

Zedcrest Research

Q2'26 Earnings | Margin resilience amid market share retention

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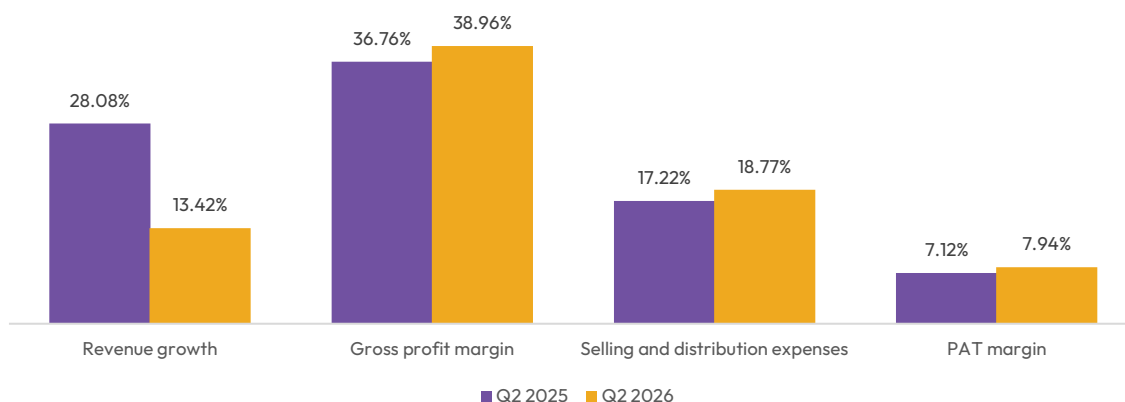
Nestlé Nigeria's revenue moderated marginally by 0.46% QoQ to ₦324.63 billion in Q2'26, although it remained firmly positive on an annual basis, increasing 13.4% YoY from ₦286.23 billion in Q2'25. The sequential slowdown was largely anticipated following the seasonal strength recorded in Q1 2026 and reflects a more measured pricing strategy as the company prioritises market share retention over aggressive price increases amid a still fragile consumer environment. This mirrors the broader competitive dynamics within Nigeria's consumer goods sector, where manufacturers have increasingly shifted focus towards volume recovery after successive years of price-led revenue growth.

Despite the softer quarter-on-quarter performance, underlying demand appears to be gradually improving. Inventory levels declined during the quarter, indicating stronger product off-take and improved inventory turnover rather than stock accumulation. This suggests that the company's strategy of moderating price increases is beginning to support sales volumes, providing a healthier revenue mix compared with the largely pricing-driven growth observed over the past two years.

Rating	HOLD
NGX Ticker	NESTLE
Bloomberg Ticker	NESTLE NL
Target Price	₦3,149.47

Company statistics (Q2'26)	
Return on Asset	16.9%
Profit Margin	7.94%
Debt-to-equity ratio	576.08%
Market cap	₦2.8 trillion

Margin expansion amid revenue weakness



Source: Company Filings, Zedcrest Research

Cost of sales increased by a relatively modest 9.5% YoY to ₦198.17 billion, while rising 2.1% QoQ, broadly reflecting the recovery in sales volumes during the quarter. Importantly, the pace of cost growth remained below revenue growth on an annual basis, allowing profitability to improve despite inflationary pressures across energy, logistics and imported raw materials especially following the middle east tensions.

Consequently, gross profit increased to ₦126.46 billion, with the gross profit margin expanding to 39.0% in Q2 2026 from 36.8% in Q2'25, highlighting continued progress in procurement efficiency, local sourcing initiatives and manufacturing optimisation. Although the margin moderated from 40.5% in Q1'26, this appears more reflective of quarterly inventory dynamics than a deterioration in operating efficiency. Inventory balances were elevated at the end of Q1 2026, likely providing some temporary cost absorption benefits during the preceding quarter, while the subsequent inventory drawdown in Q2 2026 normalised production costs as sales volumes recovered.

Operating expenses continued to reflect Nestlé's deliberate investment in protecting market share. Selling, marketing and distribution expenses increased 27.7% YoY, while administrative expenses grew a more moderate 8.5% YoY, resulting in an overall 18.7% YoY increase in SG&A expenses. The higher marketing spend is consistent with the company's strategy of supporting distribution channels, improving product availability and strengthening brand visibility amid an increasingly competitive consumer market.

