Company comments

Maintained

Hold

Price (22/03/13)	€21.62
Maintained	
Target price (12m)	**€20.00**
Forecast total return	**-3.6%**
Market cap	€1,276.9m
Bloomberg	BEKB BB

Bekaert: lack of triggers to get excited about

2012 recap: weak profitability, but strong cash flow. REBIT fell 58% YoY to €118m (3.4% margin), due to margin pressure in most markets (overcapacity & macro headwinds) and the further collapse of the sawing wire activities. The REBIT number however included a €14m bad debt reserve for sawing wire activities in China and c.€8m integration costs for the newly acquired businesses in Malaysia and China. Hence, 'underlying' REBIT was closer to €141m (4.1% margin). At the bottom line, the group loss amounted to €195m (EPS: -€3.30), due to €167m in non-recurring items, related to right-sizing the businesses. Equity free cash flow amounted to a high €234m (vs. -€231m in 2011), due to a €227m working capital inflow (effective cash collection and inventory reduction) and a €151m cut in capex to €127m. As such, net debt fell from €857m to €735m (or €700m on the Bekaert definition). This implies a leverage of 2.2x REBITDA. Equity holders were rewarded on the high 17.5% equity FCF yield in 2012 with a proposed dividend of €0.85 per share (or 4.3% dividend yield).

Cost savings on track, partly offset by wage inflation and Venezuelan bolívar. Out of the earlier announced €100m cost savings plan by 2014, c.€20m were already realised or included in the 2012 numbers. Bekaert guided for €50m in cost savings in 2013F, and the remaining €30m in 2014F. The cost savings should however be partly offset by €15m in wage inflation per annum (Bekaert guidance) and a €12m negative impact on REBIT from the depreciation of the Venezuelan bolivar in 2013F (Bekaert guidance).

Cautious guidance – adjusting estimates. In its outlook statement, Bekaert mentioned a continued weak macro environment, lack of consistent indicators of a global economy, overcapacity in most markets and corresponding price pressure to weigh on profitability. We estimate REBIT in 2013F at €161m (€141m underlying REBIT in 2012 + €50m in cost savings - €15m wage inflation -€12m impact from Venezuelan bolivar). Our new estimate implies a 4.8% margin, implies a 19% cut from our previous estimate and implies we do not expect a cyclical recovery in 2013F. The 1Q13 guidance from Lanxess even suggested that the European automotive/tire business got off to a very weak start. Our new 2014F REBIT of €193.1m (5.5% margin) implies a limited economic recovery, which is, in our view, not enough to get the margin back to the old target of 7%.

Bekaert key estimates (€m)

	2011	2012	2013F	2014F
EMEA	1,169	1,044	1,023	1,044
North America	665	659	672	688
Latin America	372	812	736	766
Asia Pacific	1,134	945	951	994
Sales	**3,340**	**3,460**	**3,383**	**3,492**
EMEA (%)	9.7	-10.7	-2.0	2.0
North America (%)	4.4	-0.9	1.9	2.5
Latin America (%)	19.6	118.3	-9.3	4.0
Asia Pacific (%)	-9.1	-16.7	0.7	4.5
Sales growth (%)	**2.4**	**3.6**	**-2.2**	**3.2**
REBITDA	**482.0**	**331.4**	**359.1**	**391.1**
REBITDA growth (%)	**-34.4**	**-31.2**	**8.4**	**8.9**
REBITDA margin (%)	**14.4**	**9.6**	**10.6**	**11.2**
EMEA	66.4	63.0	67.7	75.1
North America	31.7	30.0	36.6	43.5
Latin America	35.1	64.0	53.0	61.1
Asia Pacific	224.0	37.0	80.0	89.6
Other	-76.3	-76.2	-76.2	-76.2
REBIT	**280.9**	**117.8**	**161.1**	**193.1**

EMEA (%)	5.7	6.0	6.6	7.2
North America (%)	4.8	4.6	5.4	6.3
Latin America (%)	9.4	7.9	7.2	8.0
Asia Pacific (%)	19.8	3.9	8.4	9.0
REBIT margin (%)	**8.4**	**3.4**	**4.8**	**5.5**
Non-recurring	-12.5	-167.1	-30.0	-15.0
EBIT	**268.4**	**-49.3**	**131.1**	**178.1**
EBIT margin	8.0	-1.4	3.9	5.1
Net financing charges	-18.5	-82.0	-71.0	-71.0
Taxes	-68.1	-67.7	-50.0	-55.0
Share in the JV's	25.4	10.4	10.4	10.9
Minorities	-14.6	-6.4	-6.4	-6.4
Net profit	192.6	-194.9	14.1	56.7
Normalised net profit	**205.1**	**-27.8**	**44.1**	**71.7**
Reported EPS (€)	3.27	-3.30	0.24	0.96
Normalised EPS (€)	**3.48**	**-0.47**	**0.75**	**1.21**
DPS (€)	1.17	0.85	0.85	0.85
Net debt	**857**	**735**	**717**	**664**
Net debt/REBITDA (x)	1.8	2.2	2.0	1.7

Source: Company data, ING estimates

Valuation: Bekaert currently trades on 2013F at 0.65x EV/Sales (vs. a 4.8% REBIT margin), 6.1x EV/REBITDA, 13.6x EV/REBIT, 28.9x PER and at a 5.4% free cash flow yield to equity. We consider this a full valuation, and keep our HOLD rating with a €20.0 TP.

Risks, both the upside and downside, include macro risk (with a focus on automotive (34% of sales) and construction (26% of sales)), currency risk, risk of under or over delivering on cost savings, substitution risk (mainly for radial tire and tire cord), risk of not being able to pass on raw material prices (mainly wire rod), inventory risk, political risk (Venezuela, China,…).

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