

UPDATE: SWITZ: Analysts shrug off Nestle concerns

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Analysts have downplayed concerns over Nestle's first-half performance, despite a 2% drop in profits.

Nestle revealed today (12 August) that its first-half profits fell to CHF5.1bn, down from CHF5.2bn in the same period of last year.

Organic sales rose by 3.5%, missing analyst expectations of 3.9%.



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Earnings were dented by the strength of the Swiss franc and currency exchange weighed on EPS, which rose 8.5% on a constant-currency basis but only increased 3.5% to CHF1.46 after currency exchange.

Looking to the remainder of the year, Nestle said that it expects volume-driven organic growth to accelerate in the second half.

However, the company backed away from previous guidance of organic growth "at least approaching" 5%.

The news caused shares in the world's largest food company to fall, dropping 4.08% to CHF43.30 at 2.43pm (BST).

However, analysts have shrugged off any anxiety surrounding Nestle's performance.

According to Kepler Capital Markets' Jon Cox, the decline in share price can, in part, be explained by inflated expectations.

"Nestle is a bit unfortunate that is reporting after all of the other majors in food, who have basically beaten results. It missed top line when another beat had been expected. Elsewhere, the result was better than expected," he told just food.

However, he added: "I think it has been caught napping by competitors in Europe, such as Unilever, Danone and Cadbury, who have been promoting heavily to drive volume growth and that is the reason for the miss."

In Europe, which was described by management as a "very difficult market", the group's organic growth came in at just 0.2% during the period.

Nevertheless, Cox suggested that the outlook for Nestle's European business is far from bleak. "Nestle will come back all guns blazing and I would look to buy on weakness," he predicted.

Meanwhile, James Amoroso, of Amoroso Strategic Insights, said that "poor communication" had caused the market to react badly to the results.

"Nestlé should not have been so aggressive on organic growth guidance in the first place and it should have explained clearly why it is revising downwards its organic growth target, which it did not do satisfactorily," Amoroso said. "The share price decline today is totally wrong and could have been avoided."

According to Amoroso, Nestle's first-half results are actually "very good indeed", with group EBIT margin up 30 bps to 14.1% and consensus expectations of full year organic sales growth of 4% confirmed.

"What Nestle has delivered is in fact much better than expected and it is different simply because Nestle has successfully adapted its business to the changing competitive environment," Amoroso maintained.

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