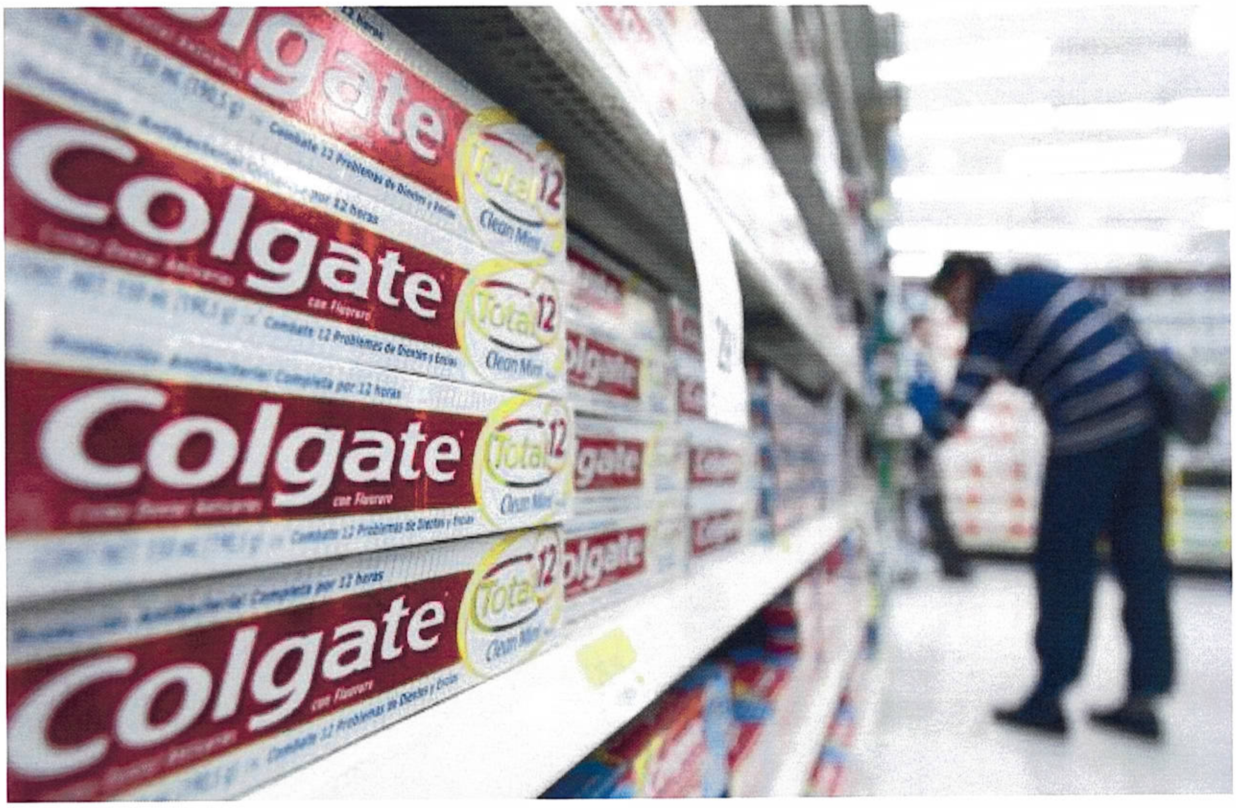
fastFT Colgate-Palmolive Co

Colgate predicts lower profits in 2019 as strong dollar bites



© Bloomberg

Pan Kwan Yuk in New York JANUARY 25, 2019

Colgate-Palmolive gave a sombre outlook for 2019, saying it expects profits to decline this year as the strong dollar continues to exacerbate its emerging markets sales woes and add to the drag from higher input and logistics costs.

The world's biggest toothpaste maker warned on Friday that it now expects earnings per share for 2019 to fall by "low-single-digit" levels, confounding analysts' expectations for a modest rise. Net sales meanwhile are likely to be "flat or modestly higher" compared to 2018, it said.

Colgate shares fell 3.2 per cent in pre-market trading.

Like many big consumer goods companies, Colgate, whose brands also include Sanex and Lady Speed Stick, is being hit on all fronts. On one hand, higher freight, packaging and ingredient costs are squeezing margins, while shifting consumer tastes —

particularly in North America — mean established big household brands have been steadily losing ground to smaller and more health-conscious or eco-friendly start-ups.

But for Colgate, which generates nearly 75 per cent of its consumer goods sales outside of North America, the strong greenback is heaping additional pain by making the company's products more expensive overseas and diminishing revenues earned abroad once they are repatriated and converted back into dollars.

The company said on Friday foreign exchange headwinds shaved 5 per cent off its fourth quarter sales.

While Colgate has been trying to cushion the impact of the dollar's strength by raising prices, the move has hit both revenue and volumes — particularly in Latin America.

The region is the group's biggest market, accounting for over a fifth of total group revenue. During the fourth quarter net sales fell 9 per cent, with a 4.5 per cent increase in pricing failing to offset volume decline and a 10 per cent currency hit.

Net sales fell across all geographical regions bar North America. But even here the gain was largely due to a sales boost provided by a skincare acquisition.

Overall, net sales came in at $3.81bn for the final three months of last year, a 2 per cent drop from the prior year period, but ahead of the $3.77bn the market had forecast.

Net income, at $606m, or 70 cents a share, was slightly below what Wall Street was looking for.

The dollar, as measured by the DXY index, rose 1.1 per cent during the final three months of 2018 and ended the year over 4 per cent higher.