Bekaert

Indy - Industrial, Diversified / Belgium

REDUCE, TP EUR 19.00

Market capitalisation (EUR m)	1,441.8
No. of shares (m)	60.0
Free float	61.7%
1/3/12 mth perf. (%)	9.2/11.1/13.5
High/low 52 weeks (EUR)	24.45/17.51
Next results due	8 May 2013
Price/book value (x)	1.0
Volatility (ß) (5yrs/)	
Reuters symbol	BEKB.BR
Bloomberg symbol	BEKB BB
Website	www.bekaert.com

Bekaert - 1Q13 trading update does not bode well

Event: 1Q13 sales trading update

Impact: Negative

Conclusion:

Bekaert reported for 1Q13 a 9% y-o-y decline in *combined* sales to EUR 1,036m, which failed our forecast of EUR 1,134m and the consensus of EUR 1,099m. It does not read well that the company complains about "low demand in mature markets and a highly competitive environment driving strong price pressure in emerging markets". While the sales numbers always provide only limited insight, such comments do not bode well for profitability. The outlook statement is non-concrete as ever, but confirms that profitability will be weighed down by "the continued weak economic environment, the lack of consistent indicators of a global recovery, overcapacity in most markets and the corresponding overall price pressure" (same wording as at the release of the FY12 results). We would expect the trading update to be taken negatively, as it should make investors aware of the downside risks. It underscores our cautious stance towards the stock, which trades at a full 2013/2014 valuation of 28.3/14.1x P/E. We believe that the longer-term recovery potential for earnings is to a great degree already priced in. Short-term risks remain skewed to the downside. It should not be forgotten that Bekaert still has significant exposure to commoditised markets (and automotive), where it is particularly vulnerable to overcapacity and price pressure in the sluggish macro environment of today. As a result, we believe that a significant part of the EUR 100m savings for 2014 will not be sticky. Given the shorter-term risks, we find it too premature to already look at 2015 earnings to justify at best limited upside potential to the share price. We therefore stick to our REDUCE rating.

Year to December	2013e	2014e	2015e
Sales (EUR m)	3,526	3,717	3,873
EBITDA (EUR m)	322	390	421
EBITA (EUR m)	137	206	237
Net profit (EUR m)	51	102	127
EPS (EUR)	0.85	1.70	2.11
DPS (EUR)	0.30	0.60	0.74
P/E	28.4	14.1	11.4
EV/EBITDA	6.8	5.5	4.8
P/BV	1.0	1.0	0.9
ROE (%)	3.6	6.8	7.9

Details:

* 1Q13 ***consolidated*** **sales** declined by 11% y-o-y to EUR 799m (-8.2% organic, +0.6% consolidation and -3.2% FX), which failed our forecast of EUR 900m and the consensus of EUR 870m

- the organic decline of 8.2% is for 2.8% due to lower volumes

* 1Q13 ***combined*** **sales** (including 100% JVs) declined by 9% y-o-y to EUR 1,036m, which failed our forecast of EUR 1,134m and the consensus of EUR 1,099m

- EMEA: -11% to EUR 259m (EUR 290m expected)
- North America: -17% to EUR 146m (EUR 181m expected)
- Latin America: -4% to EUR 404m (EUR 389m expected)
- Asia Pacific: -9% to EUR 226m (EUR 274m expected)

- EMEA suffered from depressed (OEM) automotive and industrial markets
- North America saw low demand in tyre replacement, investment delays in energy markets and increased competition from Asian imports
- Latin America was the only division that performed reasonably well with higher volumes across the board (although offset by negative FX)
- Asia Pacific suffered from sliding price levels for tyre cord due to weak demand and overcapacity, although it notes a prudent trend towards price stabilisation

* The share buyback programme and a seasonal increase in working capital caused **net debt** to increase from EUR 700m end 2012 to EUR 746m end 1Q13

* No **conference call** is planned

Analyst: Maarten Bakker
ABN AMRO Bank N.V.
Tel: +31 20 343 54 12
Email: maarten.bakker@nl.abnamro.com