10 November 2011

Bekaert (EUR 29.775 - Hold) - Weak Q3 ahead of significantly reduced consensus expectations

Facts: Q3 sales EUR 816m vs EUR 780m expected

- After consensus had come down significantly in recent weeks and months, Bekaert managed to release Q3 sales ahead of expectations. Q3 sales came in at EUR 816m against EUR 780m expected.
- All regions were more or less in-line, apart from Asia, which recorded sales of EUR 254m against EUR 219m expected.
- Combined sales reached EUR 1,138m for Q3 against EUR 1,104m expected. Brazil performed in-line with expectations, knowing the negative impact from the strong local currency.
- However, the only yoy growth in Q3 that was negative was Asia. Sales declined 24% yoy and Bekaert in its outlook highlights that in solar energy markets, substantial manufacturing overcapacity and persistent low demand drove prices down by more than 50% toward the end of the third quarter. Bekaert expects a further deterioration of price levels in the months ahead.
- Furthermore, Bekaert indicates: "Although sales volumes were solid in most markets during the first nine months of the year, Bekaert anticipates growing uncertainty and margin pressure, in line with global expectations."
- Net financial debt decline qoq from EUR 816m to EUR 763m but includes the EUR 80m proceeds from divestments.
- Working capital is expected to remain high in the difficult financial and business environment, and the volatility of raw materials prices and exchange rates adds uncertainty to business performance perspectives.

Our View: Further deterioration at end of quarter

Bekaert highlights that prices of sawing wire were down by 50% towards the end of the quarter. This implies a deterioration at the end of Q3 and currently prices are down probably more like 65%. With these sharp price declines, sawing wire profitability evaporates rapidly and we expect current EBIT around break even. In H2, also tire cord margins will decline and as such, we expect an H2 REBIT margin in Asia of around 12% against still 37% in 2010.

In Europe and the US we expect lower profitability compared to H1 but at supportive levels, while Latam should continue to do well.

Conclusion: Hold maintained

After consensus had come down significantly in recent weeks and months and on the back of short coverage, Bekaert shares are up on the results. However, Q4 results are expected to be weak and the global macro economic outlook is not supportive for Bekaert. We expect 2012 earnings to be below 2011 and expect 2012 consensus to come further down. At 10.6x 2012 earnings and 7.4x EV/EBIT we rate the shares Hold.

Details

in EUR m	Q3 10	Q3 11	Actual	vs. Exp
Consolidated sales	**866**	**780**	**816**	**4.6%**
EMEA	271	290	293	1.1%
North America	170	177	172	-2.8%
Latin America	89	94	97	2.7%
Asia Pacific	336	219	254	15.8%
Combined sales (incl ass.)	**1,186**	**1,104**	**1,138**	**3.0%**
EMEA	268	287	289	0.8%
North America	167	174	171	-1.7%
Latin America	414	423	422	-0.3%
Asia Pacific	337	220	256	16.1%

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