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Nestlé

HOLD

Valor: 3 886 335 Industry: Food and beverages

Nestlé, the world's largest food producer, sees itself as a nutrition, health and wellness company. It is the global market leader in many segments and is active in almost every country in the world. Sales and profitability are driven by premium products such as Nespresso's coffee capsules and the focus on fast-growing product categories such as pet food. The Group is solidly financed.

Nestlé outgrows the competition

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Nestlé focuses on infant nutrition, water, coffee and pet products. It sees opportunities in the health care sector. With product development and the acquisition of fast-growing companies, the sale of poorly performing businesses, and improved capital allocation, CEO Mark Schneider has significantly increased shareholder value. Metrics include organic growth and operating margin, both of which have increased since he took over in 2017. The payout policy is generous. Thanks in part to these measures, the Group is one of the beneficiaries in the corona pandemic. Dairy products, but also growth areas such as pet food, were in brisk demand. The online business is flourishing. Another positive aspect is that the focus on lucrative brands is progressing in the water business. 2021 resulted in high organic growth of 7.5% compared to competitors. Inflation is temporarily holding back profitability.

CEO Mark Schneider has put Nestlé on track for growth. In the medium term, the Group's profits will rise disproportionately, thus continuing to create value for shareholders. In the current environment, however, the shares are having a hard time beating the market. They need a boost.

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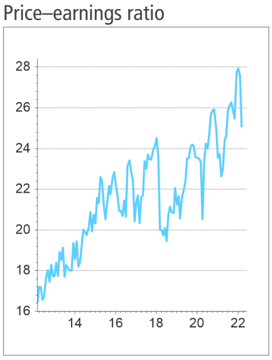
Valuation

Measured by price/earnings ratio (P/E), the shares have been highly valued by historical standards for some time. In the meantime, the Corona crisis brought downward pressure on the stock market. The good results in the last quarters have given the stocks momentum and brought them new records. But the more nervous stock market environment did not leave the otherwise defensive stocks untouched. With P/E ratios of 26 and 24 for 2022 and 2023 respectively, they are highly valued and are unlikely to beat the index, not least because of their large weighting in the index.

P/E ratio

Price–earnings ratio

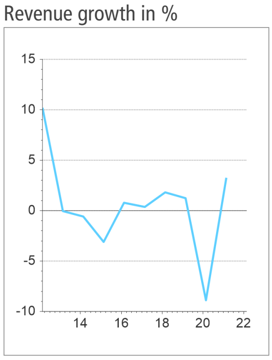


Growth

Since 2017, organic growth has clearly accelerated thanks to around 85 acquisitions and disposals. With an increase of 7.5%, the Group exceeded expectations for 2021. It was the highest organic growth since 2011, and the volume growth of 5.5% was the best since at least 1989. The industry leader is also ahead of the competition. Growth of 5% is expected in 2022. Further transactions and investments are expected to have a positive impact, for example in the areas of water, coffee, animal feed and health. The only area of concern is the baby food business.

Sales

Revenue growth in %



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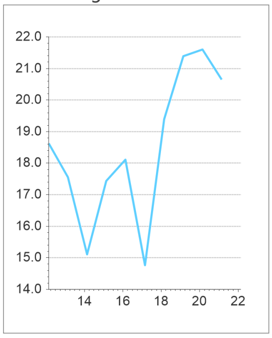
Efficiency

The price war in the food sector weighed on profitability until 2018. The adjusted operating profit margin fell below 16%. In 2021, Nestlé was able to keep it almost stable at 17.4% despite higher costs for raw materials and transport thanks to a lucrative product mix and e-commerce. 25% of sales are expected to be generated online by 2025 (2021: 14%). In 2022, margins are expected to stagnate again before rising moderately. To further increase profitability slightly, the Group is investing in the development of premium products and high-margin brands.

Margin

Ebitda margin in %



Valuation based on FuW estimates

Price at 14. March 2022, 10 Uhr, in Fr.	113.44
Return in % (per 2021)	2,5%
P/E ratio 2021	19
P/E ratio 2022	25
P/B ratio	5.89
Market value (in million Fr.)	341 986

Company figures, per share in Fr.

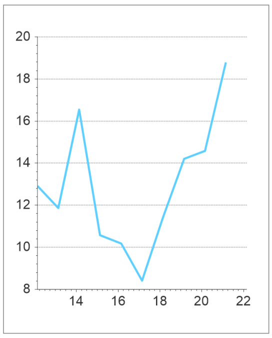
Profit 2020, adjusted, Non-IFRS	4.21
Profit 2021	6.06
Profit 2022, estimated	4.5
Dividend per 2020	2.75
Dividend per 2021	2.80
Pay-out Ratio	46%

Profitability

In the years up to 2018, profitability also suffered sharply. The gap between return on invested capital (ROIC) and the average cost of capital (WACC) shrank significantly in the meantime, but widened again last year. In 2021, the difference was just under 3 percentage points. Profitability is expected to increase in the next few years thanks to the improvement in margins and the acceleration in growth, as well as further changes in capital allocation, e.g. through share buybacks.

Return

ROIC in %

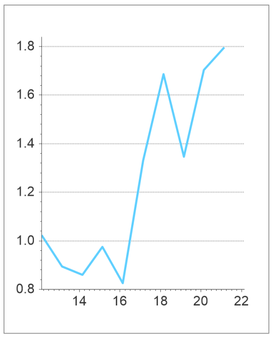


Balance sheet quality

At 39%, the equity ratio at the end of 2021 was lower than before Schneider's era. The CEO has increased debt somewhat in recent years and used the funds to invest in treasury shares, among other things. However, thanks to the cash inflow from operations and the sale of business units, the Group can well afford the higher net debt. A partial sale of the L'Oréal package increases the financial scope for shareholder-friendly measures. The dividend will rise to CHF 2.80. In 2022, Nestlé plans to buy back its own shares for CHF 10 billion, compared with CHF 6.3 billion in the previous year.

