

**Bekaert (ADD) - Above 7% REBIT margin (EUR 41.13 / TP EUR 40.0)**
**Preview**

Period	2016 H1 results
Date/Time	Friday, July 29
Recommendation	ADD
Target price	40.0

in EUR	2015 H1	2016 H1e	yoy	Consensus
Combined sales (m)	2,302	2,158	-6.3%	2,187
<b>Sales group (m)</b>	<b>1,897</b>	<b>1,843</b>	<b>-2.8%</b>	<b>1,847</b>
EMEA	644	649	0.9%	638
North America	313	310	-1.0%	306
Latin America	400	327	-18.2%	346
Asia Pacific	540	556	3.1%	557
EBITDA (m)	217.0	262.5	21.0%	198.0
<b>REBIT (m)</b>	<b>112.0</b>	<b>157.0</b>	<b>40.2%</b>	<b>150.0</b>
EMEA	80.0	77.9	-2.6%	82.0
North America	12.0	18.6	55.1%	16.0
Latin America	22.0	26.2	19.0%	26.0
Asia Pacific	30.2	66.8	120.8%	57.0
Other	-32.3	-32.5	0.6%	-31.0
EBIT (m)	109.0	149.5	37.2%	142.0
Fin result (m)	-30.1	-51.0	69.6%	-56.0
Associates	12.6	7.0	-44.2%	6.0
<b>Net profit (m)</b>	<b>52.4</b>	<b>71.9</b>	<b>37.3%</b>	<b>64.0</b>

Analyst Meeting 2pm

**Key items**

1. After a strong Q1 trading update and largely similar trends in Q2, Bekaert is expected to release strong H1 results with its REBIT margin exceeding its long stated target level of 7%. Actually, we anticipate a margin of 8.5% thanks to strong European capacity utilization, strong dynamics in Chinese tire cord and sawing wire business, a recovery of the US activity, the impact of the factory efficiency improvement programs and the elimination of loss making businesses.

3. The Q2 topline will face an estimated negative impact from wire rod prices of -5% and the negative forex impact is expected to be slightly more pronounced versus the -2% impact in Q1. Volumes should have remained strong after they reached +5.5% in Q1.
4. Bekaert already indicated H2 to be weaker due to the traditional seasonality in Europe, a weakening of oil related business and continued uncertainty in the Latam region. On Asia, Bekaert indicated H2 uncertainty given the H1 strength but recent comments from Michelin and Goodyear on this region could offer positive surprises. We understand that Bekaert already anticipated the weaker margin evolution at Bridon Ropes, which will be consolidated as from H2.

### **Conclusion**

We are slightly above consensus on H1 and we and consensus anticipate a material margin drop in H2. If China would be able to maintain momentum, there could be upside to H2 margins. At 12x EV/EBIT 2017, valuation is not demanding. We have an ADD rating on the shares and will review our Investment Case and target price of EUR 40 after the H1 release.