Nestle Says Profit Rose, Boosts Sales Goal on Prices

By Thomas Mulier

Aug. 7 (Bloomberg) -- Nestle SA, the world's largest food company, said first-half profit climbed 6.1 percent and increased its sales forecast for the year after raising prices for Haagen-Dazs ice cream and CoffeeMate creams.

Net income in the six months through June rose to 5.21 billion Swiss francs ($4.92 billion) from 4.92 billion francs a year earlier, the Vevey, Switzerland-based company said today in a statement. Nestle also said it's accelerating a share buyback.

Profit growth was the slowest in four years after the maker of Nescafe instant coffee raised prices by an average of about 3 percent in 2007 to cope with surging costs for commodities. Stripping out price increases, first-half sales rose 3.5 percent, decelerating from the first quarter's rate of 4.5 percent.

``The market may be concerned by the slower volume growth,'' said *James Amoroso*, a food industry consultant at *Amoroso* in Walchwil, Switzerland.

Nestle fell as much as 2.5 percent in Zurich trading and was down 78 centimes, or 1.7 percent, to 46.38 francs as of 9:29 a.m. local time. The shares have fallen 11 percent this year, less than the Dow Jones Stoxx 600 Index's 21 percent drop.

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

Buyback Program

``Nestle is capable of withstanding the strong pressures facing the European food industry right now,'' Andrew Wood, an analyst at Sanford C. Bernstein, wrote in a note to clients. He has an ``overweight'' rating on the stock.

First-half revenue gained 3.8 percent to 53.07 billion francs. Sales excluding acquisitions, divestments and currency swings increased 8.9 percent, Nestle said. Foreign exchange fluctuations reduced revenue by 8.3 percent.

Profit beat the 5.01 billion-franc median estimate of 10 analysts gathered by Bloomberg. Per-share earnings increased 8.6 percent to 1.39 francs, the company said.

The maker of Nespresso coffee said it will spend 9 billion francs this year on buying back shares, which is 2 billion francs more than originally planned. By the end of the year, Nestle said it will have completed more than half of its 25 billion-francs three-year buyback program.

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.

Coffee, Sugar

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.

``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.

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 lifted its full-year profit target. Unilever, the world's second-largest consumer-products company, said that higher prices weighed on sales volumes as some shoppers switched to private-label goods.

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 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.

Revenue from Nestle's water division declined 1.1 percent excluding currencies, acquisitions and divestments because of ``difficult economic conditions and perceived environmental issues around bottled water,'' the maker of Perrier said. The company said it expects ``organic'' growth in that business to improve by the end of the year.

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