term.

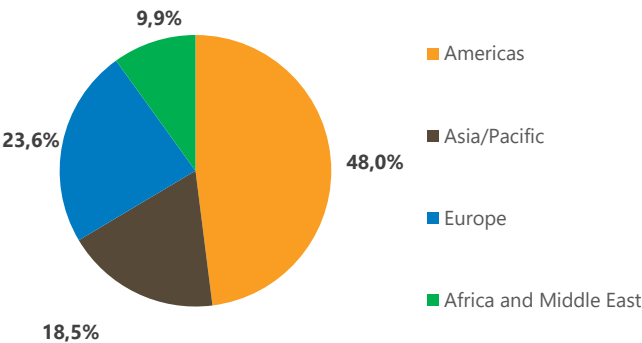
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of CHF	2021	2022	2023e	2024e	2024e
Sales revenue	87 088	94 424	100 089	105 594	110 874
Sales growth %	3,3%	8,4%	6,0%	5,5%	5,0%
o/w organic	7,5%	8,2%	6,5%	5,5%	5,0%
o/w perimeter	-2,9%	1,1%	0,0%	0,0%	0,0%
o/w forex	-1,3%	-0,9%	-0,5%	0,0%	0,0%
EBITDA	0	0	0	0	0
% of sales	20,4%	19,7%	21,2%	21,5%	21,6%
EBIT	11 679	12 326	17 487	18 690	19 782
% of sales	13,4%	13,1%	17,5%	17,7%	17,8%
Adjusted EPS	4,4	3,4	5,4	5,7	6,1
Adjusted EPS growth	5,3%	-22,5%	56,9%	6,8%	5,8%
FCF/Sales	10,3%	7,2%	12,9%	13,2%	13,3%
Dividend yield	2,7%	2,8%	3,0%	3,2%	3,5%
ROCE - WACC	10,0%	10,2%	11,1%	11,9%	12,6%
ROE (%)	23,2%	22,1%	34,3%	35,4%	32,5%
Net debt/Ebitda	223,2%	262,5%	232,5%	218,6%	185,7%

Source: Factset, Bordier estimates

Sales breakdown - 12/2022



Ratios

	Nestle S.A.	Stoxx Europe 600 Sector	Stoxx Europe 600 Market
PE (x)***		Food & Bev.	STOXX 600
2022	31,3	20,5	13,1
2023e	19,4	19,6	13,2
2024e	18,2	17,7	12,4
P/B (x)***			
2022	6,8	3,4	2,0
2023e	6,6	3,0	1,8
2024e	6,3	2,9	1,7
Beta (2Y, daily) vs market:			0,88

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premiums representing the quality of the company's business model.

Governance and ownership structure

Since 2017, Chairman P. Bulcke/CEO M. Schneider.

Key shareholders (if any):

The Vanguard group 2.9%, Norges Bank 2.7%.

Agenda

19.10.2023 : Earnings Q3-FY2023 22.02.2024 : Earnings Q4-FY2024

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

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Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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