Nestle SA - ADR (OTCMKTS: NSRGY)

Recommend Buy at 5%| PT: $105.00

February 2nd, 2024

CIMG Investment Research

Nestle: A Leader in the Global Food & Beverage Industry

Investment Thesis

Nestle Has Already Blown Past Short Term Headwinds: The opportunity is now to buy a premier global company at a discount due to fears within western consumers. We believe these fears feel overblown and are already ‘priced in.’ These fears of sustainability and health innovation are causing cocoa prices to rise, along with RFK’s beliefs and policies of cutting sugar & other processed goods. Nestle has already started to innovate their products into ones that are considered “health conscious,” long before these western demands became public through RFK. Besides these western demands, Nestle has seen, but blown past, recent struggles in top line sales being affected due to Forex headwinds, along with concerns regarding the ability to increase pricing power.

Nestle Can Leverage its Portfolio of Products to Adapt to New Demands: GLP-1s and increased health awareness among consumers is a recent struggle all companies in this industry have had to address. Nestle started with a new health & wellness focus years ago, with specific efforts to reduce salt, sugar, and fat in its products, along with investing heavily in plant-based alternatives. They have launched Sweet Earth (a plant-based food brand) and acquired Garden Gourmet, a European plant-based food brand. By the end of this year, 100% of product packaging will be recyclable or reusable, and the brand is also experimenting with alternative, plant-based packaging materials. Nestle has also stepped-up investments in marketing and started partnerships with influencers, and we are predicting a more solidified correlation between marketing spending on influencers and the engagement with Nestle’s ‘Health & Wellness’ products with more healthy consumers.

Nestle’s Emerging Markets Will Provide Growth While Serving as a Cushion: Nestle’s two fastest growing revenue segments by region are AOA (Africa, Oceania, and Asia) and Latin America. While also being the fasting growing segment, they also are two of the three highest margin segments that Nestle operates, offering Nestle an opportunity to increase top line revenues while also expanding margins. Although North America makes up a large share of revenues, emerging markets make up the remaining 41%. This allows for an expected pullback in the American market with some cushion of safety meanwhile the regions stated above will make up for their potential headwinds.

Nestle Is a Value Play that We Can Forget About: Currently, Nestle is one of the largest food packaging producers globally and is trading at a 30% discount to their 52-week high. The opportunity to buy this dominant of a company within the defensive consumer sector is rare. With a 4% dividend yield that Nestle has increased for 29 consecutive years, we feel this investment offers an extra margin of safety. Additionally, we feel as though Nestle will be the beneficiary of future trends within the market, as seen recently with the pull back from AI related growth stock, and artificial boost in the consumer sectors.

Valuation

To value this company, we projected out revenue by Region, by finding the average organic growth rate between and a price and volume mix. Street averages about a 1% organic growth per half year, resulting in ~2% organic growth or just under 3% year over year revenue growth. We are more optimistic on management’s ability to increase total sales volume, while maintaining their historical price growth. Through this and with a strong confidence in our thesis, we reached a price target of $105.00 implying ~23.50% upside by using a DCF with a 10% discount rate and 2% long term growth rate and a 2-yr forward EBIT multiple in line with street averages. We are recommending a buy at a 5% weight.

Consumer Staples Committee

Caroline Egger – Committee Head
coegger@crimson.ua.edu

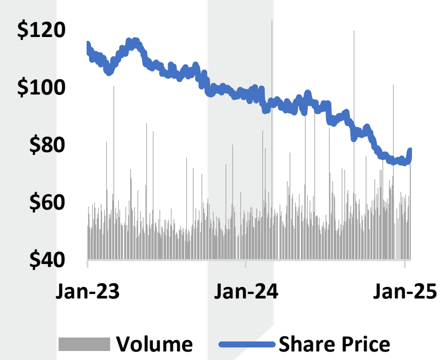
Leo Denning – Committee Head
ldenning@crimson.ua.edu

Ethan Sneckenberger – Senior Analyst
ebsneckenberger@crimson.ua.edu

Stinson Mckinnon –Analyst
wsmckinnon@crimson.ua.edu

Heidi Almskog – Analyst
hdalmskog@crimson.ua.edu

Figure 1: NSRGY 2 Year Stock Chart



Price	$84.98
PT	$105.00
Dividend Yield	3.86%
Upside	23.50%
52-Week Range	$80.11– $115.23
Mkt Cap	$229.7B
LTM P/E	17.64x
LTM EV/EBITDA	12.70x

Company Overview

Nestle (NSRGY) is a Swiss multinational food and beverage company, while being one of the most recognized brands in the world. Nestle has an extensive product portfolio covering a wide range of categories: dairy, coffee, health science, nutrition, pet care, bottled water, and prepared foods. Some of Nestle's brands that you may know are Nescafe, KitKat, Gerber, and Purina. Nestle has embraced e-commerce as a primary growth channel, expanding direct-to-consumer platforms, and enhancing its online presence. Nestle is also invested in "smart products" like Nespresso machines and connected devices to cater to the growing interest in smart home technology. Nestle faces high competition from other global food giants like PepsiCo, Coco-Cola, and Unilever, as well as local brands.

Industry Overview

Nestle is amid many industry trends that are concerning investors, most of which are themes that we don't necessarily agree with long-term. Currently ~5% of US adults are using GLP-1s, with estimates of total GLP-1 users reaching 30 million in the United States by 2030. There has been some backlash in the industry with minor reductions in spending on groceries, less beverage consumption, and ultimately sales for companies like Nestle are seen to be "at risk." Nestle, nor any conglomerate like Nestle, has struggled due to these trends. Sales in what would be considered "unhealthy" segments remain high, and we remain bullish on Nestle's ability to push through the fad of these trends.

Recently, the Franc (CFH) has gained value relative to the dollar, due to the inflationary trends that continue to devalue the dollar. Since Nov. 2022, the Franc went from about a $1 to CFH 1 to $1 to CFH ~0.9 currently. What this means for Nestle, is that their assets held in the dollar have depreciated greatly, attributing to recent share price and sales headwinds. Nestle is posed for a short-term boost to earnings, like what was seen in the late 1990's, where their top line sales were boosted by 8.1%. Exchange rates are unpredictable but tend to follow a cyclical pattern in the short term. As a long-term stock, these are not issues that will materially change our outlook on Nestle.