

Bekaert (EUR 29.9 - ADD): Strong margin expected
Preview

Period	2015 FY results
Date/Time	Friday, February 26
Recommendation	ADD
Target price	29.0

in EUR	2014 FY	2015 FYe	yoy	Consensus
Combined sales (m)	4,037	4,458	10.4%	
Sales group (m)	3,216	3,682	14.5%	3,676
EMEA	1,063	1,216	14.4%	1,217
North America	555	605	8.9%	603
Latin America	631	776	22.9%	765
Asia Pacific	966	1,085	12.4%	1,092
EBITDA (m)	341.7	406.0	18.8%	
REBIT (m)	164.1	214.5	30.7%	211.0
EMEA	114.4	145.9	27.5%	144.0
North America	20.1	25.1	25.2%	21.0
Latin America	25.9	42.7	65.1%	42.0
Asia Pacific	63.0	65.7	4.2%	63.0
Other	-59.2	-64.8	9.5%	-60.0
EBIT (m)	170.7	204.0	19.5%	205.0
Fin result (m)	-62.9	-67.0	6.4%	-79.0
Associates	25.3	25.1	-0.8%	22.0
Net profit (m)	86.7	99.6	14.9%	96.0

Analyst Meeting 2pm

Key items

1. The main focus for Bekaert's FY results will certainly be on margin development. After the Q3 trading update, the market reacted disappointed on sales that came in below forecasts. However, this was due to the negative impact from lower wire rod prices (raw material) on which there is a pass through to selling prices. As such, this does not offer a good reflection of the underlying business and can even be favourable for margin development.
2. In Q4, underlying business and volumes should have resisted quite well, except for Latam. In Latam, business in the main regions has been weak with also negative forex. In Europe and the US, automotive should have remained strong based on the numbers published by tire manufacturers. Oil related sectors should be increasingly difficult, however. In China, the group faces a favourable comparison base, especially tire cord, and sawing wire is showing growth again.
3. Thanks to the internal improvement programs, the additional contribution from the Pirelli business and the reduction of consulting costs, margin should have evolved favourably. We anticipate REBIT margin to have reached 5.7%, bringing FY margin to 5.8%.

Conclusion

We expect further margin improvement to 6.4% in 2016 and 7.0% in 2017. At these estimates the shares trade at 12.2x and 10.1x EV/EBIT 2016 and 2017 respectively. We have reached our EUR 29 target price but will await the results to review our valuation and estimates. ADD maintained.