

INSIGHT: Nestlé to ride out high commodity prices

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Swiss food giant Nestlé said it will have to ride out record high prices in raw sugar as it posted a drop in nine-month revenue this morning (21 October).

Speaking to investors at the company's earnings conference, CEO Paul Bulcke admitted that the high volatility of raw materials was a "challenge" to Nestlé.



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"Sugar indeed has grown dramatically," he told investors. "What we announced already two or three years ago, is that we see high volatility in raw materials and we are going to have to live with that. It's not new though. What we do see now is that it is world spread."

Petraea Heynike, executive vice president for strategic business units said Nestlé would have to ride out the commodity price changes.

"With sugar and salt we have been producing as much as we can, maintaining the price and the taste differential in our '60/40' win. So we will ride this one out and watch the commodity pricing. You can also downsize your products slightly and we have been doing this in our PPP [popularly positioned products] products in emerging markets.

She added: "We have a very large procurement team looking into the evolution of the areas that impact these prices, and in the case of sugar for example, there has been very much wet weather in Brazil and low crops in India...we had an understanding of that, of course, before the pricing actually hit the market. And we have been very active in the market in protecting our future in managing our costs in the value chain."

Nestlé revealed that its nine-month sales dropped to CHF79.55bn (US\$79bn) this morning, from CHF81.36bn a year earlier. The company said it plans to buy back CHF7bn of shares this year, up from a previous CHF4bn target.

In the first nine months of 2009 Nestlé achieved organic growth of 3.6% for its food and beverage business. Real internal growth reached 1% having accelerated throughout the year and across most segments of the business.

The company also repeated its full-year outlook for "volume-driven organic sales acceleration", having dropped its previous target of "at least approaching 5%" volume growth in August when it reported disappointing first-half organic sales growth of 3.5%.

Independent analyst James Amoroso believes the results were "comfortably at or slightly above expectations".

"It is reassuring that volume growth appears to have improved in the two problems areas of Western Europe and Nestlé Waters," he said.

"My conclusion is that Nestlé's business model is intact and the slowdown that it has seen in 2009 will prove to be an exception driven by similarly exceptional economic circumstances."

Bernstein analyst Andrew Wood said the company's third-quarter performance is a signal that its top-line is moving in the right direction.

"We expect more in Q4 (and into 2010). This progress, in addition to an acceleration of the current share buy-back plan, should lead to a re-rating of Nestlé's stock, which despite a strong move ahead of the reporting, continues to be highly under-valued...trading at an unjustified discount to its peers," Wood said.

Nestlé shares rose 1.83% in morning trade today, increasing to CHF46.70 at 11am (GMT).

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