Nestle Profit Rises at Slowest Pace in Four Years

By Thomas Mulier

Aug. 7 (Bloomberg) -- Nestle SA, the world's largest food company, said first-half profit rose at the slowest pace in four years on higher cocoa and coffee prices and a weaker dollar.

Net income climbed 6.1 percent to 5.21 billion Swiss francs ($4.92 billion), or 1.39 francs a share, the Vevey, Switzerland- based company said in an e-mailed statement today. That beat the 5.01 billion-franc median estimate of 10 analysts gathered by Bloomberg. Sales gained 3.8 percent to 53.07 billion francs.

The maker of Nido infant formula and Nescafe instant coffee raised prices by about 3 percent on average last year, the biggest increase since 1997, to cope with surging commodity costs. Unilever, the world's second-largest consumer-products company, said last week that higher prices weighed on sales volumes as some shoppers switched to private-label goods.

``Nestle have got strong brands which they can price up on,'' Marco Gulpers, an analyst at ING Wholesale Banking with a ``neutral'' rating on the stock, said before the results. ``If that is changing and we see the down-trading that Unilever is talking about, then Nestle has a big problem.''

First-half revenue excluding acquisitions, divestments and currencies rose 8.9 percent, Nestle said. Stripping out price increases as well, sales gained 3.5 percent.

The company today said it expects revenue excluding acquisitions, divestments and currencies will rise at least at the rate of last year, which was 7.4 percent growth. Nestle previously had said sales would rise at about the same rate.

`Perfect Storm'

``We've got a perfect storm and there aren't many companies able to sail straight through, but Nestle is one of them,'' *James Amoroso*, a food industry consultant at *Amoroso* in Walchwil, Switzerland, said before the earnings announcement.

Nestle spends 13 billion francs a year on its main commodities: milk, coffee, cereals, sugar, cocoa, oils and fats. That's more than its net income last year.

Among the company's most important commodities, robusta coffee costs 33 percent more than a year ago, sugar prices have climbed 40 percent, and cocoa has gained 41 percent.

Kraft Foods Inc., whose Kenco coffee and Cote d'Or chocolate bars compete with Nestle products, said last week second-quarter profit rose 3.5 percent after it raised prices, and the company lifted its full-year profit target.

United Nations Secretary-General Ban Ki-moon told a food conference in June the world needed to invest as much as $20 billion a year on agriculture after higher food prices sparked riots in more than 30 countries.

Weaker Dollar

The weakness of the dollar against the Swiss franc also cut into Nestle's profit growth. The dollar was on average 14 percent lower against the franc in the first half, compared with the year-earlier period. Nestle last year had sales from the Americas of more than 32.9 billion francs, a third of its revenue from food and beverages.

Nestle rose 34 centimes, or 0.7 percent, to 47.16 francs in Zurich trading yesterday. The shares have fallen 8.3 percent this year, less than the Dow Jones Stoxx 600 Index's 21 percent drop.

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