

Maintained

Hold

Price (23/06/14) €27.92

Maintained

Target price (12m) €29.00

Forecast total return 7.1%

Market cap €1,633.9m

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Bekaert: Analyst day feedback - evolution, not revolution

Yesterday Bekaert hosted an analyst day at its head office in Zwevegem, Belgium, in the presence of new CEO Matthey Taylor. Overall, we gained the impression we should expect evolution rather than revolution in the coming periods. The day did not change our investment case, but offered some interesting insights.

The day started with a business update of the regions by CFO Bruno Humblet. Overall, the update on the regions was consistent with the 1Q14 update, apart from North America, where management is now seeing a bit more volume momentum. In North America, management is seeing (i) tire volume demand slightly improving, (ii) stable volume demand in other industrial markets in April and May (i.e. no longer declining), despite the full closure of the Canada plant in March, (iii) good activity in the Ropes platform in Canada, (iv) persisting forex headwinds (unsurprisingly). EMEA remains satisfactory, with: (i) strong demand in the automotive markets and in Oil & Gas, (ii) stable demand in construction and (iii) good demand in the other Industrial Wire markets such as agri and rope wire. Latam remains more cumbersome, with: (i) a slowdown in line with GDP (while market share is stable), with the construction market most hit and with price and volume declines only partially being offset by lower raw material cost, (ii) significant negative forex impact (notably in Venezuela and Chile) but no further deterioration. Asia Pac is showing (i) significant volume growth in China tire cord (c.10%) due to good demand and market share recovery, but ongoing price pressure (mid-single digit %), (ii) good tire demand in South East Asia and India, (iii) large demand pickup in sawing wire but still marginal profits due to overcapacity, (iv) low demand in South East Asia for industrial wires and (v) ongoing strong focus on cost reductions in tire cord. In Brazil (outside the consolidation scope), Bekaert is seeing negative forex effects and weaker demand vs the beginning of the year, mostly in automotive and construction.

The second speaker of the day was CEO Matthey Taylor. It is still early days for Mr. Taylor, who presented his first high level thoughts on the future direction of the company. First and foremost, we think Mr. Taylor will steer Bekaert away from being a more internally focused engineering company to an organisation more focused on its client needs. Second, we understood Mr. Taylor has from an organisational perspective decided to separate responsibilities between the regions and the platforms. Regions are responsible for the day to day operations and for delivery on the annual objectives, while platforms are responsible for the strategy, the footprint and the longer term objectives. These objectives are not quantified externally (yet), but we understood that focus should not be on just one metric such as EBIT, but on multiple metrics such as EBIT, ROCE, and enough growth investments (via capacity expansions and M&A). Further, we understood that the company will be looking to reduce complexity (including avoiding making the same product in multiple locations in different ways) and to take more advantage of its number one scale ('the virtuous circle of scale').

The third presentation of the day was a closer look at the rubber reinforcement (tire cord) and industrial steel wire activities, by EVP Lieven Larmuseau. The rubber reinforcement market is expected to grow 4% pa (with a bit higher growth in 2015). Growth drivers for the truck tire market are GDP growth and increasing radialisation rates (the radialisation rate of China is c.70-75%, while the rate in regions like India, Russia and South East Asia is still very low). The growth driver for the car tire market is car park growth (which is mainly the case in emerging markets). During the presentation, Mr. Larmuseau showed a slide with the planned investments of the top 5 tire producers, highlighting some material investments in North America. This suggests that Bekaert could follow its clients and expand capacity in the region again. When looking at customers, Bekaert noted a clear decline in captivity of the tire producers from c.40% in 2003 to c.15% in 2014. The decline should continue as tire producers focus expansion capex and R&D on their core business

(tires, not tire cord) as funds are limited. At the same time, tire makers are increasingly confident in not running into risks when outsourcing production to third parties. This evolution offers opportunities to Bekaert.

Bekaert sees 3 groups of clients. First, the big global players, with whom Bekaert has a strong position via its global footprint, its technology portfolio and its long-term commitment. The second group includes the (mainly Asian) tigers. Bekaert's market share with these players is relatively small, as they are typically sourced by a local supplier. Still, these players are now expanding internationally, offering Bekaert ample opportunities via its global footprint. The third group are the Chinese players. Unlike in previous years, growth in China is now more and more coming from the car tire market. This does not make a difference on margins in China (in the rest of the world margins are higher in truck tire), but offers opportunities to Bekaert as global tire producers (with whom Bekaert has strong relationships) have a stronger market share in cars vs. trucks.

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