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BEKAERT

Read-through from Xingda and Shougang

GENERAL INDUSTRIES
BELGIUM

CURRENT PRICE € 37.56
TARGET PRICE € 38.00

HOLD
RATING UNCHANGED



Source: Thomson Reuters Datastream

Bloomberg BEKB.BB
Reuters BEKB.BR
www.bekaert.com

Market Cap € 2,249.3m
Shares outst. 60.1m
Volume (daily) € 4,701,226
Free float 62.0%

Next corporate event

Trading update 3Q16: 18 November 2016

(€ m)	2015	2016E	2017E
Sales	3,671.1	3,941.3	4,219.3
REBITDA	441.4	465.7	508.8
Net earnings	102.2	130.3	152.4
Adj. EPS (€)	1.77	2.37	2.75
P/E (x)	14.8	15.9	13.7
EV/REBITDA	6.0	7.6	6.7
FCF Yield	15.9%	6.0%	7.5%
Dividend yield	3.4%	2.7%	3.3%

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Yesterday, both Xingda and Shougang reported 1H16 results.

Xingda: tire cord volumes up 11.7%, ASP down 10.5%:

Xingda reported an 8.1% increase in volumes to 316,200t. Volumes in radial tire cord increased by 11.7% with 11.3% growth for truck tire cord and 12.3% growth for passenger car tire cord. Volumes in bead wire and other wires were down 14%.

Xingda increased its annual production capacity to 630,000t of tire cord while reducing its production capacity of bead wires and other wires to 105,000t. Capacity utilisation increased from 80.3% in the same period last year to 82.3%.

Revenues declined by 1.1% to RMB 2,419.7m while gross profit increased by 3.1% to RMB 485.9m (gross profit margin from 19.3% to 20.1%).

Based upon Xingda reported revenues and production numbers by product category we calculate the decline in ASP at 10.5% to RMB 7,961.1/t for tire cord with decline of 11.5% for truck tire cord and 8.9% for passenger car tire cord. Xingda indicated prices have bottomed out during the period starting to increase over the second quarter.

Shougang: significant volume growth:

Shougang realised significant volume growth of 47.2% to 71,089t. Strong growth was recorded across the board, both in passenger (+70.1%) and truck (+41.0%) tire cord and both in domestic (+49.6%) as well as export (+36.3%) volumes. Adjusted EBITDA improved from HK\$ 24.6m in the same period last year to HK\$ 56.0m. ASP are down vs. same period last year while selling prices started to rebound in the second quarter. While business environment is said to remain challenging, Shougang seems to suggest improvements in the supply-demand for the market while it expects to achieve a turnaround in the coming year.

Conclusion:

Both Xingda and Shougang reported solid volume growth during the period with prices bottoming out and starting to increase over the second quarter. Bekaert realised 12% organic volume growth in Asia Pacific, which was driven by solid growth in both tire cord and sawing wire volumes.