

Bekaert (BUY) - FY 2016 preview (EUR 41.86 / TP EUR 46.00)
Preview

Period	2016 FY results
Date/Time	Wednesday, March 1
Recommendation	BUY
Target price	46.0

in EUR	2015	2016e	yoy	Consensus
Combined sales (m)	4,411	4,337	-1.7%	4,354
Sales group (m)	3,680	3,715	0.9%	3,700
EMEA	1,227	1,143	-6.8%	1,143
North America	594	511	-13.9%	513
Latin America	774	680	-12.1%	681
Asia Pacific	1,086	1,058	-2.5%	1,047
BBRG		322		316
EBITDA (m)	442.8	455.5	2.9%	481.0
REBIT (m)	223.2	279.7	25.3%	284.0
EMEA	138.6	134.4	-3.1%	136.0
North America	20.1	25.8	28.0%	25.0
Latin America	46.7	61.0	30.6%	61.0
Asia Pacific	82.1	112.3	36.8%	113.0
BBRG		18.3		19.0
Other	-64.3	-72.0	12.0%	-70.0
EBIT (m)	219.8	258.5	17.6%	263.0
Fin result (m)	-62.3	-56.8	-8.7%	-56.0
Associates	18.3	22.8	24.6%	6.0
Net profit (m)	101.7	93.2	-8.4%	64.0

Analyst Meeting: 2pm

Key items

1. Bekaert's Q3 trading update was mixed bag with confirmation of buoyant automotive market conditions in Europe and Asia (China) but slower order intake in other industrial applications. Also oil & gas related businesses were suffering from lower investments. In the first 9 months, the underlying organic volume growth was offset by lower wire rod prices, currency effects and unfavorable price-mix.
2. However, as from Q3, the negative wire rod pricing impact faded, and this should have turned positive in Q4. Especially Chinese wire rod prices have continued to rise and Bekaert even indicates to witness pricing power on top of wire rod price increases. In Q4, sawing wire sales should also have regained momentum versus Q3. We expect these latter items to have a supportive margin impact despite the slowdown in some other businesses.
3. The company has guided for a 2016 REBIT margin of 7.5% to 8%. Our FY assumptions imply a margin of 7.5%. We would expect management to offer a new medium term guidance range target. For 2017, we anticipate a REBIT margin of 7.7%, i.e. EUR 305m REBIT.

Conclusion

Pricing announcement from tire manufacturers indicate renewed sector pricing power. This is also the case for Bekaert on Chinese tire cord. A more inflationary sector pricing context should be positive for margin evolution. We stick to our BUY rating with target price of EUR 46.00.