

Stock Story



Nestlé's world-leading brands sit at the heart of everyday consumption globally.

Aromas in the morning from a freshly made cup of Nespresso, Purina for our cat and dog companions, and Kit Kats for everyone at the party. These experiences form the majority of how consumers around the globe interact with Nestlé. They also illustrate why we like Nestlé. We see now as an opportune time to own a company that possesses world-leading brands in consumer categories we believe have a favourable growth outlook in the long run.

Even great companies face challenging periods. Nestlé's 12-month forward PE ratio currently trades at a 4-turn discount to its historical average over the past decade. Investor sentiment turned negative over the past few years due to a sequence of unfavourable developments mostly outside of Nestlé's control: rising cost of living, commodity price inflation, post-pandemic consumption normalisation and, most recently, an abrupt change in leadership. Even if some of these conditions persist, we view Nestlé as positioned to adapt given its leading position in favourable categories.

Why do we see Nestlé's fundamentals as favourable? Take Nestlé's coffee portfolio. It's comprehensive pricing architecture, through umbrella brands Nescafé and Nespresso, means the portfolio should be well-positioned to capture spending shifts up and down the price ladder. In pet foods, Nestlé also possesses category leaders in its Purina line, which also offers products from premium to budget. Nestlé owns well-recognised confectionery brands such as Kit Kat, Milo, Smarties and Allens, and is well-established in infant nutrition (NAN).

We see both coffee and pet care as attractive categories. They are more experiential and less commoditised relative to other staples. This means the decision to switch isn't just about price; instead, brand preferences/flavour profiles feature more prominently. Over recent quarters, Nestlé was able to deliver positive volume growth in coffee despite pushing through high-single-digit percentage price increases, a reflection of entrenched habits for coffee and potentially some pricing power in its brands. Flavour profiles and nutrition also matter in pet foods. Confectionery should also benefit from this to an extent. Together, these three categories form around two-thirds of 2024 earnings.

Scale matters, too. Nestlé is the world's largest provider of packaged coffee, even after Keurig Dr Pepper's takeover of JDE Peet's. It is also among the top pet food producers globally. One example of scale benefit is the ability to substitute coffee bean supply at scale that helped Nestlé mitigate the impact of recent US tariffs on Brazilian coffee imports. Scale pet food producers are at an advantage when it comes to R&D that allows Nestlé to conduct feed trials and drive innovation.



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Trust built over decades with veterinarians and pet owners alike create a moat around the Purina brand and protects its position within an oligopolistic industry. From a supplier perspective, grocery retailers also frequently preference larger FMCG companies, even if begrudgingly, for the simple fact that their products generate sales volumes/foot-traffic.

Investing in Nestlé is not without risks but we see these as manageable. Underlying operating margins are likely to decline for FY2025, and there is less flexibility in its balance sheet. The chief risk is the success and speed at which the new CEO Philipp Navratil can effect the changes needed to adapt to recent challenges. Although it is still early days, signs are encouraging that Navratil is frontloading organisational change and has upsized the ongoing efficiency program from CHF2.5 billion p.a. in savings to CHF3 billion p.a. by 2027. We expect most of these savings to be reinvested to drive business growth.

We don't expect the consumer environment will get any easier as we head into 2026. However, the combination of leading brands in attractive categories gives Nestlé a good chance at adapting to these challenges. Forward looking risks from commodity price inflation appear manageable. Coffee and cocoa bean prices remain very elevated compared to history, reducing likelihood of further increases. Importantly, Nestlé already adjusted prices to limit impact on margins. Should input costs moderate, Nestlé could see further margin recovery.

Overall, we believe Nestlé possesses the right ingredients to weather current difficult conditions and deliver attractive shareholder returns. The company also offers the defensive qualities we are looking for, having delivered steady low- to mid-single-digit organic growth each year pre-pandemic. As the turnaround bears fruit, consumption normalises, and commodity pricing and inflation continue to moderate, we see Nestlé starting to deliver the same steady performance it had pre-pandemic. This should help lift earnings and see investor confidence restored in the company.

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