

Bekaert: Price pressure tire cord confirmed

Xingda has reported 1H12 results. Volumes increased by 7.1% YoY and sales decreased by 1.5% YoY. Since tire cord volumes represent 85% of total volumes and sawing wire represents only 1.5% of total volumes, we estimate tire cord prices to have dropped by c.7% YoY in 1H12. The volume of radial tire cord for trucks (67% of the total) increased by 4.9% YoY, while the volume of radial tire cord for passenger cars (33% of the total) increased by 14.2% YoY. REBIT margins decreased from 15.8% in 1H11 to 10.6% in 1H12 (INGF: 12% for Bekaert), due to pricing pressure and lower utilization rates (from 84.0% to 80.6% YoY). Xingda states that it is cautiously optimistic about a gradual rebound of economic activities in the future. The company will closely monitor its capacity expansion and enhance production efficiency.

We estimate that Bekaert generates c. 50% of its 2012 REBIT from Chinese tire cord. The Xingda results confirm our view that there is pricing pressure in the Chinese tire cord market and that margins are under substantial pressure. We understand from Bekaert that Xingda has recently cut its prices further in order to gain market share. Hence, Bekaert's Chinese tire cord margins could be under further pressure during 2H12 (INGF: 11% in 2H12, from 12% in 1H12). Trading at a 14.1x 2013F normalized PER, while steel and tire producers trade, on average, at a 7.5x PER, we reiterate our Sell recommendation.

Price: €21.1. Last published: target price: €16; recommendation: SELL

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