

Thursday, 3 October 2013

**BEKAERT: Negative read across from Michelin Investor Day**

Michelin shares fell 3.5% yesterday while the company was hosting an Investor Day. The main reason for the decline seems a slide the company showed which suggested volumes for giant tires (mainly used in mining) would remain flat in 2014 and 2015.

In our view, this news implies a negative read across for Bekaert. Although we understand Bekaert is not an important supplier of tire cord to Michelin in this segment, Bekaert is a supplier of tire cord to other producers of giant tires, and we always understood this was a more profitable segment. Bekaert never quantified how important this segment is within their tire cord volumes, but given that fact that giant tires require (much) more tire cord than car and (normal) truck tires, we are inclined to think the segment is not immaterial. Pro memory, Automotive accounted for c.34% of sales in 1H13. Also, Bekaert needs volume growth (in addition to the ongoing €100m cost savings) to get EBIT margins back above the 7% target by 2015. As such, the Michelin outlook for giant tires does not seem supportive.

Currently, we have a HOLD rating on Bekaert, as we argue that the recovery we have seen in 1H13 and expect to see even more pronounced in 2014F seems priced in.

**Price: €28.0. Last published: target price: €26.0; recommendation: HOLD**

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