

Bekaert: will 1H11 results set investors' minds at ease?

Bekaert will report its 1H11 results on 29 July before market opening. In its 1Q11 trading update, the company published 1Q11 consolidated sales growth of 32% YoY (28% organic), driven by all geographies and mainly by Asia Pacific (+46%). At the update, Bekaert reiterated its confidence in a sustained strong performance in 1H11, but hinted at more moderate and irregular growth in the future due to measures to contain inflation and due to increased competition, mainly in China. The company added that it would take measures (such as price cuts) to maintain its strong market position in China. We refer to our note 'Solarcoaster ride', published on 27 June 2011, in which we lowered our 2011-12F estimates, based on a more cautious short-term scenario on Bekaert's solar/sawing wire activities. The bottom line is that we now expect a 5% decline in 2011F normalised EPS, apparently more cautious than company guidance.

We forecast 1H11 sales at €1,810m - up 18% YoY (vs. 32% YoY in 1Q11) and still driven by all geographies and mainly by Asia Pacific (+24%). We forecast REBIT to go up 15% YoY to €302m (roughly flat HoH), driven by slight margin improvements in the Americas (assuming North American margins should gradually catch up with EMEA margins), yet held back by a slight margin decline in EMEA (which came in at the high end of the historical range in 1H10) and a more severe decline in Asia Pacific (c.300bp). Bottom line, we expect normalised EPS to increase 2.7% to €3.47 (with reported EPS up 6.8% to €3.26), as the latter should be held back by higher financial costs and a higher tax rate (approaching the end of the tax holidays in China).

Bekaert typically does not provide quantified guidance, and the tone of the outlook statement is usually cautious. We remind investors, however, that Bekaert trades at 8.5x PER 2011F on our 'cautious' estimates, which seems attractive for a growth company, with a strong geographical positioning, a growing portfolio of product innovations and a strong balance sheet.

Price: €53.55. Last published: target price: €78; recommendation: BUY

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