

BRIEFCASE: Nestlé

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When Money Report looked at Nestlé, the Swiss food giant known for everything from Nescafé instant coffee to Crunch chocolate, in early May, its stock had been languishing for a year. Analysts were divided on the progress of its programs to improve lagging profitability, and its \$2.8 billion takeover of Dreyer's Grand Ice Cream in the United States was being delayed by U.S. regulators.

Since then, the story has turned more upbeat.

The Dreyer's deal got the go-ahead in June, and two weeks ago, Nestlé surprised even the most bullish analysts by announcing that its sales rose 5.5 percent, excluding currency and acquisition costs, in the first half, well above the Wall Street consensus forecast of 4.6 percent.

Moreover, the operating margin that has been a focus of investor attention widened to 12.2 percent from 11.9 percent a year earlier, evidence that cost-cutting is taking effect.

Nestlé is most often compared with Unilever, where the margin is 14.5 percent.

Looking ahead, **James Amoroso**, an analyst with Pictet & Cie. in Geneva, says that operating margins could widen by a further four percentage points — double the estimates of other analysts — to 16.3 percent by the end of 2006.

While saying he is a "bull on a limb," **Amoroso** argued that others have underestimated the full impact of cost-cutting, both at the global level and in Europe, where separate companies are joining to take advantage of economies of scale.

While some analysts still want more assurance on the cost-cutting initiatives, others have joined the positive camp. Merrill Lynch in London raised its rating on Nestlé to "buy," saying that the worst of the earnings downgrades were behind it.

Investors who bought the stock at around 278 Swiss francs in early May have made a tidy profit, as it was trading at 309.50 francs, or \$219, on Friday. And since it released first-half results, several analysts have raised their price targets for this year to as high as 360 francs.