

Europe's food giants – a half-term report

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Nestle's filing of its half-year numbers earlier this week meant that all of Europe's largest food makers had provided an update on how their businesses are faring amid the worst recession for decades.

As we know, the food sector has proved relatively more resilient to the downturn than other sectors but, then, everything is relative. The figures issued by Nestle and the likes of Unilever, Danone and Cadbury suggest that some food manufacturers are navigating the downturn better than others.



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Chocolate giant Cadbury is one company that, according to industry watchers, is sitting comfortably. The UK firm booked a 19% jump in profits in July, a result that enabled the group to lift its margin targets.

The Trident gum maker has some challenges to deal with, not least a stagnant US gum market, but analysts have been impressed with the company's performance.

"I give a thumbs up to Cadbury," Kepler Capital Markets analyst Jon Cox says. "It was the only company that maintained its growth target for the year from the get-go and has delivered."

Cox is also full of praise for Unilever, despite the Anglo-Dutch conglomerate having a mixed first half of the year. Price cuts helped the Knorr-to-Ben & Jerry's maker revive volume growth in the second quarter, while operating profit was down 4%.

Nonetheless, Cox says: "Unilever stands out as a company that appears to be handling the recession better than others and has actually surpassed expectations - which is maybe something you would not have always said about Unilever."

Over at Sanford Bernstein, senior research analyst Andrew Wood, who had upgraded his rating on Unilever, said he expects the company's new-found momentum to continue. "There has been progress on many strategic, operational and cultural areas and that there are also short-term catalysts to get the stock moving."

On Wednesday, Nestle's half-year results sent its stock downwards, with the market concerned that net profit had dipped and sales growth had missed expectations. CFO Jim Singh insists he believes the parts of Nestle's business that had been under pressure, most notably in Europe, will improve and Cox agrees that the world's largest food maker will bounce back in the second half of the year.

"I think Nestlé will come back strongly in the second half - it is the 800lb gorilla and once it sets its mind to something, it goes for it," Cox insists. "It got a slap in the face in Q2 from competitors, which is maybe what it needed and I think it will tear things up a bit from here."

Bernstein's Wood says Nestle remains his "top pick". He says: "Nestle will continue to deliver balanced and strong operating performance, with accelerating momentum for the balance of the year."

Danone regained some momentum in its key dairy division during the second quarter with price cuts and the launch of some value products helping the business. The market's view of Danone may have been clouded by the company's EUR3bn (US\$4.26bn) rights issue earlier this year.

However, independent analyst James Amoroso says Danone should be given credit for adapting quickly to new consumer trends. "Danone's actions sometimes sound like a strategic reversal. Then I realise that it is simply flexibility and dynamism, and that the consumer is always at the centre of all actions, which is how it should be," Amoroso says.

Economists the world over seem divided on the prospects for the global economy in the back half of 2009 but, on balance, the latter half of the year may see some of the pressure weighing on food makers ease. Notwithstanding today's news about sugar, there are signs that commodity costs are easing and, with France and Germany seeing national income rise in the last quarter, perhaps consumer confidence is returning. However, the economic waters remain choppy and Europe's food manufacturers need steady hands at the wheel.

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