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Nestle Set to Eclipse Rivals' Sales Growth on Europe Resistance
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By Tom Mulier

Aug. 10 (Bloomberg) -- Nestle SA will probably report the fastest revenue growth of the world's three biggest food processors tomorrow as sales resist a slowdown in Europe.

Organic sales -- which exclude acquisitions, divestments and currency swings -- increased 6 percent in the first half of the year, according to the median of nine analysts' estimates gathered by Bloomberg News. Smaller rival Unilever posted growth of 3.8 percent for the same period, while Kraft Foods Inc. this month reported a 2.2 percent second-quarter increase.

Nestle gets only 22 percent of revenue and 19 percent of operating profit from Europe, where some consumer companies are feeling the pinch of government budget cuts. The maker of KitKat bars last year got 35 billion francs (\$33.7 billion) of food and beverage sales from emerging markets including Brazil, Mexico and Russia last year, more than any rival. Unlike most rivals, Nestle has raised prices this year, bolstering revenue growth.

"Nestle's scale and spread enable it to weather most headwinds," Nico Lambrechts, an analyst at Bank of America Merrill Lynch, wrote in a note yesterday.

Nina Backes, a spokeswoman for the Vevey, Switzerland-based company, declined to comment ahead of the release.

Nestle's organic sales growth in Europe was 3.5 percent in the first half, according to an estimate by Richard Withagen, an analyst at SNS Securities. That would represent an acceleration from the first quarter's 3.4 percent. Unilever last week said sales in Western Europe fell 2.2 percent, hurt most by a decline in the quantity of goods sold in Greece.

Higher Prices

Still, Nestle may not be immune to a slowdown.

"In line with the rest of the industry, we view Nestle's European operations most at risk of falling short of expectations," Withagen wrote in an Aug. 4 note. Total revenue from Asia, the Pacific region and Africa probably increased 12 percent in the second quarter, the analyst estimates.

After raising prices by 1.7 percent in the first quarter, Nestle's pricing has remained positive, according to Warren Ackerman, an analyst at Evolution Securities with a "neutral" rating on the stock. He estimates price growth of 1.5 percent for the second quarter. Unilever said last week it expects to start raising prices in the final quarter of the year.

Nestle may also report a 7.5 percent increase in net income to 5.37 billion Swiss francs, according to the average of seven estimates compiled by Bloomberg.

Nestle shares have gained about 2 percent this year, giving the company a market value of about 177 billion francs. Nestle ranks as

Europe's third-largest company by stock market value after HSBC Holdings Plc and Royal Dutch Shell Plc.

Share Buyback?

The maker of Nespresso and Hot Pockets convenience meals may raise its commodity price inflation forecast, Alex Molloy, an analyst at Credit Suisse, wrote. Arabica coffee futures have gained 24 percent and wheat contracts have risen 44 percent this year. Chief Executive Officer Paul Bulcke repeated the company's forecast of a 2 percent to 3 percent increase on June 22.

The company may also clarify when it will receive the \$28.1 billion payment from Novartis AG for its stake in Alcon Inc., the maker of Opti-Free contact lens cleaners, wrote Jon Cox, an analyst at Kepler Capital Markets. Nestle said in February it expected the cash in the third quarter. Nestle Chief Financial Officer Jim Singh said in June it would be in the second half.

Nestle said in June it will buy back 10 billion francs of shares through mid-2011. The company will probably propose another buyback of 15 billion francs to 25 billion francs, possibly when it reports nine-month results, Jean-Philippe Bertschy, an analyst at Bank Vontobel, wrote.

The maker of Gerber baby food and PowerBar supplements for athletes said April 22 it expects its food and beverage business to have higher organic sales growth in 2010 than the 3.9 percent last year. The company also expects an improvement in its earnings before interest and taxes as a percentage of sales at constant currency rates.

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