Dow Jones Newswires

2nd UPDATE: Nestle 1H Net Beats Views, Volume On Weak Side

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

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 rose to 5.21 billion Swiss francs ($4.92 billion) from CHF4.92 billion in the year-ago period, beating analyst expectations of CHF5.05 billion, boosted by contributions from recently-acquired baby-food brand Gerber.

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

The operating profit margin stood at 13.8%, up 30 basis points on the year and besting market expectations of 13.7%. Organic growth, a performance measure comprising volume growth and price increases, decelerated as expected to 8.9% from 9.8% in the first quarter, while a 3.5% increase in volumes remained below market views of 4.2%.

Some softness in demand was registered in Europe, particularly Germany and France, and in the Water division. The beverages, dairy, pet food and confectionary divisions showed an improving trend compared with the first quarter.

Nestle 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 plans to raise its margin on earnings before interest and taxes, or EBIT.

In a call with analysts, Chief Financial Officer James Singh said the full-year EBIT margin "won't be fundamentally different" from market consensus, which is currently looking for a 30-basis-point improvement, according to *James Amoroso*, head of consultancy *Amoroso*.

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

He said, however, some investors may have concerns about Nestle's weaker-than expected first-half volume growth. 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 buyback program worth CHF25 billion launched in 2007. He has an outperform rating and a CHF62 price target.

On the Swiss bourse at 0930 GMT, the shares were down 0.3%, or CHF0.12, at CHF47.04 in a slightly higher general market.

The stock has an unjustified discount compared with peers, Bank Vontobel said, reiterating a buy rating and CHF58 price target.

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

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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[07-08-08 0955GMT]