Monde Nissin

Transcript of Monde Nissin Corporation (MONDE)
First Half 2024 Earnings Call
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Participants
Michael Paska – Chief Investor Relations Officer, Monde Nissin Corporation
Henry Soesanto – Executive Vice-President & Chief Executive Officer, Monde Nissin Corporation
Jesse Teo – Chief Financial Officer, Monde Nissin Corporation
Marco Bertacca – Chief Executive Officer, Quorn Foods
Nick Cooper – Chief Financial Officer, Quorn Foods

Presentation

Michael Paska:

Good afternoon and welcome to Monde Nissin's first half 2024 earnings call. I am Mike Paska, Head of Investor Relations. On today's call with me are Henry Soesanto, Chief Executive Officer, Jesse Teo, Chief Financial Officer, Marco Bertacca, Chief Executive Officer of Quorn Foods, and Nick Cooper, Chief Financial Officer of Quorn Foods. By now everyone should have access to the earnings press release and presentation. These were posted earlier today on the PSE Edge website. This information can also be found in the investor section on Monde Nissin's website. And finally, before we begin, please note that the financial information being presented is unaudited, and during the course of this call, management may make forward-looking statements based upon current assumptions and expectations. These are not guarantees of future performance, and I encourage everyone to read the disclaimer in the presentation. Now, I'd like to turn the call over to Henry for introductory remarks. Henry.

Henry Soesanto:

Thank you, Mike, and good afternoon, everyone. I'm happy to report that the second quarter saw modest growth, and on a year-on-year basis continued expansion of gross margin due to the lower cost of commodity. Overall, core profitability driven by our APAC BFB business remained very strong. Despite continued challenging business conditions for our meat alternative business, during the quarter we saw an improvement in gross margin as we are beginning to see the benefit of lower input costs. While we are hoping for further improvement in our gross margin over the coming quarters, we maintain our commitment and focus on controlling costs with the goal of achieving EBITDA breakeven or better for this year. I would now like to turn the call over to Jesse to provide more details for our consolidated performance and APAC BFB business. Jesse, please.

Jesse Teo:

Thank you, Henry. So I'm pleased to report our unaudited first half and second quarter financial results. This is highlighted by improving top line progression, continuous gross margin improvement or expansion that flows to a strong core profit improvement of 37% for the quarter - for the second quarter - and 46% for the first half. Now, zeroing in on net sales, net sales improved in Q2 from 2.1% in Q1 to 4.2%, bringing the first half to 3.1%. This is led by APAC branded food and beverage, in particular noodles and the others category which consists of culinary and beverage. Gross margin expanded 370% versus a year ago for the quarter and 460 basis points for the first half. The improvement in gross margin flowed through the core net income, leading to a 37% increase in core net income and a 46% improvement in the first half. The other good news is that for both segments, APAC branded food and beverage and meat alternative improved gross margins, as Henry mentioned, versus a year ago. Meat alternative also improved gross margins sequentially. Next slide, please.

The core profit improvement translated to cash versus same period - versus a year ago. We improved cash by 78.2% to Php 6 billion in the first half. Next slide, please.

Zeroing in on APAC branded food and beverage, the sales growth was led by noodles and others category. The expansion for gross margin was 410 basis points for the quarter and 580 basis points for the first half. This translated to 34% growth in core net income for the quarter and 38% growth in core net income in the first half. Next slide, please.

Now zeroing in on the category-by-category sales progression - our sales growth was led on absolute by noodles, which grew 8.3%, led by a very robust 10% growth in volume. Biscuits had a difficult quarter as we had supply chain hiccups for our biggest brand, SkyFlakes. That thing is now a thing of the past, as we will discuss later on during the guidance section. Beverage and culinary continue to grow double digits, and we foresee this to continue. The first half results reflect the results of Q2, improving the performance of Q2 relative to Q1. Next slide, please.

From a share standpoint, noodles sales growth was underpinned by share growth. Our share growth is led by our Kasalo pack, which is now 65% of the market leader in this sizing and pricing segment on a total Philippines basis. Moreover, in the supermarket channel, we are almost tied at 98% of the market leader in this sizing and pricing segment.

