



SWITZERLAND

Nestle upbeat despite consumer gloom, raises outlook

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ZURICH, Aug 7 (Reuters) - The world's largest food company Nestle (other-otc: [NSRGY.PK - news - people](#)) posted a top of the range 6 percent rise in first-half profit on Thursday as it gave a slightly more upbeat forecast for 2008 and accelerated its share buyback programme.

The Swiss-based maker of Nescafe coffee, KitKat chocolate bars and Maggi soups is battling higher commodity costs like its rivals, and has pushed up prices to offset these effects but it is seeing some slowdown in volume growth in its second-quarter.

Net profit rose to 5.2 billion Swiss francs (\$4.95 billion) in the first six months on 2008, slightly ahead of average analyst expectations for 5.05 billion and at the top of a 5.05 to 5.21 billion range.

Underlying or "organic" sales, which strips out currency effects and acquisitions, rose 8.9 percent, in line with forecasts.

But pricing accounted for a higher than expected 5.4 percentage points and volume was 3.5 percent and below the first-quarter's 4.5 percent.

Nestle shares fell over 2 percent on concern over the volume growth and as the strong Swiss franc weighed on sales, but pared losses to be 0.6 percent lower at 46.86 francs by 1046 GMT, in line with the DJ Stoxx European food and beverage index.

"With Q2 RIG (volume growth) below expectations and the margin quality open to debate, this may weigh on the shares," said industry analyst Jeff Stent at brokers Citi in London.

Analysts at RBS said the cut in marketing spending -- down 1.9 percentage points to 33.3 percent of sales -- could overshadow an otherwise positive set of results: "This may well be taken negatively for Nestle given investor concerns that marketing is being cut to make the margin numbers."

A smaller decline of marketing spending at competitor Unilever sent shares tumbling when it reported price rises had slowed second-quarter sales volumes.

But independent analyst **James Amoroso** said this was the right response to a "perfect storm of input costs, negative forex and reduced 'feel good' consumer factors".

Chief Financial Officer James Singh said in a conference call Nestle was fully supporting its brands to make sure they remained competitive.

"With respect to what we call advertising and consumer promotion, our activities are increasing but we are finding better ways, more creative ways to get better value for money," Singh said.

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The maker of Buitoni pasta, Nespresso coffee and Friskies cat food gave a slightly more upbeat forecast, expecting organic growth in 2008 "at least" at the 2007 level of 7.4 percent, compared to previously saying it would "approach" that figure.

Nestle repeated that it expects "improved" earnings before interest and tax (EBIT) margins in 2008.

Like rivals Unilever and Danone, Nestle has pushed through price hikes to offset spiralling input costs.

It sees 2.2 billion francs in extra costs for coffee, cocoa, and milk for 2008 weighted to the first-half, suggesting a slowdown in price increases in the second-half.

Singh said the group would raise prices further if needed.

"Most of our pricing actions are today in place, but I do not want to tell you that we are not going to take further price increases this year. We will if we think that this is the right thing to do," he said.

The group is speeding up its 25-billion franc three-year share buyback programme announced in August 2007 and said 13 billion francs would be completed by the end-2008. It will buy back 9 billion francs in 2008, 2 billion more than planned.

Overall group sales rose 3.8 percent to 53.07 billion francs, slightly below the average forecast in a Reuters poll of analysts of 53.41 billion francs.

Bottled water real sales fell 3.1 to 5 billion francs due to the slowing economy as well as consumer worries about the environmental impact.

But Singh said water sales, which includes Vittel and Perrier brands, should improve in the second half.

Consumers are moving away from premium-priced waters to more affordable products and customers have also become more price sensitive with frozen food, Singh said. Nestle has lost retail market share with water in the U.S. and marginally in Europe.

Nestle shares trade at about 14 times forecast 2009 earnings, above Unilever at 13 times and below Danone at 15.5 times, according to Reuters data. (Editing by David Jones/Richard Hubbard)