

# Nestle S.A.

**CORE HOLDING\***

Recommended since 20.04.15

04.08.2022

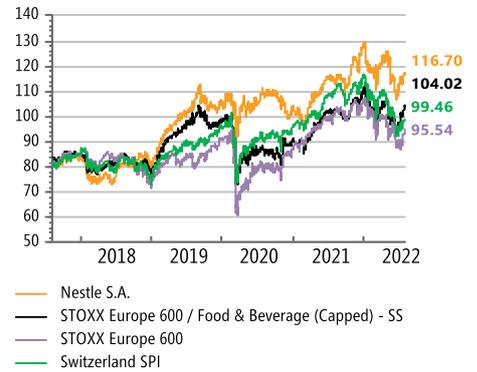


<b>Country</b> CH	<b>Market capitalization (bn)</b> CHF 320.9	<b>Perf. since reco. (%)</b>
<b>Sector</b> Food & Beverage	<b>Free float</b> 96.8%	Nestle S.A. 57.7
<b>Factset</b> NESN-CH	<b>Closing price</b> CHF 116.70	Sector 26.7
<b>ISIN</b> CH0038863350	<b>ESG Risk score*</b> 24.4 Medium risk	

\*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.

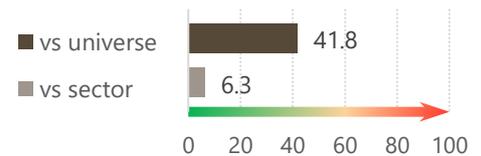
## Investment case

- 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% (volumes +5.5% / prices +2%), a margin of 17.4% (-30bp) which resisted well to cost inflation (MP + integration of The Bountiful Company) and an EPS which benefited from an increased contribution from the stake in L'Oréal and the buyback to increase by +5.1% to CHF 4.42.
- The 2022 guidance of organic sales growth of +5% and a margin of 17/17.5% was deliberately conservative. Sales momentum remains impressive in H1 2022 with organic growth of +8.1% (prices +6.4% / volumes +1.7%). Nestlé is showing its brand power to pass on price increases to consumers without too much alteration of its volume growth and improved product mix for most of its categories. The Group is raising its organic sales growth target for the year to +7/8% and refining its margin target to a level close to 17%. Given the context (cost and price inflation / rising rates / economic slowdown), this is not a surprise and should all together lead to a neutral effect on EPS, while currency effects are more favorable in 2022. Consensus expectations are only for organic growth of +6.7% and a margin of 17%...Nestlé will do better. Beyond the quality fundamentals and solid earnings growth prospects, Nestlé's defensive profile is to be preferred in an uncertain environment.

## 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

<b>Current price</b>	<b>Value Bordier Scenario</b>
117	132

Our scenario includes 10-year rates in Switzerland at 1.75%, a rebound in sales (organic growth) as of 2021 to target a 4.5% increase in 2025, and a margin improvement to 18.5% over this horizon, to be normalised at this level in the long term.

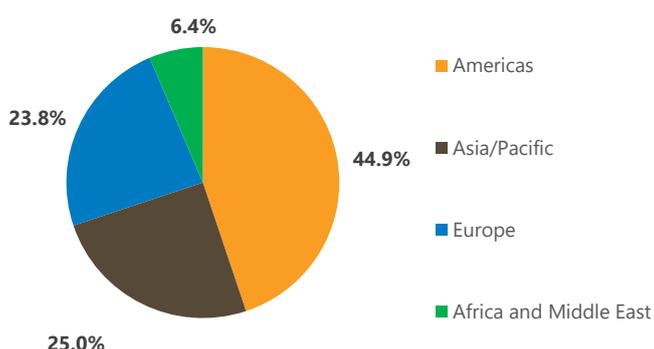
\*\* The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

## "Bordier Core Holding" indicators

In millions of CHF	2020	2021	2022e	2023e	2024e
<b>Sales revenue</b>	<b>84'343</b>	<b>87'088</b>	<b>94'050</b>	<b>99'660</b>	<b>104'600</b>
<b>Sales growth %</b>	<b>-8.9%</b>	<b>3.3%</b>	<b>8.0%</b>	<b>6.0%</b>	<b>5.0%</b>
<i>o/w organic</i>	3.6%	7.5%	7.0%	6.0%	5.0%
<i>o/w perimeter</i>	-4.6%	-2.9%	-0.5%	0.0%	0.0%
<i>o/w forex</i>	-7.9%	-1.3%	0.5%	0.0%	0.0%
<b>EBITDA</b>	<b>18'368</b>	<b>18'559</b>	<b>19'900</b>	<b>21'350</b>	<b>22'610</b>
<b>% of sales</b>	<b>21.8%</b>	<b>21.3%</b>	<b>21.2%</b>	<b>21.4%</b>	<b>21.6%</b>
<b>EBIT</b>	<b>14'903</b>	<b>15'119</b>	<b>16'200</b>	<b>17'480</b>	<b>18'580</b>
<b>% of sales</b>	<b>17.7%</b>	<b>17.4%</b>	<b>17.2%</b>	<b>17.5%</b>	<b>17.8%</b>
<b>Adjusted EPS</b>	<b>4.2</b>	<b>4.4</b>	<b>4.7</b>	<b>5.1</b>	<b>5.4</b>
<b>Adjusted EPS growth</b>	<b>-23.5%</b>	<b>5.2%</b>	<b>7.4%</b>	<b>8.3%</b>	<b>6.0%</b>
<b>FCF/Sales</b>	<b>13.9%</b>	<b>23.0%</b>	<b>13.6%</b>	<b>13.5%</b>	<b>13.6%</b>
<b>Dividend yield</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.5%</b>	<b>2.7%</b>	<b>2.9%</b>
<b>ROCE - WACC</b>	<b>9.1%</b>	<b>6.4%</b>	<b>10.1%</b>	<b>10.9%</b>	<b>11.8%</b>
<b>ROE (%)</b>	<b>26.2%</b>	<b>25.6%</b>	<b>28.1%</b>	<b>26.7%</b>	<b>25.6%</b>
<b>Net debt/Ebitda</b>	<b>170.6%</b>	<b>135.2%</b>	<b>138.5%</b>	<b>106.1%</b>	<b>77.4%</b>

Source: Factset, Bordier estimates

## Sales breakdown - 12/2021



## 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%.

## 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 &amp; 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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## Ratios

	Nestle S.A.	Stoxx Europe 600 Sector	Stoxx Europe 600 Market
<b>PE (x)***</b>		Food & Bev.	STOXX 600
2021	26.4	25.2	15.4
2022e	24.6	21.8	12.7
2023e	22.7	19.8	12.3
<b>P/B (x)***</b>			
2021	6.7	3.7	2.0
2022e	7.0	3.5	1.8
2023e	6.3	3.3	1.7
<b>Beta (2Y, daily) vs market:</b>			0.78

\*\*\*) 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.

## Agenda

Q3 sales on 10/19/2022.