

NESTLE NIGERIA PLC

BUY

Path to profitability in sight

Target Price: N1,518.20

Ref Price: N1,000.00

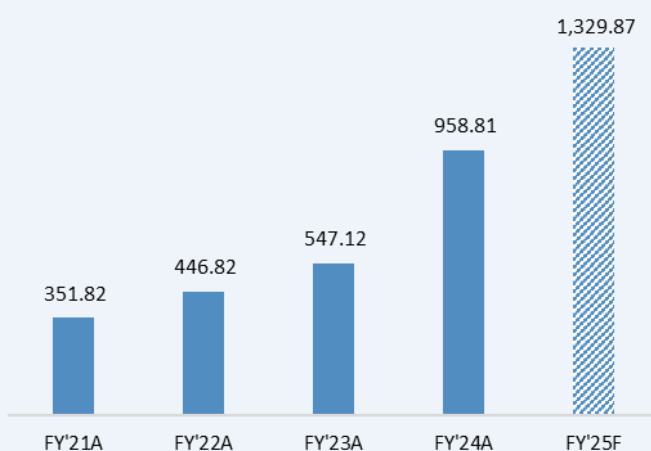
NESTLE's strong brand loyalty, export expansion, and easing cost pressures support a return to profitability in 2025, with our projected PAT at N92.7 billion. Potential asset revaluation could also strengthen the company's books, with positive passthrough to valuation. Hence, we maintain a BUY rating on NESTLE with a 12-month Target Price ("TP") of **N1,518.20** (vs N1,099.89 previously), reflecting a 51.8% upside.

Revenue to grow by 38.7% in FY'25

NESTLE, with a reputation for quality and safety, has carved a niche for itself in the Nigerian consumer market by offering a wide range of some of the most recognizable brands in Nigeria, such as Maggi, Milo, and Cerelac. These strong brands create a loyal customer base, enabling NESTLE to easily pass on some of its cost pressures to consumers in the form of higher prices. Indeed, our price survey revealed that the prices of NESTLE products increased by an average of 76.8% in FY'24, providing a reasonable explanation for the 75.2% YoY growth in revenue.

While we expect price increases to taper in 2025 (our survey suggests a mean price increase of 31.2% across NESTLE's product portfolio in Q1'25) due to the company's relatively stable cost profile and high base effects from last year, robust brand innovation strategies support projected revenue growth of 38.7% YoY.

Figure 1: Revenue to grow by 38.7% in FY'25



Source: Company Financials, CardinalStone Research

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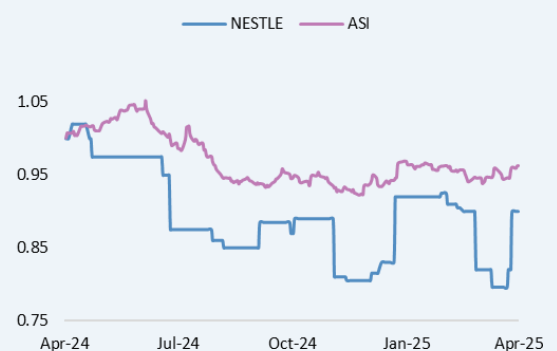
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Market Data	NESTLE
Market Cap (N'bn)	792.66
Last close price (N)	1000.00
52-week high/low price (N)	1020.00/795.30
Avg 3M daily volume (mn)	0.14

1 year price performance (rebased)



Source: Bloomberg; CardinalStone Research

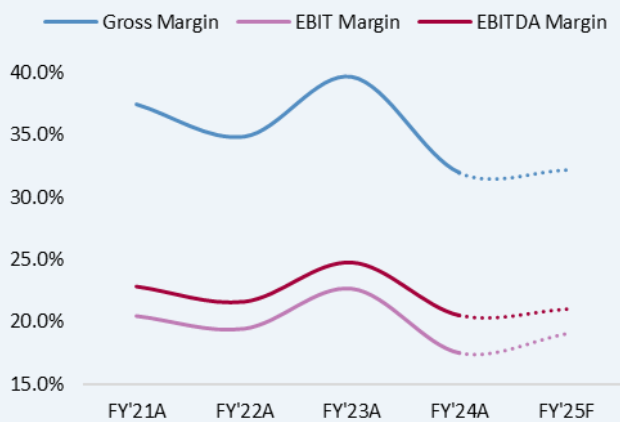
Export drive to further support revenues

