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BEKAERT: Cautious management tone during roadshow, but underlying trends no longer seem to get worse

Yesterday we hosted Bekaert's roadshow in Frankfurt with CFO Bruno Humblet and IR Jérôme Lebecque. The overall comment is that management remains cautious and sounded less optimistic, due to lack of visibility on a volume recovery, than other industrial players as ArcelorMittal or Pirelli on the short term outlook. But at the same time, certain key markets show early signs of bottoming out, in our view, as both Michelin and Pirelli reported good volumes in April and Bekaert announced price increases in Asia for tire cord in 2Q13.

A lot of attention during the roadshow was given to the weak 1Q13 top line number in the US (-16% yoy). Management provided 3 reasons for the sharp decline year on year. First, in spite of PMI numbers just above 50 for the region, sales of replacement tires for trucks and busses, which remains by far the most important market for tire cord, were down materially at Bekaert's key clients in the first quarter (Goodyear,...). Apart from that, the comparables for energy reinforcement wires were very difficult, after significant investments from clients in the first quarter of last year (Bekaert has a leading market share in this niche). Second, the Korean competitor Kiswire has increased its (lower margin) bead wire capacity and crashed prices temporarily. Bekaert will have to sweat this one out until pricing normalises again. Third, Bekaert decided to temporarily stop its (lower margin) trading activities. Normally Bekaert includes certain types of products in its range for clients which it doesn't produce itself (and hence buys in other regions), in order to offer the complete range. Due to the current macro headwinds, there are absolutely no margins on this, and hence the decision to temporarily stop doing this.

On the Asian (Chinese) tire cord activities, management reiterated it was seeing the first signs of some price stabilisation. This is a positive development, in view of the declining steel (raw material) prices, as the latter are not immediately passed on to customers. Management even confirmed they announced some price increases for the second quarter, but added these will not be pushed through at the expense of market share losses. As such, it should be interesting to see the reaction of the likes of Xingda.

We understand that most investors are comfortable with the financial structure of Bekaert, which is predominantly based on bonds, on which the company has no covenants.

The execution of the cost savings plan remains on track. Recall that this should be a tailwind of some €50m this year, but this should be negatively compensated by cost inflation of some €15m and a €12m impact from the devaluation of the Venezuelan Bolívar. The key swing factor remains volumes, and management remains quite cautious on that side. Management cited ongoing very low visibility, and unlike key supplier ArcelorMittal ('the worst is behind us'), or clients like Pirelli which sounded a bit more upbeat after stronger volumes in April, management refuses to turn more optimistic: 'one month of better volumes after several quarters of declines is too early to become optimistic'.

With valuation on EV/EBITDA perhaps slightly above historical averages, but on a historical low EBITDA, and a more attractive valuation on equity free cash flow yield excluding expansion capex, we wait for confirmation on a volume recovery before changing our HOLD rating. The Michelin and Pirelli update on May volumes, to be published mid-June, could in that sense provide an interesting trigger.

Price: €22.1. Last published: target price: €23.0; recommendation: HOLD

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