



Nestle sales hit by currency, confirms outlook

Wed Apr 22, 2009 6:31am EDT



By Emma Thomasson

ZURICH (Reuters) - Nestle (NESN.VX), the world's biggest food group, missed forecasts with a dip in first-quarter sales due to the strong Swiss franc and a late Easter, but it reassured investors by repeating its full-year target.

Nestle said its strong brands and global reach, combined with steps to respond to the economic crisis such as promoting cheaper products and cutting costs, meant it still expected 2009 organic

sales growth of "at least approaching 5 percent."

Organic sales growth, which strips out currency effects and acquisitions, was 3.8 percent in the first quarter, compared with an average forecast from analysts for a 3.7 percent rise, with 3.5 percent coming from pricing and 0.3 percent from volume growth.

"The confirmed outlook and good organic growth in Q1 is positive," said DZ Bank analyst Robert Czerwensky.

Nestle shares were up 0.26 percent at 38 Swiss francs at 1025 GMT, outperforming a 1 percent fall in the DJ Stoxx European food and beverage index .SX3P.

Total sales slipped 2.1 percent to 25.2 billion Swiss francs (\$21.5 billion) from 25.7 billion a year ago, undershooting the average forecast for a rise to 26 billion, as the strong Swiss currency had a negative impact of 5.2 percent.

Helvea analyst Andreas von Arx said organic growth was as expected, but the currency impact was more than expected, and noted that the core food and beverage business saw volumes fall 0.1 percent, underperforming French rival Danone (DANO.PA).

"We think Nestle's numbers are slightly disappointing, given the weaker-than-expected volume numbers," he said. "To bet on a strong volume recovery in the remaining quarters looks ambitious."

Danone said last week demand for its baby food and medical nutrition products helped lift like-for-like sales by 1 percent, and it also stuck to its 2009 targets.

RECESSION PROOF?

Analysts have said that Nestle, maker of Nescafe coffee, KitKat chocolate bars and Maggi soup, was better positioned to ride out the recession than its rivals due to its comprehensive range of products and wide geographical reach.

Shares in Nestle are trading at about 12 times 2010 earnings, at a slight discount to Cadbury (CBRY.L) on 12.5 but at a premium to Danone's 11.4 and Anglo-Dutch Unilever's (ULVR.L)(UNC.AS) multiple of 10.3.

Independent analyst James Amoroso said weak volume growth was largely due to a tough comparison with last year and the late Easter, which Nestle said hit ice cream sales in Europe and chocolate sales in Brazil, its biggest chocolate market.

"The diversity of Nestle's portfolio ... at the levels of regions, categories and (distribution) channels means that it can retain its consumers wherever they go and however their consumption behavior changes," he said.

Chief Executive Paul Bulcke said the 3.8 percent underlying growth figure was an achievement, given comparisons with a near 10 percent rise in the year-ago quarter.

All business units recorded positive organic growth in the quarter, apart from the bottled water division, where sales fell 2.5 percent, which Nestle said was due to ongoing weakness, particularly in western Europe.

Roddy Child-Villiers, Nestle head of investor relations, said the fall was more due to the economic slowdown than to environmental concerns about bottled water and said he did not expect an improvement in the business this year.

Nestle Nutrition recorded flat organic sales due to weak growth in the European baby formula business and for the U.S. Jenny Craig diet food range. Child-Villiers said Nestle expects both businesses to pick up during 2009.

Nestle, a major processor of coffee, cocoa and milk, still expects input costs to rise an average of 2 percent in 2009, Child-Villiers said. Cocoa futures hit a 24-year high in January, but have since fallen as the downturn hits, while dairy prices have hit a five-year low.

Nestle did not mention its plans for its 30 percent stake in the world's biggest cosmetics company L'Oreal (OREP.PA) after a shareholder pact expires on April 29. Speculation has been rife over whether it might seek a full takeover or sell its stake.

Earlier this month, Nestle and the Bettencourt family, which also owns about 30 percent of L'Oreal, said they would continue to work together even after the pact ends on April 29.

(Editing by John Stonestreet and Will Waterman)

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