For biscuits, I mentioned the supply chain hiccup that has caused some slight share dilution from 28.5% to 28.4%. We have now recovered fully from the supply chain hiccup. In fact, we are promoting or advertising our SkyFlakes brand, with a new campaign of “Para sa mga inaasahan, asahan mo ang SkyFlakes,” which translates "For those who you rely on, they rely on SkyFlakes." This campaign will evoke the emotional nostalgia that our core users have for this iconic brand and hopefully generate renewed excitement. We would also like to highlight the M.Y. San Graham brand. This is a more-than-50-year-old brand, a modern-trade-focused brand that is Php 2 billion in size of annual sales but is growing at a 37% clip this year. The secret sauce for this is improving or increasing the usage occasions.

We have taught moms to prepare simple desserts using Graham as an ingredient, and we have taught mom-trepreneurs to use this as an ingredient for them to augment their family income by selling desserts to their friends and family.

Now to others, we'll talk about our progress in culinary and beverage. For oyster sauce, our shares improved nearly 300 basis points versus year ago. This is a marked improvement as we had supply issues last year. We have now fully recovered. In fact, oyster sauce continues to be one of the best stories as far as increasing household penetration. We have now reached 56% household penetration for oyster sauce, realizing our ambition of replacing soy sauce with oyster sauce among Filipino households. By the way, our relationship with Mama Sita’s has gone from strength to strength. This is the 10th-year anniversary of our collaboration, and we have grown the business with them 3.3 times during this time. For yogurt drink, building on our already strong 89.2% share last year, we have further improved it to 91.1% in this yogurt drink segment with our Dutch Mill brand. Next slide, please.

On bottom line and gross margin, we continue to have favorable lock ins. Wheat, which is 17% of our APAC branded food and beverage COGS, continues to have good trends. In fact, these days, wheat is trading near one-year lows, especially for hard wheat. Palm oil is also having a good trend; and while we have not fully locked in on Q4, the recent days have shown low prices which gives us an opportunity to fully lock in for the year. This supports our 406 basis points improvement in gross margin that we talked about earlier. In addition to this, sugar and eggs have been favorable to our COGS progression as well. Next slide, please.

I'll now turn it over to Nick who'll discuss about meat alternative.

Nick Cooper:

Great. Thank you, Jesse. Next slide, please.

So as Henry mentioned at the start, for Q2, the category environment for meat alternatives remained challenging; and we saw continued pressure on our top line with underlying sales in the quarter down about 9%. I am, however, pleased to say that Q2 did show progress on the gross margin with an increase both quarter-on-quarter and year-on-year; and our focus on cash has allowed us to remain cash neutral in the first half of the year.

So, looking at the details on a comparable basis, which adjusts for the accounting change we spoke about in Q4, sales were down 2.7% in the quarter, driven by a 6.4% decline in sales at constant exchange rates, offset by an appreciation of the pound against the peso. If you adjust for customer de-stocking that occurred in Q2 2023, the underlying sales were down about 9% at constant exchange rates, which is broadly in line with the 9% underlying performance that we reported on the same basis in Q1. This top line trajectory is worse than we'd anticipated at the start of the year and is largely driven by the fact that the UK retail market continued to decline double-digits in the quarter. In this environment, we're very much focused on protecting cash and profitability, while, at the same time, funding targeted investments to drive a return to top-line growth.

Moving on to gross profit, you can see that gross margin expanded in the quarter with a core gross margin of 23.1%, which was 146 basis points up year-on-year on a comparable basis and 313 basis points up quarter-on-quarter, and that is largely driven by lower raw materials and utilities costs beginning to impact those margins.

Then moving on to core EBITDA, we posted a loss of Php 84 million in the quarter. This was slightly up on the loss of Php 60 million in Q1, driven by targeted investments in marketing, partially offset by stronger gross profit and cost control. We continue to target core EBITDA for the year, which is break-even or better.

Finally, during Q2, we continued our focus on cash and have remained cash neutral through the first half of the year. This includes a reduction of inventory quantities by more than 20% in the first half of the year and more than 35% over the last four quarters. This has been achieved without impacting service levels to customers. Next slide, please.

So, looking briefly at the market environment and the performance of our food service business - as I mentioned, the UK retail market continued to decline in the quarter and was down about 10.2% compared to the same period a year earlier. In that environment, we saw a small erosion in our UK retail market share, with continuing strong frozen gains offset by some losses in chilled.

