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Unilever suffers 48% profit drop

But stock price rises on share buyback

By Maria Sheahan / Bloomberg News

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FRANKFURT: Unilever, the second- biggest maker of food and detergent after Procter & Gamble, said Thursday that third-quarter profit fell 48 percent on higher marketing and legal expenses.

Nonetheless, the shares rose the most in three years after the company said that it would spend €1.5 billion, or $1.9 billion, buying back its own stock.

Net income dropped to €737 million from €1.4 billion a year earlier, the British-Dutch company said. That is far lower than the €1.02 billion median estimate from 14 analysts surveyed by Bloomberg.

The chief executive, Patrick Cescau, spent more on advertising to spur sales growth, which has trailed Procter & Gamble, its prime competitor, for at least four years. Sales excluding asset sales and currency effects topped estimates as hot summer temperatures in Europe spurred demand for Magnum ice cream and Lipton iced tea.

The company has to "work hard to move up alongside competitors" like Procter & Gamble, said Kevin Lyne- Smith, head of equities at Julius Baer Holding in Zurich. The buyback shows "sensitivity to the needs of shareholders, while still getting on with the core business of improving margins," he said.

In addition to the share buyback, Unilever, which is based in London and Rotterdam, said it would pay out €750 million as a one-time dividend for 2006 to pass on to shareholders part of the profit from an asset sale. The company scrapped a previous plan to buy back €500 million worth of shares.

Unilever in August agreed to sell the frozen-food brands Iglo and Birds Eye to Permira Funds for €1.7 billion. It said it expected a profit of more than €1 billion from the divestment.

The dividend and buyback plan "certainly mean that major acquisitions are not on the short-term radar," said ***James Amoroso***, an analyst at Helvea in Zurich. "It's quite a hefty buyback."

Unilever also said it had set aside €300 million for possible compensation payments for failing to provide adequate information to shareholders about a conversion of preferred shares into common stock. Shares of Unilever rose 68 cents to €19.90 in Amsterdam.

Third-quarter revenue increased 1.9 percent to €10.12 billion. The summer of 2006 was one of the warmest on record in Britain, the country's Meteorological Office said in September, fueling ice-cream sales.

The company's revenue growth lagged behind Procter & Gamble's 27 percent increase in its latest quarter. Procter & Gamble this week raised its earnings forecast for the financial year after the purchase of the razor maker Gillette helped lift its quarterly net profit 33 percent.

Unilever scrapped a 70-year-old system of dual Dutch and British chairmen when a five-year plan to fuel sales growth failed in 2004. In August, the company's second-quarter figures missed estimates as sales growth slowed and ingredient prices increased.

"Our priority is to improve our operating margin, while delivering our growth ambitions," Cescau said. "We are confident we will achieve this."