Benelux First Call
ING sales daily

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BEKAERT (HOLD, TP €67.0): Analyst meeting feedback: our margin assumptions going forward seem (too) cautious

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- Sales: FY09 sales consensus will probably have to come down as 1H09 sales came in exactly in line with our estimates, but more than 4% below consensus. CEO Mr. De Graeve stresses twice during the analyst meeting that the impact lower raw material prices (i.e. steel or wire rod to be precise) on sales should be tremendous in 2HO9 (and mainly 3Q09), due to Bekaert's cost-plus model and the steep drop YoY in wire rod prices. Given that we are already at the low end, our sales estimates should not change dramatically.
- Margins: We will have to review our margins going forward upwards. For 1H09 gross margin came in at 18.9% (INGF 19%), impacted not only low utilization of the plants but also by a €40m negative impact of lower wire rod prices (FIFO). Stripping out the impact of the wire rod prices, gross margin amounted to 22.2%. In its outlook statement, Bekaert stated that it does not expect any further negative impact on margin from lower raw material. Hence, we should expect gross margin in 2HO9 and FY10 above 22% (INGF 20% in 2H09 and in FY10). The latter should translate in REBIT margins of 9.4% in 2H09 and 9.9% in FY10 in our view. This is substantially above our current REBIT margin assumption for 2H09 and FY10 of 8.0%. Recall in this perspective that CEO De Graeve called a 7% REBIT margin for FY09 a very challenging assumptions during the investor day on 17 April.
- Geographical breakdown of REBIT: the extreme discrepancy between REBIT in Asia (€128m) on the one hand and Latin America (€9m), EMEA (-€21m) and North America (-€5m) on the other hand leaves us with mixed feelings: (1) on the positive side, Bekaert is not just lucky to be in China, but is now harvesting the fruits of making the right strategic choices in the past years; (2) on the negative side, the fact that Bekaert is reporting negative REBIT's in the mature markets (or flat REBIT's if one strips out the FIFO effect of wire rod prices) suggests that although the company has been constantly restructuring in the past years, the group's operations in mature markets are less resilient than we anticipated, given that we see several industrials still reporting positive REBIT numbers in the US and Europe in equally difficult market circumstances.
- Valuation: adjusting our gross margin assumptions has a significant positive impact on our bottom line estimates. Also, we are tempted to revise our valuation multiple upwards. We currently value Bekaert at 10x 2010 PER, whereas Benelux cyclicals currently trade at 11x PER and Bekaert should not trade at a discount in our view. However, Bekaert's current share price already reflects a lot of good news. We put our TP under review.