NESTLE's strategic decision to leverage recent currency devaluations for export expansion also supports our optimism about revenues. According to the company's earnings release, export revenue surged by 455.8% YoY to N6.5 billion in FY'24. According to management, this expansion is driven by the introduction of popular local brands like Maggi, Milo, Golden Morn, and Cerelac to new West African markets and positions NESTLE Nigeria for further growth and diversification. Looking ahead, we expect growth in the export segment of the business to continue to outpace that of the domestic market. This trajectory should result in a c.5.0% export contribution to revenue by 2028 (vs c.1.0% currently).

Cost pressures set to abate

In 2024, cost pressures were a key concern for the company, with the impact of currency devaluation felt on raw material cost (+114.1% YoY). In 2025, the expectation for relative FX market stability (YTD USDNGN: -3.9%; Q1'24 USDNGN: -37.7%; FY'24 USDNGN: -42.6%) suggests that some of the cost pressures may abate in the ongoing financial year. Consequently, we forecast an EBIT margin at 19.0% (versus 17.5% in FY'24 and 19.4% in Q4'24). Over the next five years, we see scope for an average EBIT margin of 19.4% (versus a prior five-year mean of 20.5%).

Figure 2: Profitability margins expected to improve



Source: Company Financials, CardinalStone Research

NESTLE to return to profitability in 2025

We forecast NESTLE Nigeria's return to profitability in the current year, with a PAT forecast of N92.70 billion. Our PAT estimate hinges on our expectation that devaluation-induced FX losses, which negatively impacted FY'23 and FY'24, will be minimal in FY'25. This PAT expectation implies an EPS of N117.0 per share and a PAT margin of 7.0%.

Figure 3: Price changes across select products

Product Segments*	Mar-24 (N)	Mar-25 (N)	Change (%)
Milo 900g satchet	5810	8210	41.31%
Milo Energy food drink (18cl*12pcs)	3900	6220	59.49%
Chocomilo Energy cubes	2965	4880	64.59%
Nescafe 3 in 1 25g	150	250	66.67%
Nescafe Gold Blend (golden roast) 100g	7950	9525	19.81%
Nescafé Classic 50g tin	2350	3705	57.66%
Maggi 400g	1500	1965	31.00%
Maggi seasoning powder 450g	1059	1670	57.56%
Maggi tomato ketchup	1180	1180	0.00%
Golden Morn 900g satchet	3615	4550	25.86%
Pure life water 150cl	360	380	5.56%

Source: CardinalStone Research

*The table above shows a selection of prices of NESTLE's products

Potential balance sheet restructuring could provide support

The company's equity remained negative in FY'24. However, the passthrough from improved profitability and the option to revalue major fixed assets support a return to a positive equity position in FY'25. To this point, we note that the company's last revaluation resulted in a N217.1 billion increase in revalued assets to N305.4 billion in Q1'24 from the carrying value of N88.3 billion as of December 2023.

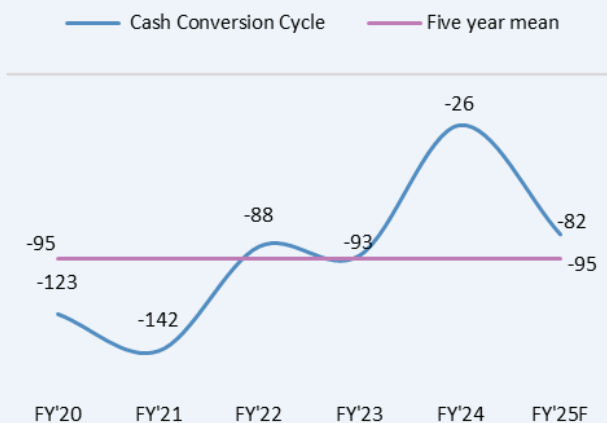
The exercise was carried out towards the end of Q1'24 when the official exchange rate was N1,416.1/\$. Hence, further depreciation of the currency to current levels of N1,600.5/\$ creates legroom for other rounds of asset revaluations.

