Reckitt Benckiser warns of cost inflation as revenues dip

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eckitt Benckiser saw shares slump by as much as 9% on Tuesday morning after it warned soaring raw materials costs are hitting profit margins, and reported a dip in revenues.

The Dettol and Durex maker announced first half net revenues of £6.6 billion, down 4.5% on the same period in 2020 as the pandemic boom in disinfectant demand weakened. Reckitt said there had been "some reduction in frequency of usage" of disinfectant from the peak last year.

The FTSE 100 consumer goods group's like-for-like sales in the three months to July were down 1% on 2020 levels.

Operating profit margins were down 2.9 percentage points to 21.6% in the half, which the cput down to accelerating cost inflation "across most commodity groups" in the second quarter, particularly in plastics and paper. Finance chief Jeff Carr warned cost inflation is "running in the range of 8-9% on average".

It comes after Unilever said its costs were soaring faster than at any point over the last decade, and Reckitt said it now expects adjusted operating margin to be slightly down on the 23.6% seen in 2020.

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AJ Bell analyst, Danni Hewson, said: “Margin weakness only adds to the bear case for Reckitt.”

Reckitt’s chief executive, Laxman Narasimhan, acknowledged the half was “slower”, but said the company is “actively addressing” cost inflation. He is confident the firm will be able to offset most through “productivity management” and “pricing actions” from later this year.

Overall sales were still above pre-pandemic levels, with Durex online sales in U.K. and Germany up nearly 2000 basis points in the half as governments relaxed restrictions.

Narasimhan said: “Investments we have made in the business are starting to come through.”