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(Updates with analyst comment in 11th paragraph.)

By Dermot Doherty

Feb. 19 (Bloomberg) -- Danone, the owner of Evian bottled- water and Activia yogurt, rose the most in almost three years in Paris trading after fourth-quarter sales beat estimates and the company announced plans to cut 900 jobs in Europe.

The shares gained as much as 5.5 percent to 52.97 euros, the steepest intraday advance since May 2010. Like-for-like sales increased 4.9 percent in the fourth quarter, exceeding analyst estimates of a 3.7 percent gain.

The sales growth helped ease concern over weakening demand for dairy products in southern Europe as consumers shift to cheaper private-label alternatives. Danone, which gets more than half its sales from dairy products, said it will cut about 4 percent of jobs in Europe, or almost 1 percent of its total workforce, as part of a plan announced in December to reduce costs by 200 million euros ($267 million) over two years.

The stronger sales “might indicate that we may be close to a turning point,” Warren Ackerman, an analyst at Societe Generale, said in a note to clients. A 0.4 percent increase in the quantity of dairy products sold was the main reason that revenue beat estimates in the quarter, he said.

Danone stock traded 4.7 percent higher at 52.53 euros as of
11:23 a.m. in Paris trading. Nelson Peltz, the billionaire activist investor, said in November that his Trian Fund Management LP owned a 1 percent stake in the company.

Peltz Call

The jobs being eliminated comprise both management and administrative positions in 26 countries across Europe, the maker of Actimel yogurt drinks said. The plan is being presented to the company’s European Works Council today.

The cuts follow calls by Peltz for management to pare costs and focus on cash returns. The investor, who has helped bring changes to companies including H.J. Heinz Co., Wendy’s Co. and Family Dollar Stores Inc., has also urged Danone to avoid costly takeovers.

The company studies all acquisition opportunities that arise, Chief Financial Officer Pierre-Andre Terisse said on a call with reporters today. He had no comment on Nestle SA’s plans to divest assets after its acquisition of an infant nutrition unit of Pfizer Inc.

Danone forecast like-for-like sales growth of at least 5 percent this year, with “negative” business conditions in Europe being more than offset by emerging markets, which account for more than half of the company’s revenue.

‘Profitable Growth’

The operating margin will probably narrow by 30 basis points to 50 basis points amid rising raw-materials prices and promotions on some products, it said.

The 2013 guidance “should be enough to underpin the current consensuses and we expect little change to estimates,” Alex Smith, an analyst at Espirito Santo, wrote in a report.

Net income from continuing operations rose to 1.82 billion euros last year, from 1.75 billion euros a year earlier, the company said. The average estimate of 28 analysts surveyed by Bloomberg was 1.81 billion euros.

The operating margin narrowed 0.5 percentage point to 14.2 percent, while sales rose 5.4 percent on a like-for-like basis, exceeding 20 billion euros for the first time.

Like-for-like sales at the dairy products unit rose 1.3 percent in the fourth quarter, with higher prices adding to the volume growth, the company said.

Revenue from Danone's bottled-water business increased 8.5 percent in the quarter, helped by increased demand in emerging markets. Sales of baby-nutrition products climbed 12 percent.

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