Working capital advantage to persist

Over the past five years, NESTLE's cash conversion cycle (CCC) has remained firmly in negative territory, averaging –95 days between 2022 and 2024. This sustained position reflects the company's strong supplier relationships and disciplined working capital management. Notably, elevated trade payables have continued to offset inventory and receivables buildup, supporting liquidity.

Looking ahead, we expect this trend to persist, with a projected CCC of –83 days in 2025, slightly above the five-year average. This decline (compared to its five year mean) is attributable to a reduction in payable days, driven by the compounding impact of rising cost of goods sold, which surged by 69.1% in FY'24 and is expected to grow by another 38.2% in FY'25.

Figure 4: Cash conversion cycle to improve in FY'25 (days)

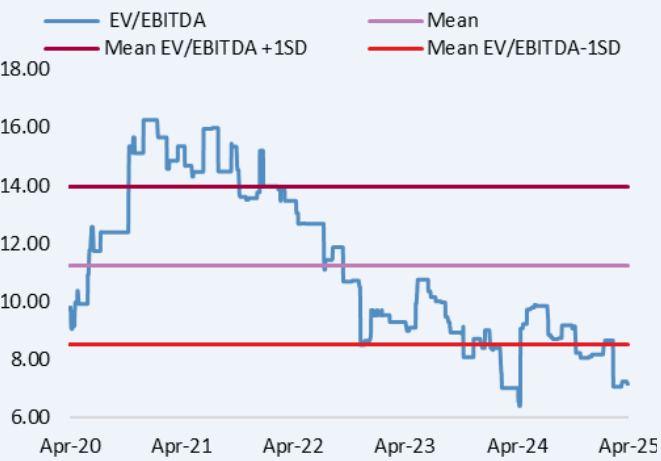


Source: Company Financials, CardinalStone Research

Valuation and Rating

We have revised our 12-month TP to N1,518.20 per share (up from N1099.89), reflecting a 51.8% potential upside and an unchanged BUY recommendation. The stock is trading on a current EV/EBITDA of 7.2x (vs an EMEA peer average of 10.7x and a five-year mean of 11.2x). From a Price-to-Sales (P/S) standpoint, the stock also appears cheap, trading at a P/S multiple of 0.8x (vs its five-year historical average of 2.4x). Our 12-month TP implies an exit P/E of 13.0x, which is at a conservative discount to NESTLE's last 5-year harmonic mean P/E of 23.3x and median of and 24.3x.

