

UPDATE: Nestle 1st Half Net Profit Up 6%, EBIT Margin Beats Views

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ZURICH - (Dow Jones) - Nestle S.A. (NESN.VX) Thursday reported a 6% increase in net profit for the first half and improved its growth guidance for the full year.

The world's largest food and beverages company in terms of sales - the maker of Nescafe coffee, Maggi instant meals and Perrier mineral water - said net profit was driven by good demand and price increases. The bottom line stood at 5.21 billion Swiss francs (\$4.92 billion) compared with CHF4.92 billion in the year-ago period, beating analyst expectations of CHF5.05 billion.

The figure didn't include contribution from the partial sale of eye-care company Alcon (ACL), as those proceeds will be booked in the second half.

Sales increased 4% to CHF53.10 billion compared with CHF51.11 billion, slightly below analyst forecasts of CHF53.28 billion.

Organic growth, a closely-watched performance measure including volume growth and price increases, stood at 8.9%, in line with market expectations.

The operating profit margin improved to 13.8% from 13.5% in the year-ago period, besting expectations of 13.7%.

The company said it expects to post full-year organic growth at least at the 2007 level, improving the wording of its previous guidance. Organic growth was 7.4% in 2007. It also confirmed it plans to raise its margin on earnings before interest and taxes, or EBIT.

The figures were very solid in light of the negatives such as the weakness of the dollar against the Swiss franc and some softness in consumer sentiment in certain countries, said *James Amoroso*, head of consultancy *Amoroso*.

He said, however, some investors may have concerns about Nestle's weaker-than-expected first-half volume growth of 3.5%. Also, costs of goods sold are quite high.

Amoroso pegs the fair value of the stock at above CHF60.

Andrew Wood of Bernstein Research said Nestle topped expectations on most levels.

"The figures should again confirm Nestle is the strongest and most balanced of all of the European food group," Wood noted. He also highlighted Nestle's acceleration of a share buy-back program. He has an outperform rating and a CHF62 price target.

The shares were indicated to open 0.6% lower at around CHF46.90 on the Swiss bourse. They have lost 9.3% so far this year.

Other major food companies recently published mixed results. Last week, Unilever PLC (UN, UL) reported a 20% decline in second-quarter net profit and a 0.5% decrease in volumes.

Groupe Danone S.A. (BN.FR) posted a better-than-expected organic growth rate of 8% in the second quarter.

Company Web site: <http://www.nestle.com>

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