



ANALYSIS: Market under-estimating Nestlé potential

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Shares in Nestlé dipped yesterday (7 August) in the wake of the publication of its first-half results, but analysts remain upbeat about the company's performance.

Nestlé posted a solid set of results that showed a 6.1% rise in operating profit to CHF7.34bn (US\$6.96bn).



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However, the group's share price dipped slightly in morning trade. While the Swiss food giant met consensus organic growth expectations, pricing rather than volume drove gains. Volumes increased only 3.5% during the first half, Nestlé revealed.

In order to manage its margins, the company has cut its spend on pricing promotions and its marketing strategy is decidedly conservative.

These concerns contributed to the 1.05% dip in Nestlé's shares, which had fallen to CHF46.70 on the Swiss exchange at time of press.

However, independent analyst James Amoroso dismissed such concerns.

"These results clearly demonstrate that Nestlé is managing both its top and its bottom line whilst maintaining its market competitiveness," he told just-drinks' sister site, just-food.

"The company is facing a perfect storm of input costs, negative forex and reduced 'feel good' consumer factors. It makes no sense to raise prices on the one hand and increase price promotional spend in line with 'price-inflated' organic growth on the other. Now is the time to protect margins and secure a solid, profitable base for when the negative external factors abate," he said.

According to Amoroso, Nestlé has outperformed the rest of the food industry: "8.9% H1 organic growth even came close to Danone (9.6%). Danone is historically the far-and-away number one of organic growth. Nestlé delivered 60 basis point like-for-like EBIT margin expansion versus Danone's 30 basis points and Unilever's 40 basis points."

Nestlé has predicted full-year organic growth of "at least at the 2007 level" of 7.4%, with further pricing actions anticipated. Full-year EBIT margins, Nestlé said, are expected to be in-line with the consensus estimate of 30 basis points.

"There clearly needs to be an upwards re-rating of the stock if our expectations for the full year are met. The modest share price weakness at the start of the day was no doubt caused by unfounded market concerns over volume growth and the marketing spend. However, in the long term, the market is still chronically underestimating Nestlé's organic growth and margin expansion potential," Amoroso added.

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