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Consequently, the SG&A margin increased to 18.8% from 17.2% in Q2'25, while operating profit margin moderated to 20.3% from 23.1% in Q1'26 as higher operating expenses offset part of the improvement in gross profitability. Nevertheless, operating margin remained above the 19.7% recorded in Q2'25, reflecting the stronger gross margin achieved through improved cost management.

Finance income remained exceptionally strong during the quarter, increasing 17.9% QoQ and 2,687% YoY to ₦18.00 billion from ₦645 million in Q2'25. The increase was largely driven by foreign exchange translation gains on foreign currency-denominated balances, reflecting the relatively stable exchange rate environment during the quarter. However, we do not view this as indicative of stronger liquidity or a sustainable improvement in earnings quality. Rather, balance sheet trends point to tighter working capital conditions, with trade receivables increasing while trade payables declined during the quarter, suggesting that more cash was deployed to support day-to-day operations. Consequently, the surge in finance income was largely exchange rate-driven rather than supported by higher cash balances or increased returns on interest-bearing investments.

Finance costs, however, increased 57.0% YoY and 82.8% QoQ to ₦30.93 billion, reflecting additional borrowings utilised to finance capital expenditure and working capital requirements.

Profit before tax increased on an annual basis, supported by stronger operating profitability and lower net financing pressure relative to the corresponding period last year. However, the increase in finance costs during the quarter weighed on sequential earnings, with the PBT margin declining to 16.3% from 22.6% in Q1'26, although remaining comfortably above the 13.0% reported in Q2'25.

Tax expense increased 61.6% YoY to ₦27.22 billion, reflecting stronger taxable earnings, although it declined 21.7% QoQ following the exceptionally strong first quarter. Consequently, PAT margin moderated to 7.9% from Q1'26, largely reflecting the increase in financing costs, but remained above the 7.1% recorded in Q2'25, demonstrating the company's continued recovery in underlying profitability.

Volume recovery offset by balance sheet risks

Looking ahead, we forecast FY2026 revenue of ₦1.47 trillion, representing 21.5% year-on-year growth, supported primarily by continued volume recovery rather than aggressive price increases. We expect management to maintain its market share preservation strategy resulting in more measured pricing actions while supporting demand across its key product categories.

We also expect cost optimisation initiatives, increased localisation of raw material sourcing and improved manufacturing efficiencies to continue supporting profitability. Accordingly, we forecast gross profit margin to improve to 40.5% in FY'26, compared with 39.1% in FY'25. Having delivered a 39.7% gross margin in H1'26, and considering the seasonally stronger demand typically experienced during the second half of the year, we believe further margin expansion remains achievable despite normal quarterly fluctuations.

At the earnings level, we forecast PBT margin of 17.1% and PAT margin of 9.6% for FY'26, reflecting continued operating improvements, albeit partially offset by elevated financing costs. While the company's earnings recovery remains encouraging, the balance sheet continues to warrant caution. Net debt remains elevated, with a debt-to-equity ratio of 5.74x, while tighter working capital conditions evidenced by rising receivables and declining payables suggest liquidity remains under pressure despite improving inventory turnover.

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Accordingly, we maintain a **HOLD** recommendation with a target price of **₦3,149.47/share**, supported by improving operating efficiency, recovering earnings quality and gradual working capital normalisation, but balanced against elevated leverage and financing risks.

N'million	2025A	2026F	2027F	2028F	2029F	2030F
Revenue	1,207,773.08	1,467,444.29	1,819,630.92	2,256,342.35	2,797,864.51	3,469,351.99
Gross Profit	472,610.00	594,314.94	729,401.99	904,458.47	1,175,103.09	1,373,863.39
EBITDA	263,496.84	315,500.52	425,467.17	526,008.44	686,947.30	767,392.32
Profit Before Tax	166,846.78	250,983.18	387,275.74	468,141.70	607,027.11	651,705.42
Profit after tax	104,966.00	140,550.58	213,001.66	257,477.94	333,864.91	358,437.98

	2026F	2027F	2028F	2029F	2030F
Gross profit margin	40.50%	40.09%	40.09%	42.00%	39.60%
EBITDA margin	21.50%	23.38%	23.31%	24.55%	22.12%
Operating profit margin	19.89%	21.46%	21.21%	22.35%	19.85%
PBT margin	17.10%	21.28%	20.75%	21.70%	18.78%
PAT margin	9.58%	11.71%	11.41%	11.93%	10.33%

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