

2nd Update - Nestle Sales Rise On Strong Emerging Markets

By Goran Mijuk of DOW JONES NEWSWIRES

ZURICH -(Dow Jones)- Strong sales in emerging markets and continually buoyant demand for products such as Nespresso prompted Nestle SA (NESN.VX) Friday to reaffirm its full-year sales and profit outlook as the Swiss food and beverages giant reported a 4% rise in nine month sales.

The Vevey, Switzerland-based company--which owns brands such as bottled mineral water San Pellegrino and pet food Dog Chow--said sales for January to end-September rose to 82.77 billion Swiss francs, or about \$85.6 billion from CHF79.55 billion a year earlier. The figure beat analyst forecasts of CHF81.03 billion even as the strong Swiss franc, its reporting currency, shaved about 2.7% off sales.

Analysts said the results show the company's strong market position is intact, which is reflected in its ability to lift prices, and will allow it to reach its full-year goals even as it struggles with currency fluctuations and difficult markets in Europe and the U.S.

Besides the good performance in emerging markets, especially China, analysts noted that Nestle's water business, like that of its peer Danone SA (BN.FR), has picked up again, something Nestle partly attributed to this summer's weather conditions.

The world's largest food and beverages maker, which earlier this year warned the second half of 2010 would be tough due to high raw material prices such as cocoa and milk, stuck to its full year outlook. It aims for full year organic growth--which strips out the foreign exchange and acquisition impact, but includes price changes--of about 5%, up from about 4% during the height of the recession in 2009.

Likewise, the company expects to improve its operating profit margin as it believes that commodity prices are unlikely to revisit peak levels. Nestle, which doesn't publish quarterly earnings, has one of the industry's highest operating margins, which stood at 14.6% in 2009.

In the first nine months of 2010, overall organic growth reached 6.1%. The growth rate was most pronounced in Asia at 10.7%, followed by 5.5% in the Americas, which includes the U.S. and Latin America, and 3.3% in Europe, where the difficult economic environment is continuing.

Key growth drivers in emerging markets were products such as Maggi noodles and Nestea ice tea, while growth in industrialized markets came from super-selling products such as Nespresso, which grew at more than 20% despite competition from firms such as Sara Lee Corp (SLE) and privately held Ethical Coffee Co.

Nestle said its investment in nutrition, where it plans to invest around CHF500 million in food research over the next decade, and in emerging markets, where it wants to broaden its distribution network, means it is well prepared to tackle challenging markets.

Despite the strong results, Nestle's dropped 0.6% to CHF52.75 in an overall weaker market.

Some investors were disappointed Nestle didn't extend its share buyback plan after the food giant's coffers were filled with an estimated \$20 billion in cash from the sale of eye care company Alcon Inc (ACL).

Nestle completed a CHF25 billion share buyback earlier this year and has already embarked on another CHF10 billion program.

Still, investor hopes remain that Nestle could return funds to shareholders. "There are no obvious larger acquisitions for Nestle to make," said independent food consultant James Amoroso. "Nestle has, for many years, only made acquisitions that make both strategic and financial sense. For me, it is clear that Nestle will always return unneeded funds to shareholders," he said.

By Goran Mijuk, Dow Jones Newswires, +41 43 443 80 47; goran.mijuk@dowjones.com

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