

Benelux First Call

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ING Headline stories

- BEKAERT: REBIT beat, cautious outlook; Sell into strength

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We expect Bekaert's share price to increase as (1) 1H12 REBIT beat consensus by 4%; (2) many investors are still short Bekaert. We advise to sell Bekaert into strength as the bleak guidance confirms our view that 2012 consensus estimates are still too high. Consensus estimates REBIT margins to improve from 4.8% in 1H12 to 5.8% in 2H12 (INGF 4.5%). Although we estimate the restructuring efforts to improve margins by 90bp to 180bp HoH, we believe margins will remain flat HoH as the economic slowdown is accelerating. Trading at 11.3x 2012 P/E, with earnings risk, we believe valuation is still too demanding.

Consolidated sales (1H12) increased by 0.2% YoY (cons 0.8%). The sales decline can be split up in (1) a 4.7% (INGF 4%) positive currency impact; (2) a 7.9% (INGF 4.5%) positive impact from consolidation changes and acquisitions & divestments; (3) an organic sales decline of -12.4% YoY. Positive is that the organic sales decline is improving from -14% in 1Q12 as the comparison base eases and as believe the pricing pressure in China tire cord stabilized. On a divisional basis, there were no substantial positive/negative surprises. Combined sales (including JV) dropped by -6.5% YoY (cons -6.0%). All in all, Bekaert states that volumes were stable during 1H12 while sales dropped due to negative product mix effects.

Review 1H12

€m	1H11	1H12F	% change	Consensus
Consolidated sales	1,780.0	1,783.0	0.2%	1,794.0
Combined sales	2,412.0	2,255.0	-6.5%	2,272.0
REBIT	241.9	85.0	-64.9%	82.0
EBIT	231.40	4.00	-98.3%	(9.3)

Source: Company data

REBIT decreased by 65% YoY to €85m, which is 3.7% above consensus expectations. On a divisional basis, EMEA (€36m; INGF €17m) and North America (€21m; INGF €9m) surprised on the upside. Asia Pac (€35m; INGF €54m) and Latam (€29m; INGF €39m) came in below expectations. EBIT came in at €4m (cons €-9m), beating expectations, as it booked €81m negative one off costs (cons €91m). The non recurring elements can be split up in €114m negative one off costs (cash and impairments) and €33m positive one off costs (gains on disposals).

Regarding the outlook, Bekaert states that it achieved stable volumes in 1H12, despite lower domestic demand in most regions and a business activity slowdown of export-driven Asian customers. Bekaert has a cautious outlook for the coming months as confidence is declining and uncertainty increasing in a context of persistent turbulence in the global financial systems, tight financing for its customer base and a lack of consistent indicators of a global economic recovery.

Price: €19.7. Last published: target price: €20; recommendation: Sell

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