

Nestle 9-mth sales rise despite higher input costs

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By Tom Armitage

VEVEY, Switzerland, Oct 18 (Reuters) - Switzerland's Nestle (NESN.VX: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) has passed on the rising cost of raw materials like coffee, milk and wheat to its consumers, boosting underlying sales by more than 7 percent after nine months.

The world's largest food group -- the maker of Nescafe coffee and KitKat chocolate bars -- met analysts' forecasts with nine-month underlying sales growth of 7.2 percent on Thursday, only a small slowdown from 7.4 percent in the first half.

Nestle warned that markets for agricultural commodities will remain tough into 2008 and said it expects to continue to raise prices to pass on the higher costs to its consumers.

"Our estimate is that after 10 years of growth and two years of steep growth, we consider that (commodity costs) in the coming years will stabilise, but at a high level," Chief Executive Peter Brabeck told a news conference.

Analysts said the results and input cost rises were in line with expectations. The shares were trading 0.2 percent higher at 518 Swiss francs at 1152 GMT.

"Stronger than expected pricing growth will ensure that margins are protected," said Helvea's **James Amoroso**.

Brabeck confirmed Nestle's 2007 outlook, with underlying sales, which strip out acquisitions and currency movements, set to grow by nearly 7 percent, above a long-term target of 5-6 percent. Nestle also sees a sustainable improvement in margins.

The firm said Chief Financial Officer Paul Polman will become head of its biggest region, the Americas, in February, after he lost the race to replace Brabeck as chief executive when the Austrian steps down in April next year.

Polman replaces Chief Executive designate Paul Bulcke. James Singh, currently head of acquisitions and business development, will take over from Polman as financial officer.

SOLID SHOWING

Analysts said the nine-month sale performance was solid and it was positive the well-respected Polman was staying.

"A strong set of figures with accelerating growth in Europe which is positive. The company has heavy exposure to health and wellness categories, the strongest growing part of the market," said Jon Cox, an analyst at Landsbanki Kepler.

Overall group nine-month sales rose 9 percent to 78.7 billion Swiss francs (\$66.64 billion), underlying sales growth was 7.2 percent for the January-September period while internal growth, which also strips out inflation, was 4.5 percent.

French rival Danone (DANO.PA: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) reported nine-month underlying sales rose 7 percent as it saw a third-quarter slowdown to 3.9 percent, while Unilever (ULVR.L: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) (UNc.AS: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) which reports its third-quarter on Nov 1. saw a 5.8 percent first-half rise.

Nestle, whose brands include Buitoni pasta, Maggi soups and Friskies cat food, has been successful this year in using its muscle to raise prices and overcome soaring input costs.

After strong growth in recent quarters, the price of milk was expected to ease in the second half of next year, CFO Polman said, adding the group was broadly covered for a continued tough environment in commodity markets.

From April, Brabeck in his capacity as non-executive chairman will focus on the firm's non-food and beverage shareholdings, including an approximately 77 percent stake in U.S. eyecare firm Alcon (ACL.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and a 28 percent share of cosmetics company L'Oreal (OREP.PA: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)).

No decisions have been taken on the shareholdings, he said, but noted that Alcon "did not need" Nestle and that selling the stake in L'Oreal was one possible option he would consider.

Shares in Nestle have slightly underperformed the DJ Stoxx European food and beverage index from the start of the year. Nestle shares currently trade at around 17.10 times forecast 2008 earnings, in line with the European sector.

Analysts polled by Reuters had on average forecast nine-month sales of 78.47 billion, underlying sales growth of 7.1 percent and real internal growth of 4.9 percent.

Nestle does not report profits at the 9-month stage.

(Additional reporting by David Jones)

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