Maintained

Hold

Price (7/05/13)	**23.91**
Previous target price (12m)	20.00
Target price (12m)	**23.00**
Forecast total return	**-0.27%**
Market cap	1,412.1m
Bloomberg BEKB	BB

Bekaert: price pressure persists

1Q13 consolidated sales were down 1% QoQ and down 11% YoY, to 799m. As such sales came in c.6% below our forecast and c.8% below consensus estimates. The organic sales decline amounted to 8% (of which 3% was from lower volumes).

Looking at the regions, the shortfall on expectations was mainly in North America (-17% YoY, vs. INGF +2%), due to low demand in tire replacement, investment delays in energy markets and increased competition from Asian imports. Also Asia Pac sales were below expectations (-7% YoY vs. INGF 0%) due to lower prices of products serving the tire market, caused by weak demand and general overcapacity. Bekaert added that it managed to keep volumes stable and noted a prudent trend towards price stabilisation. Sales in EMEA were in line with expectations (-10% vs. INGF -8%), due to depressed automotive and other industrial markets. Sales in Latam were in line with expectations (-11% vs INGF -10%), impacted by the deprecation of the Venezuelan Bolívar. Excluding currency effects, sales grew 4% YoY.

Bekaert confirmed that cost savings initiatives are still on track. Recall that of the earlier announced 100m cost savings plan by 2014, c. 20m were already realised or included in 2012. Bekaert guided for 50m in cost savings in 2013F, and the remaining 30m in 2014F. We currently (before the trading update) forecast 2013F REBIT at 161m (141m underlying REBIT in 2012 + 50m in cost savings - 15m wage inflation - 12m impact from Venezuelan Bolívar). We believe our estimates are in line with consensus.

Net debt increased to 746m, from 700m at year-end 2012 as a result of the share buy-back program (c. 15m) and an increase of working capital in line with seasonal effects. This implies a leverage of c.2.2x.

We expect consensus FY13 EBIT estimates to be revised down by a low to mid-single digit percentage and expect a similar share price reaction in the coming days.

Our estimates did not differ materially from consensus before the trading update and valuation at 6.5x 2013F and 5.8x 2014F EV/EBITDA seemed on average slightly above the historical median of 6.1x. We like (1) the focus on self help, which should result in double digit REBIT growth in 2013-14F, from a low base, in spite of adverse trading conditions and (2) the broad geographical and product positioning and (3) the 8% 2013F and 11% 2014F free cash flow yield to equity excluding expansion capex. We were and continue to be held back however by (1) the difficult trading conditions in key markets for Bekaert, coupled to overcapacity and price pressure, which suggest downside risk to estimates (2) a post tax ROCE of 5-6% in 2013-14F, which remains clearly below WACC and (3) a balance sheet leverage of c.2.2x.

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