



Nestle 9-month sales top forecasts

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By Emma Thomasson and Laura MacInnis

VEVEY, Switzerland (Reuters) - Nestle, the world's biggest food group, reported a forecast-beating 8.9 percent rise in nine-month underlying sales, helped by emerging markets and premium brands, and raised its full-year outlook.

The Switzerland-based maker of Nescafe coffee, Maggi soup and KitKat chocolate bars raised its forecast on Thursday for 2008 underlying or organic growth to "about 8 percent" from a previous target of at least 2007's 7.4 percent and stuck by its long-term growth goals.

Nestle shares rose 3.5 percent to 44.5 Swiss francs by 10:50 a.m., reversing a steep fall on Wednesday and outperforming a 0.7 percent firmer Dow Jones European food and beverage index <.SX3P> and rival Danone which reported on Wednesday.

Chief Executive Paul Bulcke said in a statement: "These record sales in the first 9 months reflect strong growth momentum in both the developing and the developed world..."

Independent analyst **James Amoroso** said: "These are truly excellent sales growth numbers."

"Wow. Better-than-expected organic growth, increases 2008 guidance and reiterates long term targets," said analyst Jon Cox at Kepler Capital Markets. "We ... can think of few other places to sit out a global recession than Nestle."

Citi analyst Jeff Stent added, "This confirms our view that Nestle is best placed to weather the storms that lie ahead. The stock remains our top (and only) large cap food buy."

Analysts noted that with market nerves building for 2009 due to a global slowdowns and the fear of downtrading to cheaper products, the group has reiterated the Nestle model for the year ahead consisting of 5-6 percent annual underlying sales growth together with profit margin expansion at constant currencies.

They say Nestle is one of the best-placed of Europe's top food companies to deal with slowing economic growth due to its wide geographic and product spread, while it is also helped by falling prices for commodities like milk and coffee.

Nestle Chief Executive Paul Bulcke said world markets, particularly emerging ones, were still set to grow despite recent turbulence on global financial markets.

"Overall in spite of all the turbulence and a general feeling of negativism, the world is bent to growth in the future," he told a results news conference.

"MOUTH-WATERING"

Underlying sales, which strip out currency effects and acquisitions, rose 8.9 percent, compared with an average forecast of 8.2 percent. Real internal growth, or volume growth, was 3.4 percent, compared with a forecast of 3.3 percent.

Overall sales in the January-September period rose to 81.4 billion francs (42.8 billion pounds), above the 81.1 billion francs analysts forecast in a Reuters poll. The strength of the Swiss franc cut sales by 8 percent.

"This should give the many doom mongers something to think about," said Wegelin & Co private bankers. "What they have showed is simply mouth-watering and the deleveraging process means you can pick up the stock at a really attractive price."

Nestle's nine-month underlying growth of 8.9 percent still lags European food rival Danone which showed 9.2 percent growth reflecting the French group's bigger exposure to faster-growing areas like dairy and babyfoods. Danone shares were off 1.8 percent at 40.6 euros.

Nestle investor relations head Roddy Child-Villiers added that a number of factors will mean slower fourth-quarter growth such as a slowdown in its economically-sensitive nutrition business and lower dairy costs, meaning fewer price rises.

But he added the Vevey-based group had not been hurt much by customers trading down to cheaper and sometimes private label products -- except in bottled water in North America and western Europe -- helped by its strategy of expanding premium brands.

"We have strong differentiation not just from private label but also our value competitors and that's what's driving these strong numbers, he said.

Nestle said it used the \$10.4 billion proceeds of its sale of a stake in eyecare firm Alcon to Novartis AG to cut its exposure to the short-term commercial paper market, adding its solid balance sheet made it the industry's "gold standard."

Nestle's strong cash position after the Alcon sale had sparked speculation it might be interested in a bid for Hershey , but Bulcke denied that on Thursday, saying Nestle wanted to focus on developing its own confectionary brands.

Emerging markets all achieved double-digit underlying growth, while in developed markets, Nestle said its high-end brands such as Movenpick and Haagen Dazs ice cream, Nespresso coffee and Fancy Feast pet food were top performers.

Sales of shelf-stable dairy products -- such as CoffeeMate -- "reflected the first effects of falling milk prices but remained double-digit in most markets," it said.

Bottled water took a hit, however, as at Danone, with underlying growth down 1 percent in the period despite continued growth for key brands Poland Spring and Nestle Pure Life. Nestle said "a combination of economic conditions and perceived environmental issues around bottled water" was at fault.

Its shares trade at about 13.6 times forecast 2009 earnings, above Unilever at 12.6 times but below Danone at 14 times, according to Reuters data.

(Additional reporting by David Jones in London; Editing by Erica Billingham, Chris Wickham and Hans Peters)