Bekaert

Indy - Industrial, Diversified / Belgium

BUY, TP EUR 39.00

Market capitalisation (EUR m)	2,256.8
No. of shares (m)	60.1
Free float	61.9%
1/3/12 mth perf. (%)	9.1/37.8/43.5
High/low 52 weeks (EUR)	39.21/22.87
Next results due	
Price/book value (x)	1.5
Volatility (ß) (5yrs/)	
Reuters symbol	BEKB.BR
Bloomberg symbol	BEKB BB
Website	www.bekaert.com

Year to December	2016e	2017e	2018e
Sales (EUR m)	3,821	4,112	4,239
EBITDA (EUR m)	476	529	560
EBITA (EUR m)	242	286	320
Net profit (EUR m)	133	162	190
EPS (EUR)	2.38	2.90	3.41
DPS (EUR)	0.97	1.04	1.11
P/E	15.8	13.0	11.0
EV/EBITDA	6.6	5.7	5.1
P/BV	1.5	1.4	1.3
ROE (%)	9.1	10.3	11.2

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Bekaert – Update signals strong start to the year

Event: 1Q16 sales trading update
Impact: Positive

Conclusion:

Bekaert reported a strong (sales only) trading update for 1Q16, with particularly encouraging volume growth in most regions. Bekaert expects the strong start of the year to continue in 2Q16, although the company cautions for uncertainties and worsening market conditions towards 2H16 (we note, however, that the company has a bit of a track record of being cautious in its outlook). We also considered it reassuring that the company commented in the outlook being "confident" that the 7% FY REBIT margin target will be exceeded in 1H16 (compared to 5.9% in 1H15 and our forecast of 7.3%) and that "a very significant step" towards the target FY target will be taken in 2016 (compared to 6.1% realised in FY15 and our forecast of 6.9%). We remind that seasonality generally gives a lower margin in H2 compared to H1 for Bekaert. We expect the trading update to be taken positively by the market.

Consolidated sales for the group declined by 2% to EUR 884m in 1Q16, compared to our forecast of EUR 893m and the (Inquiry) consensus of EUR 898m. We stress that the decline was mostly due to the negative impact by 6% related to the passing through the lower wire rod prices (this was guided to have an impact of c.-5% in 1H16 at the time of the release of the FY15 results, and our forecasts included an impact of -4%). More importantly, the group revenue was supported by a +3% impact from mix improvements, which is in our view encouraging evidence that Bekaert's strategy is successfully shifting the mix towards higher value added products. And highlight above all that organic volume growth was reported at a solid +5.5% at group level in 1Q16, compared to +0% in 2H15 and -3% in 1H15 (and compared to our forecast of +3%). This was driven by solid markets in the automotive segment (particularly China), for Dramix concrete reinforcement fibres and solar markets (sawing wire), which offset for the worsening demand from the oil and gas sector. Volume growth amounted to >3% for EMEA (despite last year's exit from low-margin stainless steel wire activities and the divestment of the carding business), +7% for North America (related to strong tire cord markets and the reconstructed fire-damaged bead wire plant in Rome) and even +14% for Asia Pacific (on the back of sawing wire (+18%) and (market share gains in) the automotive segment, which clearly offset the effect some divestments). The volume declined, however, by 11% for Latin America, which was for 9% attributed to the (earlier-announced) shutdown of operations in Venezuela last February due to a raw materials shortage. Bekaert comments that the strong Asia Pacific volume growth should not be extrapolated to 2H16, as it was in part driven by a tire industry in China that was boosted in anticipation of new US import duties and increasing raw materials prices). And the company perceives increasing instability in Latin America, with a weakening business climate Brazil, Peru and Ecuador.