

Maintained
Hold

Price (7/11/13) €30.40

Maintained
Target price (12m) €26.00
Forecast total return -11.7%

Market cap €1,782.8m
Bloomberg BEKB BB

Bekaert: We slightly trim our estimates ahead of 3Q13 results

Bekaert will release its 3Q13 trading update on Thursday, 14th November before market opens. No investor call is scheduled.

1H13 recap. Bekaert reported sales down 11% YoY in 1Q13 (volumes -3%, price -5%, forex -3% and M&A +1%) and down 4% YoY in 2Q13 (volumes +4%, price -6%, forex -3% and M&A +1%). As such, volume trends improved quite strongly from 1Q13 into 2Q13. 1H13 REBIT went up by 7% YoY, to €91m, and resulting in a margin of 5.5%. This is above the 1H12 margin of 4.8%, driven by higher cost savings more-than-offsetting the effects of difficult trading conditions. Net debt declined to €770m at the end of 1H13, due to stronger working capital management. It implies 2.2x net debt/annualized EBITDA. For the outlook, apart from normal seasonality effects at the group level, Bekaert warned for renewed price pressure in Asia in 2H13.

Bekaert 3Q13 preview

(€m)	3Q12	3Q13F	% change
Group Sales	865.0	819.0	-5.3
EMEA	253.0	258.0	2.0
North America	166.0	140.0	-15.7
Latin America	212.0	181.0	-14.6
Asia Pacific	234.0	240.0	2.6

Source: Company data, ING estimates

Ahead of the 3Q13 trading update, we trim our 2013-14F sales estimates by c.1%, to €3,237m and €3,330m respectively. We cut our REBIT estimates by c.3% to €160m (5% margin) and €204m (6.1% margin) respectively. Our sales estimates now seem at the low end of Bloomberg consensus range, while our REBIT estimates seems some 5% above. Still, if the 3Q13 trading update confirms our sales forecast, there seems downside risk to consensus sales and hence also to REBIT estimates.

We expect a 5% YoY decline in 3Q13F sales, to €819m, while Bloomberg consensus suggests a 2% YoY decline in 2H13F. We expect volumes +5%, prices -6%, forex -5% and M&A +1%. By region, we expect EMEA sales at +2% YoY, consistent with 2Q13. We expect North America sales at -16%, slightly below 2Q13 (-15%) due to the weakening US\$, while at the same time management stressed earlier that Bekaert's sales from the region should continue to be negatively impacted by (1) higher Asian imports, (2) capacity expansions by peers and, (3) investment delays in energy markets. We expect Latam sales at -15% (vs. -12% in 2Q13) due to a further weakening of the Venezuelan Bolivar and lower prices due to lower wire rod prices. Finally, we expect Asia Pacific sales at +3% YoY, consistent with 2Q13 and in spite of management caution at the 1H13 results and some forex weakening. We understand that comments from Xingda management suggested that 3Q13 volumes were strong and prices remained flat. We also expect net debt to fall to €674m in by year-end 2013, implying 2.0x net debt/12-month trailing REBITDA, in line with Bekaert's medium-term leverage target.

Outlook: Bekaert typically does not provide a quantified outlook, but typically gives cautious short-term qualitative statements and more optimistic medium-term statements. We see no reason to assume this time will be different.

We maintain our HOLD rating for Bekaert despite our expectation of a solid 2H13F REBIT and 27% YoY REBIT growth in 2014F, as we believe this is priced in at 18x PER, 0.8x EV/Sales and 7x EV/EBITDA 2014F.

Filip De Pauw, Brussels +32 2 557 1692