Figure 5: NESTLE appears cheap from a relative valuation standpoint



Source: Capital IQ, CardinalStone Research

Figure 6: Summary of Financials

Income Statement (Nm)					Cash Flow Statement (Nm)				
	2023A	2024A	2025F	2026F		2023A	2024A	2025F	2026F
Revenue	547,119	958,815	1,329,869	1,674,957	Cash flow from operating activities	82,703	5,859	386,343	425,735
COGS	(329,945)	(652,460)	(901,633)	(1,133,923)	o/w Depreciation & amortization	11,673	28,941	26,809	35,304
Gross profit	217,173	306,355	428,237	541,035	o/w Changes in working capital	(11,994)	(93,968)	150,464	50,475
OPEX and impairments	(93,386)	(138,479)	(175,543)	(219,419)	Cash flow from investing activities	(55,112)	(69,160)	(81,623)	(113,805)
EBIT	123,788	167,876	252,694	321,615	o/w Capital expenditure	(61,248)	(72,591)	(86,293)	(119,688)
Net Interest	(227,813)	(389,465)	(116,367)	5,883	as % of sales	11.2%	7.6%	9.0%	9.0%
PBT	(104,025)	(221,589)	136,327	327,498	Cash flow from financing activities	21,293	(84,244)	(127,575)	(205,367)
Tax	24,552	56,994	(43,624)	(104,799)	o/w Dividends paid	(13,770)	(585)	-	(111,349)
PAT	(79,474)	(164,595)	92,702	222,699	o/w Debt issued/(repaid)	73,972	(57,859)	(6,537)	29,122
EPS	(100.3)	(207.6)	117.0	281.0	Net change in cash	48,884	(147,546)	177,145	106,563
DPS (NGN)	0.00	0.00	0.00	140.48	Cash & cash equivalents at beginning of year (incl FX diff & O/D)	118,851	170,187	22,642	199,787
Payout ratio	0.0%	0.0%	0.0%	50.0%	Cash & cash equivalents at end of the year	167,735	22,642	199,787	306,349
Shares outstanding (million)	792.7	792.7	792.7	792.7					
Balance Sheet (Nm)					Ratio Analysis				
	2023A	2024A	2025F	2026F		2023A	2024A	2025F	2026F
Cash and cash equivalents	167,735	22,642	199,787	306,349	Gross Margin	39.7%	32.0%	32.2%	32.3%
Accounts receivable	16,873	11,298	28,341	35,695	EBITDA Margin	24.8%	20.5%	21.0%	21.3%
Inventories	87,793	174,784	247,023	295,131	EBIT Margin	22.6%	17.5%	19.0%	19.2%
Other current assets	88,845	149,580	149,580	149,580	Net Profit Margin	NM	NM	7.0%	13.3%
Current assets	361,246	358,303	624,730	786,755	ROE	NM	NM	NM	NM
PP&E	165,384	421,155	480,639	565,023	ROA	NM	NM	9.1%	17.0%
Other non-current assets	55,145	79,240	79,240	78,688	ROIC	26.0%	20.3%	26.5%	27.8%
Non-current assets	220,529	500,395	559,879	643,711	OPEX/Sales	17.2%	14.5%	14.3%	14.2%
Total assets	581,774	858,698	1,184,609	1,430,466	Net debt/Equity (x)	NM	NM	NM	3.3
Short-term borrowings	37,192	108,486	41,039	42,885	Net debt/EBITDA (x)	1.7	3.2	1.6	1.0
Payables	197,280	229,597	469,343	574,728	Sales/Assets (x)	0.9	1.1	1.1	1.2
Other short-term liabilities	56,166	63,343	63,343	63,343	Assets/Equity (x)	NM	NM	NM	NM
Current liabilities	290,638	401,427	573,725	680,957	Interest cover (x)	3.2	1.6	2.1	2.6
Long-term debt	365,128	545,215	606,126	633,402	Tax Rate	NM	NM	32.0%	32.0%
Other long-term liabilities	4,044	4,346	4,346	4,346					
Non-current liabilities	369,172	549,561	610,472	637,748					
Total liabilities	659,810	950,988	1,184,197	1,318,704					
Shareholders' equity	(78,035)	(92,290)	412	111,762					
Total liabilities & equity	581,774	858,698	1,184,609	1,430,466					
BVPS	(98.4)	(116.4)	0.5	141.0					
YoY Growth	NM	NM	NM	NM					
Net debt/(cash)	234,585	631,218	447,536	370,096					
Valuation						2023A	2024E	2025F	2026F
					P/E (x)	NM	NM	8.6	3.6
					EV/EBITDA (x)	6.1	4.2	3.0	2.3
					Dividend Yield	0.0%	0.0%	0.0%	14.0%

Source: Company Financials; CardinalStone Research

Note: N in millions (except per-share data). Fiscal year ends in December. o/w-out of which

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Rating	Buy	Sell	Hold	Negative Watch
% of total recommendations	46%	4%	50%	0%
% with investment banking relationships	0%	0%	0%	0%

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NESTLE Nigeria Plc	

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