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COMPANIES EUROPE: Nestle set to hit high end of earnings target

By Haig Simonian in Zurich, Financial Times
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Nestle, the world's largest food group, yesterday refuted concerns about sluggish growth or weak margins, with first-half results ahead of expectations.

The Swiss company, best known for Nescafe instant coffee and Kit Kat confectionery bars, shrugged off higher energy and raw-material costs to report improved profit margins and growth above its own internal targets.

Peter Brabeck, chairman and chief executive, predicted 2006 would be a strong year with bigger earnings and sales growth "at the higher end" of the group's 5-6 per cent goal.

"On the strength of these results, I am confident in Nestle achieving, for the full year, organic growth at the higher end of the target range as well as a margin improvement in constant currencies," he said.

The group compensated for higher costs for products such as green coffee, sugar and packaging materials by better use of working capital and improved productivity, notably through the Globe information technology system, being rolled out after five years in the making. Globe, which will allow real-time information on sales, production and profitability, should cover 80 per cent of group business by the end of the year.

"We consider that the results are very good," said Andrew Wood, analyst at Sanford C Bernstein in New York. "These are without doubt excellent results," added ***James Amoroso***, analyst at Helvea, a Swiss brokerage.

Nestle shares, buoyed by promised buy-backs and strong expectations, reached a record of SFr419.50 yesterday before closing up 2.3 per cent at SFr417.75.

Net profits climbed 11.4 per cent to SFr4.15bn ($3.35bn), slightly ahead of analysts' forecasts. The all-important operating margin before interest and tax jumped 0.4 percentage points to 12.8 per cent, well ahead of market expectations. Sales rose 11 per cent to SFr47.14bn.

Adjusted for acquisitions, the increase was 6.4 per cent - comfortably ahead of the group's target range and well above the 5.6 per cent achieved in the first six months of last year.

Real internal growth, the group's preferred yardstick that excludes acquisitions and price rises, was up 4.8 per cent, compared with 3.7 per cent for the same period last year.

Nestle, which trades in every country in the world except North Korea, said growth had come across the board geographically. Organic sales and profits were strongest in Asia, the Pacific region and Africa.

Europe remained the laggard, with an ominous 0.9 percentage point decrease in profit margins year-on-year, although there was continued "support" for the group's brands "in a very competitive environment", Nestle said.