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COMMENT: Danone still in troubled waters

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Danone's bottled water division emerged as the group's achilles heel in 2008, with some analysts suggesting the French giant would consider off-loading some of the business if it could.

A largely healthy set of full-year numbers for the French group in 2008, announced this week and spearheaded by a 15% rise in net profit, was spoiled by a poor performance in water across western Europe and North America.

Sales in Danone's bottled water division, which includes Evian and Volvic, fell by 1.5% in the fourth quarter, reported the firm, adding that the drop reflected "the trend for the year". Operating margins in water also declined during 2008, down nearly 1%.

Annual water sales are now in danger of being overtaken by Danone's infant nutrition business, in terms of their contribution to full-year revenue. Nutrition sales are also rising in double-digits and yield more profit.

It is these things, together with fears of a permanent bottled water market decline in France, that this week led one Paris-based analyst to suggest that Danone might want to get rid.

Cedric Lecable, at Kepler Capital Markets, said: "My perception is that if they could dispose of the Western European bottled water business they would probably do it."

He said he was sceptical about how feasible a disposal might be, however: "The problem is finding an acquirer. The big US guys would not want it in my view. They want to be in fast-growing niches to offset the structural decline of cola in the US."

Independent analyst James Amoroso also sees structural decline in France, plus serious problems with environmental groups damaging water sales in the UK and US. However, he told just-drinks this week that Danone is not a company "to throw in the towel so quickly".

He said: "Danone is not averse to disposing of businesses that have been in the group for many, many years, as biscuits proves, as well as the major disposals when Franck Riboud came to power in the 90s. But it would be folly to sell water just because there have been a couple of difficult quarters.

"After all," he added, "bottled water is still pretty profitable and in many european countries per capita consumption still has a long way to go".

Instead of disposals, Danone may look to ramp up its presence in emerging markets, possibly at the expense of operations in mature countries like France. Danone said this week that emerging markets accounted for 51% of the group's water sales in 2008, with Indonesia, Mexico and Argentina the top performers.