Wednesday, 14 May 2014

BEKAERT: Negative forex effects overcompensated good volumes

Bekaert reported 1Q14 sales just below expectations, yet the highest margin regions did fine. As such, we do not expect large changes to consensus estimates. At group level, organic/volume growth was good, and that is the trigger Bekaert needs to get EBIT margins back to 7%, but unfortunately this was overcompensated by negative forex effects. We might see some profit taking in the shares, but at first look, we don't see a lot of reasons to change our HOLD investment case with the shares trading at 6.9x EV/EBITDA 2015F.

1Q14 consolidated sales declined -2.1% YoY to €782m and came in 1% below median consensus (company compiled).

Bekaert reported a solid 3.3% volume improvement, driven by Europe and Asia. Price/mix was +0.9%. The 4.2% organic growth was however overcompensated by forex (-5.9%) and scope effects (-0.4%). Combined sales declined 4.4% YoY, as the substantially weaker Brazilian real added to the negative forex effect.

EMEA was again the best performing region with a 6% sales increase to €275m. Good demand from the automotive sector had led to robust volume growth for tire cord and other steel wire products. Yet also other sectors, such as oil & gas, contributed to the strong sales growth.

North America sales declined 5% YoY to €139m due to ongoing low demand from the domestic industrial market. The decline in sales was entirely driven by the weaker US$ vs. the €, as volumes were stable.

Latam was (again) the weakest region within the group, reporting a 20% sales decline YoY to €141m. The decline was mostly driven by forex (-15%), due to the drastic depreciation of the Venezuelan bolivar and the translation effect from other currencies such as the Chilean peso (-21% YoY). Organically, sales also fell 5% YoY, mainly due to weaker demand from mining and infrastructure activities. Management added in the press release that the precarious situation in Venezuela should continue to impact numbers, among other by the forced shutdown of the factories since mid-April as a result of raw material shortages.

Asia Pac sales grew 5% YoY to €226m, via strong organic growth (+8%), driven by market share gains in the Chinese tire sector, strong sales in the Southeast Asian and Indian automotive markets and a demand pick-up in sawing wire. The strong organic growth was partly mitigated by forex (-4%).

Net debt increased to €640m from €574m at year-end 2013, due to a seasonal working capital increase, yet net debt remains €105m below the level at the end of 1Q13.

As expected, Bekaert closed its expansion transactions in Costa Rica and Brazil. The activities will be consolidated as of 1 May.

Bekaert did not quantify its outlook, but broadly said that it expects current trends to continue in the short-term. The company expects sustained solid demand in Europe and will continue to defend and grow its strong positions in China. The company does not expect major changes in North American markets and anticipates a continued slowdown in Latin America, in line with the GDP trend for the region. Currency movements are expected to cause an unfavourable translation impact also in the second quarter of 2014.

Price: €29.0 Last published: target price: €29.7; recommendation: HOLD

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