

Bekaert

Indy - Industrial, Diversified / Belgium

BUY, TP EUR 40.00

Market capitalisation (EUR m)	2,436.6
No. of shares (m)	60.1
Free float	63.8%
1/3/12 mth perf. (%)	3.3/5.5/60.0
High/low 52 weeks (EUR)	42.26/25.67
Next results due	
Price/book value (x)	1.7
Volatility (ß) (5yrs/)	
Reuters symbol	BEKB.BR
Bloomberg symbol	BEKB BB

Website www.bekaert.com

Year to December	2016e	2017e	2018e
Sales (EUR m)	3,814	4,091	4,234
EBITDA (EUR m)	480	521	550
EBITA (EUR m)	248	282	314
Net profit (EUR m)	118	163	190
EPS (EUR)	2.11	2.91	3.38
DPS (EUR)	0.86	1.04	1.10
P/E	19.2	13.9	12.0
EV/EBITDA	7.0	6.2	5.6
P/BV	1.7	1.6	1.4
ROE (%)	8.2	10.5	11.2

Bekaert – 3Q16 update a bit of a mixed bag

Event: 3Q16 sales trading update

Impact: Negative

Conclusion:

Bekaert's 3Q16 sales trading update was a bit of a mixed bag, and we believe that, considering the strong share price performance year-to-date, the negative elements could mute trading sentiment towards the stock. The company reported consolidated/combined sales of EUR 940m/EUR 1,107m, which was in line with our forecast of EUR 950m/EUR 1,109m and the company-collected consensus of EUR 955m/EUR 1,117m. Yet, we believe that sentiment may be overshadowed by the fact that organic volume growth slowed down to almost 0% (although we note that the strong prior-year quarter made for challenging comparison base), following still solid growth of +5.5% in 1Q16 and +6.8% in 2Q16. Moreover, the wording in the outlook statement reads a bit mixed, as the company strikes a somewhat more cautious tone of voice about a softening of the outlook for EMEA and Latin America, while continued momentum is seen for North America and Asia Pacific. On a positive note, Bekaert remains confident in its own strengths and improvement initiatives, and it narrowed the FY16 REBIT margin expectation to 7.5-8% (from 7-8% previously). We stress, though, that these (Q1 and Q3) sales update typically provide limited insights in the development of profitability, which is this year also driven more strongly by Bekaert's optimisation programme. We remind that the market also took the 1Q16 update negatively, whereas it turned out that the profitability disclosed at the 1H16 results was much better than expected. It makes us note to not read too much in the 3Q16 update.

Details:

* Let us first of all note that these Q1 and Q3 sales trading updates provide only limited insight in the development of Bekaert's profitability (disclosed only at H1 and H2), as the drivers of sales (volume, raw materials, price, mix) do not all filter through to earnings in a straightforward way (which is, in addition, impacted (more) strongly by Bekaert's optimisation programme at the moment).

* The **EMEA** division (3Q15 consolidated sales -6% to EUR 268m vs EUR 285m ABN AMRO and EUR 281m consensus) saw organic volume growth turn negative for 3Q16 (not quantified), following solid growth of +8% in 2Q16 and +3% in 1Q16. While the automotive market continued strongly, this was caused by weakness for profiled wires due to a further deterioration of the oil & gas sector in the summer months. In the outlook, Bekaert cautions that it sees increased uncertainties impacting the order intake across many applications (although continued strong demand is seen for automotive and construction), which is seen spilling over into 1Q17 as well.

* The **North America** division (3Q15 consolidated sales -3% to EUR 127m vs EUR 137m ABN AMRO and EUR 133m consensus) continued to report robust volume growth of 9% in 9MQ16, following +11% in 2Q16 and +7% in 1Q16. This reflects the regain of bead wire volumes following the reconstruction of the fire-damaged plant in Rome, while automotive, construction and industrial wire markets were also said to have continued to perform well. Bekaert sees in the outlook continued solid external market conditions, which is seen picking up further in 2017

* Considering the GDP headwinds in the region, the **Latin America** division (3Q15 consolidated sales +5% to EUR 176m vs EUR 151m ABN AMRO and EUR 163m consensus) continued to show a relatively resilient volume performance of -1% in 3Q16, following -1% in 2Q16 and -2% in 1Q16 (excluding the impact of the temporary shutdown of the operations in Venezuela). Bekaert is to a degree helped by the weakening of local currencies, which enables it to gain market share at the expense of imported products out of Asia. However, the company cautions in the outlook that the self-help cost and price actions will provide a less strong offset for challenging markets going forward, particularly now that currencies are strengthening again.

* The **Asia Pacific** division (3Q15 consolidated sales +2% to EUR 261m vs EUR 258m ABN AMRO and EUR 262m consensus) reported continued solid volume growth of 10% for 9M16, following +10% in 2Q16 and +14% in 1Q16. The third quarter saw ongoing strong markets for tire cord, which is seen continuing in 4Q16. On the other hand, the sawing wire market saw a sudden drop due to the implementation of changes to feed-in tariffs in China in July. On a positive note, the weakness was said to be only temporary, with the company already noticing a moderate pick up since November. We believe that it is also worth mentioning that the price erosion effect levelled off to -2% in 3Q16, from and -4% in 2Q16 and 1Q16. We believe that this may indicate finally an easing of the competitive pricing pressure for tire cord, which started at the end of 2014.

* The **BBRG** (Bekaert Bridon Ropes Group) division (3Q15 consolidated sales +80% to EUR 108m vs EUR 120m ABN AMRO and EUR 116m consensus) saw an organic decline in volumes by -4% in 3Q16 (although this was not as bad as feared, reflecting the weakness in the oil & gas and mining markets. Bekaert foresees continued headwinds from the oil & gas market for the near future, which is said to mute the profit performance. Yet, we believe that the BBRG division holds potential to become a second booster to Bekaert's earnings when oil & gas markets once oil & gas markets show a recovery recover (the first booster is the 4-year self-help optimisation programme, which is now 1.5-2 years advanced). The downturn in oil & gas has made the Bridon part operate at break-even profitability at the moment, compared to an average EBIT margin of 12% during 2008-2014.

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