

Bekaert: Relief and caution

Bekaert's 3Q11 sales fell 6% YoY to €816m. This was some 4% above the (lowered) company compiled consensus. As expected, group sales were mainly impacted by overcapacity and price falls in the solar sector (sawing wire). Sales in Asia Pacific fell 24% YoY to €254m. This implied a 9% beat versus consensus estimates. We understood from the company that the 24% decline in Asia Pacific was almost entirely driven by a price/mix effect (-22%), hence volumes in general held up somewhat better than anticipated, in our view. In the rest of the world, the sales growth came in just above consensus expectations. 3Q11 sales in EMEA, North America and Latin America went up 8%, 1% and 10% resp. to €293m, €172m and €97m. Net debt declined €52m QoQ to €763m, but included the proceeds of the sale of the specialty film activities (c.€80m).

In the outlook statement, Bekaert warned of a growing impact from the financial crisis (ie, volume impact), continued challenging trading conditions in China in general and in sawing wire more specific (prices were down more than 50% at the end of 3Q and expected to fall further). Bekaert expects growing uncertainty, continued high working levels and volatility in raw materials.

There was some relief in the Bekaert share price yesterday, yet post the 3Q11 trading update, we see little reason to materially change our 2011-12F normalised EPS of €3.70 and €2.61. The latter appears c.11% below the Bloomberg consensus, and is based on flattish sales and REBIT margins in EMEA, North America and Latin America and a steep drop in Asia Pacific margins from 37.7% in 2010 to 15.4% in 2012F. At 11.3x PER 2012F, valuation appears fair. Hence, we maintain our HOLD rating. The biggest downside risk to our estimates seems a 2009-type recession, in which REBIT margins in EMEA and North America could fall dramatically (margins were 0% in 2009). In addition, we cannot exclude REBIT margins in Asia Pacific to drop to the group level of 7% to 9% already in 2012F, due to overcapacity/sluggish demand. The main risk on the upside seems a fast recovery in demand/pricing in the solar sector

Price: €29.4. Last published: target price: €29.0; recommendation: HOLD

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