

Danone Net Falls as Gains Aren't Repeated; Sales Rise

By Ladka Bauerova

Feb. 15 (Bloomberg) -- Groupe Danone SA, the world's largest yogurt maker and the bottler of Evian water, said full-year net income fell 7.5 percent as one-time gains from asset sales weren't repeated.

Net income was 1.35 billion euros (\$1.77 billion) for 2006, down from 1.46 billion a year earlier, which was boosted by the sale of Danone's HP sauces unit. Profit for 2006 beat the 1.19-billion-euro median estimate of seven analysts surveyed by Bloomberg. Full-year sales gained 8.1 percent to 14.07 billion euros, above the median estimate of 14.03 billion euros.

Paris-based Danone has tapped emerging markets from China to Indonesia to compensate for slower growth in Europe, where yogurt is already part of consumers' daily diet. The food maker has boosted sales with Activia, a digestion-enhancing yogurt, and Actimel, an immunity-boosting milk drink.

"They are firing on all cylinders," said Helvea analyst *James Amoroso*, who has an "accumulate" recommendation on the stock. "They are focused on the right product categories and the right regions."

The shares rose 1.90 euros, or 1.6 percent, to 120.20 euros yesterday in Paris, giving the company a market value of 31.4 billion euros. The stock has gained 31 percent in the past year.

Fourth-quarter revenue rose 11.5 percent, the company said in an e-mailed statement.

Yogurt Sales

The French company posted 9.2 percent growth for its yogurt division, the largest by sales. Sales increased to 7.93 billion, driven by a 15 percent increase in revenue from health-enhancing products, which include Activia, Actimel and Vitalinea. Gains in Latin America, the U.S. and Russia compensated for slower sales in France, the company said.

"Our growth is fundamentally tied to innovation and our health products," said Chief Financial Officer Antoine Giscard d'Estaing on a conference call with journalists.

In January, Danone introduced three health-enhancing products in the U.S. to further boost yogurt consumption, which grew 10 percent last year after the company introduced Activia.

Dannon Co., the company's U.S. unit, said earlier this month it plans to double the amount of yogurt it makes over three years. Activia, a digestion-enhancing yogurt, has sold almost three times more in the U.S. than management forecast since it was introduced there in January 2006. Americans on average eat about 4 kilograms of yogurt each a year, almost 10 times less than Europeans, according to Danone.

Asian Juice Sales

Revenue from the beverage division increased 15 percent to 3.94 billion euros, led by Asia. Last year Danone bought a 22 percent stake in China Huiyuan Juice Group Ltd., the nation's largest maker of pure-juice drinks. The Chinese company said Danone may buy more shares.

``I was surprised by their strong beverage performance in Asia," *Amoroso* said.

Danone, the maker of LU cookies, said sales at its biscuit division grew 3.1 percent, fuelled by increased consumption in France, Spain and Italy.

``An impressive growth trend in 2006 should remind the market of the superior earnings growth over the short to medium term" compared to other large food companies, said Goldman Sachs analyst Mark Lynch in a note published before the results. He has a ``buy" recommendation on the stock.

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