



UPDATE 3 – Unilever Q3 sales and raised outlook boost shares

Thu Oct 30, 2008 7:02am EDT

By David Jones

LONDON, Oct 30 (Reuters) - Consumer goods giant Unilever posted a 8.3 percent rise in third-quarter underlying sales on Thursday, at the top end of forecasts, and upgraded its 2008 outlook to see sales growth "well in excess" of its target.

The strong quarterly sales growth at Anglo-Dutch Unilever (ULVR.L: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) (UNc.AS: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), the maker of Sunsilk shampoo, Knorr soups and Ben & Jerry's ice cream, boosted its shares over 5 percent but some analysts were cautious about the consumer slowdown.

"This year we now expect to deliver underlying sales growth well in excess of our long-term target range of 3 to 5 percent together with an underlying improvement in operating margin for the year," said Chief Executive Patrick Cescau in a statement.

The world's third-biggest food and consumer goods group had previously said it expected sales growth "above" the target, but its sales line has been boosted by big price rises the group has pushed through to offset higher commodity input costs.

Unilever has struggled to match the growth of European food rivals such as Nestle (NESN.VX: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and Danone (DANO.PA: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) with these two having 2008 sales targets of 8 percent and 8 percent to 10 percent.

In the July-Sept quarter, Unilever's 8.3 percent sales rise came at the top of analyst forecasts of 5.0 percent to 8.6 percent and beat consensus of 6.7 percent, with price rises and cost saving pushing underlying operating margins up 0.3 percentage points.

Independent analyst **James Amoroso** said: "The difference this time is that the margin improvement of 30 basis points was unchanged but the organic growth accelerated to reach the 'top-of-peer-group' levels of Nestle and Danone."

Unilever Plc shares rose 5.3 percent to 14.14 pounds by 1045 GMT in a UK market up 1.6 percent after outperforming the FTSE 100 index .FTSE by 6 percent so far this year but lagging the DJ food and beverage index by 13 percent.

Unilever's quarterly sales rise came after 7.2 percent and 6.8 percent growth in the first and second quarters, making a nine-month rise of 7.4, as it closes the gap on Nestle at 8.9 percent, Danone at 9.2 percent and Reckitt Benckiser (RB.L: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) at 10 percent.

But Unilever relied heavily on price rises with only 0.6 percentage points of the third-quarter 8.3 percent rise coming from higher volumes while Nestle saw 3.2 percent and Danone 2.6 percent volume growth in the third-quarter.

Some analysts said Unilever's quarterly sales volume decline of 2.1 percent in Europe was hardly a positive omen at this early stage of a consumer slowdown, and the sales line relied too much on price rather than volume which is seen as higher quality and more sustainable growth.

Credit Suisse analyst Charlie Mills said: "The results may be broadly in line with expectations, but the quality is not as good as its peers. Emerging markets account for 85 percent of the organic growth and over 100 percent of the underlying volume growth."

Many food groups are seeing volume sales slow as they raise prices, but Unilever with the highest current input cost inflation is seeing volumes hurt most as it is locked into key prices like high vegetable oils for the rest of the year.

The group, whose 400 brands include Lipton tea, Lux soap and Omo detergents, saw quarterly earnings per share reach 0.59 euros, compared to forecasts of 0.30 euros to 0.68 euros and a consensus of 0.45 euros.

Investors have welcomed Paul Polman's appointment as Unilever's Chief Executive as the Dutchman has worked for its two bigger rivals Procter & Gamble (PG.N: Quote, Profile, Research, Stock Buzz) and Nestle, and is set to takeover from Cescau by the end of this year.

UBS analyst Alan Erskine said: "We suspect Polman's impressive CV and communication skills will ensure a generous honeymoon period, but we do not under-estimate the challenges he faces and regard him unproven as a CEO."

Unilever shares trade on 12.5 times forecast 2009 earnings behind the faster-growing Danone on 14.1 and Nestle on 12.9.

The group announced a first-half dividend of 0.26 euros per Unilever NV share and 20.55 pence per Plc share.

(Reporting by David Jones; Editing by Andrew Callus and Sharon Lindores)

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