

UPDATE: Nestle 2H Net Jumps; Indicates Will Keep L'Oreal

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By Martin Gelnar of DOW JONES NEWSWIRES

ZURICH (Dow Jones)--Nestle SA (NESN.VX) Thursday gave a guarded outlook for 2009 – even though it raised its dividend after reporting a more-than-doubled net profit for the second half due to proceeds from disposals, and indicated it will keep its large L'Oreal stake for the time being.

The Vevey, Switzerland-based food and beverages giant said it expects to post organic growth of "at least approaching 5%," in 2009, which would be below its long-standing annual organic growth rate target of 5% to 6%. But the maker of Nescafe soluble coffee and KitKat chocolate bars expects to improve operating profit margins in constant currencies.

Net profit for the second half jumped to 12.83 billion Swiss francs (\$11 billion) from CHF5.73 billion a year ago, according to a calculation by Dow Jones Newswires.

Bernstein Research analyst Andrew Wood said the outlook wasn't convincing but added it is still ahead of market consensus views of an organic growth of below 4% for 2009. He has an outperform rating and CHF58 price target.

"Nestle could still reach its 5%-6% organic sales growth range in 2009," food industry analyst James Amoroso said. Operating profit will benefit from more positive situation on the commodity cost side while currencies will put a pressure on margins, he said.

On the Swiss bourse at 0955 GMT, Nestle shares were up 4.8%, or CHF1.78, to CHF38.80 in a higher general market. Kepler analyst Jon Cox reiterated a buy rating and a CHF55 price target, noting the stock is a core holding in uncertain times.

For the full year, net profit increased 69% to 18.04 billion Swiss francs (\$15.4 billion) from CHF10.65 billion in 2007, boosted by a \$10.4 billion gain on the partial sale of eye-care company Alcon Inc. (ACL) to Novartis AG (NOVN.VX).

Full-year sales rose 2.2% to CHF109.91 billion from CHF107.55 billion. Organic growth, a performance yardstick comprising volume growth and price increases, was 8.3%, on the high end of consensus estimates of 8.2%.

Nestle remained vague on the future of its large stake of about 29% in French cosmetics company L'Oreal SA (12032.FR). It said it will continue to take a long-term strategic view on L'Oreal, adding it doesn't need to take "any action or decision" regarding its stake next April.

Markets have eagerly awaited a statement on L'Oreal due to mounting speculation Nestle may soon sell its stake.

Nestle and the other controlling L'Oreal shareholder, the French Bettencourt family, entered a lockup agreement several years ago but part of the contract will expire April 29. The treaty also includes a ban on any increase in either partner's stake as long as L'Oreal heiress Liliane Bettencourt is alive.

At a media conference, Nestle Chief Executive Officer Paul Bulcke said the statement can be interpreted as Nestle's intention to hold on to its L'Oreal stake.

Bernstein's Wood said the comments are "almost like interpreting a UN resolution," adding Nestle doesn't quite say that L'Oreal is a strategic part of the business.

Nestle is proposing to increase its dividend by around 15% to CHF1.40 per share.

The company said it plans to spend around CHF4 billion on share buybacks this year under a CHF25 billion scheme launched in 2007.

Chief Financial Officer James Singh said Nestle doesn't plan to re-negotiate the terms of sale of Alcon. Nestle has the right to sell the remaining 52% stake between January 2010 and July 2011 at a 20% premium of the average share price during the week before the sale, not exceeding \$181 a share.

A recent decline in Alcon's share price has led to speculation the agreement may be tweaked.

Company Web site: www.nestle.com

By Martin Gelnar, Dow Jones Newswires; +41 43 443 8042; martin.gelnar@dowjones.com
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