Bekaert: Organic sales decline stabilizing versus 4Q11

Bekaert 1Q12 consolidated sales decreased by 2.6% YoY, to €895m (consensus: €898m). The sales decline can be split into: (1) a 2.9% positive currency impact, (2) a 8.3% positive impact from consolidation changes and acquisitions & divestments, (3) an organic sales decline of -13.7% YoY (4Q11: -13%). Combined sales (including JV) dropped by -7.9% YoY (consensus: -11%). Although Bekaert beat 1Q12 consensus sales estimates, we do not expect these to change. Consensus estimates flat sales YoY in 2012. 1Q12 sales indicate that the underlying sales trends is stabilizing but not improving.

Review 1Q12

€m	1Q11	1Q12	% change	Consensus
Consolidated sales	918.0	895.0	-2.5%	821.0
Combined sales	1239	1135.0	-8.4%	1101.0

Source: Company data

Asia Pacific sales fell by -34% YoY (INGF: -25%, 4Q11: -33%), highlighting that solar energy sector issues are not improving yet. The biggest risk is that part of the sawing wire capacity will be converted into tire cord just when the truck tire market is maturing. EMEA sales fell by -5% YoY, due to the very weak sawing wire business. North America sales were stable as the divestment of the Specialty Films activities was compensated for by the addition of the Canadian ropes activities and a better underlying performance in most activities. Latin America sales increased by 139% YoY, due to (1) the consolidation of the entities within the Chilean partnership, and (2) solid sales growth in Venezuela and Peru.

The fact that the underlying sales trend in Asia Pacific and EMEA is stabilizing, while it takes time to restructure the activities, likely implies that 1Q12 margins are in line with 2H11 margins (2.5%). Consensus estimates the 2012 REBIT margin to amount to 3.6% (2H11: 2.5%) while it takes time to restructure and the underlying sales trends are not improving yet. We do not expect 2012 REBIT estimates to move up on the sales beat.

Bekaert targets to gradually improve its REBIT margin, from 2.5% in 2H11 to 7.0% by 2014. This will be through (1) rightsizing Bekaert's global sawing wire operations to the changed market environment, and (2) improving the cost structure. To rightsize the sawing wire activity, Bekaert needs to cut 1,250 jobs in China and c.600 jobs in Belgium. Although these negotiations could take slightly longer than expected and could be more expensive, the overall execution risk is limited. The execution risk on lowering the cost structure by €100m seems much more challenging - Bekaert always claimed to be a lean and mean company and SG&A expenses amount to c.€400m. With valuation demanding on our 2012 and 2013 PER estimates (17.0x and 12.3x respectively), we reiterate our SELL recommendation.

Bekaert and Southern Steel Berhad (SBB) have signed an agreement to establish a JV, 55% owned by Bekaert and 45% by SBB. The JV will combine their steel wire and ropes activities in South-East Asia. The transaction, with an enterprise value of c.€47m, is subject to customary closing conditions and is expected to be completed in the third quarter of 2012. The financial statements of the JV, which will be named Bekaert Southern Wire Pte Ltd, and with registered office in Singapore, will be integrated in Bekaert's consolidated statements in line with the closing terms and conditions. Based on 2011 turnover, the deal would add c.€60m in annualized sales.

Price: €21.5. Last published: target price: €20; recommendation: SELL

Emmanuel Carlier, Brussels +32 2 547 7534