Finally, our food service business continued to grow and posted an increase of 8% in sales per day; and it now accounts for approximately 20% of our sales in the quarter. Highlights include the robust growth of our core UK food service business and further expansion of our KFC business.

With that, I'll hand it back to Jesse for the consolidated full year 2024 guidance.

Jesse Teo:

Thank you, Nick.

So, I'll continue by talking about, for full transparency, our reported net income. So, from our core net income, which grew at 37% for the quarter and 46% for the first half, there are significant non-core charges related to the revaluation of the guarantee asset. Recall that the family guarantee for meat alternative was underpinned by 2.156 billion shares; and those shares are denominated in peso, so the stock price and exchange rate would have an effect on that. So, the Php 1.6 billion is largely driven by a revaluation based on stock price and the deteriorating peso relative to the sterling. However, just for full transparency as well, our sterling investments would now also be revalued because of the appreciating sterling; but this is shown under comprehensive income, so we thought that it would be proper to show the two as they offset each other and are really part of one transaction. Moving on to our guidance, next slide, please.

For APAC branded food and beverage, we are guiding towards mid-single-digit growth for both our noodles and biscuit business going forward; and for culinary, we are guiding towards continuous double-digit growth. We are off to a great start in July, where we grew 10% for our Philippine business. This is led by our flagship biscuit brand Skyflakes, which grew 19% versus year ago. I mentioned earlier that we had supply chain hiccups. We have now fully recovered, and the growth in July shows that the supply issues are a thing of the past. The meat alternative segment will continue to have top line challenges; but from a gross margin standpoint, we forecast gross margin improvement year-on-year due to the locked in commodity costs for APAC branded food and beverage, and now also for meat alternative.

Now to more exciting news on beverage. We mentioned earlier that we are growing share in our Dutch Mill drinking yogurt category, which now has 91%. Now we have another beverage introduction in our portfolio. Next slide, please. Introducing Monde Nuvi, an exciting new product that we have launched. This is the first chocolate milk drink with nata de coco sinkers. This product is a co-branded product, Monde Nuvi with NutriFood, one of the largest dairy manufacturers in Vietnam. The chocolate milk market is valued at Php 9 billion. This is double the size of our drinking yogurt category. We hope to be making inroads in this much bigger pond of the beverage category in the near future.

With that, we end our prepared remarks and are ready for Q&A.

Michael Paska:

Thank you, Jesse. I will now moderate the question-and-answer portion of the call. Questions can be submitted via your chat box. We will attempt to address as many as possible, time permitting.

Jesse, the first question is for you; and this is where do you expect EBITDA margins of APAC BFB to settle? It started strong, but it started to come off or maybe normalize in the second quarter.

Jesse Teo:

We did guide for higher A&P or opex previously. Our A&P for instance went from 2.1% to 4.5% in the second quarter, so that is part of the phasing of our investments. We said that we will rely on volume growth for our sales growth, and that would require A&P investments. Moreover, I think the gross margins, while we are improving year-on-year and sequentially, the USD-Philippine exchange rate has deteriorated from Php 56 to Php 57 or Php 58. It's now improving, and we hope the trend continues; but we have that hit. We also have one-offs, such as collective bargaining agreement bonuses that are one-off that happened in the quarter for Q2. We project that our going EBITDA margin will be closer to Q2 than to Q1.

Michael Paska:

Great. Thank you, Jesse. Jesse, another question for you - and this is why did APAC BFB gross margin decline 200 basis points quarter-over-quarter given no spike in key raw materials? And what is your read on Q3 and Q4?

Jesse Teo:

Okay. The reasons I already mentioned earlier. First of all, you have the exchange rate - Php 56. A lot of our raw materials are US-dollar denominated, so the exchange rate does play a role. Hopefully, again, in Q3 and Q4, the peso improves, relative. I think it peaked in Q2. Now it's off peak, hopefully that trend continues. You also have, as I said, one-offs - the collective bargaining bonuses that affected us. We also have the supply chain hiccup for our SkyFlakes brand. So you had continuing costs that are incurring, but with no production for almost two weeks. That affected our gross margin as the volume output was lower compared with the normal costs. Some of it, we should be able to recover. Some of it, we will have to depend on factors that are beyond us, like the exchange rate.

