

UPDATE: Nestle Growth Slowdown Contrasts Rivals' Figures

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By Martin Gelnar of DOW JONES NEWSWIRES

ZURICH (Dow Jones)--Nestle S.A. (NESN.VX), the world's largest food and drink producer by sales, Wednesday disappointed financial markets by reporting a growth slowdown mid-year - a sharp contrast to better-than-expected recent volume figures by rivals such as Unilever Plc (UN, UL).

Giant food and beverage companies like Nestle face unrelenting pressure in some markets with consumers slow to buy expensive branded goods, a problem intensified by the financial crisis.

Nestle has responded by pushing premium nutrition products and selling brands that generate low profit margins, including its frozen foods portfolio.

Nestle's bottled water division, which produces Perrier and other brands, was one of the weakest divisions - it was hit hard in both Western Europe and the U.S.

But Nestle's premium coffee brand broke the mold - sales of Nespresso rose by double-digits, echoing its performance of the past few quarters.

The Swiss company said organic growth, a performance measure comprising changes in selling prices and volumes and that strips out divisions bought and sold, fell to 3.2% in the second quarter according to a calculation by Dow Jones Newswires, from 3.8% in the first quarter.

The Vevey, Switzerland-based owner of brands such as Nescafe and Maggi ditched its previous target of reaching a growth rate at least approaching 5% for the full year, saying instead that growth in the second half should be better than the first.

Despite the slowing growth, Nestle is still growing faster than many of its rivals. But most market watchers have been looking for an improvement in the quarterly rate, especially after recent positive surprises from other food companies.

On the Swiss bourse at 1433 GMT, Nestle shares fell 4.6%, or CHF2.02, to CHF42.08 in a slightly higher general market.

Overall, Nestle's volumes grew 0.7% in the second quarter, a fraction above the 0.3% advance in the first quarter, but analysts reckon this is a lackluster improvement.

"Curiously, this is the first quarter for three and a half years that Nestle's volume growth was below that of Unilever," analyst Andrew Wood of Bernstein Research noted, referring to the U.K.-based company's growth of 2.0% in the second-quarter.

Nestle's first half profits beat market estimates, analysts said, but added that hopes for a positive growth surprise didn't materialize.

"Organic growth was below expectations," Helvea analyst Andreas von Arx said. He has a neutral rating on the share.

France's Danone S.A. (BN.FR) in July said volumes in its key dairy division grew by 2.7% in the second quarter, rebounding from a contraction of volumes in the first quarter, a result which was well-received by the markets.

By contrast, Nestle didn't post any growth in its milk products and ice cream division for the first half.

Many of Nestle's rivals have been raiding the company for talent. Among the moves was that of Paul Polman, a former senior Nestle manager, who took over as chief executive of Unilever in January with a mission to increase sales. Polman, who had been a contender for Nestle's top executive job, left the company in 2008 after he was pipped to the post by current CEO Paul Bulcke.

Nestle's slowdown can be partly explained by planned withdrawals from certain markets, for example in ice cream, independent food industry analyst James Amoroso of consultancy Amoroso said.

Nestle pulled out of ice cream in Benelux and Hungary because operations there weren't profitable, he said.

Earlier Wednesday, Nestle reported a 1.9% fall in first-half net profit to 5.1 billion Swiss francs (\$4.7 billion) and a 1.5% decline in sales to CHF52.3 billion.

Nestle managed to increase its first-half operating profit to CHF7.4 billion from CHF7.3 billion due to lower distribution costs, leading to a rise in the operating profit margin to 14.1% from 13.8% a year ago.

However, the margin improvement was below that of rivals such as Cadbury PLC (CBY), which in July reported a rise in the first-half operating margins to 11.5% from 9.7%.

Company Web site: <http://www.nestle.com>

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