

Bekaert						Add			
Metal technology						Target price : 29.00			
Price	Mark.cap.(m)	eps 15e	eps 16e	Ratios	12/15e	12/16e	Glob. fig. (m)	12/15e	12/16e
EUR 25.44	1,529	1.74	2.18	P/E	14.6	11.7	Sales	3,695	3,825
RIC : BERTt.BR - Bloomberg : BEKB BB				Div. Yield	3.3%	3.3%	EBITA	215	243
				EV/EBITDA	6.3	5.9	Adj.Profit	100	126

Bekaert: Entry opportunity - Wire rod price decline hides solid volume development

Solid volume hidden by lower wire rod prices

- Bekaert released Q3 sales below expectations. Sales came in at EUR 898m (+10%) against EUR 986m expected and consensus of EUR 943m.
- Acquisitions and forex accounted for 15% of the increase with the 5% organic decline being due to +1% volume and price/mic effect and -6% from lower wire rod prices.
- Sales in EMEA came in at EUR 296m against EUR 310m expected with automotive remaining strong and energy markets weaker due to the oil and gas sector downturn. Q4 should continue to be solid.
- North American sales reached EUR 146m (+4%) vs. EUR 164m anticipated (EUR 156m cns) with the 15% forex impact largely wiped out by volume loss from the fire. Automotive and construction remained solid with continued tough conditions in industrial steel wires. Q4 should be relatively stable.
- Latam was weak with sales of EUR 180m against EUR 204m expected (cns EUR 191m). Bekaert expects a continued difficult market environment with negative forex and raw material pricing.
- In Asia, sales were up 12% (forex +13%,cns. scope +7%) to EUR 277m against EUR 309m expected and consensus of EUR 283m. The volume decline from previous quarters stopped but declining wire rod prices had an estimated 8% negative impact. Bekaert regained market share in tire cord and kept pace with growing demand in the solar sector.
- In its overall outlook, Bekaert anticipates continued solid demand from automotive markets in the final quarter of 2015. Global oil and gas markets are projected to remain subdued and the difficult economic environment in Latin America is likely to persist. As opposed to the final quarter of last year, Bekaert does not project a major sales decline in Chinese tire markets. Bekaert is implementing a set of actions to drive value creation over time, including a program aimed at optimizing the company's manufacturing cost base and a product portfolio analysis. These actions are expected to drive improved margin performance in the second half of the year and going forward.

Our View: Topline no indicator for profitability due to wire rod price declines

Bekaert's Q3 topline falls short of expectations but this should not be a leading indicator for profitability in the second half of the year. As can be seen in chart (*next page*), wire rod prices (with some delay) had a very negative impact in this quarter. However, given the back-to-back contracts in automotive, this also translates into lower input costs and short term this is favourable for margin development if they decline more as opposed to tire cord prices.

On top of this H2 should be supported, by additional cost measures from the value creation program, reduced consulting costs (EUR 7m H1) and a higher margin contribution from the Pirelli business.

Conclusion: Stock decline offers entry opportunity – ADD with TP EUR 29.00

Bekaert reports lower than expected Q3 sales but mainly due to the lower wire rod prices. This is not a negative item for margin and hides an underlying volume improvement versus previous quarters. Q3 reporting does not offer margin insight, which we expect to be supportive in H2 on the back of lower wire rod prices and solid cost

management. ADD rating maintained with a target price of EUR 29.00. The shares trade at 10.8x EV/EBIT 2016, anticipating a REBIT margin of 6.4% versus 5.8% in 2015. We expect Bekaert to reach its 7% target in 2017.

Wire rod prices



Source: Bloomberg