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Price cuts bolster Danone sales

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Danone, the world's biggest yoghurt maker, revealed on Friday that price cuts had boosted volumes of its yoghurts in the second quarter but questions remained about whether the strategy could be sustained.

The group, which completed a €3bn ($4.27bn) rights issue last month to lower debt, reported a 6 per cent rise in net profit in the six months to the end of June to €932m on sales up 1.6 per cent at €7.5bn.

Excluding capital gains from disposals in Australia and India, net profit was 3 per cent higher at €722m.

Danone, whose brands include Actimel yoghurt and Evian water, has been battling against falling dairy and bottled waters sales in the economic downturn.

Sales in the smaller, but fast-growing, baby and medical nutrition slowed in the second quarter. Baby food sales are "growing far less than previously, but still growing", said Pierre-André Terisse, finance director.

The decline in water sales was stemmed in the second quarter and "trends are improving", said Mr Terisse.

However, with dairy accounting for more than half annual group profits, analysts were relieved that the price cuts – aided by a fall in milk prices and cost-cutting – had reversed the decline in quarterly sales volumes after five quarters of decline.

"Finally, it appears that the worst is over for dairy volumes," said Andrew Wood of Bernstein Research.

Operating profit margin rose slightly to 16 per cent in the first six months of the year.

"The key factor is the better-than-expected trading margin in spite of more aggressive pricing actions," said James Amoroso, an independent consultant. "Ultimately, profitability has not been sacrificed for sales growth. This will underpin Danone's full-year performance."

"Danone has succeeded in revitalising volume on the back of heavy price and promotional investment," said analysts at Royal Bank of Scotland. "However the sustainability of this strategy is the key question."

Mr Terisse stuck to the group's 2009 outlook of sales growth a few points below the 8-10 per cent medium term target and a 10 per cent increase in underlying earnings per share growth.

The 10 per cent figure excluded disposals, the effect of exchange rates and the dilutive effect of the rights issue, which some analysts said rendered it meaningless.

"We expect full year earnings per share to show a 4 per cent decline," RBS analysts said.

Net debt was cut to €7bn at the end of June from €11bn at the end of December, thanks mainly to the rights issue.