Balance quality

Net debt to Ebitda



SWOT analysis

Strengths

- Well-known brands
- Leading market position, broad support and presence in more than 180 countries worldwide
- Very solid balance sheet, strong cash position enables acquisitions

Weaknesses

- Inflation drives costs and puts a halt to margin development
- Nestlé Waters under pressure, but focus on premium brands should help
- The infant nutrition business is in a difficult environment

Opportunities

- Growth and strengthening of profitability through acquisitions, e.g. in the premium market
- Expansion in China and the USA, especially in the coffee market
- Growing business with premium products as well as biological and sustainable products

Threats

- Rapidly changing growth trends, slow adaptability in contrast to smaller competitors
- In China, the second most important market, the economic slowdown is making itself felt
- Trend towards healthy foods free of additives

FuW | The Analysis
Swiss equity research by «Finanz und Wirtschaft»

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Historical Key Figures

Profit and loss account/balance sheet

Consolidated figures according to IFRS (in million Fr.) As of 31. December

	2016	2017	2018	2019	2020	2021
Sales	89'469	89'590	91'439	92'568	84'343	87'088
Change in %	0.8	0.1	2.1	1.2	-8.9	3.3
Staff costs	16'717	16'571	16'430	15'794	14'498	14'331
Research and development expenditure	1'736	1'739	1'687	1'672	1'576	1'670
as % of sales	1.9	1.9	1.8	1.8	1.9	1.9
Operating result Ebitda	16'935	17'672	18'961	19'723	18'409	18'213
as % of sales	18.9	19.7	20.7	21.3	21.8	20.9
Depreciation, value adjustments	3'772	7'516	5'172	6'049	4'176	6'054
Operatives Operating result	13'693	13'277	13'789	13'674	14'233	12'159
as % of sales	15.3	14.8	15.1	14.8	16.9	14.0
Operating result	13'163	10'156	13'752	16'078	14'796	11'679
Financial profit	-637.0	-696.0	-761.0	-1'016	-874.0	-873.0
Result consolidated at equity	770.0	824.0	916.0	1'001	1'815	8'651
Profit (incl. minority interests)	8'883	7'511	10'468	12'904	12'372	17'196
Return on sales in %	9.9	8.4	11.4	13.9	14.7	19.7
Operativer Non-IFRS-Profit	10'509	10'998	12'116	12'917	11'977	12'323
Profit (excl. minority interests)	8'531	7'156	10'135	12'609	12'232	16'905
Change in %	-5.9	-16.1	41.6	24.4	-3.0	38.2
Return on equity in %	13.4	11.4	17.1	23.1	25.0	34.2
Balance sheet total	131'901	132'210	137'015	127'940	124'028	139'142
Current assets	32'042	31'884	41'003	35'663	34'068	39'257
Liquid assets	9'296	8'593	10'301	10'263	8'609	13'995
Non-current assets	99'859	101'326	96'012	92'277	89'960	99'885
Tangible assets	27'554	30'777	29'956	28'762	25'840	28'345
Immaterielle Vermögenswerte	53'404	20'361	50'336	16'720	47'168	53'235
of which Goodwill	33'007	29'746	31'702	28'896	27'620	31'012
Liabilities	65'920	70'981	78'612	75'078	77'514	85'415
Shareholders' equity (excl. min. int.)	64'590	60'956	57'363	52'035	45'695	53'140
Equity ratio in %	50.0	47.1	42.6	41.3	37.5	38.6

Supplementary information

	2016	2017	2018	2019	2020	2021
Cash flow from operating activities	15'582	14'199	15'398	15'850	14'377	13'864
Change in %	8.9	-8.9	8.4	2.9	-9.3	-3.6
Investments	4'692	4'703	4'470	4'211	4'364	5'341
in % Cashflow	30.1	33.1	29.0	26.6	30.4	38.5
Free cash flow	10'108	9'358	10'765	11'934	10'245	8'715
Total payout	7'126	7'124	7'230	7'700	7'681	7'727
Payout ratio in %	83.5	99.6	71.3	61.1	62.8	45.7
Net debt	13'913	21'369	30'330	27'138	31'319	32'917
Employees (Vollzeitstellen)	328'221	323'000	308'000	291'000	273'000	276'000
Staff costs per employee (in Fr.)	50'932	51'303	53'344	54'275	53'106	51'924

Segments

2021 in %	Sales
Zone America	38.8
Zone Europe, Middle East, North Africa	24.3
Zone Asia, Oceania, Sub-Sahara	23.8

Product categories

2021 in %	Sales
Beverages and water	32.2
Milk products, ice cream, sweets	20.9
Pet care	17.9

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Swiss equity research by «Finanz und Wirtschaft»

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Recommendation method:

The research from «Finanz und Wirtschaft» uses recommendations such as «buy», «hold», and «sell». The evaluation is relative to the Swiss equity market, using the Swiss Performance Index (SPI) as a benchmark. The investment horizon of a recommendation is twelve months. In the case of a «Buy» recommendation, «Finanz und Wirtschaft» assumes that the recommended stock will outperform the SPI by at least 5%. In the case of a «Hold» recommendation, «Finanz und Wirtschaft» expects the stock to perform in line with the benchmark (+/- 5%). If the rating is «Sell», the stocks are expected to underperform the SPI by at least 5%. For the return calculation, the price performance and the payout of the share are added together.

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