18 November 2016

Bekaert (Hold from BUY) - Solid margin but mixed outlook (EUR 38.75 / TP EUR 43.00)

Facts: Sales EUR 2,759m against EUR 2,780m expected

- Bekaert releases a mixed set of results with sales coming in at EUR 2,759m against EUR 2,780m expected and consensus of EUR 2,774m for the first 9 months. Sales for the quarter amounted to EUR 940m (+5%) versus EUR 961manticipated.
- EMEA sales came in at EUR 876m (+2.5%) against EUR 889m expected. Following firm volume growth in the second quarter, third quarter sales were down due to low demand for profiled wires as a result of investment delays and cancellations in the oil and gas sector. Weaker demand from industrial steel wire and consumer goods related markets illustrated the projected slowdown from growing uncertainty in Europe, following Britain's choice to leave the European Union. Automotive markets remained strong throughout the first nine months of 2016.
- Asia Pacific sales were in-line at EUR 778m with strong automotive and a temporary slowdown in the solar market. Bekaert expects the latter market to pick-up in Q4 and H1 2017 and tire capacity is being expanded.
- Latam sales were somewhat stronger at EUR504m versus EUR 491m expected, mainly thanks to a higher than anticipated forex impact in Q3.
- North American sales were in-line at EUR 391m with most businesses going well except oil and gas and the 9% volume growth being supported by the restart of the Rome factory.
- Bridon-Bekaert Ropes Group sales reached EUR 210m against EUR 218m anticipated with organic sales down 4%. The weak oil and gas market depresses business levels and margins but actions are being taken that should support margins as from H2 next year.
- The company guides for a FY REBIT margin of 7.5% to 8.0% against consensus expectations of 7.6% and our expected 8.0%. Sales in automotive remained strong, there was a temporary slowdown of sawing wire sales in China and the oil and gas sector remained difficult.
- In its outlook comments, Bekaert states that automotive should remain strong in Q4, solar markets should pick-up in Q4 and H1 2017 but the group also witnessed adverse market conditions in several industrial sectors. The uncertainty in the European markets has reduced order intake and Bekaert expects this to continue going into Q1 2017.
- The efficiency improvement programs are gaining momentum and the recently launched customer excellence program shows its effectiveness in several pilot programs.
- Net debt amounted to EUR 1,079m and should be around this level at year end.

Our View: Solid margin but uncertain outlook

In EMEA, the automotive segment continues to perform well while other industrial applications and the oil and gas sector are difficult. This has also been highlighted by lower order intake.

In Asia, the automotive business remains very strong, capacity expansion is being implemented and the buoyant demand supports pricing power on top of wire rod prices. This is a major positive for margin.

Latam remains very uncertain while the US market is expected to remain solid apart from traditional seasonality.

Investment Conclusion: Hold from BUY - Target Price EUR 43.00 from EUR 46.00

The third quarter topline is just a little shy of estimates, the FY REBIT margin target is slightly ahead of consensus expectations but the comments on non-automotive order intake are prudent.

We will not materially alter our 2016 estimates but also see little upside to our 2017 estimates. Our 2017 REBIT margin target of 8.2% is not a given despite the positive impact from the efficiency improvement measures. At EUR 38.1, the shares trade at 11.1x 2017 EV/EBIT, which we deem fair.

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