

**Bekaert (ADD) - Solid volumes but difficult to pass on raw material prices
(EUR 39.12 / TP EUR 50.00)**
Facts: Q3 sales EUR 977m against EUR 947.5m expected

- Bekaert reports a solid third quarter with strong volumes in EMEA and Asia but warns that it is extremely difficult to pass on raw material price increases in almost all of its businesses. The group confirms that it will broadly repeat the underlying EBIT performance of 2016, which is in-line with consensus. They expect more positive growth in 2018 and confirm the 10% REBIT margin target over the coming years.
- Sales for the quarter came in at 977m (+4%) against EUR 947.5m expected. Sales volumes increased in Q3 with 9 month growth of 2.5% against +1% in the first 6 months. Mainly EMEA and Asia Pacific witnessed higher volume growth, partially a catch-up from Q2.
- Sales in EMEA reached EUR 303m versus EUR 280m expected with 10% volume growth in the first 9 months on the back of strong automotive and construction markets. Oil and gas remained weak but the slowly rising oil price might improve the investment climate gradually.
- Asia sales reached EUR 281m versus EUR 273m expected with 3% volume growth in the first 9 months (+10% in Q3). The automotive recuperated after a weaker Q2 and should remain strong in Q4. Sawing wire continues to decline due to a technology shift and Bekaert takes actions to upgrade the offering.
- Latam remained weak with 4% organic volume decline and the weak economic environment not allowing to pass on raw material prices.
- North America also fell a bit short versus expectations with sales up 6% in the quarter to EUR 134m. Volume growth of 4% in Q3 was above the 9 month run rate of 2%.
- Bridon-Bekaert Ropes was in-line with sales of EUR 108m in the quarter but profitability is lagging and actions are being taken to improve manufacturing footprint. Improving oil prices should support the investment climate going forward.

Our View: A bit better than expected but difficulties to pass on raw material prices

Bekaert released Q3 sales a notch better than expected thanks to strong automotive in Asia and Europe and strong construction market in Europe.

However, the demand environment looks insufficiently solid to pass on raw material price increases in Latam and Asia.

All in all, Bekaert offers a mixed picture. The FY stable REBIT guidance is unchanged but is not a given.

Investment Conclusion: ADD maintained – Target Price slightly down to EUR 50.00

We will not materially alter our 2017 estimates and will slightly revise downwards our 2018 estimates. We keep our ADD rating and slightly reduce our target price to EUR 50.00.

Details

in EUR	2016 Q3	2017 Q3e	actual	vs. Exp
Combined sales (m)	1,109	1,113	1,172	5.3%
Sales group (m)	938	948	977	3.1%
EMEA	268	280	303	8.2%
North America	127	125	134	7.5%
Latin America	176	161	151	-6.5%
Asia Pacific	259	273	281	2.8%
BBRG		108	108	0.0%