Michael Paska:

Thank you, Jesse. Next question is for you - and this is in the first quarter, soft instant noodle sales volumes were attributed to fewer selling days because of the timing of Holy Week. It was also mentioned during Q1 results briefing that noodle volumes were 13% higher in April. If that's the case, would it imply volumes were slower in May and June? Could you provide more granularity on the trends excluding the impact of the timing of Holy Week?

Jesse Teo:

I don't have the exact breakdown month by month; but yes, it slowed down. The growth in May and June slowed down because it didn't have the March to April effect of Holy Week. So it normalized in May and June; but as I shared earlier, for the total quarter Q2 noodles grew 10% on volume.

Michael Paska:

Okay. Thank you, Jesse. Can you comment on what specific noodle products are driving the divergence in volume and price mix growth?

Jesse Teo:

So, I mentioned earlier that Kasalo pack is leading our growth. This is the higher size and pricing segment. The price per gram for this Kasalo pack is lower than our normal pack, but the price point is much higher. So when you sell more, we actually achieve more sales.

Michael Paska:

Thank you, Jesse. Another question for you - this is how is Nuvi priced compared to key chocolate milk competitors like Chuckie and Choc-O?

Jesse Teo:

Monde Nuvi is slightly premium. We view this as an affordable premium; and we view that because it has an exciting factor of having added nata de coco, it can command that premium.

Michael Paska:

Thank you, Jesse. Another question for you - what led to the faster growth in consolidated core EBITDA in the second quarter compared to gross profit? And then also can you just comment on the rationale behind the downward revision in the 2024 CapEx budget?

Jesse Teo:

Sorry, the growth in EBITDA?

Michael Paska:

Yes, so what led to the faster growth in the consolidated core EBITDA in the second quarter compared to growth in gross profit?

Jesse Teo:

Sorry, we have to get back to you on that. I don't have the answer straight away on hand, so we'll get back on that question.

Michael Paska:

Okay, and then a follow up is if you can just explain the rationale behind the downward revision in the 2024 CapEx budget?

Jesse Teo:

Oh, it's just the timing of our plans. Some of the delays in the construction and in the delivery of the machines would affect the actual spending. We are still fully committed in the plans that we have said. For instance, we have started up the cakes line in Davao; and we are on track to start up our Butter Coconut biscuit line as well there in Davao. We have a new land that we contracted in North Philippines and are starting to develop plans to start the construction there. Some of it would be just delays in the planning and execution of the CapEx. So, since the actual spending has been just Php 1.6 billion, we deemed it right to bring down the CapEx forecast to Php 5.9 billion.

Michael Paska:

Okay. Thank you, Jesse. Next question is for Nick, and this is how much did food service contribute to sales in the first half of 2024?

Nick Cooper:

In the first half, it was approximately 19%.

Michael Paska:

Okay. Thanks, Nick. Jesse, question for you - and this is what was the supply chain issue in biscuits and how was this addressed?

Jesse Teo:

Oh, it's an unscheduled breakdown in the machine; and that was then fixed after a couple of weeks.

Michael Paska:

And then another question, and this one's related to Nuvi - who are your main competitors in this group?

Jesse Teo:

I think it was already mentioned – Chuckie. Earlier question. Chuckie - Nestle's Chuckie.

Michael Paska:

Okay. And Jesse, this is a question on impairment losses for the meat alternative business - do we expect more in 2024 or succeeding years?

Jesse Teo:

I think it's premature to comment on that. On one hand, we have good - top line is challenging still, but on the other hand, the bottom line - EBITDA is being controlled, and the raw material prices are now being reflected in the gross margins. Also, the WACC should be improving as well as even the UK - the BOE has already adjusted the rates by 25 basis points. So hopefully, by December - we need to wait for December because that's the basis for any IAS 36 calculation. There are factors that are going against us, but there are factors that are going for us as well. It's too premature to comment right now.

Michael Paska:

Okay. Thanks, Jesse. Jesse, just going back to Nuvi, can you comment on its key selling propositions? How was it compared to competitor's products?

Jesse Teo:

Yes, so our competitor's product is your average chocolate milk drink – chocolate-flavored milk drink. This has nata de coco sinker, so it provides a new different experience to the users. So we hope that this different experience, this different feel will create a lot of interest and excitement.

Michael Paska:

Okay. Thank you, Jesse. And Jesse, can you share any insights you have on consumer behavior so far in July and August? Are you still seeing persistent downtrading? Which promotions are working with customers?

Jesse Teo:

Downtrading in our category - we don't see that, because we think we are one of the more economical food items. So people do go to our category whenever times are tougher. We also have a good portfolio of products that do well, whether it's good times or bad times. An example of which is our Graham, right? It's growing 37% as I mentioned earlier, off a big base of Php 2 billion; and it's because we found and articulated well new use educations for this brand. And people can economize by producing their own - by making their own homemade desserts, using Graham as a key ingredient; and they can make money by being entrepreneurs - by selling desserts. So there are different trades. It's all about how we market - are able to communicate the marketing point that we want to emphasize.

In addition, I think more than the conditions, I think it was the weather. I would like to comment on the weather. It was very hot in Q2. That depressed noodle's volume in general. Of course, versus a year ago, it improved; but it's kind of low because it was a record summer heat. As many people have noticed, precipitation has come these days; and the strong results in July reflect that. We hope that that trend will continue on in the upcoming months.

Michael Paska:

Thank you, Jesse. Jesse, can you please give the numbers for the one-offs that you saw which affected EBITDA in the second quarter, and how would EBITDA be without these one-offs?

Jesse Teo:

Well, the one-offs [inaudible 00:30:40] collective bargaining agreements - that's 0.3. We have increased investment in selling expenses - that's phasing expenses. We had more displays, highlights, promotions in the trade. That's 1%. And then we have production inefficiency because of the unplanned downtime - that's 50 basis points. So about half is one-off; half is deliberate higher selling and marketing efforts in order to boost the sales of our brands.

Michael Paska:

Okay, thank you Jesse. The next question is for Marco, and this is what indicators are you monitoring as probable signs for improved demand in meat alternatives? And then, just as a follow-up, do you foresee sustained volume declines in the next few years?

Marco Bertacca:

Thanks, Mike. So I think the key element that we are monitoring is really the UK retail environment, because currently, we see some relative growth in Europe and in food service, as we have shared, while the UK retail environment is still under pressure.

And I think one of the key elements that we are monitoring is the consumer confidence. And as you've seen, also in the latest news, that the UK is going through some challenging times. So we expect that the new election would bring a bit of a new phase to the economy and bring the consumer back to the shelf and back to our category. Because, as I always confirm, the big trends are there but consumer confidence. And also, actions from our side are also important. I always repeat - we are the market leader here, and we need to continue to consolidate or to strengthen our gross margin also in order to be able to invest in consumer attractiveness propositions.

So, we do not expect - certainly we expect for this year and possibly also for next year some pressure on volume, and we are continuously looking at ways to optimize our footprint to adjust for that so that we can become stronger for the future.

Michael Paska:

Thank you, Marco. Jesse, a question for you is can you remind us of the top line contribution of noodles and biscuits to APAC BFB?

Jesse Teo:

Noodles is about 47%, biscuits is 32%, beverage is 11%, and then culinary is 6%.

Michael Paska:

Okay. Thank you, Jesse. And just a follow-up on Monde Nuvi - can you remind everyone when it was launched and if there's any part of sales that were in the second quarter?

Jesse Teo:

It just launched in July, so not yet.

Michael Paska:

Okay. And then also on Nuvi - can you give us more color on its production? Is the product imported from Vietnam? What is the revenue target in terms of contribution to APAC BFB, and how is its margin compared to the existing portfolio?

Jesse Teo:

We'll not give a specific forecast, but our own guidance is we are playing in a much bigger subcategory of beverage. It's Php 9 billion big. So, of course, we have ambition to get a sizable chunk of that Php 9 billion market, and hopefully grow that market as well because of the excitement that we create in the chocolate milk category.

Michael Paska:

Okay, great. Thank you, Jesse. This concludes the Q&A. I would now like to turn it back over to Henry for closing remarks.

Henry Soesanto:

Thank you. Thank you, Mike. Thank you everyone for your participation in this call and your continued interest in the company.

In summary, during the second quarter, we continue to have very strong core profitability. We do expect this higher gross margin on year-over-year basis to persist, and the strong core profitability to continue in the third quarter.

The improvement in gross margin for meat alternative is encouraging. Before we see the turnaround of the category performance, our focus will remain very much on cost control; and the team is striving to deliver EBITDA breakeven or better for this year.

With that, I look forward to speaking to you next when we hold our third quarter earning call. Until then, stay safe and healthy. Thank you.